

‘22

annual report



MEMBER FDIC

Where Tradition & Technology Come Together



At F&M Bank, Tradition & Technology aren't opposites, they're the perfect blend of what is & what was. While the world is always changing, we have never wavered on combining longstanding traditional values with cutting-edge technology, resulting in consistent & steadfast success, as evidenced by our 2022 annual report.

F&M Bank has been California's Strongest, since 1907 and that's not changing, even in today's economy. We're opening new branches & continuing our investment in technology to better serve clients. F&M is here for you today, & will be here for you tomorrow.



Our Tradition



5

Generations of Leadership



26

Branch Offices



115

Years of Strength



809

Bank Employees

Our Balance Sheet as of 12/31/2022

\$12.05B

In Total Assets

\$9.14B

In Total Deposits

\$6.67B

In Total Net Loans

\$1.31B

Total Stockholders' Equity

123,228

Total Shares Outstanding

Our Legacy

115

Years of Profitability
(a perfect record)

106

Years of Consecutive
Dividends

68.0%

Loan-to-Total Deposits &
Repurchase Agreements Ratio

<50%

Loan-to-Value
Ratio

Our Risk-Based Capital



8.00%
Regulatory Minimum

16.37%
F&M Bank

F&M's total risk-based capital (RBC) ratio was 16.37% on 12/31/22, more than **DOUBLE** the federally mandated adequacy levels.

Our Technology

\$20.94B

Online Banking
Transactions in 2022

\$4.91B

Remote Deposits (RDC)
Made in 2022

6.36M

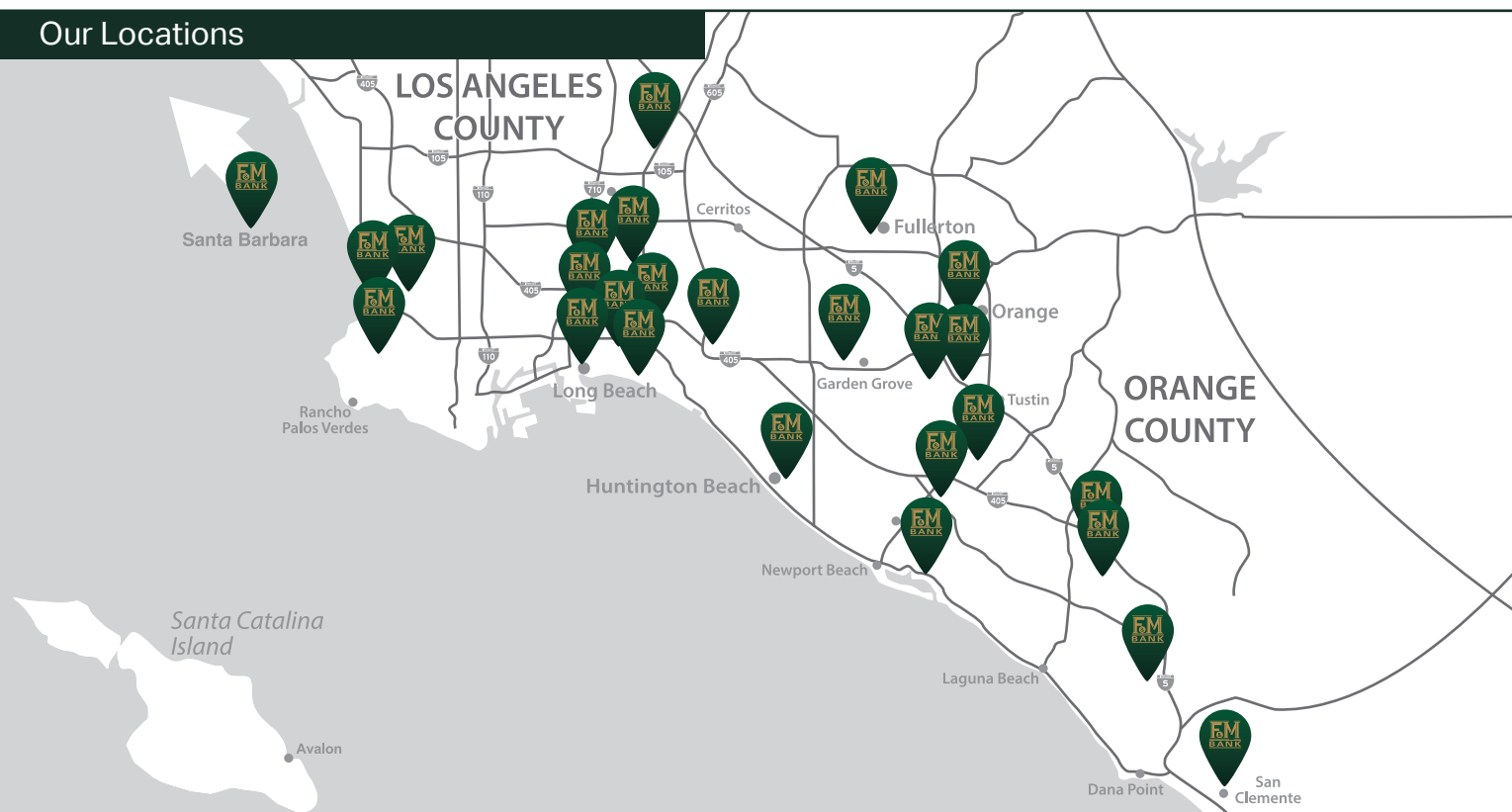
Online Banking
Logins for 2022

6.5 Sec

Average Online Banking
Transaction Time



Our Locations



Our Contributions



\$4.6M

Community Support



\$563K

In-kind Donations



\$1.06M

FHLB Grant Support*

*Through Federal Home Loan Bank of San Francisco (FHLB)



680

Organizations Supported

Our Employees



66%

Minority Workplace



58%

Female Workplace



32%

10+ Year Tenure



45

Languages Spoken

"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, Chairman of the Board & CEO



F&M's newly relocated Lakewood Office celebrated its Grand Opening on May 12, 2022.

