



Annual Report 2021



If 2020 was characterized by adjusting to the "new normal" of living through a pandemic, 2021 was about looking for the good at Farmers & Merchants Bank. And we found it everywhere – within our homes, workplaces, schools, houses of worship and communities. We did our best work at a time when we needed each other the most.

F&M Bank, *California's Strongest*, emerged from 2021 stronger, as evidenced by the year's financial performance.

STATE OF THE BANK

Our Balance Sheet as of 12/31/21

\$11.44 Billion

In Total Assets

\$9.24 Billion

In Total Deposits

\$5.37 Billion

In Total Net Loans

\$1.24 Billion

Total Stockholders' Equity

125,628

Total Shares Outstanding

F&M at a Glance



749

Bank
Employees



114Y

California's
Strongest



25

Branch
Offices

Our Risk-Based Capital Ratio



F&M's total risk-based capital (RBC) ratio was 18.63% on 12/31/21, more than DOUBLE the federally mandated adequacy levels.

Our Employee Snapshot



119

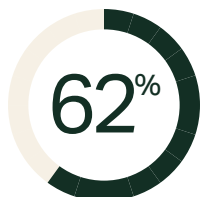
Internal
Promotions



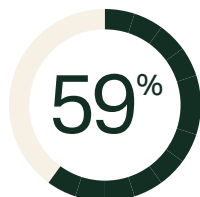
9Y

Average Employee
Tenure

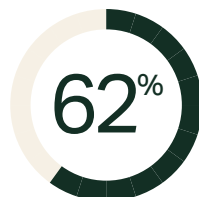
Our Workplace



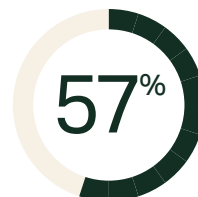
Minority
Workplace



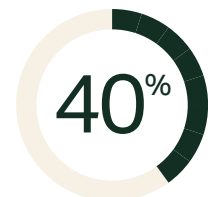
Female
Workplace



5+ Year
Tenure



Working
Remotely



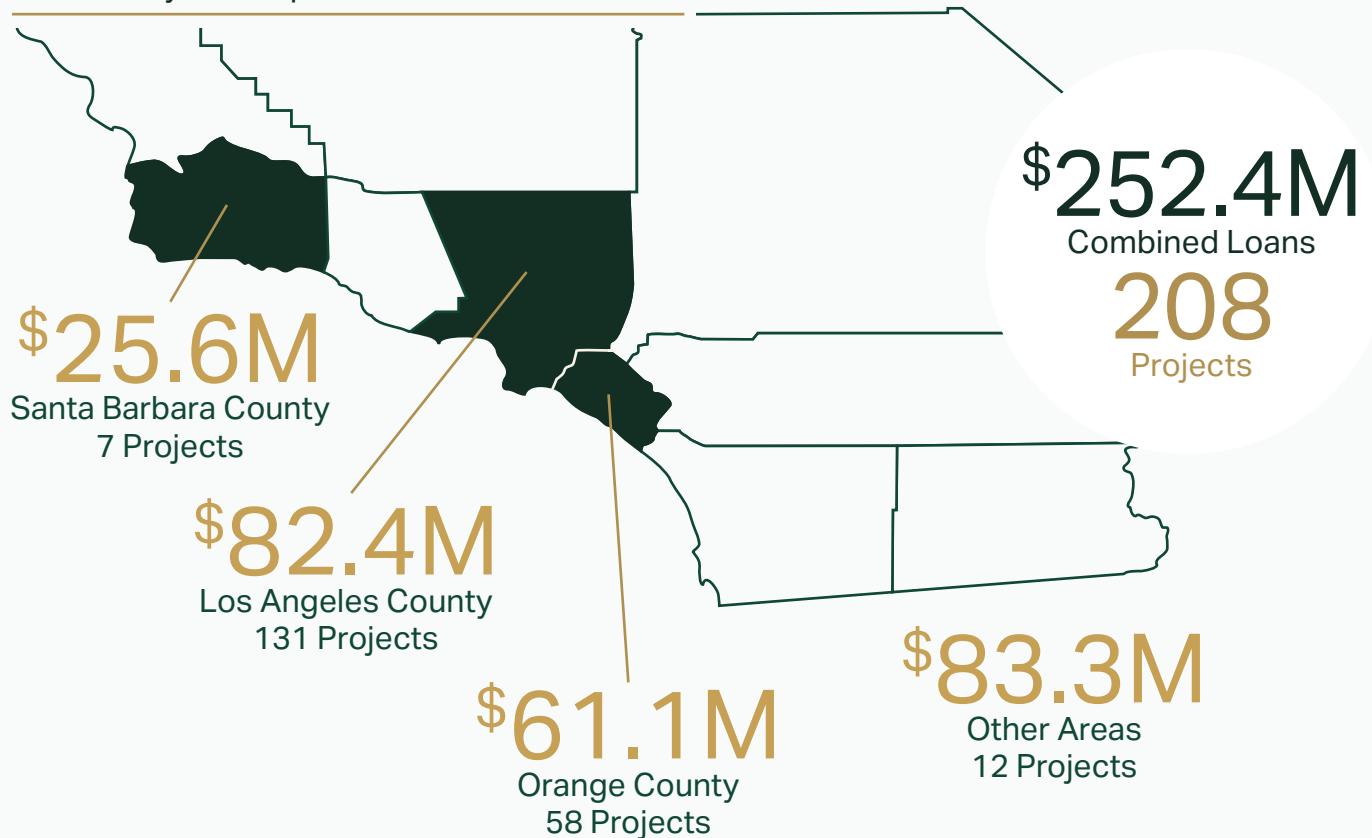
Employee-
Referred Hires

2021

Snapshot of Client Engagement



Community Development Loans



In Our Communities



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OUR VALUES



Honesty

Integrity

The Home

The Church

Service Above Self

BOARD OF DIRECTORS

DANIEL K. WALKER

Chairman of the Board

Mr. Walker has served as a Director of the Bank since 1996 and as its Chairman of the Board since 2003. He previously served as the Bank's Executive Vice President from 2001 to January 2008. In January 2008, Mr. Walker was appointed President of the Bank, and in May 2012, Mr. Walker became Chief Executive Officer of the Bank. Mr. Walker has been employed by the Bank in various capacities since 1975.

JOANN M. BOURNE

Ms. Bourne has served as a Director of the Bank since January 2019. Prior to her retirement, Ms. Bourne held various positions for more than 30 years with MUFG Americas Holdings Corporation and its subsidiary Union Bank N.A., most recently as Senior Executive Vice President and as a member of the US Management Committee.

STEPHEN D. COOKE

Mr. Cooke has served as a Director of the Bank since 2022. He is currently Of Counsel in the securities and capital markets practice group of Paul Hastings LLP in Orange County, California, where he has been advising clients in a wide variety of complex matters for more than 30 years and was a Partner in the firm for 27 years. Mr. Cooke also teaches graduate-level courses at the University of California, Irvine's Paul Merage School of Business and currently serves on the Dean's Advisory Board. He also has served for many years on the Board of Directors of the Orange County Chapter of the American Red Cross and on the chapter's Audit Committee.

WALTER M. FLORIE

Mr. Florie has served as a Director of the Bank since 2007. In 2019, Mr. Florie retired as the President and Chief Executive Officer of the Earl B. Miller and Loraine H. Miller Foundation, a position that he held for approximately 19 years. He retired from Union Bank in 1996 after serving in various positions with that institution for over 28 years.

LAWRENCE J. MCCLAUGHLIN

Mr. McLaughlin has served as a Director of the Bank since 1990. Since 2010, Mr. McLaughlin has been a Principal at a Texas-based petroleum land leasing company. Prior to assuming that position, Mr. McLaughlin was a Principal and Managing Partner for approximately 32 years at a Los Angeles-based law firm, where he represented clients in corporate, labor and real estate matters. Mr. McLaughlin is currently serving as the Lead Director.

CHRISTINE A. SCHEUNEMAN

Ms. Scheuneman has served as a Director of the Bank since January 2019. Ms. Scheuneman is a retired Partner from the law firm of Pillsbury Winthrop Shaw Pittman LLP, where she practiced law for more than 16 years. Her practice included representing real estate and finance clients in a wide variety of real estate matters as well as representing financial institutions in connection with various regulatory, commercial and consumer financial services matters. She is an experienced Director and Strategic Advisor and is a Governance Fellow with the National Association of Corporate Directors.

TIMOTHY M. WILSON

Mr. Wilson has served as a Director of the Bank since 2005. Mr. Wilson served as Executive Vice President and Chief Operating Officer of Mitchell Land & Improvement Co., a real estate development company, for more than 10 years. From October 2009 to December 2017, Mr. Wilson was President of Mitchell Land & Improvement Co. and retired from that position in January 2018. He currently serves as a Director of Mitchell Land & Improvement Co.

FINANCIAL INFORMATION

	2021	2020	2019	2018	2017
Diluted Earnings per Common Share (In Dollars)	\$898	\$623	\$661	\$654	\$495
Dividends Declared per Common Share (In Dollars)	\$123	\$123	\$123	\$121	\$119
Net Interest Margin (In Percent)	2.83%	2.99%	3.43%	3.45%	3.43%
Overhead Efficiency Ratio	53.51%	61.36%	60.54%	55.98%	62.08%
Average Assets (Dollars in Millions)	\$10,850	\$9,082	\$7,539	\$7,222	\$6,942
Total Risk-Based Capital Ratio	18.63%	19.57%	20.64%	19.89%	19.97%

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

Farmers & Merchants Bank of Long Beach performed well during 2021 in the midst of a challenging world stage.

With a business environment characterized by the effects of the lingering pandemic, inflation, and low interest rates, the loyalty and trust of our growing client base was evident. Also evident was the value of staying true to our long-standing conservative fiscal policies, allowing the Bank to achieve record-high total deposits, net loans and total assets in 2021.

Behind our financial success last year, and throughout the Bank's 114+ year history, is a hardworking, well-trained, dedicated team, now numbering more than 749. Embedded in all we do, F&M team members provide the human element that means so much to our clients, whether the point of contact is in-person or on a screen.

Entering 2022, a new global economic strain and humanitarian horror arrived with the Russian invasion of Ukraine. Our hearts go out to all those affected, especially the Ukrainian citizens.

While the consequences of the invasion continue to radiate beyond European borders, our clients, stockholders and all of those associated with the Bank have the assurance that F&M has weathered the effects of wars and many economic cycles. The Bank has consistently emphasized and maintained financial strength since our founding in 1907.

Financial Overview

For the year ended December 31, 2021, total interest and dividend income increased to \$307.3 million, from \$286.3 million reported for 2020.

