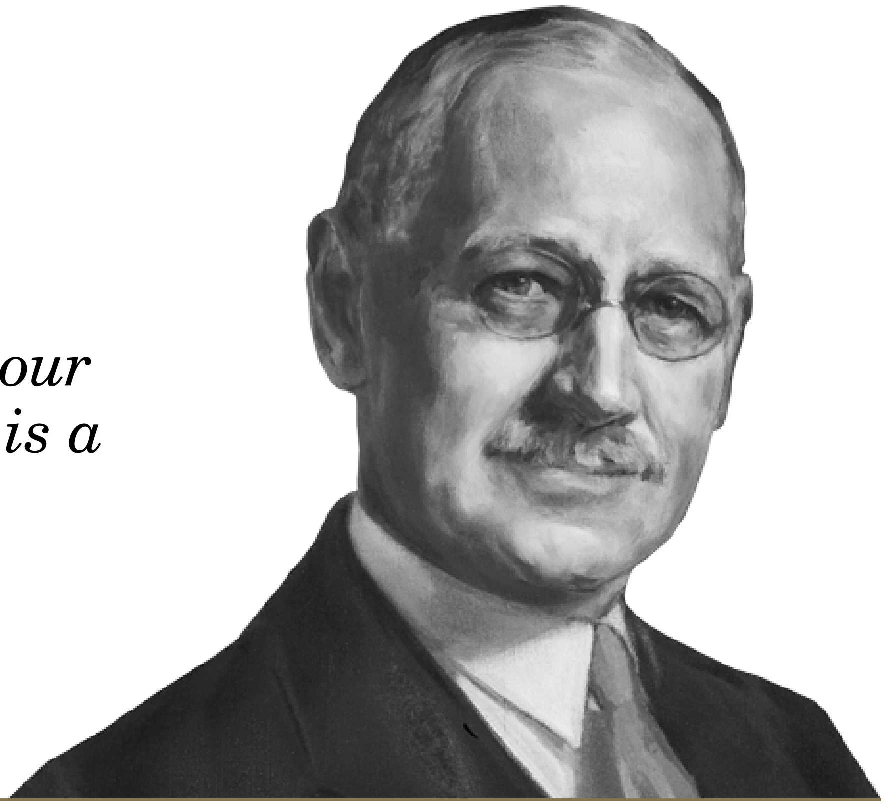
F&M BANK

Farmers & Merchants Bank®

2015 Annual Report

Our Commitment

“Safeguarding our clients' money is a sacred trust.”



C.J. Walker

► Founder, 1907

Farmers & Merchants Bank is one of the strongest banks in the country, as measured by a variety of industry standards. We continue to uphold the philosophy of our founder, C.J. Walker, that “safeguarding our clients’ money is a sacred trust,” and giving back to the community is the wisest investment a business can make.

Contents

F&M's Declaration of Beliefs

Honesty

We are honest with our clients, employees, and shareholders, in all aspects of our business.

Faith

We use our faith to center ourselves, to keep in mind that every day we can work is a blessing; to treat others with respect and to always remember what truly matters.

Loyalty

We are dedicated to developing the careers of our employees, both professionally and financially.

Integrity

We act with courage, consistency and we do what is ethical, honest, fair and trustworthy.

Dedication

We strongly support our clients, employees, and shareholders and are committed to excellence in providing competitive financial strategies, superior products and exemplary returns.

Gratitude

We are thankful for our clients, employees, shareholders, and for our families and friends.

Humility

We remember that our clients are not dependent on us, we are dependent on them.

Dependability

We strive to be constantly reliable and to stay true to our commitments, allowing others to build confidence in us.

Compassion

We are determined to provide meaningful assistance to the people and communities we serve.

Service Above Self

We are committed to doing good and purposeful service for all our constituents; not for our own personal gain, but just because it is the right thing to do.

Corporate Profile

Farmers & Merchants Bank is a full-service, California-state-chartered bank with $6.15 billion in total assets at December 31, 2015. Founded in Long Beach in 1907 by C.J. Walker, the Bank specializes in commercial and small business banking, business loan programs, home loans, and a robust offering of consumer retail banking products, including checking, savings and youth accounts. With 24 offices located throughout Los Angeles and Orange Counties, the Bank is one of California's strongest banks, as demonstrated by several characteristics, including financial performance, heritage, culture, longevity, character, customer service and values.

Values to Bank On

This year's annual report features profiles of customers who personify "F&M's Declaration of Beliefs," including faith, service above self, and integrity, to name a few. These values are fundamental to the Bank's strength and success in the communities we serve. Our customers inspire us every day, and we hope you enjoy reading their stories on the ensuing pages. They truly reflect values to bank on.

Daniel K. Walker
Chairman of the Board & CEO

W. Henry Walker
President

John W.H. Hinrichs
Executive Vice President,
Chief Financial Officer

Phillip J. Bond
Executive Vice President,
Chief Credit Officer

Melissa Lanfre
Executive Vice President,
Chief Operating Officer

Financial Information

Diluted Earnings Per Common Share	2015	2014	2013	2012	2011
(In Dollars)	$496	$477	$475	$484	$452

Dividends Declared Per Common Share	2015	2014	2013	2012	2011
(In Dollars)	$119	$114	$114	$114	$109

Net Interest Margin	2015	2014	2013	2012	2011
(In Percents)	3.63%	3.50%	3.30%	3.65%	4.08%

Overhead Efficiency Ratio	2015	2014	2013	2012	2011
(In Percents)	56.62%	55.21%	51.72%	49.00%	41.59%

Average Assets	2015	2014	2013	2012	2011
(Dollars in Millions)	$5,804	$5,452	$5,136	$4,845	$4,445

Total Risk-Based Capital	2015	2014	2013	2012	2011
(In Percents)	21.33%	23.59%	26.16%	29.61%	27.94%

F&M Key Facts

Balance Sheet *as of 12/31/2015*

Total Assets:

$6.15 billion

Total Deposits:

$4.69 billion

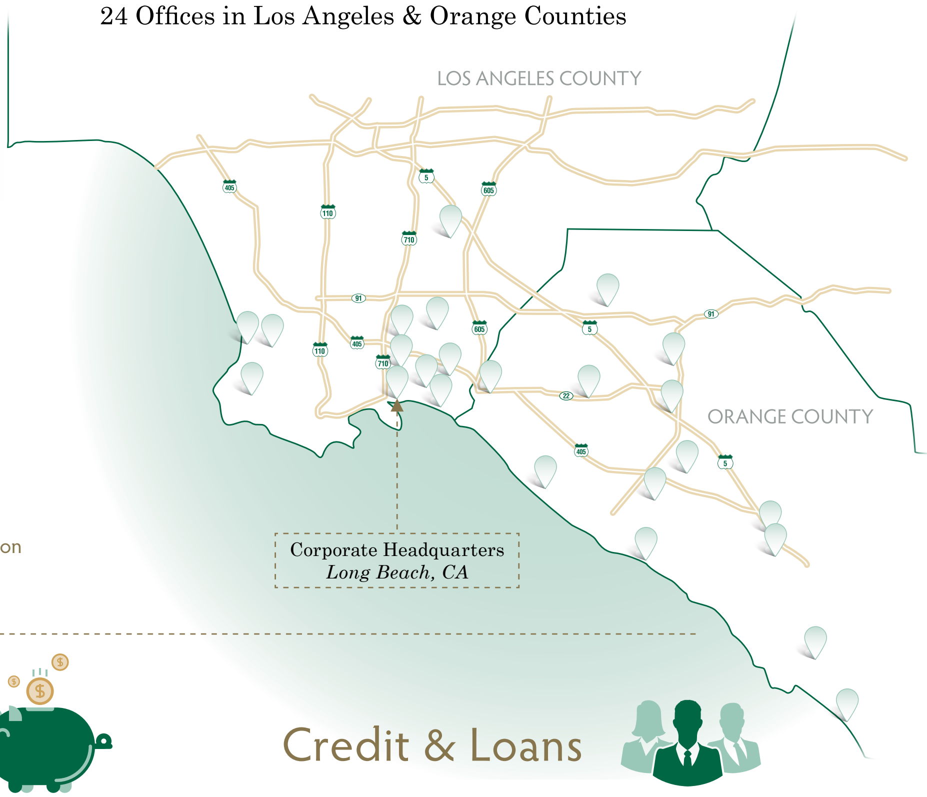
Total Net Loans:

$3.22 billion

Total Stockholders' Equity: $855.3 million

Total Shares Outstanding: 130,928

24 Offices in Los Angeles & Orange Counties



F&M Services

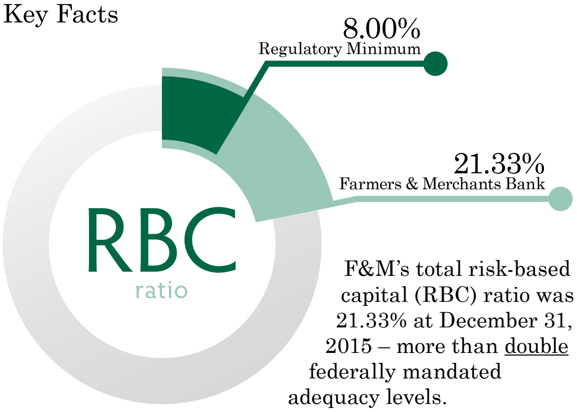
Personal Banking

Credit & Loans

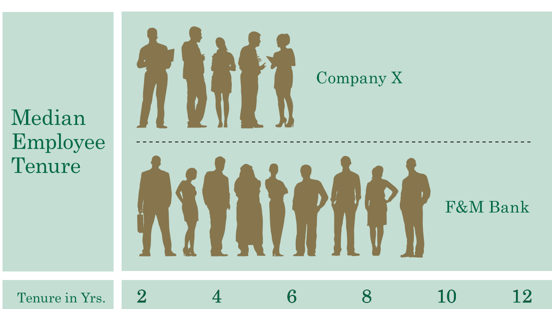
Business Banking

Mobile Banking

Key Facts



F&M's total risk-based capital (RBC) ratio was 21.33% at December 31, 2015 – more than double federally mandated adequacy levels.



F&M's employee tenure averages more than eight years, which is nearly double the median employee tenure as reported by the U.S. Bureau of Labor Statistics.

During the 2008 – 2009 financial crisis, F&M did not require TARP assistance, stayed profitable, maintained its dividend and did not have any material staff reductions.

Following the Walker family tradition of giving back to the community, the Bank continues to donate

over $1 million

each year to charities, non-profit organizations and religious entities.

Dear Fellow Shareholders:

The success of Farmers & Merchants Bank is very much a function of adhering to a set of values that has guided our organization for more than four generations.

Our financial strength has been reinforced by an unwavering focus on tenets woven into the Bank's cultural fabric, such as honesty, faith, service above self, and integrity. These tenets provide the foundation underlying the services that help define us as California's Strongest.