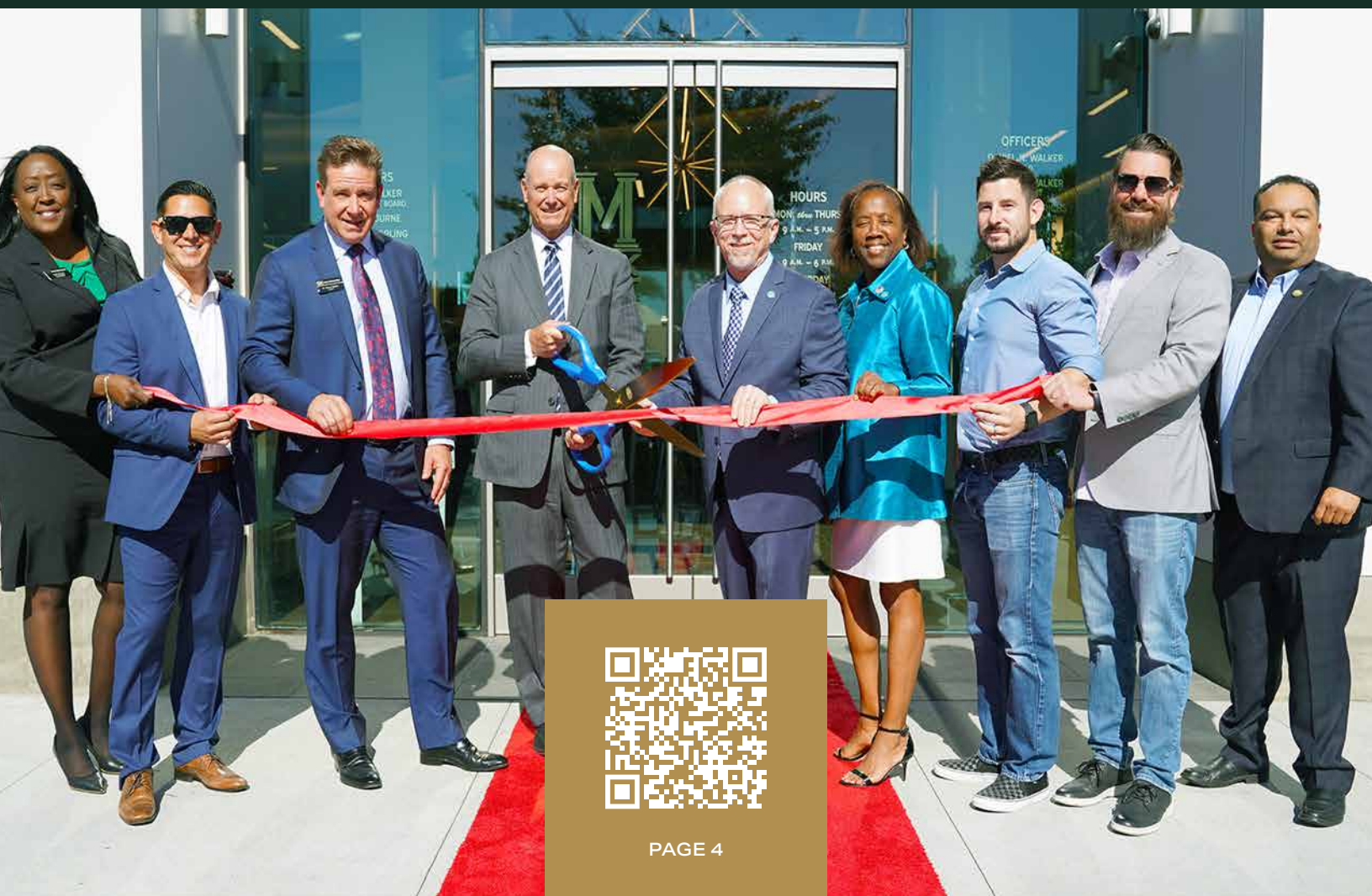


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OUR FOUNDING VALUES

Honesty

We always tell the truth.

Integrity

The promises we make are ironclad.

The Home

Our families come first.

The Church

Our faith gives us strength in good times and bad.

Service Above Self

We put the needs of others ahead of our own.



SERVICE ABOVE SELF



"For the last 115 years, showing up — literally & figuratively — has been evident through our connectedness to the local communities in which we live and work."

Daniel K. Walker

Chairman of the Board & CEO



OUR 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, he 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 over 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, 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 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. McLaughlin

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 recently 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 such position in January 2018. He currently serves as a Director of Mitchell Land & Improvement Co.





From left to right:
Timothy M. Wilson, Walter M. Florie,
Christine A. Scheuneman, Daniel K. Walker, JoAnn M. Bourne,
Lawrence J. McLaughlin, Stephen D. Cooke



OUR EXECUTIVES

Daniel K. Walker

Chairman of the Board & CEO

W. Henry Walker

President

John W.H. Hinrichs

Executive Vice President, Chief Financial Officer

Phillip J. Bond

Executive Vice President, Chief Credit Officer

Melissa Lanfre

Executive Vice President, Chief Operating Officer

Kevin Tiber

Executive Vice President, Chief Investment Officer



OUR FINANCIAL OVERVIEW

	2022	2021	2020	2019	2018
Diluted Earnings per Common Share (In Dollars)	\$856	\$898	\$623	\$661	\$654
Dividends Declared per Common Share (In Dollars)	\$127	\$123	\$123	\$123	\$121
Net Interest Margin	2.70%	2.83%	2.99%	3.43%	3.45%
Overhead Efficiency Ratio	57.11%	53.51%	61.36%	60.54%	55.98%
Average Assets (Dollars in Millions)	\$11,795	\$10,850	\$9,082	\$7,539	\$7,222
Total Risk-Based Capital Ratio	16.37%	18.63%	19.57%	20.64%	19.89%

OUR LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

Profitability and stability have been hallmarks of Farmers & Merchants Bank of Long Beach since the Bank was established in 1907.

We continue to prosper today because of steadfast adherence to our founders' operating principles:

- Conservative management, with prudent cost controls.
- A quality loan portfolio that is not dependent on any one sector.
- Supporting the communities in which we operate.
- Service above self when it comes to preserving and protecting our clients' capital and enhancing value for all stakeholders.

From enduring two world wars and the Great Depression, through the global upset caused by the COVID-19 pandemic, the year 2022 was no exception for the Bank meeting formidable external challenges. F&M continues to remain resilient amidst the turbulence that our nation and the banking sector are experiencing today.

Total assets at year end were at a record high, net loan growth was up sharply, and again we finished the year with capital ratios that far exceeded minimum regulatory requirements.

Financial Overview

For the year ended December 31, 2022, total interest and dividend income increased to \$340.3 million from \$307.3 million reported for 2021.

Interest expense for 2022 was \$31.2 million, versus \$12.2 million in 2021. Net interest income before loan loss provision for 2022 rose to \$309.0 million, from \$295.1 million in 2021, and F&M's net interest margin was 2.70% for 2022, versus 2.83% in the prior year.

The loan loss provision for 2022 was \$3.5 million, compared with no net loan loss provision in 2021. The Bank's allowance for loan losses as a percentage of loans outstanding was 1.13% at December 31, 2022, compared with 1.34% at December 31, 2021.

Non-interest income for 2022 declined to \$18.5 million, from \$22.0 million in 2021, and non-interest expense for 2022 was \$188.8 million, versus \$172.6 million last year.

F&M has been profitable every year since its founding and achieved 2022 net income of \$109.0 million, or \$855.56 per diluted share, compared with \$115.2 million, or \$898.31 per diluted share, for 2021.

Throughout the year, the Bank repurchased a total of 2,400 shares of its common stock at an average price of \$8,132.92 per share, as part of a stock repurchase program authorized by our Board of Directors in January 2022. The program reflects the Board's positive long-term outlook for F&M and allows the 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.