Interest expense for 2021 declined to \$12.2 million, compared with \$24.9 million in 2020. The Bank's net interest income before loan loss provision for 2021 rose to \$295.1 million, from \$261.4 million in the prior year. F&M's net interest margin was 2.83% for the year ended December 31, 2021, versus 2.99% in 2020.

There was no loan loss provision recorded for 2021, compared with a \$10.5 million loan loss provision in 2020. At December 31, 2021, the Bank's allowance for loan losses as a percentage of loans outstanding was 1.34%, which was equal to that at the end of the prior year.

Non-interest income for 2021 rose to \$22.0 million, from \$20.5 million in 2020. Non-interest expense for the year ended December 31, 2021, was \$172.6 million, versus \$175.2 million a year ago.

The Bank has remained profitable throughout its history. For 2021, net income rose sharply to \$115.2 million, or \$898.31 per diluted share, from \$79.8 million, or \$622.74 per diluted share, for 2020.

Strong Balance Sheet

F&M's balance sheet is one of many distinguishing characteristics that enable us to attract and retain clients who seek safety and financial strength.

At December 31, 2021, net loans increased to \$5.37 billion, from \$5.33 billion at December 31, 2020. The Bank's deposits grew to \$9.24 billion at the end of 2021, from \$7.62 billion a year ago. Non-interest-bearing deposits represented 38.4% of total deposits at December 31, 2021, versus 37.9% of total deposits at the end of 2020. Total assets advanced to a record high of \$11.44 billion at the close of 2021, from \$9.87 billion at December 31, 2020.

At December 31, 2021, F&M remained "well-capitalized" under all regulatory categories, with a total risk-based capital ratio of 18.63%, a tier 1 risk-based capital ratio of 17.54%, a common equity tier 1 capital ratio of 17.54%, and a tier 1 leverage ratio of 10.88%. These ratios far exceeded the minimum ratios for capital adequacy for a well-capitalized bank, which are 10.00%, 8.00%, 6.50% and 5.00%, respectively.

We all are hopeful that the pandemic soon will be history. Throughout its course, we supported our clients in numerous ways, including funding a total of more than 6,500 Paycheck Protection Program (PPP) loans, totaling over \$1 billion, to provide needed relief to both new and existing business clients. The program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act through the Small Business Administration (SBA).

Serving business owners of all sizes in our communities, our PPP loans ranged from less than \$1,000 to \$7 million. Many of the clients demonstrated their gratitude and well-placed trust by expanding their banking relationships with F&M, as has been evidenced, in part, by the growth in our loans and deposits.

LETTER TO SHAREHOLDERS

Stock Repurchase Program

During 2021, the Bank repurchased a total of 989 shares of its common stock at an average price of \$8,152.22 per share, pursuant to a prior stock repurchase program that expired December 31, 2021.

Reflecting on the positive long-term outlook for the Bank, our Board of Directors authorized a new stock repurchase program in January 2022, allowing the Bank to repurchase of up to \$20 million of F&M's common stock from time to time through various means, including open market transactions, privately negotiated transactions, or otherwise in accordance with applicable requirements and laws.

As in the past, the number of shares repurchased and the timing of any repurchases will depend on a number of factors, including stock price, trading volume, regulatory requirements, general business conditions and others. The Bank may choose to modify, suspend or discontinue such proposed repurchases at any time and anticipates that any such repurchases will be funded from existing cash and cash equivalents or future cash flow. The new stock repurchase program extends through December 31, 2023, and does not obligate the Bank to repurchase any specific number of shares in any particular period.

Serving Our Valued Clients and Communities

A commitment to our clients and the communities we serve remains an unwavering F&M priority.

Over the recent years, we have invested significantly in technology to meet the demands of today's digital age, with close attention to ensuring our clients have secure online transactions. Our Operation S.A.F.E. program, entering its third year, gives F&M clients confidence, along with protection from a host of unscrupulous sales and cyber tactics, including identity theft.

F&M views technology as a bedrock foundation that allows us to provide excellent client experiences, reliable service, and iron-clad protection for personal and financial information. The Bank has invested approximately \$37 million in technology in the last five years, allowing us to serve our communities with dependable and personal service. We continue to invest heavily in our people and in technology infrastructure, security, fraud prevention, and digital client experience initiatives to ensure that F&M stays ahead of our peers and can satisfy the increasingly technical demands of our clientele.

In an era when many banks are closing their branches, we are proud that our plans call for three new F&M branch openings over the next two years: Laguna Beach, North Tustin and a second location in Santa Ana. Our objective is to find the right complement of technology and human interaction, be that through our new, contemporary, easy-to-navigate website, or when visiting one of our 25 branch operations, including our headquarters location in Long Beach, which is turning 100 years old this year and exudes as much warmth and personality as ever.

F&M and the Farmers & Merchants Bank Foundation have a long history of supporting our communities through charitable activities, including cash donations, sponsorships, in-kind donations and volunteerism. In 2021, more than \$3 million was contributed in total support to 690 local organizations within the focus areas of Faith-Based Initiatives, Education, Humans Services, Healthcare and the Arts.

Among the notable organizations supported during the past year are the Orange Catholic Foundation, Mariners Church, Samuelli Academy, the Orange County School of the Arts, Illumination Foundation, FosterAll, Saddleback Medical Center Foundation, The Children's Clinic and Orange County Museum of Art, among others.

We are proud that our team logged more than 2,000 hours of volunteer time during 2021, contributing their talents to many great causes, while diligently performing their day-to-day jobs serving clients and making sure the Bank operates smoothly and efficiently. To each of these dedicated individuals, as well as to our loyal clients and stockholders, we deeply appreciate each of you.

We also acknowledge and thank our Board of Directors, whose collective wisdom plays a major role guiding F&M's success. We enter 2022 with a new director, Stephen Cooke, who joined the Board in February, succeeding Richard Darling and his distinguished career spanning four decades with F&M. We extend gratitude to Rich for his many years of valued service, and welcome Steve to the F&M Board.

All of us at F&M are grateful to our Maker for allowing us to continue serving our communities and clients, and for enabling us to achieve and provide value for all of our stakeholders.

Sincerely,



Daniel K. Walker
Chairman of the Board and CEO



W. Henry Walker
President

Honest banking, dedicated pe



ople serving our communities.

A photograph of a middle-aged man with short, graying hair and black-rimmed glasses. He is smiling warmly at the camera. He is wearing a dark green t-shirt with the words "SERVICE ABOVE SELF" printed in white, bold, sans-serif capital letters. The background is slightly out of focus, showing a white fence with vertical slats and a car wheel. In the bottom left corner, there are some green plants in pots.

"Employees are the heartbeat of our company and are truly our greatest asset, providing unparalleled service and the friendly faces that have helped make us California's Strongest since 1907." –Daniel K. Walker

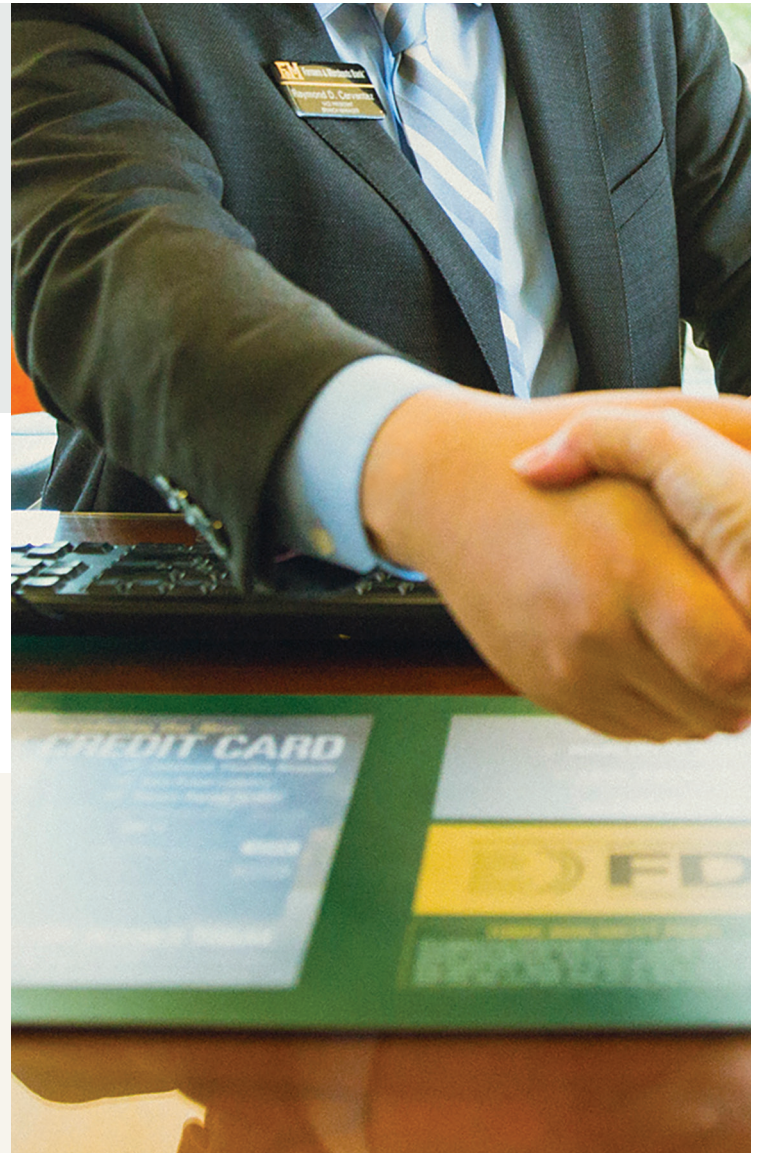
FROM OUR CLIENTS

"I believe in recognizing those who go above and beyond. I visited this branch on a Saturday. Let me start by saying from the start of my transaction till the end I was treated with the upmost respect as a customer. I just have to acknowledge Lisa. Your customer service skills are exceptional. Thank you!" –Veronica B., 2/22/21 (Los Altos Client)

"Really love the support and personalized service we receive from the Farmers and Merchants team. We call and they know us by first name? What? It's 2021 - no one does this - but this team makes you feel part of the family. Special kudos to Genie for helping us with a recent loan - she's top notch. Highly recommend her for all of your business banking needs! If your are searching for a business bank, please consider F&M and ask for Genie!" –Anonymous, 2/25/21 (Lake Forest Client)

"Been banking with them for years. I love everyone in the bank, they treat us like family. We intentionally stop off at the bank to say hi on our walks even without depositing anything. Great bank and great branch." –Nicole G., 3/22/21 (Corona del Mar Client)

"Best customer service I've seen in a long time. It felt like they truly valued our business. Literally the opposite of how we've felt at bigger banks. No reason we can't just move all our business here; and we will. What a gem of a bank, and right here in my town." –Carolyn K., 3/26/21 (Main Office Client)