This narrative continued to resonate in 2015, as F&M maintained its steady record of profitability, despite the protracted low interest rate environment. F&M's financial strength is the result of our talented employees who embrace the values that have come to define who we are as a bank.

It is notable that the Bank finished 2015 with more than $6 billion in assets. The year also marked our 485th continuous dividend payment that has consistently gained in value since 1916 – a rare feat for any company. We are proud of these achievements, and resolute that achieving solid financial performance goes hand in hand with strong values.

Strong Financial Performance

Interest and dividend income for 2015 rose to $206.2 million from $184.9 million in 2014. Interest expense for the year was $7.6 million, versus $6.9 million in 2014.

Farmers & Merchants' net interest income for 2015 was $198.6 million, versus $178.0 million in 2014. The Bank's net interest margin was 3.63% for the year ended December 31, 2015, compared with 3.50% in the previous year.

In 2015, the Bank recorded $2.7 million in loan loss provision recapture, compared with no loan loss provision in 2014. The Bank's allowance for loan losses as a percentage of loans outstanding was 1.73% at December 31, 2015, compared with 1.69% at December 31, 2014.

Non-interest income for the full 2015 year totaled $25.1 million, versus $32.0 million for 2014.

Non-interest expense for the year ended December 31, 2015 was $132.6 million, compared with $119.4 million in the previous year.

The Bank's net income for 2015 was $64.9 million, or $496.06 per diluted share, compared with $62.4 million, or $476.67 per diluted share, for 2014.

Robust Balance Sheet

Stable and consistent lending practices have been core to maintaining the financial health of F&M's balance sheet. At the same time, we've grown our lending team over the last several years to drive more growth. In 2015, net loans totaled $3.22 billion, compared with $2.96 billion at December 31, 2014.

The Bank's deposits grew to $4.69 billion at the end of 2015, from $4.20 billion at December 31, 2014. Non-interest bearing deposits represented 38.9% of total deposits at December 31, 2015, versus 37.3% of total deposits at December 31, 2014. Total assets increased to $6.15 billion at the close of 2015 from $5.58 billion at December 31, 2014.

At December 31, 2015, Farmers & Merchants Bank remained "well-capitalized" under all regulatory categories, with a total risk-based capital ratio of 21.33%, a tier 1 risk-based capital ratio of 20.08%, a common equity tier

1 capital ratio of 20.08%, and a tier 1 leverage ratio of 14.02%. The minimum ratios for capital adequacy for a well-capitalized bank are 10.00%, 8.00%, 6.50% and 5.00%, respectively.

Values to Bank On

A strong correlation exists between F&M's financial strength and the values the Bank has in common with its customers. Our value system helps guide the Bank in its decision-making process. The customers profiled in this annual report are very much aligned with the same perspective, and we encourage you to explore their stories on the pages that follow.

The profiles are as thought-provoking as they are inspiring, shedding light on people who are united by an unyielding commitment to caring, progress, and "doing good." These individuals were also honored in 2015 at a special luncheon for "California's Strongest People You Can Bank On."

As we forge ahead in our 109th year of serving Southern California, we are committed to maintaining the Bank's financial strength, while also enhancing F&M's presence by providing consumer and business loans and exemplary customer service, growing our deposit base, and continuing to contribute to non-profit organizations that share our passion for helping those in need.

On behalf of F&M's Board of Directors and management team, we thank our employees for their commitment to the Bank's core values, our shareholders for their support, and our customers for inspiring us. As 2016 unfolds, we will keep you informed of our progress and continue to share the stories of how the communities we serve reflect those values.

Daniel K. Walker
Chairman of the Board & CEO

W. Henry Walker
President

F&M's Declaration of Beliefs:

Honesty

"Being honest is a critical part of what I do."

Carol Wait

Partner, Artesia Senior Center

► F&M Bank Client Since 2003

Honesty is a value that Carol Wait admired in her mother early on.

"She divorced when I was seven and had to find a job," Wait said. "And she used her business smarts and honesty to become one of the most successful business women I've ever met."

When Wait's mother, Virginia Boggs, was 60 years old, she noticed a lack of affordable senior housing in the southern region of Los Angeles County. Eventually, Boggs' business acumen led to her building three facilities in Bellflower for seniors of modest means.

Wait served as the general manager of the centers until 2009, when her mother passed away. She then became a partner in the enterprise.

"I used to tell my mother that she does well by doing good," said Wait, who left her post in politics to join the family business. "She also was a very good listener."

Such traits are evident in Wait as well, who previously served as the president of the Committee for a Responsible Federal Budget. President George H.W. Bush also appointed Wait to the Glass Ceiling Commission.

Wait continues to carry on her mother's legacy by helping steer seniors in the right direction. "And as challenging as this stage of life may be, being honest is a critical part of what I do."

F&M's Declaration of Beliefs:

Faith

"I wouldn't be doing what I'm doing today without faith."

Debora Wondercheck

Founder & CEO, Arts & Learning Conservatory

► F&M Bank Client Since 2011

Faith and music were influential themes throughout Debora Wondercheck's childhood.

Her mother instilled the value of faith and its expression through music at a young age. Today, as an accomplished musician and educator, Wondercheck is now instilling the very same values on the lives she influences as the founder and CEO of the Arts & Learning Conservatory in Orange County.

"I wouldn't be doing what I'm doing today without faith," Wondercheck said. "Faith is about helping people who lack opportunities, especially when it comes to accessing the arts."

Wondercheck's organization was founded nearly a decade ago to help bring arts programs back to schools that faced budget cuts.

The idea began in the form of a camp, where young people could participate in theater activities or learn to play an instrument. The problem was, Wondercheck only had three students signed up the weekend before the camp started.

"But my husband had faith in me, and by the time the weekend ended, 21 students had signed up," she said.

Fast forward 11 years later, and Wondercheck's organization is providing arts programs for 25 elementary schools, which equates to nearly 60 classes a week.

F&M's Declaration of Beliefs:

Loyalty

"Being loyal to your country also means taking care of the people."

Terry Geiling

President & CEO, American Gold Star Manor

► F&M Bank Client Since 2002

Terry Geiling recalls the close quarters of the USS Bluegill submarine that he was aboard in the 1960s.

"You really got to know folks quickly. Everyone had to get along and work together closely as a team to make things happen," he said. "That's when loyalty really comes into play."

Geiling quickly realized that his mission to perform special operations in the Pacific would fail without a mutual sense of loyalty among his submarine mates. Even when the submarine made a port call, Geiling and his fellow crew members would go out to eat together.

The importance of loyalty has been consistent throughout Geiling's life, who was a 17-year executive with IBM before leaving to establish his own IT business.

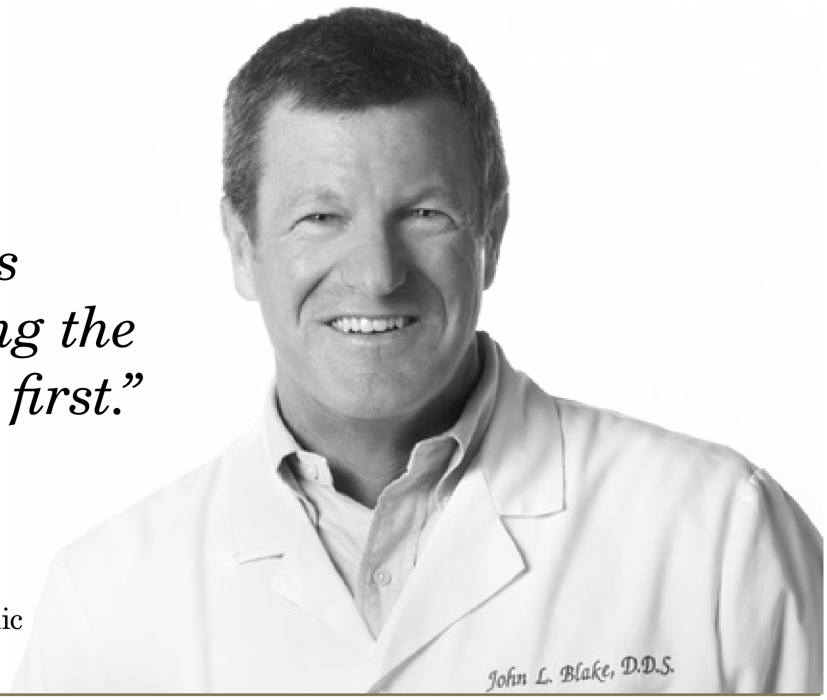
"You certainly get a sense of what drives loyalty when you have your own business, and it is about trusting people, giving them a sense of responsibility, and most importantly, taking care of each other," he said.

Geiling's sentiment toward loyalty is certainly evident in his most recent role as president and CEO of American Gold Star Manor, a non-profit senior retirement facility for U.S. veterans and mothers who have lost children in the line of duty.

"Being loyal to your country also means taking care of the people," he said.

F&M's Declaration of Beliefs:

Integrity



"Having integrity is really about putting the care of the patient first."

John L. Blake

Executive Director,
The Children's Dental Health Clinic

► F&M Bank Client Since 1995

Running a dental practice in today's healthcare environment is often riddled with complexity, from navigating insurance providers to ensuring appropriate reimbursement from government agencies.

Often times, these issues may compromise the quality of care, or even worse, integrity.

"Having integrity is really about putting the care of the patient first," said Dr. John L. Blake, executive director of the non-profit Children's Dental Health Clinic, which serves lower-income patients. "There are a lot of business-based decisions people make when running a dental practice, but again, the dentist's priority must be the quality of the care."

Dr. Blake sold his private dental practice nearly a decade ago for a higher calling to help the less fortunate. Approximately 30,000 patients visit the Children's Dental Health Clinic annually in Long Beach and South Bay areas, and it is Dr. Blake's job to make sure every child who visits the clinic receives top-notch care.

Dr. Blake recalls touring the clinic for the first time when he was in grade school, thinking he might want to become a dentist one day. Today, he is helping mentor dental students at the clinic, not only teaching them how to treat diseases of the mouth, but also the importance of integrity.

"A lot of young dentists coming out of school have significant bills to pay off, and I tell them, 'don't prioritize the bills over the quality of care,'" he said. "'You took a Hippocratic Oath, and you must treat your patients to the best of your ability.'"

F&M's Declaration of Beliefs:

Dedication

"I am obviously dedicated to my work here in Orange County, but I am also dedicated to giving back."

Dr. Kenneth B. Deck

MemorialCare Surgical Center

► F&M Bank Client Since 2006

Dr. Kenneth B. Deck is well known in Orange County as a gifted surgeon who operates on breast cancer.

He is less known for his dedication to humanitarian needs abroad. In fact, Dr. Deck has made nearly a dozen trips to Guatemala and Honduras to operate on people who often need routine surgical procedures, but lack access to high-quality care.

"I love doing medical missions and taking care of people who are less fortunate," he said. "I am obviously dedicated to my work here in Orange County, but I am also dedicated to giving back."