The number of shares repurchased and the timing of any repurchases depend on several factors, including stock price, trading volume, regulatory requirements, and general business conditions. 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 current 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.

At December 31, 2022, net loans increased to \$6.67 billion, from \$5.37 billion at December 31, 2021. The Bank's total deposits decreased slightly to \$9.14 billion at the end of 2022, from \$9.24 billion a year earlier. Non-interest-bearing deposits represented 36.7% of total deposits at December 31, 2022, versus 38.4% of total deposits at the end of 2021. Total assets rose to a record \$12.05 billion at the close of 2022 from \$11.44 billion at December 31, 2021.

OUR LETTER TO SHAREHOLDERS

Demonstrating its financial strength, F&M remained “well capitalized” under all regulatory categories at December 31, 2022, with a total risk-based capital ratio of 16.37%, a tier 1 risk-based capital ratio of 15.44%, a common equity tier 1 capital ratio of 15.44%, and a tier 1 leverage ratio of 10.91%. The minimum ratios for capital adequacy for a well-capitalized bank are 10.00%, 8.00%, 6.50%, and 5.00%, respectively.

Commitment to Our Clients and the Communities We Serve

When tradition and technology come together, our clients and the communities we serve benefit. At a time when many banks have been closing offices, we are proud to be opening new ones in vibrant communities throughout Southern California to serve our many clients who prefer to visit in person versus on a computer screen.

F&M today is 26 branches strong — from San Clemente to Santa Barbara — having recently opened a second branch in Santa Ana and currently completing plans for a branch opening in Laguna Beach by the end of 2024.

During 2022, our Lakewood branch was relocated to a 9,000-square-foot location in the city’s most prominent building, for which we are receiving many accolades. We have served the Lakewood community since 1966.

Contrasted with our newer offices, F&M’s downtown Long Beach headquarters building recently turned 100, and is as vibrant and energetic as ever, as well as being architecturally stately.

The Bank’s investment in physical locations is complemented by technological prowess. F&M is on the cutting edge of digital technology, offering our clients the convenience of online banking while ensuring secure transactions, along with protection from unscrupulous cyber tactics, including identity theft and unforeseen natural disasters.

We also are committed to Environmental, Social, and Governance (ESG) matters, from the use of solar energy and providing matching grant funds for housing, to offering bilingual omnichannel advertising, embracing diversity, and so much more. All of us at F&M are proud that the Bank achieved an “Outstanding” CRA rating — the best possible — relative to our performance under the Community Reinvestment Act, helping to rebuild and revitalize communities through sound lending and good business judgment and meeting the credit needs of low- and moderate-income earners.

As always, 2022 was a year in which F&M and the Farmers & Merchants Bank Foundation participated in charitable activities through cash donations, sponsorships, in-kind donations, and volunteerism. More than \$4 million was contributed during 2022 in support of nearly 700 local organizations within the 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, Samuelli Academy, the Orange County School of the Arts, Illumination Foundation, Laura’s House, Vanguard University, LA Regional Food Bank, Discovery Science Center of Orange County, Food Share of Ventura County, FosterAll, Saddleback Medical Center Foundation, Aquarium of the Pacific, and Orange County Museum of Art, among others.

Notwithstanding the headwinds that all financial institutions are facing, no bank is immune to the effects and uncertainties posed by the current interest rate and general economic environment. Nevertheless, we remain optimistic about F&M’s long-term future.

For all of F&M’s attributes, we express deep gratitude to our Maker for giving us the strength and health to persevere. We also extend heartfelt thanks to our Board of Directors for their wisdom and guidance, to our talented colleagues for their hard work and dedication, to our clients whom we are so proud to serve, and to our shareholders for their loyalty and support.

Sincerely,



Daniel K. Walker
Chairman of the Board and CEO



W. Henry Walker
President

OUR CLIENTS



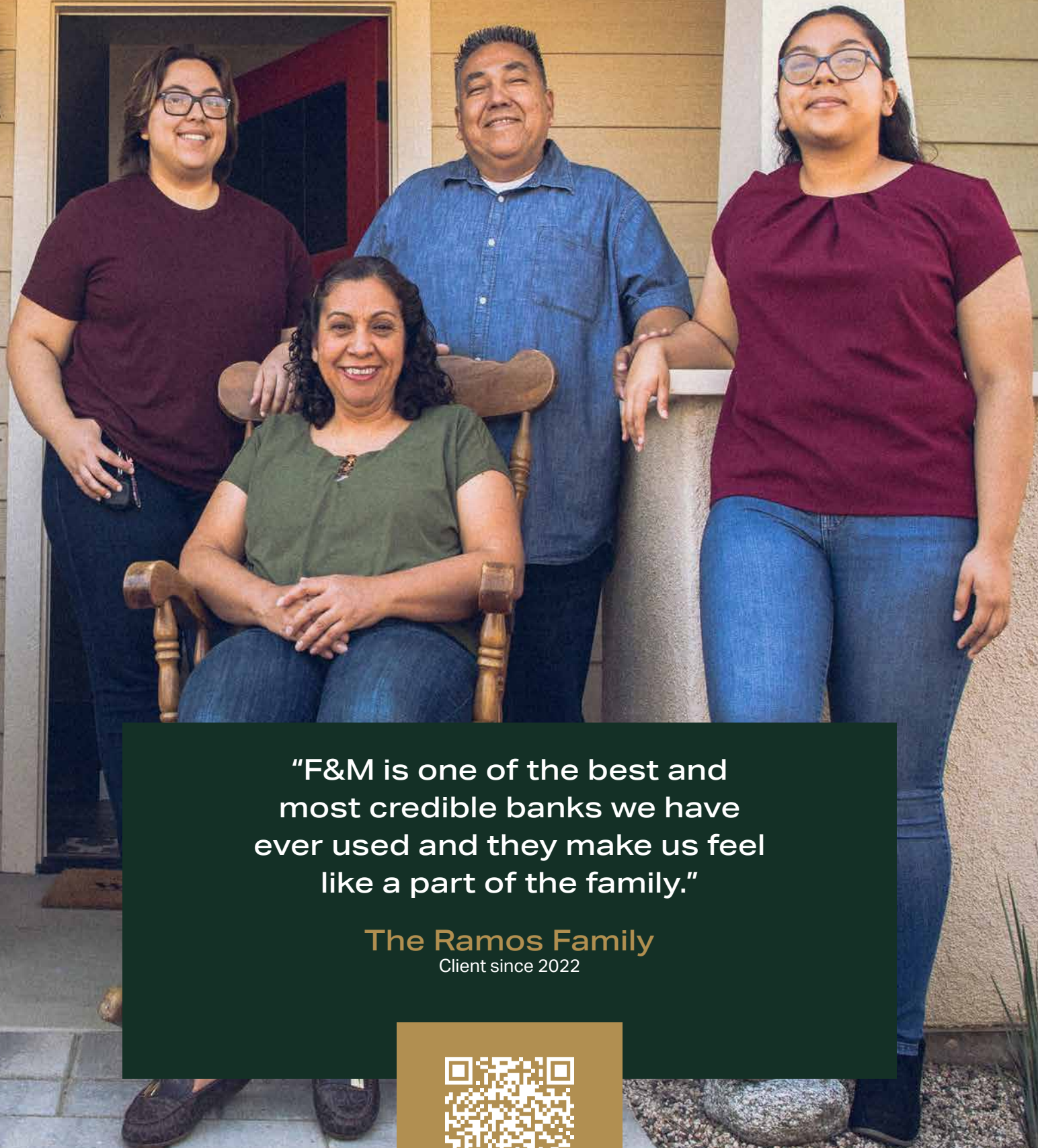
"We bank with them with
extreme confidence,
knowing that our interests
and assets are safe."