"Came here to learn about my options on opening an account and once I walked in I was immediately greeted by someone. Melanie sat me down and got to know my needs to figure out which banking option was suitable for me. After speaking to Melanie and hearing about this bank, I feel safe knowing I am banking with Farmers & Merchant. Melanie answered all of my questions and educated me about the process and she opened an account for me. David and Robert also assisted with a few things on behalf of opening an account as well as other financial information. Melanie took great care of me, she is very personable and welcoming. I suggest anyone who is seeking to open an account or gain information to stop by and visit her at this branch. I am very pleased with the help I received today." –Tiffany S., 3/24/21 (Bixby Knolls Client)

FROM OUR CLIENTS

"Super friendly and funny people that always greet you with a smile (the kind you can feel from under a mask during this pandemic)." –Kerby L., 7/15/21 (Redondo Beach Client)



"I have banked everywhere from all of the big name banks to small credit unions and this is by far the best bank I have ever been with. From every level this is a "can do" bank. I really was tired of the "we can't do that" attitude from every level of banking officers at my previous bank. Al Stone is most likely the reason that this bank runs so well as upper management is usually the cause of bad service at the window and Al is a cut above the rest! Bravo F&M!!!" –Ron P., 7/16/21 (Rossmoor Client)

"For an account holder, trust in your bank that is there to assist you is the most important part of the banking relationship. Both gentlemen exert integrity and pride in their role and make sure whether you are a big business or small business client, you are treated with respect and utmost accommodation that meets your needs. This type of five-star treatment is not common among banks." –Sholeh I., 4/8/21 (Santa Ana Client)

"Excellent customer service!! Everyone is very helpful and friendly. Wait time is minimal compared to other banks. This bank puts their customers first. I would give this bank 10 stars if I could. If you want a bank that treats you well and puts you first search no more you found your bank." –Dani N., 5/24/21 (Torrance Client)

"We just moved to Irvine and were looking for a bank that wasn't just a bank of ever changing tellers, an 800 number with a 30 minute wait or an online presence that doesn't have solutions for difficult issues. We were very pleased to open an account with Farmers & Merchants in Tustin - from the moment we went through the door to the follow-up - F&M Tustin was delightfully customer-oriented, pleasant and efficient. Thank you, David Henderson and thank you, Arash Delafkaran - for making our first visit so enjoyable and for getting us the perfect solutions for our banking needs." –Mo O., 7/19/21 (Tustin Client)



FINANCIALS

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Farmers & Merchants Bank of Long Beach (the Bank), which comprise the balance sheets as of December 31, 2021 and December 31, 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Bank's internal control over financial reporting as of December 31, 2021, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 21, 2022 expressed an unmodified opinion on the effectiveness of the Bank's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

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from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Irvine, California
April 21, 2022

FARMERS & MERCHANTS BANK OF LONG BEACH
BALANCE SHEETS

	December 31,	
	2021	2020
	(In thousands, except share and per share data)	
<u>Assets</u>		
Cash and due from banks:		
Non-interest-bearing balances	\$ 49,025	\$ 72,109
Interest-bearing balances	1,252,646	939,566
Total cash and due from banks	1,301,671	1,011,675
Securities available-for-sale, at fair value	139,947	137,373
Securities held-to-maturity, at amortized cost	4,366,821	3,131,213
Loans held for sale	9,430	22,893
Gross loans	5,453,279	5,414,814
Allowance for loan losses	(72,880)	(72,267)
Unamortized deferred loan fees, net	(8,650)	(15,747)
Loans, net	5,371,749	5,326,800
Other real estate owned, net	966	966
Investments in FHLB and FRB stock, at cost	20,031	20,257
Premises and equipment, net	115,827	103,615
Deferred tax assets, net	27,939	26,489
Other assets	83,879	90,497
Total assets	<u>\$ 11,438,260</u>	<u>\$ 9,871,778</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Non-interest-bearing deposits	\$ 3,552,248	\$ 2,889,012
Interest-bearing deposits	5,689,242	4,728,614
Total deposits	9,241,490	7,617,626
Securities sold under repurchase agreements	916,672	1,062,348
Other liabilities	38,536	47,962
Total liabilities	10,196,698	8,727,936
Stockholders' equity:		
Common stock, par value \$20; authorized 250,000 shares;		
125,628 and 126,617 shares issued and outstanding	2,513	2,532
at December 31, 2021 and December 31, 2020, respectively		
Additional paid-in capital	89,972	90,516
Retained earnings	1,147,661	1,047,949
Accumulated other comprehensive income	1,416	2,845
Total stockholders' equity	1,241,562	1,143,842
Total liabilities and stockholders' equity	<u>\$ 11,438,260</u>	<u>\$ 9,871,778</u>

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31,	
	2021	2020
	(In thousands, except per share data)	
Interest and dividend income:		
Loans	\$ 244,062	\$ 226,663
Investment securities	60,444	57,181
Investments in FHLB and FRB stock	1,206	1,040
Interest-bearing deposits in financial institutions	1,578	1,381
Total interest and dividend income	307,290	286,265
Interest expense:		
Deposits	8,952	17,028
Securities sold under repurchase agreements	3,280	7,856
Total interest expense	12,232	24,884
Net interest income	295,058	261,381
Provision for loan losses	-	10,500
Net interest income after provision for loan losses	295,058	250,881
Non-interest income:		
Service charges on deposit accounts	5,602	5,193
Card income	4,007	3,370
Other income	12,421	11,940
Total non-interest income	22,030	20,503
Non-interest expense:		
Salaries and employee benefits	111,046	111,485
FDIC and other insurance expense	3,614	2,611
Occupancy expense	14,004	14,236
Software and equipment expense	14,254	14,046
Professional and legal services	6,070	6,009
Marketing expense	4,957	5,126
Other expense	18,618	21,681
Total non-interest expense	172,563	175,194
Income before income tax expense	144,525	96,190
Income tax expense	29,320	16,389
Net income	\$ 115,205	\$ 79,801
Basic earnings per common share	\$ 913.60	\$ 623.42
Diluted earnings per common share	\$ 898.31	\$ 622.74

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2021	2020
	(In thousands)	
Net income	<u>\$ 115,205</u>	<u>\$ 79,801</u>
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on securities available-for-sale	<u>(1,429)</u>	<u>1,849</u>
Other comprehensive (loss) income	<u>(1,429)</u>	<u>1,849</u>
Comprehensive income	<u>\$ 113,776</u>	<u>\$ 81,650</u>

See accompanying notes to financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	(In thousands)				
Balance, December 31, 2019	\$ 2,571	\$ 95,446	\$ 983,867	\$ 996	\$ 1,082,880
Repurchase and retirement of common stock	(39)	(11,760)	-	-	(11,799)
Restricted share units awarded	-	6,830	-	-	6,830
Net income	-	-	79,801	-	79,801
Cash dividends	-	-	(15,719)	-	(15,719)
Other comprehensive income, net of tax	-	-	-	1,849	1,849
Balance, December 31, 2020	\$ 2,532	\$ 90,516	\$ 1,047,949	\$ 2,845	\$ 1,143,842
Repurchase and retirement of common stock	(19)	(8,043)	-	-	(8,062)
Restricted share units awarded	-	7,499	-	-	7,499
Net income	-	-	115,205	-	115,205
Cash dividends	-	-	(15,493)	-	(15,493)
Other comprehensive loss, net of tax	-	-	-	(1,429)	(1,429)
Balance, December 31, 2021	\$ 2,513	\$ 89,972	\$ 1,147,661	\$ 1,416	\$ 1,241,562

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2021	2020
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 115,205	\$ 79,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on securities	45,168	29,910
Stock compensation cost	7,499	6,830
Provision for loan losses	-	10,500
Loans held for sale:		
Originations	(61,468)	(119,700)
Proceeds from sale	77,288	123,700
Gain on sale	(2,357)	(3,592)
Amortization of tax credit investments	12,834	15,352
Premises and equipment:		
(Gain) Loss on sale	(17)	26
Depreciation	8,978	9,444
Reduction of reserve for losses on unfunded loan commitments	(1,750)	(50)
Deferred income tax benefit	(852)	(5,052)
Increase in other assets	(6,216)	(8,418)
(Decrease) Increase in other liabilities	(601)	4,025
Total adjustments	78,506	62,975
Net cash provided by operating activities	193,711	142,776
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and pay downs	20,360	81,213
Purchases	(26,911)	(66,398)
Securities held-to-maturity:		
Proceeds from maturities and pay downs	934,876	920,340
Purchases	(2,213,702)	(1,351,820)
Net increase in loans held for investment	(44,949)	(1,002,006)
Redemption (Purchase) of FRB stock	226	(97)
Additional contributions of tax credit investments	(7,075)	(18,009)
Premises and equipment:		
Proceeds from sale	49	445
Purchases	(21,222)	(5,397)
Net cash used in investing activities	(1,358,348)	(1,441,729)

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

Statements of Cash Flows, continued

	Years Ended December 31,	
	2021	2020
	(In thousands)	
Cash flows from financing activities:		
Net increase in deposits	1,623,864	1,789,361
Net (decrease) increase in securities sold under repurchase agreements	(145,676)	429,920
Cash dividends paid	(15,493)	(15,719)
Common stock repurchased and retired	(8,062)	(11,799)
Net cash provided by financing activities	1,454,633	2,191,763
Net increase in cash and due from banks	289,996	892,810
Cash and cash equivalents at beginning of year	1,011,675	118,865
Cash and cash equivalents at end of year	\$ 1,301,671	\$ 1,011,675
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 8,792	\$ 16,922
Income taxes	27,033	19,626
Non-cash investing and financing activities		
Transfers of loans to other real estate owned	\$ -	\$ 966

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH

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 bank that offers a broad range of banking products and services to individuals, professionals and small to medium-sized businesses. As of December 31, 2021, the Bank operates 25 branches in California’s Los Angeles County, Orange County and Santa Barbara County, as well as through robust Online and Mobile Banking platforms. 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, construction 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.

Risks and Uncertainties

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 governments and the regulatory authorities that govern financial institutions.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was enacted on March 27, 2020, to provide fast and direct economic assistance to American workers and families, assist small businesses and to preserve jobs in industries adversely impacted by the COVID-19 pandemic. The Bank has implemented several of the CARES Act initiatives such as the Small Business Administration’s (“SBA”) Payroll Protection Program (“PPP”) and suspending the classification of certain loan modifications as Trouble Debt Restructured Loans (“TDRs”). Subsequent legislations were passed in 2020 and during the first quarter of 2021 with similar scope to the CARES Act. As the COVID-19 pandemic is ongoing and dynamic, it is difficult to predict the full impact of the COVID-19 pandemic on the Bank’s business. The conditions caused by the COVID-19 pandemic could continue to adversely affect the ability of the Bank’s borrowers to satisfy their obligations.