Dr. Deck served as a first responder following Hurricane Katrina, in addition to doing stints at Laguna Beach Community Clinic.

When he is not helping patients, Dr. Deck is a dedicated father and grandfather. "I've been blessed with the ability to care for people and to surgically operate on them to make them feel better," he said. "It's all about giving back, and I truly hope that at the end of the day, people are dedicated to their families."

"Your work is something you should be committed to, but family is the one thing that should be an absolute priority," Dr. Deck added.

F&M's Declaration of Beliefs:

Gratitude

"You must be thankful for your family, and in many respects, surviving life's hardships."

Yetta Kane

Co-Author, *How to Survive Anything*

► F&M Bank Client Since 2003

Yetta Kane equates the value of gratitude with her ability to survive the Holocaust and raise a family.

"I was deprived of everything when I was eight years old, and somehow you learn to survive," she said. "You have to appreciate everything God has given you, and that's where gratitude really puts things in perspective."

Kane and her parents spent several years as Holocaust refugees navigating their way from Poland to Siberia, eventually making a home in the United States. Her late husband, Rabbi David Kane, was also a Holocaust survivor from Poland, who served Temple Beth Shalom in Long Beach for more than 30 years.

Kane and her husband wrote a book, entitled "How to Survive Anything," a memoir that pays homage to the education, hard work, faith, and gratitude required to endure something as tragic as what she experienced in childhood.

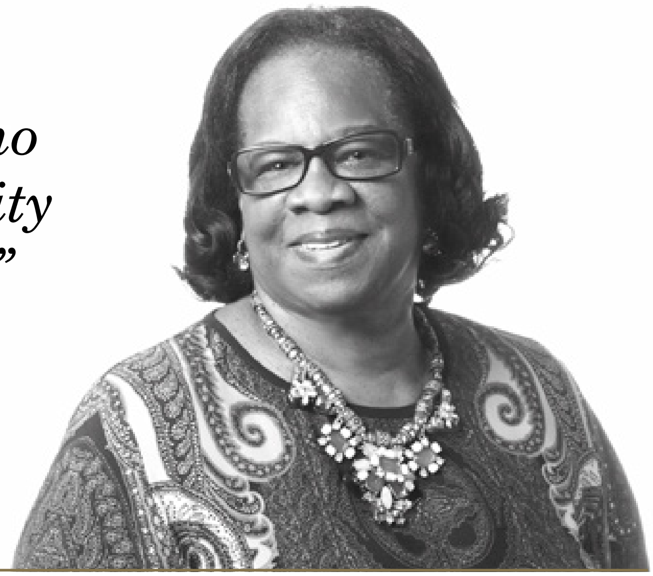
"You must be thankful for your family, and in many respects, surviving life's hardships," she said.

Kane eventually went on to run her own successful board and care business for seniors. "I saw how neglected these people were and wanted to do something about it," she said. "There is a saying, 'if you save one life, you save the whole world.'"

F&M's Declaration of Beliefs:

Humility

"When you meet people who rely on our meals, humility takes over automatically."



Coronada King Haywood

CEO, Women In Action Reaching Out

► F&M Bank Client Since 2007

Coronada King Haywood has a special knack for making people smile.

It starts with a slight tilt of her head and then an ever-so-modest smile that finds its way to the corners of her eyes.

Call it a function of Haywood's humility, providing nearly 1,000 meals a week to people in need at Long Beach's Carmelitos Housing Community.

When Haywood lost her son several years ago, she found herself falling into a depression. "That's when I knew it was time to get up from the sofa and reach out," she said.

Haywood started the non-profit Women in Action Reaching Out as a way to build a stronger community by feeding those in need. She also realized that it wasn't enough to merely provide meals, and began educating parents and children about healthy eating habits and staying physically fit.

"When you meet people who rely on our meals, humility takes over automatically. I feel honored to serve these people and realize that my personal needs are not that important," Haywood said.

Haywood's organization also provides social services that teach vocational skills to restore confidence and build self-esteem.

F&M's Declaration of Beliefs:

Dependability

"The commitment our volunteers make is impressive, and it's very gratifying working with them."

Annette Kashiwabara

Executive Director,
Assistance League® of Long Beach

► F&M Bank Client Since 1997

Annette Kashiwabara has experience from dual perspectives—working both as a volunteer in the community and as an executive director for a non-profit organization.

"The experience gives me an appreciation of what volunteers go through to give it their all and an understanding of how much an organization depends on its volunteers for their help," said Kashiwabara, who is executive director of the Assistance League® of Long Beach, which provides new school uniforms free of charge to students in need through a program called Operation School Bell®.

In 2015–16, the program clothed more than 9,200 students in Long Beach Unified School District. Kashiwabara credits the dependability of Assistance League's more than 900 volunteers, who touched 24,000 lives last year.

"We depend on our member, corporate, and community volunteers to help us provide the quality programs our organization stands for," she said. "The commitment our volunteers make is impressive, and it is very gratifying working with them."

In addition to providing school uniforms, the Assistance League of Long Beach provides nine other programs. One other major program includes the Earl B. and Loraine H. Miller Foundation Orthodontic Center at Assistance League of Long Beach's Philanthropic Center. Founded in 1969, the Orthodontic Program helps children from families with limited resources receive orthodontic care.

"It is easy to take things for granted in our lives, and I am proud that many of our programs help children who otherwise wouldn't have clothes to wear to school or straight teeth that enable them to smile with dignity," Kashiwabara said.

F&M's Declaration of Beliefs:

Compassion

"It inspired me to want to help others who suffer from PTSD."

Katherine Holman

Founder, Otra Mas

► F&M Bank Client Since 1976

Katherine Holman remembers the post-traumatic stress her father endured as a Marine who fought in World War II.

"He'd wake up from a deep sleep with a fight in him," she said. "It inspired me to want to help others who suffer from PTSD."

Compassion led Holman to found "Otra Mas," a non-profit horse rescue and equine-assisted therapy program. The San Juan Capistrano-based organization has two primary goals: to rehabilitate retired and rescued horses, and help people address anxiety disorders by interacting with horses.

"There is an emotional wall that comes down when a horse rests its head on a client," Holman said. "You have this powerful animal showing compassion for a human being."

Compassion is a two-way street at Otra Mas, which means "one more" in Spanish. Many of the horses would otherwise be euthanized if it wasn't for Holman's organization, and the clients often feel a sense of responsibility caring for the horses.

Holman would like to double the size of Otra Mas and is in the process of exploring grant opportunities. The organization also offers specialized programs for the military, young adults with special needs, and those recovering from addictions.

F&M's Declaration of Beliefs:

Service Above Self

"We wanted to give back."

James & Carla Hogan

Founders, San Clemente Marine Corps Support Group

► F&M Bank Client Since 2011

On August 26, 2009, two Marines and a Navy Chaplain knocked on the door of James and Carla Hogan's home to inform them that their son had been killed by an IED while deployed overseas.

Following his death, the Hogans experienced an outpouring of love, honor and support – a testament to the sentiment that every Marine is a family member.

"Everyone was incredibly kind and treated us as if we were their parents," James Hogan said. "We wanted to give back."

That's when the Hogans started the San Clemente Marine Corps Support Group, which operates under the mantra of "Seeking Higher Ground." While the organization today has a national presence, the Hogans treat it as a "mom and pop" organization headquartered at their home.

"We have a love of the Marine Corps, and anything you love you want to be around as much as possible," Carla Hogan said.

Such is the case when one of your programs involves sending 7,000 to 10,000 socks to Marine Corps and Army Combat Infantry units abroad. Call it a passion of Service Above Self that keeps the Hogans engaged in their organization.

In addition to "Socks for Heroes," the Hogans run recreational grant programs that provide Marine families the ability to take advantage of swimming lessons, sports, and camps. They also organize family programs for single Marines and Marine families during deployments.

Board of Directors

Daniel K. Walker

► Chairman of the Board since 2003

Mr. Walker is CEO of Farmers & Merchants Bank, where he has served in various positions since 1975.

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.

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.

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.

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 CEO of the Earl B. and Loraine H. Miller Foundation, an organization focused on children and their healthcare needs in the greater Long Beach community.

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.

William G. Hayter

► Board member since 1998

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.


FIRST NATIONAL BANK HAS
CASH TO PAY EVERY DEPOSITOR
FIRST NATIONAL
"RUN" IS HISTORY
Bank Remained Open Until
8:30 Saturday Night
But None Withdrew.
Institution Doing Business

Nº 427
Farmers and Merchants Bank
COMMERCIAL
OF LONG BEACH
SAVINGS
DIRECTORS:
C.J.WALKER
T.W.WILLIAMS
B.W.HAHN
W.H.DUNN
S.TOWNSEND
August 30, 1912
F&M BANK
Vice President Dan Walker says Farmers & Merchants Bank had wanted to expand in Orange County for some time.
Long Beach bank fills OC holes
Capistrano failure provides an opening
By Cathy Taylor
The Register
AT A GLANCE
Farmers & Merchants Bank of Long Beach, founded in 1907, is one of the largest independent banks in California.
Figures in millions
Assets $610.0 $654.0 7%
Net income $13.2 $14.9 13%
Total capital $96.0 $109.5 14%
Source: Farmers & Merchants Bank of Long Beach
FARMERS & ME
ARMORED CAR
Farmers & Merchants Bank
F&M
Bank

2015 Financial Report

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Farmers & Merchants Bank of Long Beach (the Bank), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers & Merchants Bank of Long Beach as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Bank's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO)* and our report dated April 18, 2016 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG LLP

Irvine, California
April 18, 2016

	December 31, 2015	December 31, 2014
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks:		
Non-interest-bearing balances	$ 64,742	$ 55,322
Interest-bearing balances	103,278	137,826
Total cash and due from banks	168,020	193,148
Securities available-for-sale, at fair value	206,649	215,223
Securities held-to-maturity, at amortized cost	2,363,383	2,008,064
Loans held for sale	3,168	1,751
Gross loans	3,278,852	3,010,018
Allowance for loan losses	(56,670)	(50,804)
Unamortized deferred loan fees, net	(4,139)	(3,064)
Loans, net	3,218,043	2,956,150
Other real estate owned, net	1,351	3,406
Investments in FHLB and FRB stock, at cost	20,690	28,440
Public welfare investments	34,499	45,457
Premises and equipment, net	86,781	85,002
Deferred tax assets, net	27,892	23,829
Other assets	23,124	20,769
Total assets	**$ 6,153,600**	**$ 5,581,239**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing deposits	$ 1,824,516	$ 1,567,046
Interest-bearing deposits	2,865,450	2,633,227
Total deposits	4,689,966	4,200,273
Securities sold under repurchase agreements	572,915	546,758
Other liabilities	35,388	27,647
Total liabilities	5,298,269	4,774,678
Stockholders' equity:		
Common stock, par value $20; authorized 250,000 shares; issued and outstanding 130,928 shares	2,619	2,619
Additional paid-in capital	112,044	112,044
Retained earnings	739,259	689,892
Accumulated other comprehensive income	1,409	2,006
Total stockholders' equity	855,331	806,561
Total liabilities and stockholders' equity	**$ 6,153,600**	**$ 5,581,239**

See accompanying notes to financial statements.