Bixby Plaza Carpets

Client since 1987



OUR CLIENTS



"F&M is one of the best and most credible banks we have ever used and they make us feel like a part of the family."

The Ramos Family

Client since 2022



OUR CLIENTS



"The banking is second to none, as we receive excellent service and everyone is very nice and courteous. The Merchant Services are always available for our needs... We are so happy to have our banking and Merchant Services with F&M Bank."

Los Sanchez Restaurant

Client since 2016



OUR CLIENTS

"Biggest surprise
was the willingness
to go to the extra
mile so my dream
of home ownership
could be a reality."

Terri Ferrieri

Client since 2022



OUR CLIENTS



"I was extremely impressed with their asset investments and liquidity to make us feel safe, as well as their 100+ years of service through depressions and recessions."

L'Abri Management, Inc.
Client since 2020

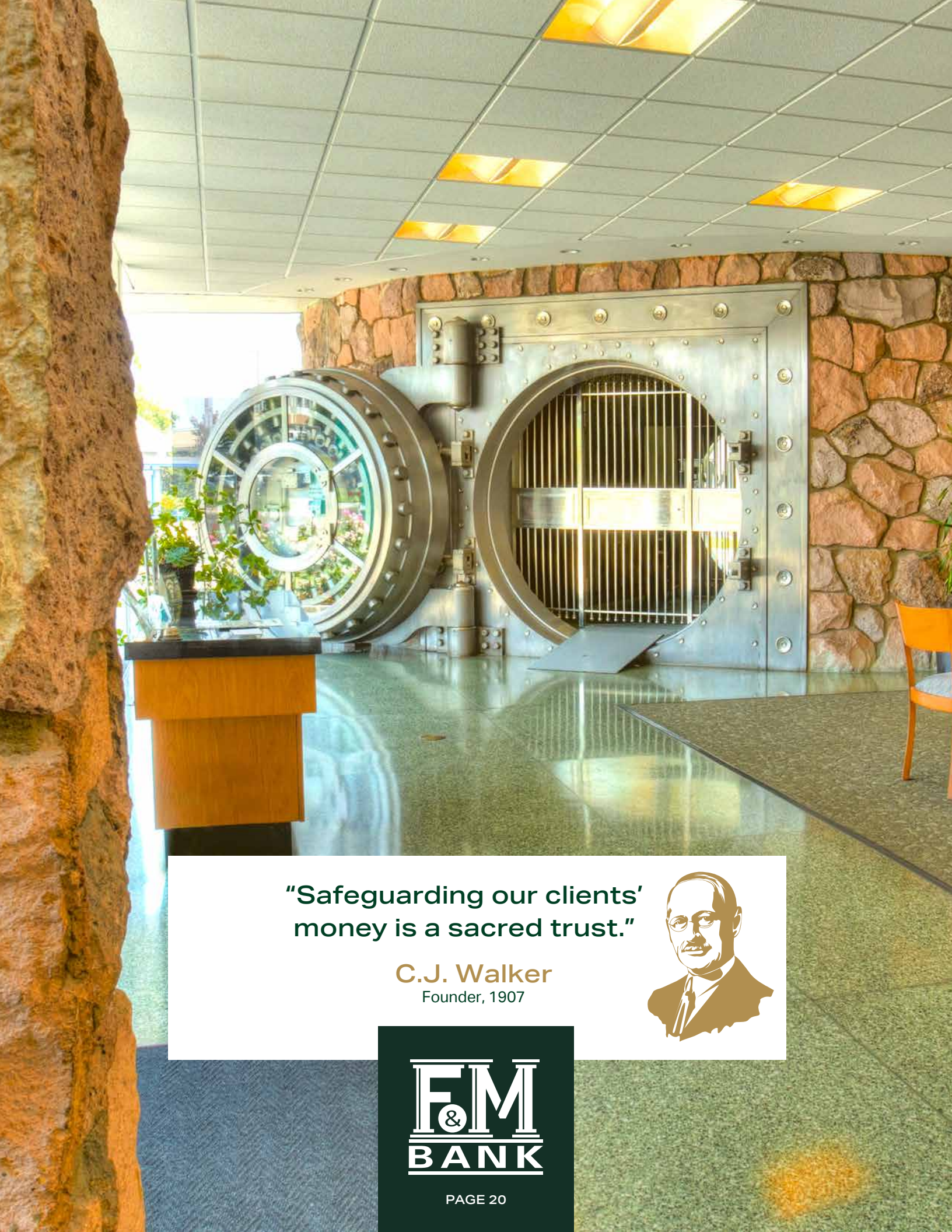


‘22

financial report



MEMBER FDIC



"Safeguarding our clients' money is a sacred trust."

C.J. Walker
Founder, 1907



FINANCIALS

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

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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, 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, 2022, 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, 2023 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 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.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.





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, 2023

FARMERS & MERCHANTS BANK OF LONG BEACH

BALANCE SHEETS

	December 31,	
	2022	2021
	(In thousands, except share and per share data)	
<u>Assets</u>		
Cash and due from banks:		
Non-interest-bearing balances	\$ 75,489	\$ 49,025
Interest-bearing balances	67,369	1,252,646
Total cash and due from banks	142,858	1,301,671
Securities available-for-sale, at fair value	123,919	139,947
Securities held-to-maturity, at amortized cost	4,789,522	4,366,821
Loans held for sale	-	9,430
Gross loans	6,765,391	5,453,279
Allowance for loan losses	(76,503)	(72,880)
Unamortized deferred loan fees, net	(14,429)	(8,650)
Loans, net	6,674,459	5,371,749
Other real estate owned, net	-	966
Investments in FHLB and FRB stock, at cost	27,088	20,031
Premises and equipment, net	118,228	115,827
Deferred tax assets, net	31,538	27,939
Other assets	147,132	83,879
Total assets	<u>\$ 12,054,744</u>	<u>\$ 11,438,260</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Non-interest-bearing deposits	\$ 3,355,298	\$ 3,552,248
Interest-bearing deposits	5,787,198	5,689,242
Total deposits	9,142,496	9,241,490
Securities sold under repurchase agreements	785,912	916,672
Borrowings	700,000	-
Other liabilities	113,254	38,536
Total liabilities	<u>10,741,662</u>	<u>10,196,698</u>
Stockholders' equity:		
Common stock, par value \$20; authorized 250,000 shares;		
123,228 and 125,628 shares issued and outstanding		
at December 31, 2022 and December 31, 2021, respectively	2,465	2,513
Additional paid-in capital	177,433	89,972
Retained earnings	1,140,897	1,147,661
Accumulated other comprehensive (loss) income	(7,713)	1,416
Total stockholders' equity	<u>1,313,082</u>	<u>1,241,562</u>
Total liabilities and stockholders' equity	<u>\$ 12,054,744</u>	<u>\$ 11,438,260</u>