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 balance sheets, statements of income, 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, 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Cash and Due from Banks

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") and Federal Home Loan Bank ("FHLB"), 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 or 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 is 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 unaccreted 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 payments and maturities, and is also utilized for pledging requirements for deposits of state and local subdivisions, securities sold under repurchase agreements, and Federal Reserve Bank ("FRB") Discount Window borrowings.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

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

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. The associated net loan fees and costs are deferred, and are included in the computation of the gain and loss from the sale of the related loans. Gains and losses are recorded in other 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 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 loans.

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 the 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 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 modifications were made at market rates for borrowers 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Troubled Debt Restructured Loans, continued

The CARES Act permits financial institutions to suspend requirements under U.S. GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of January 1, 2022, or 60 days after the end of the coronavirus emergency declaration, and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. In addition, federal bank regulatory authorities have issued guidance to encourage financial institutions to make loan modifications for borrowers affected by COVID-19 and have assured financial institutions that they will neither receive supervisory criticism for such prudent loan modifications, nor be required by examiners to automatically categorize COVID-19-related loan modifications as TDRs. The Bank is applying this guidance to qualifying loan modifications.

Impaired Loans

Loans are considered impaired when it is probable that the Bank will be unable to collect all amounts due according to the original contractual terms. Impaired loans include loans on nonaccrual status or are TDRs.

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 ALL is based upon a continuing review of the portfolio, past loan loss experience, current economic conditions and external conditions that may affect borrowers’ ability to pay and the underlying collateral value of the loans. Loans that are deemed to be uncollectible are charged off and deducted from the ALL. The provision for loan losses and recoveries on loans previously charged off are added to the ALL.

The ALL 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 historical look-back period increased from 15 years at December 31, 2020 to 16 years for the year ended December 31, 2021. This increase maintains the fourth quarter of 2005 as the starting period, which was deemed prudent in order to include loan charge-off experience during the most recent downward economic cycle in the estimation of the ALL. This time frame 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 ongoing basis.

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

- current economic trends;
- 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Allowance for Loan Losses, continued

The credit risk ratings assigned to every loan are either “pass,” “watch,” “special mention,” “substandard,” or “doubtful” and are defined in general terms as follows:

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

Watch: This is a “Pass” rating; however, loans with this risk rating require a higher level of oversight and management.

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: Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization.

Doubtful: A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the loan, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity.

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 uses to estimate the specific allowance for loans determined to be impaired complies with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards 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.

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 costs to sell is charged to the ALL 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

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. Investment in FHLB stock is carried at cost and is expected to be redeemed at par. Investment in FHLB stock is evaluated regularly for impairment. Cash dividends are accrued and reported as dividend income.

Investment in Federal Reserve Bank Stock

As a member of the FRBSF, the Bank is required to maintain FRB stock 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.

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:

<u>Type</u>	<u>Estimated Useful Life</u>
Buildings	20 to 39 years
Building improvements	15 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 progress 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.

Tax Credit Investments

The Bank invests in limited liability companies and partnerships that make investments in affordable housing projects, renewable energy projects, and new market tax credits, which qualify for federal income tax credits. The Bank's interests are accounted for utilizing the Hypothetical Liquidation at Book Value ("HLBV") method or the proportional amortization method. For investments accounted for using the HLBV method, a calculation is prepared at each balance sheet date to estimate the amount that the Bank would receive if the investment entity was to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities; related amortization is reported as other expense. Investments accounted for using the proportional amortization method are amortized in proportion to the expected total tax benefits as a component of current tax expense or other expense. The investments are reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Borrowings

The Bank utilizes repurchase agreements, federal funds' lines of credit, FRB discount window, and FHLB advances to manage its liquidity position. The repurchase 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. The Bank has established unsecured federal funds lines of credit with several correspondent banks, as well as with the FHLB. These federal funds lines of credit generally mature within one business day. The Bank's available secured borrowing capacities are derived from the loans that are pledged to the FHLB and securities that are pledged to the FRB.

Revenue Recognition

The Bank accounts for certain revenue streams in accordance with ASC 606 – *Revenue from Contracts with Customers*. Revenue from contracts with customers in the scope of Topic 606 is measured based on the consideration specified in the contract with a customer, and excludes amounts collected on behalf of third parties. The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are typically satisfied as services are rendered and payment is generally collected at the time services are rendered, or on a monthly, quarterly or annual basis. The Bank had no material unsatisfied performance obligations as of December 31, 2021 and December 31, 2020.

In certain cases, other parties are involved with providing products and services to our customers. If the Bank is a principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Bank is an agent in the transaction (arranging for another party to provide goods or services), the Bank reports its net fee or commission retained as revenue. Rebates, waivers, and reversals are recorded as a reduction of revenue either when the revenue is recognized by the Bank or at the time the rebate, waiver, or reversal is earned by the customer.

Card Income consists of interchange fees from merchant bankcards and debit cards, merchant acquirer revenue, and other card related services. Interchange fees are earned by the Bank each time a request for payment is initiated by a customer at a merchant for which the Bank transfers the funds on behalf of the customer. Interchange rates are set by the payment network and are based on purchase volumes and other factors. The Bank is considered an agent of the customer and incurs costs with the payment network to facilitate the interchange with the merchant; therefore, the related payment network expense is recognized as a reduction of card income. The Bank offers rewards and/or rebates to its customers based on card usage, the costs associated with these programs are recognized as a reduction of Card Income.

Nature of Goods and Services

Substantially all of the Bank's revenue, such as interest income on loans, investment securities, and interest-earning deposits in financial institutions, is specifically out-of-scope of Topic 606. For the revenue that is in-scope, the following is a description of principal activities, separated by the timing of revenue recognition, from which the Bank generates its revenue from contracts with customers:

Revenue earned at a point in time: Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, NSF fees, and merchant and debit card interchange fees. Revenue is generally derived from transactional information accumulated by our systems and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Bank is the principal in each of these contracts with the

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition, continued

exception of merchant and debit card interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal.

Revenue earned over time: The Bank earns certain revenue from contracts with customers as services are rendered on a monthly, quarterly or annual basis. Examples of this type of revenue are deposit account service fees, HELOC fees, letter of credit, and safe deposit box fees. Account service fees are recognized on a monthly basis. Revenue is primarily based on services rendered on the number and type of transactions. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

Operating Leases

The Bank enters into a variety of lease contracts, as lessee, generally for premises. 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 determines if a contract is a lease at inception. The Bank's operating leases are included within right-of-use ("ROU") assets and lease liabilities on the balance sheet, which are classified as other assets and other liabilities, respectively. The ROU asset is based on the operating lease liabilities adjusted for any prepaid or deferred rent.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, the Bank uses its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment, at commencement date in determining the present value of lease payment. Many of the Bank's lease agreements include options to extend the leases, which the Bank does not include in its minimum lease terms unless they are reasonably certain to be exercised. Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term.

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

Long Term Compensation

The Bank grants restricted share units ("RSUs"), which include service conditions for vesting. Compensation expense for these time-based awards is calculated based on the fair value of the award at the closing price of the Bank's stock on the date of the grant.

Compensation expense is amortized on a straight-line basis over the requisite service period for the entire award. As stock-based compensation expense is estimated based on awards ultimately expected to vest, it is reduced by the expense related to awards expected to be forfeited. Forfeitures are estimated at the time of grant and are reviewed periodically for reasonableness. If the estimated forfeitures are revised, a cumulative effect of changes in estimated forfeitures for current and prior periods is recognized in compensation expense in the period of change.

Market conditions subsequent to the grant date have no impact on the amount of compensation expense the Bank will recognize over the life of the award.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Reserve for Losses on Unfunded Loan Commitments

The Bank maintains a reserve for losses on unfunded loan commitments to absorb losses inherent in those commitments upon funding. The commitments include unfunded loan commitments, standby letters of credit, and commercial lines of credit. The Bank's methodology for assessing the appropriateness of this allowance is the same as that used for the ALL 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 income tax expense. The Bank also evaluates existing valuation allowances periodically to determine if sufficient evidence exists to support an increase or reduction in the allowance.

Tax positions that are uncertain but meet a more-likely-than-not recognition threshold, are initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position meets the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Bank recognizes interest and penalties related to tax positions as part of income tax expense.

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 net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus common share equivalents calculated for RSUs outstanding using the treasury stock method.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Recent Accounting Standards

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 will significantly change the way entities recognize credit losses for financial assets (loans and off balance sheet commitments) and net investments that are not accounted for at fair value through net income. This ASU requires an entity to use a broader range of reasonable and supportable (“R&S”) forecasts, in addition to historical experience and current conditions, to develop an expected credit loss estimate, referred to as the Current Expected Credit Loss (“CECL”) model. For available-for-sale debt securities, ASU 2016-13 does not change the measurement method of credit losses, however, it does require entities to record an allowance for credit loss rather than to reduce the amortized cost of the securities by direct write-offs.

The Bank established a CECL Implementation Committee in 2017 to develop and implement the CECL models in accordance with ASU 2016-13. The Bank has developed a detailed implementation plan, selected a software solution, engaged third party consultants to develop quantitative models to estimate net losses during the R&S forecast period, and reached key management decisions on various matters. The Bank’s planned approach for estimating expected credit losses in accordance with ASU 2016-13 at adoption is expected to include, among other things, the following key components for relevant loan portfolio segments: a. The use of a discounted cash flow model with a probability of default/loss given default methodology; b. A number of scenarios based on forecasts from an outside economic forecasting company to develop economic forecasts for the R&S period; c. An initial R&S forecast period of four quarters for all loan segments; and d. A post-R&S reversion period of four quarters using the straight-line method to transition to the historical loss experience, which reflects at least one economic cycle loss experience. The Bank continues to develop its qualitative methodology to estimate losses that are not expected to be captured in the quantitative models. The Bank is planning to engage an independent consultant in 2022 to validate the conceptual framework and quantitative models. The Bank will also continue to work on implementing controls and processes over the CECL models, prepare required policy and procedures documentation and ensure compliance with the new reporting requirements. For the Bank, ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Bank is evaluating the impact of this ASU on its financial statements and related disclosures.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. The adoption of this guidance did not have a significant impact on the Bank’s financial statements and related disclosures.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SECURITIES AVAILABLE-FOR-SALE