	Years Ended December 31, 2015	2014
	(In thousands, except per share data)	
Interest and dividend income:		
Loans	$ 149,424	$ 128,254
Investment securities	53,527	55,012
Investments in FHLB and FRB stock	2,864	1,290
Interest-bearing deposits in financial institutions	412	313
Total interest and dividend income	206,227	184,869
Interest expense:		
Deposits	6,468	5,744
Securities sold under repurchase agreements	1,144	1,140
Other borrowings	6	34
Total interest expense	7,618	6,918
Net interest income	198,609	177,951
Provision for loan losses	(2,700)	-
Net interest income after provision for loan losses	201,309	177,951
Non-interest income:		
Service charges on deposit accounts	4,035	4,570
Gain on sale of securities available-for-sale	-	1,114
Other real estate owned income	1,454	1,583
Merchant bankcard income	9,722	9,365
Other income	9,892	15,385
Total non-interest income	25,103	32,017
Non-interest expense:		
Salaries and employee benefits	77,153	64,492
FDIC and other insurance expense	3,238	3,087
Occupancy expense	8,843	8,043
Software and equipment expense	7,353	7,057
Other real estate owned expense	704	3,207
Amortization of public welfare investments	8,468	8,468
Merchant bankcard expense	7,815	7,386
Professional and legal services	4,602	3,709
Marketing expense	5,504	6,333
Other expense	8,876	7,644
Total non-interest expense	132,556	119,426
Income before income tax expense	93,856	90,542
Income tax expense	28,908	28,133
Net income	**$ 64,948**	**$ 62,409**
Basic and diluted earnings per common share	$ 496.06	$ 476.67

See accompanying notes to financial statements.

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Net income	$ 64,948	$ 62,409
Other comprehensive loss, net of tax:		
Unrealized losses on securities available-for-sale:		
Unrealized holding (losses) gain arising during the period	(597)	276
Reclassification adjustment for net gains included in net income	-	(366)
Other comprehensive loss	(597)	(90)
Comprehensive income	**$ 64,351**	**$ 62,319**

See accompanying notes to financial statements.

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
			(In thousands)		
Balance, December 31, 2013	**$ 2,619**	**$ 12,044**	**$ 742,408**	**$ 2,096**	**$ 759,167**
Transfer from retained earnings to additional paid-in capital	-	100,000	(100,000)	-	-
Net income	-	-	62,409	-	62,409
Cash dividends	-	-	(14,925)	-	(14,925)
Other comprehensive loss, net of tax	-	-	-	(90)	(90)
Balance, December 31, 2014	**$ 2,619**	**$ 112,044**	**$ 689,892**	**$ 2,006**	**$ 806,561**
Net income	-	-	64,948	-	64,948
Cash dividends	-	-	(15,581)	-	(15,581)
Other comprehensive loss, net of tax	-	-	-	(597)	(597)
Balance, December 31, 2015	**$ 2,619**	**$ 112,044**	**$ 739,259**	**$ 1,409**	**$ 855,331**

See accompanying notes to financial statements.

	Years Ended December 31, 2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 64,948	$ 62,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on securities	20,152	23,776
Provision for loan losses	(2,700)	-
Originations of loans held for sale	(72,158)	(31,800)
Proceeds from sale of loans held for sale	71,833	30,922
Gain on sale of loans held for sale	(1,092)	(408)
Gain on sale of securities available-for-sale	-	(1,114)
Gain on sale of other real estate owned	(1,191)	(1,025)
Addition of reserve for other real estate owned	121	2,285
Amortization of public welfare investments	10,958	10,071
Depreciation and amortization	5,859	5,744
Addition of reserve for losses on unfunded loan commitments	700	548
Increase in deferred income tax expense	(3,786)	(4)
(Increase) Decrease in other assets	(2,355)	370
Increase (Decrease) in other liabilities	10,067	(792)
Total adjustments	36,408	38,573
Net cash provided by operating activities	101,356	100,982
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and pay downs	74,303	132,921
Proceeds from sales	-	84,235
Purchases	(71,855)	(15,250)
Securities held-to-maturity:		
Proceeds from maturities and pay downs	330,576	312,315
Purchases	(700,952)	(187,094)
Net increase in loans held for investment	(410,665)	(554,803)
Proceeds on sale of loans held for investment	151,627	-
Gain on sale of loans held for investment	(155)	-
Proceeds from sale of other real estate owned	3,125	9,836
Redemption (Purchases) of FHLB and FRB stock	7,750	(28,000)
Funding of public welfare investments	(2,869)	(28,149)
Purchases of bank premises and equipment	(7,638)	(24,534)
Net cash used in investing activities	(626,753)	(298,523)

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Cash flows from financing activities:		
Net increase in deposits	489,693	368,831
Net increase (decrease) in securities sold under repurchase agreements	26,157	(49,233)
Cash dividends paid	(15,581)	(14,925)
Net cash provided by financing activities	500,269	304,673
Net (decrease) increase in cash and due from banks	(25,128)	107,132
Cash and cash equivalents at beginning of year	193,148	86,016
Cash and cash equivalents at end of year	**$ 168,020**	**$ 193,148**

Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 6,522	$ 6,907
Income taxes	28,743	27,035
Non-cash investing and financing activities:		
Transfer from retained earnings to additional paid-in capital	$ -	$ 100,000

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" or "FMB") was founded in 1907 as a California state-chartered community bank that offers a broad range of banking products and services to individuals, professionals and small to medium-sized businesses. The Bank operates 24 branches and one loan production office in California's Los Angeles County and Orange County as of December 31, 2015. As a full-service commercial bank, FMB offers a broad range of banking products and services including: accepting demand, money market, savings, and time deposits; originating loans, including commercial real estate loans and commercial business loans; and providing other business-oriented banking products and services. The Bank also provides financing for residential loans including single-family and multifamily loans. To a lesser extent, the Bank also makes real estate construction and consumer loans.

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.

Basis of Financial Statement Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices 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, 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. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the fair value of securities available-for-sale, the reserve for other real estate owned, realization of deferred tax assets, and the fair value of financial instruments. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications did not affect previously reported net income.

Cash and Due from Banks

For purposes of the statements of cash flows, cash and cash equivalents consist of cash and due from banks, which comprise non-interest-bearing balances and interest-bearing balances. Interest-bearing balances represent cash held at the Federal Reserve Bank of San Francisco ("FRBSF"), the majority of which is immediately available.

Securities Available-for-Sale and Securities Held-to-Maturity

At the time of purchase, the Bank classifies its securities into one of two categories: available-for-sale and

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

Securities Available-for-Sale and Securities Held-to-Maturity, continued

held-to-maturity. If the Bank has the ability and positive intent at the time of purchase to hold securities until maturity, they are classified as held-to-maturity. All securities not identified as held-to-maturity 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 estimated fair value with unrealized holding gains and losses, net of the related tax effect, 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 security held-to-maturity or available-for-sale 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 security as an adjustment to yield using the interest method. Unamortized premiums and un-accreted discounts are recognized as a component of gain or loss on sale upon disposition of the related security. Interest income is recognized when earned. 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 using the specific-identification method.

The Bank's security portfolio is managed to meet our liquidity needs through proceeds from scheduled maturities and is also utilized for pledging requirements for deposits of state and local subdivisions, securities sold under repurchase agreements, Federal Home Loan Bank ("FHLB") Advances, and Federal Reserve Bank ("FRB") Discount Window borrowings.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans. Gain and losses are recorded in non-interest income based on the difference between sales proceeds, net of sales commissions, and carrying value.

The Bank will occasionally transfer loans from held for investment to held for sale. Upon transfer, any associated

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

Loans Held for Sale, continued

allowance for loan losses is charged off and the carrying value of the loan is adjusted to the lower of cost or estimated fair value. Gains or losses on the sale of these loans are recorded in non-interest income.

Loans

Loans that the Bank has the intent and ability to hold for the foreseeable future, or until maturity, are reported at the principal amounts outstanding, net of the allowance for loan losses and unamortized deferred net loan fees or costs. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income on an effective yield basis over the contractual loan term. Interest income on loans is recorded on an accrual basis in accordance with the terms of the respective loan.

Nonaccrual Loans

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when interest or principal payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income, and all interest received on nonaccrual loans will be applied to principal. Loans are restored to accrual status when principal and interest are brought fully current and when, in the opinion of management, 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.

Troubled Debt Restructured Loans

A loan is classified as a troubled debt restructured loan ("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 are not insignificant, or that it would not otherwise consider for market participants with similar risk characteristics. 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 and the modification was made at market rates for a borrower with similar risk characteristics. 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.

Impaired Loans

Loans are considered impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms. Impaired loans include loans on nonaccrual status and restructured loans. If the loan is collateral-dependent, the amount of impairment is measured against the estimated fair value of the loan's underlying collateral, less estimated selling costs, including senior obligations such as

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

Impaired Loans, continued

delinquent property taxes. If the loan is not collateral-dependent, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate. The impairment amount on a collateral-dependent loan is charged-off to the allowance and the impairment amount of a loan that is not collateral-dependent is set up as a specific allowance. Cash receipts on impaired loans are applied to reduce the principal amount of such loans until the principal has been recovered and are recognized as income thereafter.

Allowance for Loan Losses

The allowance for loan losses ("ALL") 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 and external 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.

The allowance for loan losses consists of two components: a general allowance for loans not considered impaired and a specific allowance for loans determined to be impaired.

The methodology the Bank uses to estimate the general allowance component of our ALL is the classification migration methodology, which considers both objective and subjective criteria. The objective criteria uses the Bank's actual historical loan charge-off experience on pools of similar loans to establish loss rates that are applied to the Bank's current loan balances to estimate inherent credit losses. The estimation of the ALL at December 31, 2015 considered actual historical loan charge-off experience over a ten-year period starting with the fourth quarter of 2005. The estimation of the ALL at December 31, 2014 considered actual historical loan charge-off experience over a six-and-a-half year period starting with the third quarter of 2008. The increase in the historical look-back period from six-and-a-half years at December 31, 2014 to ten years at December 31, 2015 was deemed prudent in order to include loan charge-off experience during the recent economic cycle in the estimation of the allowance for loan losses. This timeframe also provides a reasonable period for migration. The Bank recognizes that the estimation of the ALL is sensitive to the assigned credit risk ratings and loss rates at any given point in time. To ensure the accuracy of our credit risk ratings, an independent credit review function assesses the ratings assigned to loans on an on-going basis.