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31,	
	2022	2021
	(In thousands, except per share data)	
Interest and dividend income:		
Loans	\$ 246,818	\$ 244,062
Investment securities	87,601	60,444
Investments in FHLB and FRB stock	1,226	1,206
Interest-bearing deposits in financial institutions	4,628	1,578
Total interest and dividend income	<u>340,273</u>	<u>307,290</u>
Interest expense:		
Deposits	15,732	8,952
Securities sold under repurchase agreements	8,762	3,280
Borrowings	6,740	-
Total interest expense	<u>31,234</u>	<u>12,232</u>
Net interest income	309,039	295,058
Provision for loan losses	<u>3,500</u>	<u>-</u>
Net interest income after provision for loan losses	<u>305,539</u>	<u>295,058</u>
Non-interest income:		
Service charges on deposit accounts	6,451	5,602
Card income	2,543	4,007
Other income	9,536	12,421
Total non-interest income	<u>18,530</u>	<u>22,030</u>
Non-interest expense:		
Salaries and employee benefits	119,978	111,046
FDIC and other insurance expense	4,306	3,614
Occupancy expense	15,354	14,004
Software and equipment expense	15,060	14,254
Professional and legal services	7,612	6,070
Marketing expense	6,886	4,957
Other expense	19,602	18,618
Total non-interest expense	<u>188,798</u>	<u>172,563</u>
Income before income tax expense	135,271	144,525
Income tax expense	<u>26,269</u>	<u>29,320</u>
Net income	<u>\$ 109,002</u>	<u>\$ 115,205</u>
Basic earnings per common share	<u>\$ 876.17</u>	<u>\$ 913.60</u>
Diluted earnings per common share	<u>\$ 855.56</u>	<u>\$ 898.31</u>

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
	(In thousands)	
Net income	\$ 109,002	\$ 115,205
Other comprehensive loss, net of tax:		
Unrealized loss on securities available-for-sale:	(9,129)	(1,429)
Other comprehensive loss	(9,129)	(1,429)
Comprehensive income	<u><u>\$ 99,873</u></u>	<u><u>\$ 113,776</u></u>

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock				Accumulated	
	Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Other Comprehensive (Loss) Income	Total Stockholders' Equity
	(In thousands, except shares)					
Balance, December 31, 2020	126,617	\$ 2,532	\$ 90,516	\$ 1,047,949	\$ 2,845	\$ 1,143,842
Repurchase and retirement of common stock	(989)	(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	125,628	\$ 2,513	\$ 89,972	\$ 1,147,661	\$ 1,416	\$ 1,241,562
Transfer from retained earnings to additional paid-in capital	-	-	100,000	(100,000)	-	-
Repurchase and retirement of common stock	(2,400)	(48)	(19,471)	-	-	(19,519)
Restricted share units awarded	-	-	6,932	-	-	6,932
Net income	-	-	-	109,002	-	109,002
Cash dividends	-	-	-	(15,766)	-	(15,766)
Other comprehensive loss, net of tax	-	-	-	-	(9,129)	(9,129)
Balance, December 31, 2022	123,228	\$ 2,465	\$ 177,433	\$ 1,140,897	\$ (7,713)	\$ 1,313,082

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH

STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 109,002	\$ 115,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on securities	39,872	45,168
Gain on sale of securities available for sale	(39)	-
Stock compensation cost	6,932	7,499
Provision for loan losses	3,500	-
Loans held for sale:		
Originations	(2,112)	(61,468)
Proceeds from sale	3,434	77,288
Gain on sale	(83)	(2,357)
Gain on sale of other real estate owned	(100)	-
Amortization of tax credit investments	13,534	12,834
Premises and equipment:		
Depreciation	8,768	8,978
Gain on sale	(5)	(17)
Reduction of reserve for losses on unfunded loan commitments	(300)	(1,750)
Deferred income tax expense (benefit)	234	(852)
Decrease (Increase) in other assets	2,977	(6,216)
Increase (Decrease) in other liabilities	5,268	(601)
Total adjustments	<u>81,880</u>	<u>78,506</u>
Net cash provided by operating activities	<u>190,882</u>	<u>193,711</u>
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and pay downs	14,702	20,360
Proceeds from sale of securities available for sale	39,639	-
Purchases	(53,103)	(26,911)
Securities held-to-maturity:		
Proceeds from maturities and pay downs	574,387	934,876
Purchases	(1,035,093)	(2,213,702)
Net increase in loans held for investment	(1,298,019)	(44,949)
Proceeds from sale of other real estate owned	1,066	-
(Purchase) Redemption of FRB & FHLB stock	(7,057)	226
Additional contributions of tax credit investments	(10,014)	(7,075)
Premises and equipment:		
Purchases	(11,175)	(21,222)
Proceeds from sale	11	49
Net cash used in investing activities	<u>(1,784,656)</u>	<u>(1,358,348)</u>

FARMERS & MERCHANTS BANK OF LONG BEACH

STATEMENTS OF CASH FLOWS

Statements of Cash Flows, continued

	Years Ended December 31,	
	2022	2021
	(In thousands)	
Cash flows from financing activities:		
Net (decrease) increase in deposits	(98,994)	1,623,864
Net decrease in securities sold under repurchase agreements	(130,760)	(145,676)
Net increase in borrowings	700,000	-
Cash dividends paid	(15,766)	(15,493)
Common stock repurchased and retired	(19,519)	(8,062)
Net cash provided by financing activities	434,961	1,454,633
Net (decrease) increase in cash and due from banks	(1,158,813)	289,996
Cash and cash equivalents at beginning of year	1,301,671	1,011,675
Cash and cash equivalents at end of year	\$ 142,858	\$ 1,301,671
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 33,771	\$ 8,792
Income taxes	17,806	27,033
Non-cash investing and financing activities		
Transfers of loans held for sale to loans held for investment	\$ 8,191	\$ -
New commitment to fund tax credit investments	76,316	-
Transfer of retained earnings to additional paid-in capital	100,000	-

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, 2022, the Bank operates 26 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 Troubled Debt Restructured Loans (“TDRs”). Subsequent legislations were passed in 2020 and during the first quarter of 2021 with similar scope to the CARES Act. Although the primary effects of the COVID-19 pandemic have subsided, our business may continue to experience materially adverse impacts as a result of macroeconomic challenges related to the pandemic. The extent of the continuing impact of COVID-19 and any future outbreaks or other public health crises on our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict.