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
As of December 31, 2021				
SBA pool securities	\$ 4,159	\$ 388	\$ -	\$ 4,547
Mortgage-backed securities	35,174	1,484	-	36,658
State and municipal securities	98,603	586	(447)	98,742
Total securities available-for-sale	<u>\$ 137,936</u>	<u>\$ 2,458</u>	<u>\$ (447)</u>	<u>\$ 139,947</u>
As of December 31, 2020				
SBA pool securities	\$ 4,669	\$ 475	\$ -	\$ 5,144
Mortgage-backed securities	46,097	2,577	-	48,674
State and municipal securities	82,569	1,120	(134)	83,555
Total securities available-for-sale	<u>\$ 133,335</u>	<u>\$ 4,172</u>	<u>\$ (134)</u>	<u>\$ 137,373</u>

The following tables present a summary of the estimated maturities of securities available-for-sale based on amortized cost and estimated fair value:

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In thousands)	
As of December 31, 2021		
Due in 1 year or less	\$ 6,778	\$ 6,823
Due after 1 year through 5 years	13,813	14,044
Due after 5 years through 10 years	33,364	33,783
Due after 10 years	83,981	85,297
	<u>\$ 137,936</u>	<u>\$ 139,947</u>
	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In thousands)	
As of December 31, 2020		
Due in 1 year or less	\$ 6,037	\$ 6,084
Due after 1 year through 5 years	21,113	21,595
Due after 5 years through 10 years	20,452	20,965
Due after 10 years	85,733	88,729
	<u>\$ 133,335</u>	<u>\$ 137,373</u>

The Bank did not sell any securities available-for-sale during 2021 and 2020.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Securities Available-for-Sale, continued

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2021						
State and municipal securities	\$ 35,331	\$ (303)	\$ 9,488	\$ (144)	\$ 44,819	\$ (447)
Total temporarily impaired securities	\$ 35,331	\$ (303)	\$ 9,488	\$ (144)	\$ 44,819	\$ (447)
As of December 31, 2020						
State and municipal securities	\$ 15,895	\$ (134)	\$ -	\$ -	\$ 15,895	\$ (134)
Total temporarily impaired securities	\$ 15,895	\$ (134)	\$ -	\$ -	\$ 15,895	\$ (134)

The number of securities available-for-sale with unrealized losses less than 12 months and 12 months or longer was 235 and 73, respectively, for the year ended December 31, 2021, and 116 and 0, respectively, for the year ended December 31, 2020. 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, 2021 and 2020, respectively, had a loss position that was temporary in nature, and therefore no impairment losses were recognized in the income statements. 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 table represents the related tax effect allocated to each component of other comprehensive income (loss) at the dates indicated:

	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
		(In thousands)	
Year ended December 31, 2021			
Unrealized losses on securities:			
Unrealized holding losses arising during period	\$ (2,027)	\$ 598	\$ (1,429)
Other comprehensive losses	<u>\$ (2,027)</u>	<u>\$ 598</u>	<u>\$ (1,429)</u>
Year ended December 31, 2020			
Unrealized gains on securities:			
Unrealized holding gains arising during period	\$ 2,624	\$ (775)	\$ 1,849
Other comprehensive income	<u>\$ 2,624</u>	<u>\$ (775)</u>	<u>\$ 1,849</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – SECURITIES HELD-TO-MATURITY

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
As of December 31, 2021				
US Agency	\$ 25,000	\$ 4	\$ (131)	\$ 24,873
SBA pool securities	70,556	3,177	-	73,733
Mortgage-backed securities	2,702,218	51,294	(6,525)	2,746,987
State and municipal securities	1,491,620	4,674	(13,003)	1,483,291
Collateralized mortgage obligations	77,427	2,302	(170)	79,559
Total securities held-to-maturity	<u>\$ 4,366,821</u>	<u>\$ 61,451</u>	<u>\$ (19,829)</u>	<u>\$ 4,408,443</u>
As of December 31, 2020				
US Agency	\$ -	\$ -	\$ -	\$ -
SBA pool securities	87,971	6,177	-	94,148
Mortgage-backed securities	2,350,536	90,972	(270)	2,441,238
State and municipal securities	572,152	8,274	(427)	579,999
Collateralized mortgage obligations	120,554	5,634	-	126,188
Total securities held-to-maturity	<u>\$ 3,131,213</u>	<u>\$ 111,057</u>	<u>\$ (697)</u>	<u>\$ 3,241,573</u>

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

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In thousands)	
As of December 31, 2021		
Due in 1 year or less	\$ 12,513	\$ 12,605
Due after 1 year through 5 years	89,033	91,804
Due after 5 years through 10 years	792,530	810,420
Due after 10 years	3,472,745	3,493,614
	<u>\$ 4,366,821</u>	<u>\$ 4,408,443</u>
As of December 31, 2020		
Due in 1 year or less	\$ 23,489	\$ 23,681
Due after 1 year through 5 years	87,346	90,769
Due after 5 years through 10 years	616,953	646,714
Due after 10 years	2,403,425	2,480,409
	<u>\$ 3,131,213</u>	<u>\$ 3,241,573</u>

There were no sales or transfers of securities held-to-maturity in 2021 or 2020.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

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:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2021						
US Agency	\$ 14,869	\$ (131)	\$ -	\$ -	\$ 14,869	\$ (131)
Mortgage-backed securities	1,056,805	(5,336)	21,886	(1,189)	1,078,691	(6,525)
State and municipal securities	939,052	(12,075)	49,561	(928)	988,613	(13,003)
Collateralized mortgage obligations	4,961	(170)	-	-	4,961	(170)
Total temporarily impaired securities	<u>\$ 2,015,687</u>	<u>\$ (17,712)</u>	<u>\$ 71,447</u>	<u>\$ (2,117)</u>	<u>\$ 2,087,134</u>	<u>\$ (19,829)</u>
As of December 31, 2020						
US Agency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	22,889	(270)	-	-	22,889	(270)
State and municipal securities	89,447	(427)	-	-	89,447	(427)
Collateralized mortgage obligations	356	-	-	-	356	-
Total temporarily impaired securities	<u>\$ 112,692</u>	<u>\$ (697)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,692</u>	<u>\$ (697)</u>

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), and state and municipal securities. The unrealized losses are primarily attributable to declining market prices caused by expected interest rate increases and faster-than-expected prepayments. The number of securities held-to-maturity with unrealized losses less than 12 months and 12 months or longer was 1,052 and 85, respectively for the year ended December 31, 2021, and 165 and 0, respectively, for the year ended December 31, 2020. Management believes that securities held-to-maturity in an unrealized loss position as December 31, 2021 and 2020 had a loss position that was temporary in nature, and therefore no impairment losses were recognized in the statements 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 \$1.95 billion at December 31, 2021, and \$1.92 billion at December 31, 2020, were pledged to secure securities sold under repurchase agreements, public deposits, FRB's daylight overdraft, and for other purposes required by law.

Interest income on tax-exempt securities was \$16.9 million for the year ended December 31, 2021, and \$5.6 million for the year ended December 31, 2020.

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, although 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.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

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

	December 31,	
	2021	2020
	(In thousands)	
Commercial & industrial	\$ 234,368	\$ 162,911
SBA PPP	52,218	588,583
Construction	542,622	587,432
Commercial real estate	3,610,841	3,152,685
Residential mortgages	851,907	782,765
Equity lines	45,351	61,085
Installment and other loans	115,972	79,353
Gross loans	\$ 5,453,279	\$ 5,414,814
Less: Allowance for loan losses	(72,880)	(72,267)
Unamortized deferred loan fees, net	(8,650)	(15,747)
Loans, net	\$ 5,371,749	\$ 5,326,800
Loans held for sale	9,430	22,893
Total loans receivable, net	<u>\$ 5,381,179</u>	<u>\$ 5,349,693</u>

Total loans with a balance of \$761.8 million and \$694.7 million at December 31, 2021, and December 31, 2020, respectively, were pledged to secure the Bank's FHLB advance line.

Nonaccrual and Past Due Loans

Loans are tracked by the numbers of days that borrowers' payments are past due. The following table presents an aging analysis of nonaccrual and past due loans, segregated by loan segment:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Nonaccrual	Current	Total
As of December 31, 2021	(In thousands)					
Loan Segment						
Commercial & industrial	\$ -	\$ -	\$ -	\$ -	\$ 234,368	\$ 234,368
SBA PPP	13	-	-	-	52,205	52,218
Construction	-	-	-	-	542,622	542,622
Commercial real estate	-	-	-	895	3,609,946	3,610,841
Residential mortgages	4,694	871	-	10,305	836,037	851,907
Equity lines	58	17	-	444	44,832	45,351
Installment and other loans	-	-	-	-	115,972	115,972
Gross loans	<u>\$ 4,765</u>	<u>\$ 888</u>	<u>\$ -</u>	<u>\$ 11,644</u>	<u>\$ 5,435,982</u>	<u>\$ 5,453,279</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

Nonaccrual and Past Due Loans, continued

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Nonaccrual	Current	Total
As of December 31, 2020	(In thousands)					
Loan Segment						
Commercial & industrial	\$ -	\$ -	\$ -	\$ -	\$ 162,911	\$ 162,911
SBA PPP	-	-	-	-	588,583	588,583
Construction	-	-	-	-	587,432	587,432
Commercial real estate	2,859	-	-	928	3,148,898	3,152,685
Residential mortgages	4,954	-	-	3,833	773,978	782,765
Equity lines	1,369	59	940	358	58,359	61,085
Installment and other loans	-	31	3	-	79,319	79,353
Gross loans	<u>\$ 9,182</u>	<u>\$ 90</u>	<u>\$ 943</u>	<u>\$ 5,119</u>	<u>\$ 5,399,480</u>	<u>\$ 5,414,814</u>

The following is a summary of selected information related to the nonaccrual loans outstanding as of December 31, 2021 and 2020, and the related contractual interest income foregone for the years indicated:

	2021	2020
	(In thousands)	
Nonaccrual loans		
Outstanding balance	\$ 11,644	\$ 5,119
Average balance	11,892	5,196
Interest income recorded	108	9
Interest income foregone	322	213

Credit Quality

Loans are risk rated based on analysis of the current state of borrowers' credit quality. The analysis of credit quality includes review of all sources of repayment, borrowers' current payment performance/delinquency, borrowers' current financial and liquidity status, and all other relevant information. The table below presents 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, 2021			December 31, 2020		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
	(In thousands)					
Loan Segment						
Commercial & industrial	\$ 234,368	\$ -	\$ 234,368	\$ 162,374	\$ 537	\$ 162,911
SBA PPP	52,218	-	52,218	588,583	-	588,583
Construction	541,214	1,408	542,622	587,432	-	587,432
Commercial real estate	3,600,090	10,751	3,610,841	3,144,968	7,717	3,152,685
Residential mortgages	837,637	14,270	851,907	773,389	9,376	782,765
Equity lines	44,542	809	45,351	57,877	3,208	61,085
Installment and other loans	115,972	-	115,972	79,353	-	79,353
Total	<u>\$ 5,426,041</u>	<u>\$ 27,238</u>	<u>\$ 5,453,279</u>	<u>\$ 5,393,976</u>	<u>\$ 20,838</u>	<u>\$ 5,414,814</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

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 borrowers, and the Bank has granted concessions to the borrowers that it would not otherwise consider. The total amount of TDRs was \$35.3 million at December 31, 2021, and \$36.2 million at December 31, 2020.