The subjective criteria considered when establishing the loss rates include, but is not limited to the following:

- current economic trends and forecasts;
- the loan portfolio composition and any loan concentrations;
- the Bank's current lending policies;
- the volume and nature of new loan originations; and
- the loan portfolio's credit performance trends.

The credit risk ratings assigned to every loan are either "pass", "special mention", "substandard", or "doubtful" and defined as follows:

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

Allowance for Loan Losses, continued

Pass: Loans classified as pass are expected to be fully collected.

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 4, *Loans and Allowance for Loan Losses.*

The methodology the Bank used to estimate the specific allowance for loans determined to be impaired complies with Accounting Standard Codification ("ASC") Section 310-10-35. If the loan is collateral-dependent, the amount of impairment is measured against the estimated fair value of the loan's underlying collateral, less estimated selling costs, including senior obligations such as delinquent property taxes. If the loan is not collateral-dependent, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate. The impairment amount on a collateral-dependent loan is charged-off to the allowance and the impairment amount of a loan that is not collateral-dependent is set up as a specific allowance. The Bank will have specific allowances for the full outstanding amounts for impaired loans with outstanding balances of less than $50,000 and that are unsecured, or the market price of the collateral is not easy or cost effective to obtain.

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 the 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, along with operating expenses of such properties. Subsequent increases in the fair value of the asset less selling costs reduce the OREO valuation allowance, but not below zero, and are credited to noninterest expense. Income on OREO and gains and losses on their disposition are included in OREO income.

Investment in Federal Home Loan Bank Stock

As a member of the FHLB of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco, which is based upon the Bank's membership asset value and/or borrowing levels. Investments in FHLB stock are carried at cost and are expected to be redeemed at par. Investment in FHLB stock is evaluated regularly for impairment. Cash dividends are accrued and reported as dividend income.

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

Investment in Federal Reserve Bank Stock

As a member of the FRB of San Francisco, the Bank is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. Investment in FRB stock is evaluated regularly for impairment. Cash dividends are accrued and reported as dividend income.

Public Welfare Investments

The Bank invests in limited liability companies and partnerships that make investments in commercial enterprises and affordable housing projects 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 or the proportional amortization method for certain qualified affordable housing investments. Investments accounted for using the cost method are being proportionately amortized over the life of the related tax credits as a component of noninterest expenses; meanwhile, those accounted for using the proportional amortization method are being proportionately amortized over the expected total tax benefits as a component of current tax expenses. The investments are reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed on a straight-line method based on the estimated useful lives of the assets:

Type	Estimated Useful Life
Buildings	20 to 39 years
Building improvements	20 to 39 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, and other costs related directly to the construction of a property. Maintenance and repairs are charged to expense.

The Bank reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

Securities Sold Under Repurchase Agreements

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 collateral securities underlying the agreements remain in the applicable asset accounts.

Other Borrowings

The Bank has established Federal funds lines with several correspondent banks, as well as with the FHLB

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

Other Borrowings, continued

and FRB. These Federal funds lines generally mature within one business day. The Bank's available borrowing capacity from Federal funds line facilities amounted to $558.0 million and $550.0 million as of December 31, 2015 and 2014, respectively.

The Bank's available collateral borrowing capacity for FHLB advances totaled $383.0 million at December 31, 2015. The Bank's available collateral borrowing capacity from FHLB advances is derived from its outstanding FHLB advances and from its loans and securities that are pledged to the FHLB. There was no outstanding FHLB advance at December 31, 2015.

Operating Leases

The Bank enters into a variety of lease contracts, as lessee, 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.

The Bank also enters into a variety of lease contracts, as lessor, for Bank-owned properties or, as sub-lessee, for properties leased by the Bank. The Bank accounts for lease income on an accrual basis.

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. 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 basis. 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. Deferred tax assets and liabilities in the same jurisdiction, are grouped together and reported net on the balance sheets.

On an ongoing basis, management evaluates the deferred tax assets to determine if the tax benefits are expected to be realized in future periods. To the extent that the benefit of a deferred tax asset is not more likely than not to be realized, a valuation allowance is established with a corresponding charge through the provision for income taxes. The Bank also evaluates existing valuation allowances periodically to determine if sufficient evidence exists to support an increase or reduction in the allowance. The Bank recognizes

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

Income Taxes, continued

interest and penalties related to tax positions as part of its provision for income taxes.

Comprehensive Income

Other comprehensive income refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity. The Bank's 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 Data

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period.

Recent Accounting Standards

In January 2014, the FASB issued ASU 2014-01, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. ASU 2014-01 allows investors in low-income housing tax credit ("LIHTC") entities that meet certain conditions to present the net tax benefits (net of the amortization of the cost of the investment) within income tax expense. The cost of the investments that meets the conditions will be amortized in proportion to (and over the same period as) the total expected tax benefits, including tax credits and other tax benefits, as they are realized on the tax return. ASU 2014-01 is effective for the Bank on January 1, 2015 and is to be applied retrospectively if investors elect the proportional amortization method. The Bank chose to early adopt this guidance on January 1, 2014, and the adoption of this guidance did not have a material effect on the Bank's financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. ASU 2014-04 clarifies when a creditor should reclassify mortgage loans collateralized by residential real estate from loans receivable to other real estate owned. ASU 2014-04 clarifies when an in-substance repossession or foreclosure has occurred and when a creditor is considered to have received physical possession of residential real estate collateralizing a mortgage loan. ASU 2014-04 is effective for the Bank on January 1, 2015 and can be applied either prospectively or using a modified retrospective transition method, and early adoption is permitted. The adoption of this guidance in January 2015 did not have a material impact on the Bank's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. The Bank is evaluating the effect that ASU 2016-01 will have on its financial statements and related disclosures.

NOTE 2 – SECURITIES AVAILABLE-FOR-SALE

The following table presents an analysis of the securities available-for-sale portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
At December 31, 2015				
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ -	$ -	$ -	$ -
Mortgage-backed securities	32,528	869	(52)	33,345
State and municipal securities	171,367	1,692	(80)	172,979
Collateralized mortgage obligations	322	3	-	325
Total securities available-for-sale	$ 204,217	$ 2,564	$ (132)	$ 206,649
At December 31, 2014				
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 751	$ -	$ -	$ 751
Mortgage-backed securities	43,092	1,503	(90)	44,505
State and municipal securities	167,195	2,102	(68)	169,229
Collateralized mortgage obligations	722	16	-	738
Total securities available-for-sale	$ 211,760	$ 3,621	$ (158)	$ 215,223

The following table presents a summary of the estimated maturities of securities available-for-sale as of December 31, 2015 based on amortized cost and estimated fair value:

	Amortized Cost	Fair Value
	(In thousands)	
Due in 1 year or less	$ 60,346	$ 60,421
Due after 1 year through 5 years	93,189	94,097
Due after 5 years through 10 years	30,099	31,540
Due after 10 years	20,583	20,591
	$ 204,217	$ 206,649

During the year ended December 31, 2015, the Bank did not sell any securities. During the year ended December 31, 2014, the Bank sold $83.1 million of securities for which the Bank recognized gain of $1.6 million and loss of $0.5 million, of which $0.4 million was reclassified out of accumulated other comprehensive income and into net income. These securities were sold as part of the Bank's investment portfolio risk management activities.

NOTE 2 – Securities Available-for-Sale, continued

The following table shows the gross unrealized losses on securities available-for-sale and the related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Mortgage-backed securities	13,817	(52)	-	-	13,817	(52)
State and municipal securities	46,946	(79)	226	(1)	47,172	(80)
Total temporarily impaired securities	$ 60,763	$ (131)	$ 226	$ (1)	$ 60,989	$ (132)

The unrealized losses are primarily attributable to declining market prices caused by a rising interest rate environment. At December 31, 2015, there was 296 and 2 securities available-for-sale with unrealized losses less than 12 months and 12 months or longer, respectively. Whenever the cost of a 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. Management believes that securities available-for-sale in an unrealized loss position at December 31, 2015 had a loss position that was temporary in nature, 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 securities available-for-sale are not considered other-than-temporarily impaired.

The following represents the related tax effect allocated to each component of other comprehensive income at the dates indicated:

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
		(In thousands)	
Year ended December 31, 2015			
Unrealized losses on securities:			
Unrealized holding gains arising during period	$ (1,031)	$ 434	$ (597)
Reclassification adjustment for net gains included in net income	-	-	-
Other comprehensive loss	$ (1,031)	$ 434	$ (597)
Year ended December 31, 2014			
Unrealized losses on securities:			
Unrealized holding losses arising during period	$ 477	$ (201)	$ 276
Reclassification adjustment for net losses included in net income	(632)	266	(366)
Other comprehensive loss	$ (155)	$ 65	$ (90)

NOTE 3 – SECURITIES HELD-TO-MATURITY

The following table presents an analysis of the securities held-to-maturity portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
At December 31, 2015				
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 19,528	$ 45	$ (45)	$ 19,528
Mortgage-backed securities	1,876,718	22,044	(5,132)	1,893,630
State and municipal securities	411,250	14,445	(151)	425,544
Collateralized mortgage obligations	55,133	379	(303)	55,209
Corporate debt securities	754	7	-	761
Total securities held-to-maturity	$ 2,363,383	$ 36,920	$ (5,631)	$ 2,394,672
At December 31, 2014				
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 9,093	$ 2	$ (129)	$ 8,966
Mortgage-backed securities	1,557,180	32,004	(3,178)	1,586,006
State and municipal securities	404,493	15,624	(347)	419,770
Collateralized mortgage obligations	36,529	555	(169)	36,915
Corporate debt securities	769	11	-	780
Total securities held-to-maturity	$ 2,008,064	$ 48,196	$ (3,823)	$ 2,052,437

The following table is a summary of the estimated maturities of securities held-to-maturity as of December 31, 2015 based on amortized cost and estimated fair value:

	Amortized Cost	Fair Value
	(In thousands)	
Due in 1 year or less	$ 19,678	$ 19,771
Due after 1 year through 5 years	201,008	209,057
Due after 5 years through 10 years	386,501	403,680
Due after 10 years	1,756,196	1,762,164
	$ 2,363,383	$ 2,394,672

There were no sales or transfers of securities held-to-maturity in 2015 or 2014.

NOTE 3 – Securities Held-to-Maturity, continued

The following table shows the gross unrealized losses on securities held-to-maturity and the related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 5,202	$ (45)	$ -	$ -	$ 5,202	$ (45)
Mortgage-backed securities	905,584	(5,132)	26	-	905,610	(5,132)
State and municipal securities	33,017	(117)	2,443	(34)	35,460	(151)
Collateralized mortgage obligations	35,196	(242)	2,619	(61)	37,815	(303)
Total temporarily impaired securities	$ 978,999	$ (5,536)	$ 5,088	$ (95)	$ 984,087	$ (5,631)

The Bank's held-to-maturity portfolio is primarily composed of mortgage-backed securities issued or guaranteed by FNMA (Fannie Mae) or GNMA (Ginnie Mae). The unrealized losses are primarily attributable to declining market prices caused by faster-than-expected prepayments and a rising interest rate environment. At December 31, 2015, there was 298 and 11 securities held-to-maturity with unrealized losses less than 12 months and 12 months or longer, respectively. Management believes that securities held-to-maturity in an unrealized loss position as December 31, 2015 had a loss position that was 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 maturity, these securities held-to-maturity are not considered other-than-temporarily impaired.