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.

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

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, continued

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. The Bank has the intent and ability to hold such securities until they recover any unrealized losses. 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.

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

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, continued

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, the carrying value of the loan is adjusted to the lower of cost or estimated fair value, and any shortfall will be charged off to allowance for loan losses. The Bank will also transfer loans from held for sale to held for investment when the Bank decides not to sell such loans. Upon transfer, the Bank will recognize gains or losses for the difference between carrying value and market value, and such gains or losses will be 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 applied 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 16 years at December 31, 2021 to 17 years for the year ended December 31, 2022. 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 other 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 other expense. Income on OREO and gains and losses on their disposition are included in other 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, 2022 and December 31, 2021.

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, non-sufficient fund charges, 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

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

with the 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 (loss) 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 stock 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.

The Bank established a CECL Implementation Committee in 2017 to develop and implement the CECL models in accordance with ASU 2016-13. As of December 31, 2022, the Bank concluded its model implementation process, which included validating loan data, segmenting the portfolio, reaching key management decisions on key assumptions, evaluating model results and sensitivities, completing a third party model validation, finalizing qualitative factor adjustments, developing policies and documenting and testing internal controls. 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. Upon adoption, a one-time cumulative-effect adjustment will be recognized in retained earnings, net of tax, as of the beginning of the first reporting period in which the guidance is effective. The Bank adopted the CECL standard on January 1, 2023. The adoption of this guidance is expected to have a significant impact on the Bank’s financial statements and related disclosures.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the accounting guidance for Troubled Debt Restructurings (“TDR”) Loans by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Upon adoption of this ASU, an entity is required to disclose current period gross charge-offs by year of origination for loans. The ASU is to be applied prospectively, with the exception of the guidance related to the recognition and measurement of TDR loans that may be applied by recording a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Bank adopted this guidance on January 1, 2023, concurrent with its adoption of the CECL standard. The adoption of this guidance is not expected to have a significant impact on the Bank’s 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 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. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date*. The amendments in this update defer the sunset date of Topic 848 to December 31, 2024. The adoption of this guidance is not expected to 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 Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
	(In thousands)			
As of December 31, 2022				
US Treasury	\$ 10,497	\$ -	\$ (236)	\$ 10,261
SBA pool securities	3,672	-	(208)	3,464
Mortgage-backed securities	28,290	-	(1,784)	26,506
State and municipal securities	92,410	1	(8,723)	83,688
Total securities available-for-sale	<u>\$ 134,869</u>	<u>\$ 1</u>	<u>\$ (10,951)</u>	<u>\$ 123,919</u>
As of December 31, 2021				
US Treasury	\$ -	\$ -	\$ -	\$ -
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>

The following table presents 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, 2022		
Due in 1 year or less	\$ 4,513	\$ 4,498
Due after 1 year through 5 years	24,782	23,840
Due after 5 years through 10 years	59,678	54,966
Due after 10 years	45,896	40,615
	<u>\$ 134,869</u>	<u>\$ 123,919</u>
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>

During the year ended December 31, 2022, the Bank sold \$39.6 million of securities available-for-sale for which the Bank recognized gain of \$39 thousand. The Bank did not sell any securities during the year ended December 31, 2021.

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 loss 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 Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
As of December 31, 2022						
US Treasury	\$ 10,261	\$ (236)	\$ -	\$ -	\$ 10,261	\$ (236)
SBA pool securities	3,464	(208)	-	-	3,464	(208)
Mortgage-backed securities	26,506	(1,784)	-	-	26,506	(1,784)
State and municipal securities	43,354	(3,553)	38,891	(5,170)	82,245	(8,723)
Total temporarily impaired securities	<u>\$ 83,585</u>	<u>\$ (5,781)</u>	<u>\$ 38,891</u>	<u>\$ (5,170)</u>	<u>\$ 122,476</u>	<u>\$ (10,951)</u>
As of December 31, 2021						
US Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SBA pool securities	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
State and municipal securities	35,331	(303)	9,488	(144)	44,819	(447)
Total temporarily impaired securities	<u>\$ 35,331</u>	<u>\$ (303)</u>	<u>\$ 9,488</u>	<u>\$ (144)</u>	<u>\$ 44,819</u>	<u>\$ (447)</u>

The number of securities available-for-sale with unrealized loss less than 12 months and 12 months or longer was 319 and 313, respectively, for the year ended December 31, 2022, and 235 and 73, respectively, for the year ended December 31, 2021. 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, 2022 and 2021 are primarily attributable to declining market prices caused by the yield curve movement and faster-than-expected prepayments. These loss positions were 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Securities Available-for-Sale, continued

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

	<u>Before- Tax Amount</u>	<u>Tax Benefit</u>	<u>Net-of-Tax Amount</u>
	(In thousands)		
Year ended December 31, 2022			
Unrealized loss on securities:			
Unrealized holding loss arising during period	\$ (12,962)	\$ 3,833	\$ (9,129)
Other comprehensive loss	<u>\$ (12,962)</u>	<u>\$ 3,833</u>	<u>\$ (9,129)</u>
Year ended December 31, 2021			
Unrealized loss on securities:			
Unrealized holding loss arising during period	\$ (2,027)	\$ 598	\$ (1,429)
Other comprehensive loss	<u>\$ (2,027)</u>	<u>\$ 598</u>	<u>\$ (1,429)</u>

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 Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
	(In thousands)			
As of December 31, 2022				
US Treasury	\$ 138,824	\$ -	\$ (3,516)	\$ 135,308
US Agency	81,000	-	(5,846)	75,154
SBA pool securities	66,888	-	(4,738)	62,150
Mortgage-backed securities	2,921,934	4	(300,780)	2,621,158
State and municipal securities	1,515,814	136	(208,510)	1,307,440
Collateralized mortgage obligations	65,062	-	(2,810)	62,252
Total securities held-to-maturity	<u>\$ 4,789,522</u>	<u>\$ 140</u>	<u>\$ (526,200)</u>	<u>\$ 4,263,462</u>
As of December 31, 2021				
US Treasury	\$ -	\$ -	\$ -	\$ -
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>

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Securities Held-to-Maturity, continued

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, 2022		
Due in 1 year or less	\$ 29,479	\$ 28,727
Due after 1 year through 5 years	320,013	307,688
Due after 5 years through 10 years	1,029,004	925,886
Due after 10 years	3,411,026	3,001,161
	<u>\$ 4,789,522</u>	<u>\$ 4,263,462</u>
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>

There were no sales or transfers of securities held-to-maturity in 2022 and 2021.