There were no new TDRs in 2021. The following table presents loans that were modified as TDRs during the year in 2020.

	No. of Contracts	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment	Charge-offs During Modification	Allocated Reserve	TDRs That Subsequently Defaulted	
						No. of Contracts	Recorded Investment
(In thousands, except number of contracts)							
As of December 31, 2020							
Loan Segment							
Commercial real estate	4	\$ 34,578	\$ 34,578	\$ -	\$ -	-	\$ -
Total	4	\$ 34,578	\$ 34,578	\$ -	\$ -	-	\$ -

Accruing TDRs

A summary of accruing TDRs by concession type and by loan segment is shown in the following table for each year end.

	Principal Deferral	Interest Deferral	Rate Reduction	Combination of Such Concession	Total
			(In thousands)		
As of December 31, 2021					
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 34,350	\$ 34,350
Equity lines	-	-	-	-	-
Total loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,350</u>	<u>\$ 34,350</u>
As of December 31, 2020					
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 34,350	\$ 34,350
Equity lines	586	-	-	-	586
Total loans	<u>\$ 586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,350</u>	<u>\$ 34,936</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

Nonaccrual TDRs

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

	Principal Deferral	Interest Deferral	Rate Reduction	Combination of Such Concession	Total
			(In thousands)		
As of December 31, 2021					
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 917	\$ 917
Equity lines	-	-	-	-	-
Total loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 917</u>	<u>\$ 917</u>
As of December 31, 2020					
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 928	\$ 928
Equity lines	358	-	-	-	358
Total loans	<u>\$ 358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,286</u>

Since 2020, the Bank implemented various loan modification programs to provide its borrowers relief from the economic impacts of the COVID-19 pandemic. These COVID-related modifications are generally not classified as TDRs due to the relief under the CARES Act and the banking agencies “*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)*” issued on March 22, 2020 and April 7, 2020, and therefore are not included in the preceding tables. As of December 31, 2021, there was no loan currently paying under the modified payment structure. As of December 31, 2020, the Bank had 30 active COVID-19 loan modifications totaling \$97.6 million.

Impaired Loans

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

	Unpaid Principal Balance	Recorded Investment with No ALL	Recorded Investment with ALL	Related ALL	Total	Average Recorded Investment	Interest Income Recognized

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

Impaired Loans, continued

	Unpaid Principal Balance	Recorded Investment with No ALL	Recorded Investment with ALL	Related ALL	Total	Average Recorded Investment	Interest Income Recognized
(In thousands)							
As of December 31, 2020							
Loan Segment							
Commercial real estate	\$ 35,278	\$ 35,278	\$ -	\$ -	\$ 35,278	\$ 27,388	\$ 1,454
Residential mortgages	4,004	3,833	-	-	3,833	4,103	-
Equity lines	990	944	-	-	944	1,143	28
Total	<u>\$ 40,272</u>	<u>\$ 40,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,055</u>	<u>\$ 32,634</u>	<u>\$ 1,482</u>

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

	December 31, 2021			December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
(In thousands)						
Loan Segment						
Commercial & industrial	\$ -	\$ 234,368	\$ 234,368	\$ -	\$ 162,911	\$ 162,911
SBA PPP	-	52,218	52,218	-	588,583	588,583
Construction	-	542,622	542,622	-	587,432	587,432
Commercial real estate	35,244	3,575,597	3,610,841	35,278	3,117,407	3,152,685
Residential mortgages	10,306	841,601	851,907	3,833	778,932	782,765
Equity lines	444	44,907	45,351	944	60,141	61,085
Installment and other loans	-	115,972	115,972	-	79,353	79,353
Total	<u>\$ 45,994</u>	<u>\$ 5,407,285</u>	<u>\$ 5,453,279</u>	<u>\$ 40,055</u>	<u>\$ 5,374,759</u>	<u>\$ 5,414,814</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

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 Mortgages	Equity Lines	Installment and Other Loans	Total
(In thousands)							
December 31, 2019	\$ 2,156	\$ 10,895	\$ 42,553	\$ 6,184	\$ 261	\$ 440	\$ 62,489
Provision	664	3,545	5,626	10	88	567	10,500
Charge-Offs	(711)	-	(167)	-	(95)	(128)	(1,101)
Recoveries	1	-	-	166	5	207	379
December 31, 2020	\$ 2,110	\$ 14,440	\$ 48,012	\$ 6,360	\$ 259	\$ 1,086	\$ 72,267
Provision	951	(4,349)	2,916	149	(169)	502	-
Charge-Offs	(92)	-	-	-	-	(151)	(243)
Recoveries	50	545	-	-	97	164	856
December 31, 2021	<u>\$ 3,019</u>	<u>\$ 10,636</u>	<u>\$ 50,928</u>	<u>\$ 6,509</u>	<u>\$ 187</u>	<u>\$ 1,601</u>	<u>\$ 72,880</u>

The ending ALL
balance is composed
of amounts
applicable to loans:

Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 3,019</u>	<u>\$ 10,636</u>	<u>\$ 50,928</u>	<u>\$ 6,509</u>	<u>\$ 187</u>	<u>\$ 1,601</u>	<u>\$ 72,880</u>

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 ALL methodology. As PPP loans are expected to be forgiven by the SBA under the CARES Act and any unforgiven balances are 100% guaranteed by the SBA, the Bank did not provide reserve for these loans.

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, 2021 and 2020, were as follows:

	December 31,	
	2021	2020
	(In thousands)	
Balance, beginning of year	\$ 5,550	\$ 5,600
Reduction	(1,750)	(50)
Balance, end of year	<u>\$ 3,800</u>	<u>\$ 5,550</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – OTHER REAL ESTATE OWNED

As of December 31, 2021 and 2020, respectively, the Bank had one OREO property with a carrying value of \$1.0 million and no reserve. The following table summarizes the net carrying value of OREO by property type at the dates indicated:

	December 31,	
	2021	2020
	(In thousands)	
Commercial real estate	\$ 966	\$ 966
Total OREO, net	<u>\$ 966</u>	<u>\$ 966</u>

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

	2021	2020
	(In thousands)	
Rental income	\$ -	\$ -
Net gain on sale	-	-
Total OREO income	<u>\$ -</u>	<u>\$ -</u>
Operating and maintenance, net	\$ 44	\$ 34
Addition of reserve for OREO	-	-
Total OREO expense	<u>\$ 44</u>	<u>\$ 34</u>
OREO expense, net	<u>\$ (44)</u>	<u>\$ (34)</u>

NOTE 6 – PREMISES AND EQUIPMENT

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

	December 31,	
	2021	2020
	(In thousands)	
Land	\$ 50,164	\$ 42,183
Buildings and building improvements	94,705	89,814
Furniture, fixtures and equipment	44,387	42,503
Leasehold improvements	8,188	4,640
Construction in progress	3,257	2,030
	<u>200,702</u>	<u>181,170</u>
Less accumulated depreciation	<u>(84,875)</u>	<u>(77,555)</u>
Total premises and equipment, net	<u>\$ 115,827</u>	<u>\$ 103,615</u>

Depreciation expense was \$9.0 million in 2021 and \$9.4 million in 2020.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – TAX CREDIT INVESTMENTS

The Bank has invested in certain limited liability companies and partnerships that make investments in affordable housing projects, new market tax credit projects, and renewable energy projects for the purpose of utilizing the tax credits these investments generate. The Bank is not the primary beneficiary of these partnerships and has no control over the operations; therefore, the Bank is not required to consolidate these entities on its financial statements.

The Bank's tax credit investments totaled \$29.0 million and \$41.8 million at December 31, 2021, and December 31, 2020, respectively, and are included in other assets on the balance sheets. There was no unfunded commitments related to these tax credit investments at December 31, 2021, and totaled \$7.1 million at December 31, 2020 which was included in other liabilities on the balance sheets.

These investments generated \$13.0 million and \$15.7 million of federal tax credits in 2021 and 2020, respectively. At December 31, 2021 and December 31, 2020, these investments are expected to generate approximately \$23.5 million and \$36.5 million, respectively, of federal tax credits in future years. The Bank records its investment in affordable housing projects using the proportional amortization method. Under the proportional amortization method, the amortization of the investments recognized as a component of income tax expenses were \$2.8 million for the years ended December 31, 2021 and 2020.

NOTE 8 – DEPOSITS

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

	December 31,	
	2021	2020
	(In thousands)	
Non-interest-bearing checking	\$ 3,552,248	\$ 2,889,012
Interest-bearing checking	2,187,998	1,788,133
Money market accounts	1,712,391	1,289,626
Savings deposits	1,043,471	840,129
Total core deposits	<u>\$ 8,496,108</u>	<u>\$ 6,806,900</u>
Time deposits:		
\$250,000 or less	\$ 330,928	\$ 359,551
Greater than \$250,000	414,454	451,175
Total time deposits	<u>745,382</u>	<u>810,726</u>
Total deposits	<u><u>\$ 9,241,490</u></u>	<u><u>\$ 7,617,626</u></u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Deposits, continued

As of December 31, 2021, the maturity distribution of the Bank's time deposits was as follows:

	<u>\$250,000 or Less</u>	<u>Greater Than \$250,000</u>	<u>Total</u>
		(In thousands)	
2022	\$ 243,859	\$ 271,775	\$ 515,634
2023	38,617	52,486	91,103
2024	15,564	47,905	63,469
2025	18,657	35,931	54,588
2026	14,231	6,357	20,588
	<u>\$ 330,928</u>	<u>\$ 414,454</u>	<u>\$ 745,382</u>

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:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(In thousands)	
Securities sold under repurchase agreements	\$ 916,672	\$1,062,348
Weighted average interest rate	0.26%	0.33%
Securities underlying repurchase agreements	\$1,202,097	\$1,241,734
Fair value of securities underlying repurchase agreements	\$1,226,908	\$1,286,852

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 2021 and 2020, respectively:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Average outstanding	\$1,079,843	\$ 961,512
Weighted average interest rate	0.30%	0.82%
Maximum amounts outstanding	\$1,225,097	\$1,166,251

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – OTHER BORROWINGS

The Bank's available borrowing capacity from federal funds lines of credit and the FRB discount window amounted to \$507.0 million and \$508.7 million as of December 31, 2021 and 2020, respectively. The Bank's available secured borrowing capacity for FHLB advances totaled \$509.5 million and \$472.9 million as of December 31, 2021 and 2020, respectively.