Total securities with a carrying value of approximately $1.19 billion and $1.25 billion at December 31, 2015 and December 31, 2014, respectively, were pledged to secure securities sold under repurchase agreements, public deposits, FRB's daylight overdraft, FHLB's advance line, and for other purposes required by law.

Interest income on tax-exempt securities was $10.5 million for the year ended December 31, 2015, and $11.8 million for the year ended December 31, 2014.

NOTE 4 – 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 loan portfolio. Loans are generally expected to be paid off from the operating cash flow of the borrowers, refinancing by another lender, or through sale by the borrowers of the secured collateral.

NOTE 4 – Loans and Allowance for Loan Losses, continued

The following is the presentation of the loan portfolio, separated into the same loan segments utilized in the estimation of the ALL:

	December 31, 2015	December 31, 2014
	(In thousands)	
Commercial & industrial	$ 126,829	$ 105,240
Construction	300,549	155,153
Commercial real estate	2,114,554	1,976,691
Residential mortgage	591,550	634,477
Equity lines	119,509	113,850
Installment and other loans	25,861	24,607
Gross loans	3,278,852	3,010,018
Less: Allowance for loan losses	(56,670)	(50,804)
Unamortized deferred loan fees, net	(4,139)	(3,064)
Loans, net	$ 3,218,043	$ 2,956,150
Loans held for sale	3,168	1,751
Total loans receivable, net	$ 3,221,211	$ 2,957,901

Total loans with balance of $580.6 million at December 31, 2015 were pledged to secure FHLB's advance line.

Nonaccrual and Past Due Loans

Loans are tracked by the numbers of days borrower payments are past due. The following tables present an aging analysis of nonaccrual and past due loans, segregated by loan segment:

	As of December 31, 2015					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Nonaccrual	Current	Total
	(In thousands)					
Loan Segment						
Commercial & industrial	$ -	$ -	$ -	$ -	$ 126,829	$ 126,829
Construction	-	-	-	-	300,549	300,549
Commercial real estate	100	-	-	1,685	2,112,769	2,114,554
Residential mortgage	1,740	-	-	705	589,105	591,550
Equity lines	2,256	845	-	418	115,990	119,509
Installment and other loans	-	4	-	-	25,857	25,861
Gross loans	**$ 4,096**	**$ 849**	**$ -**	**$ 2,808**	**$ 3,271,099**	**$ 3,278,852**

NOTE 4 – Loans and Allowance for Loan Losses, continued

Nonaccrual and Past Due Loans, continued

	As of December 31, 2014					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Nonaccrual	Current	Total
	(In thousands)					
Loan Segment						
Commercial & industrial	$ -	$ -	$ -	$ -	$ 105,240	$ 105,240
Construction	-	-	-	-	155,153	155,153
Commercial real estate	253	3,303	-	4,748	1,968,387	1,976,691
Residential mortgage	237	-	-	-	634,240	634,477
Equity lines	-	-	-	400	113,450	113,850
Installment and other loans	-	34	27	-	24,546	24,607
Gross loans	**$ 490**	**$ 3,337**	**$ 27**	**$ 5,148**	**$ 3,001,016**	**$ 3,010,018**

The following is a summary of select information related to the nonaccrual loans outstanding as of December 31, 2015 and 2014 and the related contractual interest income foregone for the years indicated:

	2015	2014
	(In thousands)	
Nonaccrual loans		
Outstanding balance	$ 2,808	$ 5,148
Average balance	3,283	19,576
Interest income recorded	16	4
Interest income foregone	124	443

Credit Quality

Loans are risk rated based on analysis of the current state of the borrower's credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower's current payment performance/ delinquency, the borrower's current financial and liquidity status, and all other relevant information. The following tables present the credit risk rating categories for each loan 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, 2015			December 31, 2014		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
	(In thousands)					
Commercial & industrial	$ 124,454	$ 2,375	$ 126,829	$ 104,876	$ 364	$ 105,240
Construction	300,549	-	300,549	154,896	257	155,153
Commercial real estate	2,093,493	21,061	2,114,554	1,955,613	21,078	1,976,691
Residential mortgage	589,895	1,655	591,550	631,589	2,888	634,477
Equity lines	115,193	4,316	119,509	107,917	5,933	113,850
Installment and other loans	25,861	-	25,861	24,607	-	24,607
Total	**$ 3,249,445**	**$ 29,407**	**$ 3,278,852**	**$ 2,979,498**	**$ 30,520**	**$ 3,010,018**

NOTE 4 – Loans and Allowance for Loan Losses, continued

Troubled Debt Restructured Loans

Included in the Bank's loan portfolio are TDRs, which are loans that have been modified due to deterioration in the financial condition of the borrower, and the Bank has granted concessions to the borrower that it would not otherwise consider. The total amount of TDRs was $8.6 million at December 31, 2015 and $12.7 million at December 31, 2014.

The following tables present TDRs as of each year end that were modified as TDRs during the year in each respective period.

	For The Year Ended December 31, 2015						
						TDRs that Subsequently Defaulted	
	No. of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Charge-offs During Modification	Allocated Reserve	No. of Contracts	Recorded Investment
	(In thousands)						
Loan Segment							
Commercial & industrial	-	$ -	$ -	$ -	$ -	-	$ -
Commercial real estate	1	2,561	2,561	-	-	-	
Residential mortgage	-	-	-	-	-	-	-
Total	**1**	**$ 2,561**	**$ 2,561**	**$ -**	**$ -**	**-**	**$ -**

	For The Year Ended December 31, 2014						
						TDRs that Subsequently Defaulted	
	No. of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Charge-offs During Modification	Allocated Reserve	No. of Contracts	Recorded Investment
	(In thousands)						
Loan Segment							
Commercial & industrial	1	$ 122	$ 122	$ -	$ 1	-	$ -
Commercial real estate	3	1,589	1,589	-	-	-	
Residential mortgage	3	1,169	1,169	-	-	-	-
Total	**7**	**$ 2,880**	**$ 2,880**	**$ -**	**$ 1**	**-**	**$ -**

NOTE 4 – Loans and Allowance for Loan Losses, continued

Accruing TDRs

A summary of accruing TDRs by concession type and by loan segment is shown below for each year end.

	As of December 31, 2015			
	Principal Deferral	Rate Reduction	Combination of such Concession	Total
	(In thousands)			
Loan Segment				
Commercial & industrial	$ -	$ -	$ -	$ -
Commercial real estate	3,455	792	2,212	6,459
Residential mortgage	448	-	-	448
Total loans	**$ 3,903**	**$ 792**	**$ 2,212**	**$ 6,907**

	As of December 31, 2014			
	Principal Deferral	Rate Reduction	Combination of such Concession	Total
	(In thousands)			
Loan Segment				
Commercial & industrial	$ 116	$ -	$ -	$ 116
Commercial real estate	3,489	816	2,286	6,591
Residential mortgage	1,287	-	-	1,287
Total loans	**$ 4,892**	**$ 816**	**$ 2,286**	**$ 7,994**

Nonaccrual TDRs

A summary of nonaccrual TDRs by concession type and by loan segment is shown below for each year end.

	As of December 31, 2015				
	Principal Deferral	Rate Reduction	Forgiveness of Principal	Combination of Such Concession	Total
	(In thousands)				
Loan Segment					
Commercial real estate	$ 998	$ -	$ -	$ 687	$ 1,685
Total loans	**$ 998**	**$ -**	**$ -**	**$ 687**	**$ 1,685**

	As of December 31, 2014				
	Principal Deferral	Rate Reduction	Forgiveness of Principal	Combination of Such Concession	Total
	(In thousands)				
Loan Segment					
Commercial real estate	$ 3,991	$ -	$ -	$ 757	$ 4,748
Total loans	**$ 3,991**	**$ -**	**$ -**	**$ 757**	**$ 4,748**

NOTE 4 – Loans and Allowance for Loan Losses, continued

Impaired Loans

Nonaccrual loans and performing restructured loans are considered impaired loans for reporting purposes. For the indicated periods, the following tables contain an analysis of impaired loans by segment:

	As of December 31, 2015						
	Unpaid Principal Balance	Recorded Investment With No ALL	Recorded Investment With ALL	Related ALL	Total	Average Recorded Investment	Interest Income Recognized
			(In thousands)				
Loan Segment							
Commercial & industrial	$ -	$ -	$ -	$ -	$ -	$ 27	$ -
Construction	-	-	-	-	-	-	-
Commercial real estate	8,565	5,931	2,212	98	8,045	7,218	326
Residential mortgage	1,227	1,153	-	-	1,153	725	24
Equity lines	502	418	-	-	418	514	1
Total	**$ 10,294**	**$ 7,502**	**$ 2,212**	**$ 98**	**$ 9,616**	**$ 8,484**	**$ 351**

	As of December 31, 2014						
	Unpaid Principal Balance	Recorded Investment With No ALL	Recorded Investment With ALL	Related ALL	Total	Average Recorded Investment	Interest Income Recognized
			(In thousands)				
Loan Segment							
Commercial & industrial	$ 116	$ -	$ 116	$ 1	$ 115	$ 165	$ 6
Construction	-	-	-	-	-	353	-
Commercial real estate	15,120	11,339	-	-	11,339	21,891	237
Residential mortgage	1,357	1,287	-	-	1,287	1,717	34
Equity lines	487	400	-	-	400	858	4
Total	**$ 17,080**	**$ 13,026**	**$ 116**	**$ 1**	**$ 13,141**	**$ 24,984**	**$ 281**

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, 2015			December 31, 2014		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
			(In thousands)			
Loan Segment						
Commercial & industrial	$ -	$ 126,829	$ 126,829	$ 116	$ 105,124	$ 105,240
Construction	-	300,549	300,549	-	155,153	155,153
Commercial real estate	8,143	2,106,411	2,114,554	11,339	1,965,352	1,976,691
Residential mortgage	1,153	590,397	591,550	1,287	633,190	634,477
Equity lines	418	119,091	119,509	400	113,450	113,850
Installment and other loans	-	25,861	25,861	-	24,607	24,607
Total	**$ 9,714**	**$ 3,269,138**	**$ 3,278,852**	**$ 13,142**	**$ 2,996,876**	**$ 3,010,018**

NOTE 4 – Loans and Allowance for Loan Losses, continued

Allowance for Loan Losses

The following table summarizes ALL activity by loan segment for each year ended:

	Commercial & Industrial	Construction	Commercial Real Estate	Residential Mortgage	Equity Lines	Installment and Other Loans	Total
				(In thousands)			
December 31, 2013	**$ 1,263**	**$ 6,220**	**$ 13,606**	**$ 23,933**	**$ 952**	**$ 5,277**	**$ 51,251**
Provision	(915)	1,471	10,250	(6,681)	(529)	(3,596)	-
Charge-Off	-	(119)	(1,338)	-	-	(322)	(1,779)
Recoveries	409	-	36	469	67	351	1,332
December 31, 2014	**$ 757**	**$ 7,572**	**$ 22,554**	**$ 17,721**	**$ 490**	**$ 1,710**	**$ 50,804**
Provision	(4,784)	6,342	8,841	(12,231)	339	(1,207)	(2,700)
Charge-Off	(18)	-	-	-	-	(157)	(175)
Recoveries	5,458	195	772	1,898	106	312	8,741
December 31, 2015	**$ 1,413**	**$ 14,109**	**$ 32,167**	**$ 7,388**	**$ 935**	**$ 658**	**$ 56,670**
The ending ALL balance is composed of amounts applicable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 98	$ -	$ -	$ -	$ 98
Collectively evaluated for impairment	$ 1,413	$ 14,109	$ 32,069	$ 7,388	$ 935	$ 658	$ 56,572

Reserve allocations for loan losses by loan category can shift year to year based on changes to outstanding loan balances, other factors such as charge-offs and recoveries, as well as enhancements to the ALLL methodology.