The following table shows the gross unrealized loss 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:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
	(In thousands)					
As of December 31, 2022						
US Treasury	\$ 135,308	\$ (3,516)	\$ -	\$ -	\$ 135,308	\$ (3,516)
US Agency	61,927	(4,073)	13,227	(1,773)	75,154	(5,846)
SBA pool securities	62,150	(4,738)	-	-	62,150	(4,738)
Mortgage-backed securities	1,817,531	(166,692)	803,080	(134,088)	2,620,611	(300,780)
State and municipal securities	453,229	(62,668)	837,473	(145,842)	1,290,702	(208,510)
Collateralized mortgage obligations	58,084	(1,863)	4,168	(947)	62,252	(2,810)
Total temporarily impaired securities	<u>\$ 2,588,229</u>	<u>\$ (243,550)</u>	<u>\$ 1,657,948</u>	<u>\$ (282,650)</u>	<u>\$ 4,246,177</u>	<u>\$ (526,200)</u>
As of December 31, 2021						
US Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
US Agency	14,869	(131)	-	-	14,869	(131)
SBA pool securities	-	-	-	-	-	-
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>

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Securities Held-to-Maturity, continued

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 the yield curve movement 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 1,869 and 1,404, respectively for the year ended December 31, 2022, and 1,052 and 85, respectively, for the year ended December 31, 2021. Management believes that securities held-to-maturity in an unrealized loss position as December 31, 2022 and 2021 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 \$2.08 billion at December 31, 2022, and \$1.95 billion at December 31, 2021, were pledged to secure securities sold under repurchase agreements, public deposits, FRB's discount window, and for other purposes required by law.

Interest income on tax-exempt securities was \$18.6 million for the year ended December 31, 2022, and \$16.9 million for the year ended December 31, 2021.

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.

The following table is the presentation of the loan portfolio.

	December 31,	
	2022	2021
	(In thousands)	
Commercial & industrial	\$ 284,201	\$ 234,368
SBA PPP	813	52,218
Construction	787,752	542,622
Commercial real estate	4,444,046	3,610,841
Residential mortgages	1,051,023	851,907
Equity lines	45,921	45,351
Installment and other loans	151,635	115,972
Gross loans	\$ 6,765,391	\$ 5,453,279
Less: Allowance for loan losses	(76,503)	(72,880)
Unamortized deferred loan fees, net	(14,429)	(8,650)
Loans, net	\$ 6,674,459	\$ 5,371,749
Loans held for sale	-	9,430
Total loans receivable, net	<u>\$ 6,674,459</u>	<u>\$ 5,381,179</u>

Total loans with a balance of \$3.84 billion and \$761.8 million at December 31, 2022, and December 31, 2021, respectively, were pledged to secure the Bank's FHLB advance line.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

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
	(In thousands)					
As of December 31, 2022						
Loan Segment						
Commercial & industrial	\$ -	\$ -	\$ -	\$ -	\$ 284,201	\$ 284,201
SBA PPP	-	-	-	-	813	813
Construction	-	-	-	-	787,752	787,752
Commercial real estate	-	-	-	-	4,444,046	4,444,046
Residential mortgages	5,228	1,492	-	2,975	1,041,328	1,051,023
Equity lines	305	254	-	236	45,126	45,921
Installment and other loans	-	-	-	-	151,635	151,635
Gross loans	\$ 5,533	\$ 1,746	\$ -	\$ 3,211	\$ 6,754,901	\$ 6,765,391
As of December 31, 2021						
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	\$ 4,765	\$ 888	\$ -	\$ 11,644	\$ 5,435,982	\$ 5,453,279

The following is a summary of selected information related to the nonaccrual loans outstanding as of December 31, 2022 and 2021, and the related contractual interest income foregone for the years indicated:

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Nonaccrual loans		
Outstanding balance	\$ 3,211	\$ 11,644
Average balance	3,219	11,892
Interest income recorded	-	108
Interest income foregone	135	322

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

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, 2022			December 31, 2021		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
	(In thousands)					
Loan Segment						
Commercial & industrial	\$ 284,201	\$ -	\$ 284,201	\$ 234,368	\$ -	\$ 234,368
SBA PPP	813	-	813	52,218	-	52,218
Construction	787,752	-	787,752	541,214	1,408	542,622
Commercial real estate	4,439,937	4,109	4,444,046	3,600,090	10,751	3,610,841
Residential mortgages	1,042,444	8,579	1,051,023	837,637	14,270	851,907
Equity lines	45,229	692	45,921	44,542	809	45,351
Installment and other loans	151,634	1	151,635	115,972	-	115,972
Total	\$ 6,752,010	\$ 13,381	\$ 6,765,391	\$ 5,426,041	\$ 27,238	\$ 5,453,279

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 \$34.0 million at December 31, 2022, and \$35.3 million at December 31, 2021.

There were no new TDRs in 2022 and 2021.

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, 2022					
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 33,960	\$ 33,960
Total loans	\$ -	\$ -	\$ -	\$ 33,960	\$ 33,960

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Loan Losses, continued

Accruing TDRs, continued

	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
Total loans	\$ -	\$ -	\$ -	\$ 34,350	\$ 34,350

Nonaccrual TDRs

There were no nonaccrual TDRs as of December 31, 2022. Below is a summary of nonaccrual TDRs by concession type and loan segment as December 31, 2021.

	Principal Deferral	Interest Deferral	Rate Reduction	Combination of Such Concession	Total
			(In thousands)		
Loan Segment					
Commercial real estate	\$ -	\$ -	\$ -	\$ 917	\$ 917
Total loans	\$ -	\$ -	\$ -	\$ 917	\$ 917

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, 2022, there were no loans paying under the modified payment structure.

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
As of December 31, 2022							
Loan Segment							
Commercial real estate	\$ 33,960	\$ 33,960	\$ -	\$ -	\$ 33,960	\$ 34,197	\$ 1,474
Residential mortgages	2,975	2,975	-	-	2,975	2,975	-
Equity lines	253	236	-	-	236	244	2
Total	\$ 37,188	\$ 37,171	\$ -	\$ -	\$ 37,171	\$ 37,416	\$ 1,476

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, 2021							
Loan Segment							
Commercial real estate	\$ 35,267	\$ 35,244	\$ -	\$ -	\$ 35,244	\$ 35,269	\$ 1,241
Residential mortgages	10,677	10,306	-	-	10,306	10,524	106
Equity lines	457	444	-	-	444	448	2
Total	<u>\$ 46,401</u>	<u>\$ 45,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,994</u>	<u>\$ 46,241</u>	<u>\$ 1,349</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, 2022			December 31, 2021		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
(In thousands)						
Loan Segment						
Commercial & industrial	\$ -	\$ 284,201	\$ 284,201	\$ -	\$ 234,368	\$ 234,368
SBA PPP	-	813	813	-	52,218	52,218
Construction	-	787,752	787,752	-	542,622	542,622
Commercial real estate	33,960	4,410,086	4,444,046	35,244	3,575,597	3,610,841
Residential mortgages	2,975	1,048,048	1,051,023	10,306	841,601	851,907
Equity lines	236	45,685	45,921	444	44,907	45,351
Installment and other loans	-	151,635	151,635	-	115,972	115,972
Total	<u>\$ 37,171</u>	<u>\$ 6,728,220</u>	<u>\$ 6,765,391</u>	<u>\$ 45,994</u>	<u>\$ 5,407,285</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