The following table summarizes information about FHLB advances as of the periods indicated:

	December 31,	
	2021	2020
	(In thousands)	
FHLB advances outstanding at year-end	\$ -	\$ -
Weighted average rate on outstanding at year-end	-	-
Highest month-end balance	\$ 1,000	\$ 1,000
Average amount outstanding	\$ 3	\$ 3
Weighted average rate	0.18%	0.20%

NOTE 11 – LEASES

The Bank is obligated 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 payments. Lease expense was \$2.0 million for the years ended December 31, 2021 and 2020.

	December 31,	
	2021	2020
	(In thousands)	
Operating lease expense	\$ 1,722	\$ 1,744
Variable lease expense	278	282
Sublease income	(91)	(87)
Net lease cost	<u>\$ 1,909</u>	<u>\$ 1,939</u>
Cash paid for amounts included in the measurements of lease liabilities	\$ 1,831	\$ 1,808
ROU assets obtained in the exchange for lease liabilities	-	-
Balance Sheet:		
Operating lease ROU assets	\$ 5,608	\$ 7,151
Operating lease liabilities	6,009	7,570
Operating leases:		
Weighted-average remaining lease term (in years):	4.3	5.1
Weighted-average discount rate:	4.05%	4.03%

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – Leases, continued

The following table presents a maturity analysis of the Bank's operating lease liabilities:

	<u>December 31, 2021</u> (In thousands)
Maturities of lease liabilities:	
2022	\$ 1,865
2023	1,476
2024	1,246
2025	902
2026	648
Thereafter	421
Total lease payments	<u>6,558</u>
Less: imputed interest	549
Total lease liability	<u>\$ 6,009</u>

Total lease income for the years ended December 31, 2021 and 2020, was \$3.4 million and \$3.2 million, respectively. The following table presents future annual lease income payments that are expected to be received under operating leases with terms in excess of one year as of December 31, 2021:

	<u>December 31, 2021</u> (In thousands)
2022	\$ 2,891
2023	1,992
2024	1,371
2025	849
2026	695
Thereafter	2,087
Total lease income	<u>\$ 9,885</u>

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

NOTE 12 – 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 accrued expense of \$8.4 million for the profit-sharing plan in 2021 and 2020. At December 31, 2021 and 2020, no shares of the Bank's stock are held by the plan.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – LONG TERM INCENTIVE PLAN

Pursuant to the Bank's 2010 Long-term Incentive Plan ("Plan") as amended in 2019, the Bank may issue stock options, share appreciation rights, RSUs, deferred share units, performance awards or dividend equivalent rights to certain employees at no cost to the recipient. A total of 6,000 shares are available to grant under the Plan.

In June 2020, the Bank granted 2,175 RSUs to employees which cliff vest after five or ten years of continued employment from the date of grant. In June 2019, the Bank granted 3,775 RSUs to employees which cliff vest after five years of continued employment from the date of grant. All RSUs are subject to forfeiture until vested.

The following table presents a summary of the total share-based compensation expense and the related net tax benefits associated with the Bank's employee share-based compensation plan for the years ended December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Stock compensation costs	\$ 7,499	\$ 6,830
Related net tax benefits for stock compensation plans	2,217	2,019

Compensation costs for these time-based awards are based on the closing price of the Bank's stock at the grant date. Compensation costs are recognized on a straight-line basis from the grant date until the vesting date of each grant. The Bank continues to estimate the total number of awards expected to be forfeited in recognizing compensation expense. The unrecognized RSU compensation costs totaled \$25.4 million as of December 31, 2021 and will be recognized over the next 8.5 years.

The following table presents a summary of the activity for the Bank's time-based RSUs for each year ended, based on the target amount of awards.

	<u>Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Outstanding as of December 31, 2019	3,775	\$ 8,150
Granted	2,175	5,965
Vested	-	-
Forfeited	-	-
Outstanding as of December 31, 2020	5,950	7,351
Granted	-	-
Vested	-	-
Forfeited	(50)	8,150
Outstanding as of December 31, 2021	<u>5,900</u>	<u>\$ 7,345</u>

The total fair value of the unvested time-based RSUs as of December 31, 2021 and December 31, 2020 was \$47.4 million and \$39.4 million, respectively. There are no vested RSUs as of December 31, 2021 and December 31, 2020.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – INCOME TAXES

The income tax expense attributable to income from continuing operations for the years ended December 31, 2021 and 2020, consists of the following:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Current income taxes:		
Federal	\$ 14,142	\$ 8,088
State	16,030	13,353
Total current tax expense	<u>30,172</u>	<u>21,441</u>
Deferred income taxes:		
Federal	(828)	(4,315)
State	(24)	(737)
Total deferred tax benefit	<u>(852)</u>	<u>(5,052)</u>
Total income tax expense	<u>\$ 29,320</u>	<u>\$ 16,389</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 24,415	\$ 24,777
Tax credit investments — state tax basis difference	4,173	5,477
Capital loss carryforward	6,230	4,873
State income taxes	1,125	519
Accrued employee compensation	6,308	3,717
Premises and equipment depreciation and amortization	442	174
Tax credit carryforward	-	482
Operating lease liabilities	1,913	2,410
Other, net	538	685
Gross deferred tax assets	45,144	43,114
Valuation allowance	(10,169)	(9,595)
Deferred tax assets, net of valuation allowance	<u>\$ 34,975</u>	<u>\$ 33,519</u>
Deferred tax liabilities		
Tax credit investments — federal tax basis difference	\$ 2,143	\$ 2,088
Loan origination costs	1,974	1,712
Prepaid assets	1,133	953
Operating lease ROU assets	1,786	2,277
Gross deferred tax liabilities	<u>7,036</u>	<u>7,030</u>
Net deferred tax assets	<u>\$ 27,939</u>	<u>\$ 26,489</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – Income Taxes, continued

The statutory federal income tax rate was 21% for 2021 and 2020. The difference between the effective tax rate in the financial statements and the federal income tax rate is attributed to the following:

	<u>2021</u>	<u>2020</u>
Federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	8.5%	8.6%
Tax-exempt interest income	(3.7%)	(2.7%)
Tax credits, net of amortization	(5.8%)	(10.6%)
Research tax credits	-	(1.1%)
Valuation allowance	0.5%	2.4%
Other	(0.2%)	(0.5%)
	<u>20.3%</u>	<u>17.1%</u>

The higher effective tax rate during the year ended December 31, 2021, compared to the same period in 2020 was primarily due to greater pretax income in 2021 and a decrease of \$2.2 million in tax credits, net of amortization, generated in 2021.

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 the Bank's 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, with the exception of the deferred tax assets related to certain state tax basis differences arising from certain tax credit investments and capital loss carryforward in California. The net valuation allowance increased by \$0.6 million to \$10.2 million as of December 31, 2021.

In 2021 and 2020, \$13.0 million and \$15.7 million, respectively, of tax credits were generated. These credits originated from tax credit investments, and research and development activities. For the years ended 2021 and 2020, the Bank utilized \$0.56 million and \$0.91 million, respectively, in carryforward tax credits from prior years. This utilization reduced the Federal tax credit carryforward balance to zero at the end of 2021. Tax credits are recognized using the flow through method.

California's capital loss carryforward balance was \$57.5 million at the end of 2021 and \$45.0 million at the end of 2020. If unused, these carryforwards will expire as follows; \$8.9 million in 2022, \$36.1 million in 2023, \$6.2 million in 2025 and \$6.3 million in 2026. The Bank does not have net operating losses ("NOL") for Federal or California tax purposes. Due to allocations of losses from tax credit investments, the Bank carries a NOL for the state of Colorado in the amount of \$4.1 million. If unused, these NOL carryforwards will begin to expire in 2034.

FASB 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 that remain open to audit. As of December 31, 2021, tax years 2018 through 2021 for federal purposes and tax years 2017 through 2021 for state purposes, remain open to examination. The Bank has \$246 thousand in unrecognized tax benefits and does not expect any significant changes in the next 12 months. 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.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 15 – EARNINGS PER SHARE

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, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
	(In thousands, except share and per share data)	
Basic and diluted earnings per share:		
Net income available to common stockholders	\$ 115,205	\$ 79,801
Basic earnings per common share	\$ 913.60	\$ 623.42
Diluted earnings per common share	\$ 898.31	\$ 622.74
Basic weighted-average shares outstanding	126,100	128,006
Diluted weighted-average shares outstanding	128,246	128,146

NOTE 16 – 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.

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 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:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(In thousands)	
Commitments to extend credit	\$ 1,870,361	\$ 1,862,270
Financial standby letters of credit	20,649	19,408
Performance standby letters of credit	9,182	9,284
	<u>\$ 1,900,192</u>	<u>\$ 1,890,962</u>

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 16 – 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 17 – 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, loans held for sale, 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 judgement 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 securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 17 – Fair Value Measurements, continued

Loans held for sale — Loans held for sale are carried at the lower of cost or fair value. The Bank records loans held for sale at fair value based on quoted prices from third party sale analysis, existing sale agreements, or appraisal reports adjusted by sales commission assumption, which is a Level 2 measurement.

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 that 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 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 tables present 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, 2021 and 2020:

	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
As of December 31, 2021				
Assets				
On a recurring basis:				
Securities available-for-sale	\$ -	\$139,947	\$ -	\$ 139,947
On a non-recurring basis:				
Loans held for sale	-	-	-	-
Impaired loans	-	-	-	-
Other real estate owned	-	-	-	-
Total assets	\$ -	\$139,947	\$ -	\$ 139,947

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 17 – Fair Value Measurements, continued

	Fair Value Measurements Using			Total at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
As of December 31, 2020				
Assets				
<i>On a recurring basis:</i>				
Securities available-for-sale	\$ -	\$137,373	\$ -	\$ 137,373
<i>On a non-recurring basis:</i>				
Loans held for sale	-	4,577	-	4,577
Impaired loans	-	-	-	-
Other real estate owned	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$141,950</u>	<u>\$ -</u>	<u>\$ 141,950</u>

NOTE 18 – 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, 2021 and 2020, 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.

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. Fair values are based on quoted price for similar financial characteristics, commitments outstanding from investors, or book value.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 18 – Fair Value of Financial Instruments, continued

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, by performing and nonperforming categories, and credit quality. The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates with an “exit price concept,” 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 issuers; hence, the fair value is equal to the carrying value.

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.

Other Borrowings

The fair value of other borrowings approximates carrying value due to the terms and nature of the obligations. The borrowings are generally short term.