Reserve for Unfunded Loan Commitments

Activities in the reserve for unfunded loan commitments included in other liabilities in the accompanying balance sheets for the years ended December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
	(In thousands)	
Balance, beginning of year	$ 2,700	$ 2,152
Addition of reserve for unfunded loan commitments	700	548
Balance, end of year	$ 3,400	$ 2,700

NOTE 5 – OTHER REAL ESTATE OWNED

At December 31, 2015 and 2014, the carrying value of OREO was $1.4 million and $3.4 million, net of reserve for OREO of $0.6 million and $2.8 million, respectively. The following tables summarize the net carrying value of OREO by property type at the dates indicated:

	December 31, 2015	December 31, 2014
	(In thousands)	
Construction and land development	1,351	2,341
Farmland	-	1,065
Total OREO, net	$ 1,351	$ 3,406

The components of OREO income and expense for the years indicated are as follows:

	2015	2014
	(In thousands)	
Rental income	$ 263	$ 558
Net gain on sale	1,191	1,025
Total OREO income	1,454	1,583
Operating and maintenance expense	583	922
Addition of reserve for OREO	121	2,285
Total OREO expense	704	3,207
OREO income (expense), net	$ 750	$ (1,624)

NOTE 6 – PUBLIC WELFARE INVESTMENTS

The Bank has invested in certain limited liability companies and partnerships that make investments in commercial enterprises and affordable housing projects located in low income communities for the purpose of utilizing the tax credits these investments generate. The Bank is not the primary beneficiary of these partnerships and, therefore, is not required to consolidate these entities on its financial statements.

The Bank's public welfare investments totaled $34.5 million and $45.5 million at December 31, 2015 and December 31, 2014, respectively. Unfunded commitments related to these public welfare investments totaled $9.0 million and $11.9 million at December 31, 2015 and December 31, 2014, respectively, and are included in other liabilities on the balance sheets.

The Bank's usage of federal tax credits totaled $11.8 million for 2015 and $10.9 million for 2014. The Bank's remaining tax credits to be utilized over a multiple-year period approximated $33.1 million and $44.9 million at December 31, 2015 and December 31, 2014, respectively. Under the proportional amortization method, the amortization of the investment recognized as a component of income tax expenses totaled $2.5 million and $1.6 million for 2015 and 2014, respectively.

NOTE 7 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of the dates indicated:

	December 31, 2015	December 31, 2014
	(In thousands)	
Land	$ 35,625	$ 35,625
Buildings and building improvements	63,400	62,600
Furniture, fixtures and equipment	27,228	26,874
Leasehold improvements	2,832	4,071
Construction in progress	5,809	1,086
	$ 134,894	$ 130,256
Less accumulated depreciation and amortization	(48,113)	(45,254)
	$ 86,781	$ 85,002

Depreciation and amortization expense was $5.9 million in 2015 and $5.7 million in 2014.

The Bank is committed under a number of operating leases for premises. Most of the leases require that the Bank pay property taxes, insurance and other operating expenses applicable to the leased premises in addition to the monthly lease payment. Lease expense for the years ended December 31, 2015 and 2014 was $1.4 million and $1.5 million, respectively.

The following table presents future annual minimum lease commitments as of December 31, 2015:

Year Ending December 31,	Commitments
	(In thousands)
2016	$ 1,244
2017	753
2018	493
2019	416
2020	428
Thereafter	$ 2,051

Total lease income for the years ended December 31, 2015 and 2014 was $1.9 million and $1.9 million, respectively. The following table presents future annual lease income payments to be received under operating leases with terms in excess of one year as of December 31, 2015:

Year Ending December 31,	Commitments
	(In thousands)
2016	$ 1,718
2017	1,516
2018	929
2019	659
2020	417
Thereafter	$ 346

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

NOTE 8 – DEPOSITS

The following table presents the components of deposits as of the dates indicated:

	December 31, 2015	December 31, 2014
	(In thousands)	
Non-interest-bearing checking	$ 1,824,516	$ 1,567,046
Interest-bearing checking	645,125	552,432
Money market accounts	758,194	645,019
Savings deposits	618,726	583,565
Total core deposits	$ 3,846,561	$ 3,348,062
Time deposits:		
$250,000 or less	$ 436,523	$ 432,230
Greater than $250,000	406,882	419,981
Total time deposits	843,405	852,211
Total deposits	$ 4,689,966	$ 4,200,273

At December 31, 2015, the maturity distribution of the Bank's time deposits was as follows:

Year of Maturity	$250,000 or Less	Greater Than $250,000	Total
	(In thousands)		
2016	$ 332,857	$ 287,710	$ 620,567
2017	34,186	49,908	84,094
2018	12,290	30,141	42,431
2019	9,588	8,740	18,328
2020	47,602	30,383	77,985
	$ 436,523	$ 406,882	$ 843,405

NOTE 9 – SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Substantially all repurchase agreements have open-ended maturities, where either the customer or the Bank may terminate a repurchase agreement at any time upon written notice. All outstanding balances and pledged securities are rebalanced and interest rates reset daily to reflect market movement.

The following table summarizes information about securities sold under repurchase agreements outstanding as of the periods indicated:

	December 31, 2015	December 31, 2014
	(In thousands)	
Securities sold under repurchase agreements	$ 572,915	$ 546,758
Weighted average interest rate	0.20%	0.20%
Securities underlying repurchase agreements	$ 643,175	$ 643,035
Fair value of securities underlying repurchase agreements	$ 652,967	$ 656,603

NOTE 9 – Securities Sold Under Repurchase Agreements, continued

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. The following table summarizes securities sold under repurchase agreements' activity during the periods 2015 and 2014, respectively:

	2015	2014
	(In thousands)	
Average outstanding	$ 563,535	$ 579,200
Weighted average interest rate	0.20%	0.20%
Maximum amounts outstanding	$ 634,334	$ 691,518

NOTE 10 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2015 and 2014 is comprised of the following:

	2015	2014
	(In thousands)	
Current income taxes:		
Federal	$ 21,111	$ 17,931
State	11,583	10,206
Total current income tax expense	32,694	28,137
Deferred income taxes:		
Federal	(2,708)	98
State	(1,078)	(102)
Total deferred income tax benefit	(3,786)	(4)
Total income tax expense	$ 28,908	$ 28,133

Significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2015 and December 31, 2014 are as follows:

	2015	2014
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 27,536	$ 24,526
Reserve for OREO	301	1,277
Public welfare investments – state tax basis difference	3,987	3,069
State income taxes	1,621	1,379
Accrued employee compensation	1,241	963
Premises and equipment depreciation and amortization	874	-
Other, net	1,912	709
Gross deferred tax assets	$ 37,472	$ 31,923
Valuation allowance	(3,987)	(3,069)
Deferred tax assets, net of valuation allowance	$ 33,485	$ 28,854

NOTE 10 – Income Taxes, continued

Deferred tax liabilities				
Unrealized gain on securities available-for-sale		1,022		1,456
Premises and equipment depreciation and amortization		-		188
Public welfare investments - federal tax basis difference		4,536		3,346
Other		35		35
Gross deferred tax liabilities	$	5,593	$	5,025
Net deferred tax assets	$	27,892	$	23,829

The Federal tax rate was 35% for 2015 and 2014. A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate to income before income tax expense follows:

	2015	**2014**
Federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	6.7%	6.8%
Tax-exempt interest income	(3.9%)	(4.4%)
Tax credits	(9.0%)	(8.5%)
Amortization – low-income housing investment	2.7%	1.8%
Other	(0.7%)	0.4%
	30.8%	31.1%

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 that the Bank will realize the benefits of these deductible differences (except to the extent of the recorded valuation allowance). A valuation allowance has been provided for expected capital losses in California since management does not believe it is more likely than not that these losses will be utilized.

ASC 740-10, *Accounting for Uncertainty in Income Taxes* 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, 2015, all tax years subsequent to 2011 and 2008 for federal and state purposes respectively remain open to examination. 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. The Bank has concluded that there are no material uncertain tax positions as of December 31, 2015.

NOTE 11 – EARNINGS PER SHARE

As of December 31, 2015 and 2014, there were no securities or other contracts to issue common stock. 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, 2015 and 2014.

	2015	2014
	(In thousands, except share and per share data)	
Basic and diluted earnings per share:		
Net income available to common stockholders	$ 64,948	$ 62,409
Weighted average number of common shares outstanding	130,928	130,928
Weighted basic and diluted earnings per common share	$ 496.06	$ 476.67

NOTE 12 – STOCKHOLDERS' EQUITY

On March 31, 2014, the Bank transferred $100.0 million from retained earnings to additional paid-in capital with the approval of the Department of Business Oversight and the Board of Directors, and the concurrence of the Federal Reserve Bank. The transfer was completed for the purpose of complying with the limitation on investments in bank premises pursuant to the Federal Reserve Bank's Section 208.21(a) of Regulation H; it did not have an impact on total equity, capital ratios or net income.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Commitments to Extend Credit

In the normal course of business, the Bank has various outstanding commitments to extend credit that are not reflected in the accompanying financial statements. While the Bank does not anticipate material losses as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the reserve for unfunded loan commitments. Commitments to extend credit are agreements to lend to a customer, provided there is no violation of any condition established in the agreement. Substantially all of the Bank's commitments to extend credit are on a variable rate basis.

Standby letters of credit are conditional commitments issued by the Bank to make payment on behalf of customers when certain specified future events occur. The customer is obligated to reimburse the Bank for any such payment. Most letters of credit expire within one year.

The Bank uses the same credit policies in making commitments to extend credit and in issuing standby letters of credit. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer.

The following table presents a summary of the Bank's commitments to extend credit as of the dates indicated:

	December 31,	
	2015	2014
	(In thousands)	
Commitments to extend credit	$ 999,114	$ 883,198
Financial standby letters of credit	10,595	12,722
Performance standby letters of credit	6,516	6,725
	$ 1,016,225	$ 902,645

NOTE 13 – Commitments and Contingencies, 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 our business. The outcome of such legal proceedings and the timing of ultimate resolution are inherently difficult to predict. In accordance with applicable accounting guidance, the Bank establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, the Bank, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency is deemed to be both probable and estimable, the Bank will establish an accrued liability and record a corresponding amount of litigation-related expense. The Bank continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. Based on current knowledge, management does not believe that loss contingencies arising from pending matters will have a material adverse effect on the financial position or liquidity of the Bank.

NOTE 14 – 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:

Level 1 - Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, corporate debt securities, impaired loans and OREO.

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

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 – Other than U.S. Treasury securities, which is a Level 1 measurement, the Bank measures all other securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

NOTE 14 – Fair Value Measurements, continued

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 appraisals which are 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, management's judgment or in the event when current appraised value was higher than the Bank's book balance.

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 accepted written offers is classified in Level 2 in 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. These assets and liabilities are reported on the balance sheets at their fair values as of December 31, 2015 and December 31, 2014, respectively:

	As of December 31, 2015			
	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	$ -	$ 206,649	$ -	$ 206,649
On a non-recurring basis:				
Impaired loans	-	-	2,114	2,114
Other real estate owned	-	1,351	-	1,351
Total assets	$ -	$ 208,000	$ 2,114	$ 210,114

	As of December 31, 2014			
	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	$ -	$ 215,223	$ -	$ 215,223
On a non-recurring basis:				
Impaired loans	-	-	115	115
Other real estate owned	-	1,694	-	1,694
Total assets	$ -	$ 216,917	$ 115	$ 217,032

NOTE 15 – 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 may not exist. Therefore, considerable judgments are 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, 2015 and 2014, the amounts that will actually be realized could be significantly different.

Cash and Due from Banks

The carrying value of cash and due from banks approximates the fair value because of the short maturity of such assets.

Securities Available-for-Sale and Securities Held-to-Maturity

The Bank used market quotes for similar or identical securities in an actively traded market or management's judgment and estimation to determine the fair values of securities available-for-sale and securities held-to-maturity as disclosed in Notes 2 and 3, respectively. Private Placement Bonds are evaluated with the same methodology that is used in loans.

Loans Held for Sale

Loans held for sale are carried at the lower of aggregate cost or fair value, and are short-term in nature.

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 deducted from the loan portfolio. 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.

Investments in FHLB and FRB Stock

Investments in FHLB and FRB stock are carried at cost. Ownership of stock is restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer, hence, the fair value is equal to the carrying value.

Note 15 – Fair Value of Financial Instruments, continued

Deposits

The fair value of demand deposits, savings and money market saving accounts represents the amount payable on demand at the reporting date. 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; however, since the bank's current interest rate is approximately at market, fixed maturity time deposits were determined to approximate the carrying value.

Securities Sold Under Repurchase Agreements

The fair value of securities sold under agreements to repurchase approximates carrying value due to the terms and nature of the obligations. Interest rates will reset daily according to the market movement.

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 financial instruments at December 31:

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 168,020	$ 168,020	$ 193,148	$ 193,148
Securities available-for-sale	206,649	206,649	215,223	215,223
Securities held-to-maturity	2,363,383	2,394,672	2,008,064	2,052,437
Loans held for sale	3,168	3,168	1,751	1,751
Loans, net of allowance for loan losses	3,218,043	3,364,712	2,956,150	3,140,045
Investments in FHLB and FRB stock	20,690	20,690	28,440	28,440
Financial Liabilities:				
Deposits:				
Non-interest-bearing deposits	$ 1,824,516	$ 1,824,516	$ 1,567,046	$ 1,567,046
Interest-bearing deposits	645,125	645,125	552,432	552,432
Savings and money market deposits	1,376,920	1,376,920	1,228,584	1,228,584
Time deposits	843,405	843,405	852,211	852,211
Securities sold under repurchase agreements	572,915	572,915	546,758	546,758

NOTE 16 – RELATED PARTY TRANSACTIONS

The Bank and Queen City Investments, Inc. ("Queen City"), which is the parent company of the Farmers and Merchants Trust Company of Long Beach (the "Trust Company."), are considered affiliated parties as significant percentages of the outstanding shares of the Bank and Queen City are held by common

NOTE 16 – Related Party Transactions, continued

shareholders, including by certain executive officers and/or directors of the Bank. In addition, certain executive and other officers of the Bank served as officers and/or directors of Queen City 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 2015 and 2014, the Trust Company paid the Bank $269,000 and $337,000, 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 human resources and payroll services to the Trust Company and the Trust Company provides trustee and financial management services to the Bank and maintains deposits with the Bank. In 2015, the Bank paid the Trust Company $66,000 for the difference between the value of services exchanged between the parties in 2014, and in 2014 the Bank paid the Trust Company $90,000 for the difference between the values of services exchanged between the parties in 2013.

The Bank has also leased the Torrance branch location from Queen City, which is subject to an ongoing lease agreement. The Bank paid $292,000 and $292,000, respectively, in lease expense for each of the years ended December 31, 2015 and 2014. In 2014, the Bank purchased a property located in Redondo Beach from Queen City for $4.3 million and the purchase price was supported by a third-party appraisal.

At December 31, 2015 and December 31, 2014, no loans were outstanding with any related party.

NOTE 17 – 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 $5.7 million and $5.1 million to the profit-sharing plan in 2015 and 2014, respectively. At December 31, 2015 and December 31, 2014, no shares of the Bank's stock are held by the trust created by the plan.

NOTE 18 – 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, common equity, and other factors.

NOTE 18 – Regulatory Matters, continued

Effective January 1, 2015, the Bank became subject to "Basel III" which updated the composition of capital and established a new regulatory capital measure, "Tier 1 common equity to risk-weighted assets". As of December 31, 2015, 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, Tier 1 common equity, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the institution's category.

The Bank's actual regulatory capital amounts and ratios are also presented in the following 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, 2015:						
Total Capital (to Risk-Weighted Assets)	$ 907,089	21.33%	≥ $ 340,164	≥ 8.0%	≥ $ 425,205	≥ 10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 853,852	20.08%	≥ $ 255,123	≥ 6.0%	≥ $ 340,164	≥ 8.0%
Tier 1 Capital (to Common Equity Assets)	$ 853,852	20.08%	≥ $ 191,342	≥ 4.5%	≥ $ 276,384	≥ 6.5%
Tier 1 Capital (to Average Assets)	$ 853,852	14.02%	≥ $ 243,677	≥ 4.0%	≥ $ 304,596	≥ 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, 2014:						
Total Capital (to Risk-Weighted Assets)	$ 849,680	23.59%	≥ $ 288,135	≥ 8.0%	≥ $ 360,168	≥ 10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 804,554	22.34%	≥ $ 144,067	≥ 4.0%	≥ $ 216,101	≥ 6.0%
Tier 1 Capital (to Average Assets)	$ 804,554	14.35%	≥ $ 224,288	≥ 4.0%	≥ $ 280,359	≥ 5.0%

NOTE 19 – SUBSEQUENT EVENTS

The Bank has evaluated events that have occurred subsequent to December 31, 2015, and through April 18, 2016, 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 financial statements or its disclosure in 2015.

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 & CEO
W. Henry Walker, President
Kenneth G. Walker, President, Main Office
John W.H. Hinrichs, Chief Financial Officer
Phillip J. Bond, Chief Credit Officer
Melissa Lanfre, Chief Operating Officer

Auditor

KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618

Legal Counsel

Paul, Hastings, Janofsky & Walker 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 & 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

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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.

Office Locations

Main – Long Beach
302 Pine Ave.
Long Beach, CA 90802
(562) 437-0011
Since 1907

Belmont Shore
4827 E. 2nd St.
Long Beach, CA 90803
(562) 621-1430
Since 1971

Bixby Knolls
4545 California Ave.
Long Beach, CA 90807
(562) 984-3600
Since 1970

Corona del Mar
2421 E. Coast Hwy.
Corona del Mar, CA 92625
(949) 723-1804
Since 2013

Downey
9001 Firestone Blvd.
Downey, CA 90241
(562) 334-1836
Since 2013

East Long Beach
3140 E. Anaheim St.
Long Beach, CA 90804
(562) 621-1400
Since 1921

Fullerton
315 N. Harbor Blvd.
Fullerton, CA 92832
(714) 578-1945
Since 1985

Garden Grove
10422 Garden Grove Blvd.
Garden Grove, CA 92843
(714) 590-3880
Since 1955

Huntington Beach
7125 Yorktown Ave.
Huntington Beach, CA 92648
(714) 465-3131
Since 2004

Laguna Hills
24300 Paseo de Valencia
Laguna Hills, CA 92653
(949) 340-3150
Since 2004

Lake Forest
23772 Rockfield Blvd.
Lake Forest, CA 92630
(949) 460-7900
Since 1981

Lakewood
5101 Lakewood Blvd.
Lakewood, CA 90712
(562) 602-8378
Since 1966

Los Altos
2302 Bellflower Blvd.
Long Beach, CA 90815
(562) 799-7271
Since 1973

Memorial Hospital
2801 Atlantic Ave.
Long Beach, CA 90806
(562) 989-7862
Since 1981

Newport Beach
4695 MacArthur Ct., Ste. 130
Newport Beach, CA 92660
(949) 241-8280
Since 2006

Orange
1220 E. Katella Ave.
Orange, CA 92867
(714) 288-8450
Since 1981

Redondo Beach
1304 S. Pacific Coast Hwy.
Redondo Beach, CA 90277
(310) 802-7560
Since 2015

Rolling Hills Estates
27525 Indian Peak Rd.
Rolling Hills Estates, CA 90274
(310) 491-1711
Since 2001

Rossmoor
12535 Seal Beach Blvd.
Seal Beach, CA 90740
(562) 799-2002
Since 1985

San Clemente
621 N. El Camino Real
San Clemente, CA 92672
(949) 373-2470
Since 2006

San Juan Capistrano
31873 Del Obispo St.
San Juan Capistrano, CA 92675
(949) 488-8550
Since 1985

Santa Ana
1750 E. 17th St.
Santa Ana, CA 92705
(714) 564-1750
Since 1985

Torrance
22400 Hawthorne Blvd.
Torrance, CA 90505
(310) 265-3200
Since 2003

Tustin
2691 Park Ave.
Tustin, CA 92782
(714) 824-3070
Since 2007