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 the fair value of the fees charged to enter into such agreements to be nominal.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 18 – Fair Value of Financial Instruments, continued

The following table presents the carrying and estimated fair value per the fair value hierarchy of financial instruments as of the dates indicated:

	Carrying Value	Level 1	Level 2	Level 3	Estimated Fair Value
			(In thousands)		
As of December 31, 2021					
Financial Assets:					
Cash and due from banks	\$1,301,671	\$1,301,671	\$ -	\$ -	\$ 1,301,671
Securities available-for-sale	139,947	-	139,947	-	139,947
Securities held-to-maturity	4,366,821	24,872	4,383,571	-	4,408,443
Loans held for sale	9,430	-	9,598	-	9,598
Loans, net of allowance for loan losses	5,371,749	-	-	5,584,791	5,584,791
Investments in FHLB and FRB stock	20,031	-	20,031	-	20,031
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	\$3,552,248	-	\$3,552,248	-	\$ 3,552,248
Interest-bearing deposits	2,187,998	-	2,187,998	-	2,187,998
Savings and money market deposits	2,755,862	-	2,755,862	-	2,755,862
Time deposits	745,382	-	745,382	-	745,382
Securities sold under repurchase agreements	916,672	-	916,672	-	916,672
As of December 31, 2020					
Financial Assets:					
Cash and due from banks	\$1,011,675	\$1,011,675	\$ -	\$ -	\$ 1,011,675
Securities available-for-sale	137,373	-	137,373	-	137,373
Securities held-to-maturity	3,131,213	-	3,241,573	-	3,241,573
Loans held for sale	22,893	-	23,269	-	23,269
Loans, net of allowance for loan losses	5,326,800	-	-	5,595,455	5,595,455
Investments in FHLB and FRB stock	20,257	-	20,257	-	20,257
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	\$2,889,012	-	\$2,889,012	-	\$ 2,889,012
Interest-bearing deposits	1,788,133	-	1,788,133	-	1,788,133
Savings and money market deposits	2,129,755	-	2,129,755	-	2,129,755
Time deposits	810,726	-	810,726	-	810,726
Securities sold under repurchase agreements	1,062,348	-	1,062,348	-	1,062,348

NOTE 19 – RELATED PARTY TRANSACTIONS

The Bank and Queen City Investments, Inc. ("Queen City"), which is the parent company of Farmers & 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 shareholders, including certain executive officers and/or directors of the Bank. In addition, certain executive and other officers of the Bank serve as officers and/or directors of Queen City and/or its subsidiaries, including the Trust Company.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 19 – Related Party Transactions, continued

The Bank leases its Torrance branch location from Queen City, and leases business resumption office space from the Trust Company at their Santa Barbara location. The Trust Company also leases office space from the Bank at the Long Beach, Laguna Hills and Newport Beach locations.

The table below summarizes all lease activities between the Bank and all related parties. All leases are subject to an ongoing lease agreement:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Lease payments paid to:		
Queen City Investments, Inc.	\$ 310	\$ 301
Farmers & Merchants Trust Company	4	4
Lease payments received from:		
Farmers & Merchants Trust Company	225	204

The Bank and the Trust Company have an Employee Leasing agreement whereby the Bank and the Trust Company provide services of various employees between the parties, and will be reimbursed periodically. In 2021 and 2020, the Trust Company paid the Bank a net total of \$458 thousand and \$430 thousand, respectively, under this agreement.

In addition, the Bank and the Trust Company have entered into various agreements for the exchange of other services, which provide for the periodic settlement between the parties of the differences in the values of respective services provided between each other. Under this arrangement, the Bank provides human resources, payroll services, and IT support to the Trust Company, and the Trust Company provides financial services to the Bank and maintains deposits with the Bank. For the years ended December 31, 2021 and 2020, the Trust Company paid the Bank a total of \$109 thousand and \$57 thousand, respectively, for the difference between the values of services exchanged between the parties.

At December 31, 2021, related-party loans were \$1.7 million, and no loans to related party at December 31, 2020. At December 31, 2021 and 2020, related-party deposits were \$257 million and \$215 million, respectively, of which, \$254 million and \$212 million, respectively, were attributable to Queen City and its subsidiaries.

In the ordinary course of business, the Bank may enter into other transactions with various related parties. Related party transactions not included herein were not material for the years ended December 31, 2021 and 2020.

NOTE 20 – 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. As of

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 20 – Regulatory Matters, continued

December 31, 2021 and 2020, the Bank continued to exceed all "well capitalized" capital requirements and the required minimum capital requirements under the Basel III Capital Rules. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital ratios, Tier 1 risk-based capital ratios, Tier 1 common equity capital ratios, and Tier 1 leverage ratios as set forth in the following table.

	<u>Actual</u>		<u>Minimum Capital Requirements</u>				<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>			
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>		<u>Amount</u>	<u>Rate</u>			
	(Dollars in thousands)									
As of December 31, 2021:										
Total risk-based capital ratio	\$ 1,316,825	18.63%	≥	\$ 565,464	≥	8.00%	≥	\$ 706,830	≥	10.00%
Tier 1 risk-based capital ratio	1,240,145	17.54%	≥	424,223	≥	6.00%	≥	565,631	≥	8.00%
Common equity tier 1 capital ratio	1,240,145	17.54%	≥	318,167	≥	4.50%	≥	459,575	≥	6.50%
Tier 1 leverage ratio	1,240,145	10.88%	≥	455,936	≥	4.00%	≥	569,920	≥	5.00%
As of December 31, 2020:										
Total risk-based capital ratio	\$ 1,218,815	19.57%	≥	\$ 498,238	≥	8.00%	≥	\$ 622,798	≥	10.00%
Tier 1 risk-based capital ratio	1,140,998	18.33%	≥	373,485	≥	6.00%	≥	497,981	≥	8.00%
Common equity tier 1 capital ratio	1,140,998	18.33%	≥	280,114	≥	4.50%	≥	404,609	≥	6.50%
Tier 1 leverage ratio	1,140,998	12.41%	≥	367,767	≥	4.00%	≥	459,709	≥	5.00%

NOTE 21– SUBSEQUENT EVENTS

The Bank has evaluated events subsequent to December 31, 2021 and through April 21, 2022, the date that these financial statements were issued. There have been no subsequent events that occurred during the period that would require recognition in the financial statements or its disclosure in 2021.

CORPORATE INFORMATION

Board of Directors

Daniel K. Walker, Chairman of the Board
JoAnn M. Bourne
Stephen D. Cooke
Walter M. Florie
Lawrence J. McLaughlin
Christine A. Scheuneman
Timothy M. Wilson

Principal Officers

Daniel K. Walker, Chairman of the Board & CEO
W. Henry Walker, President
John W.H. Hinrichs, Chief Financial Officer
Phillip J. Bond, Chief Credit Officer
Melissa Lanfre, Chief Operating Officer
Kevin Tiber, Investment Officer

Auditor

KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618

Legal Counsel

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

Investor Relations

PondelWilkinson Inc.
2945 Townsgate Road, Suite 200
Westlake Village (Los Angeles), CA 91361

Transfer Agent

American Stock Transfer & Trust Company
6201 15th Ave.
Brooklyn, NY 11219

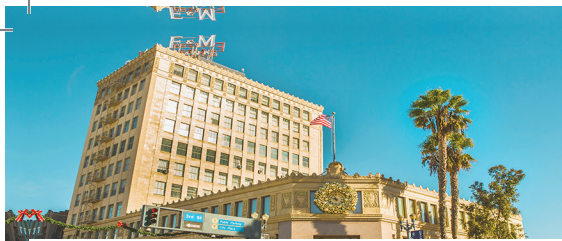
Securities Listing

Farmers & Merchants Bank's common stock is traded on the
OTC Markets system (OTCQB) under the symbol FMBL.

Corporate Headquarters

302 Pine Ave.
Long Beach, CA 90802

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



Main Office



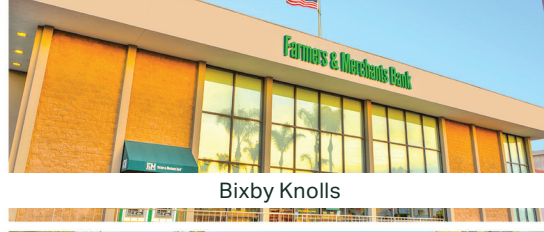
East Long Beach



Garden Grove



Lakewood



Bixby Knolls



Belmont Shore



Los Altos



Memorial Hospital



Lake Forest



Orange



Fullerton



Santa Ana



San Juan Capistrano



Rossmore



Rolling Hills Estates



Torrance



Huntington Beach



Laguna Hills



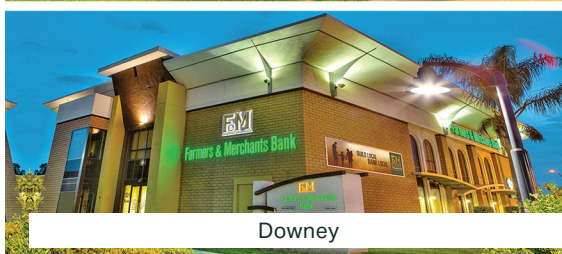
Newport Beach



San Clemente



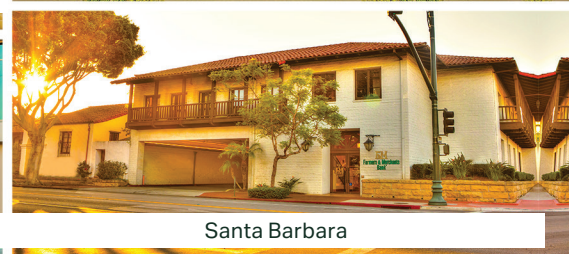
Tustin - The District



Downey



Corona del Mar



Santa Barbara



Redondo Beach

OFFICE LOCATIONS

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

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

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

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

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

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

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

Lakewood
4909 Lakewood Blvd.
Lakewood, CA 90712
562-602-8378
Since 1966

Redondo Beach
1333 S. Pacific Coast Hwy.
Redondo Beach, CA 90277
310-802-7560
Since 2015

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

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

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

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

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

Santa Barbara
33 E. Carrillo St.
Santa Barbara, CA 93101
805-280-4700
Since 2018

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

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

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

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

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

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

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

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

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

Tustin - The District
2691 Park Ave.
Tustin, CA 92782
714-824-3070
Since 2007

SPECIALIZED CLIENT SERVICES

Home Loan Center
12515 Seal Beach Blvd.
Seal Beach, CA 90740
866-649-3863
Since 2015

Healthcare Client Services
2801 Atlantic Ave.
Long Beach, CA 90806
562-989-7862
Since 2017

OC Regional Headquarters
4695 MacArthur Ct., Ste. 130
Newport Beach, CA 92660
949-241-8280
Since 2018

Religious Client Services
12535 Seal Beach Blvd.
Seal Beach, CA 90740
562-344-4070
Since 2017





FMB.com

Member FDIC