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, 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	\$ 3,019	\$ 10,636	\$ 50,928	\$ 6,509	\$ 187	\$ 1,601	\$ 72,880
Provision	481	5,397	(1,591)	(615)	(133)	(39)	3,500
Charge-Offs	(107)	-	-	-	-	(40)	(147)
Recoveries	99	-	167	-	3	1	270
December 31, 2022	<u>\$ 3,492</u>	<u>\$ 16,032</u>	<u>\$ 49,505</u>	<u>\$ 5,894</u>	<u>\$ 57</u>	<u>\$ 1,523</u>	<u>\$ 76,503</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>\$ 3,492</u>	<u>\$ 16,032</u>	<u>\$ 49,505</u>	<u>\$ 5,894</u>	<u>\$ 57</u>	<u>\$ 1,523</u>	<u>\$ 76,503</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, 2022 and 2021, were as follows:

	December 31,	
	2022	2021
	(In thousands)	
Balance, beginning of year	\$ 3,800	\$ 5,550
Reduction	(300)	(1,750)
Balance, end of year	<u>\$ 3,500</u>	<u>\$ 3,800</u>

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – OTHER REAL ESTATE OWNED

As of December 31, 2022, the Bank had no OREO property. As of December 31, 2021, 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,	
	2022	2021
	(In thousands)	
Commercial real estate	\$ -	\$ 966
Total OREO, net	<u>\$ -</u>	<u>\$ 966</u>

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

	2022	2021
	(In thousands)	
Rental income	\$ -	\$ -
Net gain on sale	100	-
Total OREO income	<u>\$ 100</u>	<u>\$ -</u>
Operating and maintenance, net	\$ 22	\$ 44
Addition of reserve for OREO	-	-
Total OREO expense	<u>\$ 22</u>	<u>\$ 44</u>
OREO income (expense), net	<u>\$ 78</u>	<u>\$ (44)</u>

NOTE 6 – PREMISES AND EQUIPMENT

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

	December 31,	
	2022	2021
	(In thousands)	
Land	\$ 50,164	\$ 50,164
Buildings and building improvements	98,787	94,705
Furniture, fixtures and equipment	46,712	44,387
Leasehold improvements	5,925	8,188
Construction in progress	10,023	3,257
	211,611	200,702
Less accumulated depreciation	<u>(93,383)</u>	<u>(84,875)</u>
Total premises and equipment, net	<u>\$ 118,228</u>	<u>\$ 115,827</u>

Depreciation expense was \$8.8 million in 2022 and \$9.0 million in 2021.

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 \$91.0 million and \$29.0 million at December 31, 2022, and December 31, 2021, respectively, and are included in other assets on the balance sheets. Unfunded commitments related to these tax credit investments totaled \$66.3 million at December 31, 2022, however, there were no unfunded commitments related to these tax credit investments at December 31, 2021.

These investments generated \$14.2 million and \$13.0 million of federal tax credits in 2022 and 2021, respectively. At December 31, 2022 and December 31, 2021, these investments are expected to generate approximately \$86.1 million and \$23.5 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 \$4.2 million and \$2.8 million in 2022 and 2021, respectively.

NOTE 8 – DEPOSITS

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

	December 31,	
	2022	2021
	(In thousands)	
Non-interest-bearing checking	\$ 3,355,298	\$ 3,552,248
Interest-bearing checking	2,212,509	2,187,998
Money market accounts	1,612,947	1,712,391
Savings deposits	1,055,387	1,043,471
Total core deposits	<u>\$ 8,236,141</u>	<u>\$ 8,496,108</u>
Time deposits:		
\$250,000 or less	\$ 361,658	\$ 330,928
Greater than \$250,000	544,697	414,454
Total time deposits	<u>906,355</u>	<u>745,382</u>
Total deposits	<u><u>\$ 9,142,496</u></u>	<u><u>\$ 9,241,490</u></u>

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Deposits, continued

As of December 31, 2022, the maturity distribution of the Bank's time deposits was as follows:

	<u>\$250,000 or Less</u>	<u>Greater Than \$250,000</u> (In thousands)	<u>Total</u>
2023	\$ 260,057	\$ 420,667	\$ 680,724
2024	57,704	101,011	158,715
2025	19,847	11,619	31,466
2026	13,729	6,706	20,435
2027	10,321	4,694	15,015
	<u>\$ 361,658</u>	<u>\$ 544,697</u>	<u>\$ 906,355</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>2022</u>	<u>2021</u>
	(In thousands)	
Securities sold under repurchase agreements	\$ 785,912	\$ 916,672
Weighted average interest rate	2.84%	0.26%
Securities underlying repurchase agreements	\$ 977,388	\$1,202,097
Fair value of securities underlying repurchase agreements	\$ 877,031	\$1,226,908

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 2022 and 2021, respectively:

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Average outstanding	\$ 881,003	\$1,079,843
Weighted average interest rate	0.99%	0.30%
Maximum amounts outstanding	\$1,084,238	\$1,225,097

NOTE 10 – OTHER BORROWINGS

The Bank's available borrowing capacity from federal funds lines of credit and the FRB discount window amounted to \$706.7 million and \$507.0 million as of December 31, 2022 and 2021, respectively. The Bank's available secured borrowing capacity for FHLB advances totaled \$1.30 billion and \$509.5 million as of December 31, 2022 and 2021, respectively.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Other Borrowings, continued

As of December 31, 2022, the Bank had an outstanding balance of \$700 million in FHLB advances due within 12 months. There were no outstanding advances as of December 31, 2021.

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

	December 31,	
	2022	2021
	(In thousands)	
FHLB advances outstanding at year-end	\$ 700,000	\$ -
Weighted average rate on outstanding at year-end	3.95%	-
Highest month-end balance	\$ 700,000	\$ 1,000
Average amount outstanding	\$ 180,825	\$ 3
Weighted average rate	3.73%	0.18%

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 \$2.1 million and \$2.0 million for the years ended December 31, 2022 and 2021, respectively.

	December 31,	
	2022	2021
	(In thousands)	
Operating lease expense	\$ 1,794	\$ 1,722
Variable lease expense	319	278
Sublease income	(94)	(91)
Net lease cost	<u>\$ 2,019</u>	<u>\$ 1,909</u>
Cash paid for amounts included in the measurements of lease liabilities	\$ 1,942	\$ 1,831
ROU assets obtained in the exchange for lease liabilities	3,448	-
Balance Sheet:		
Operating lease ROU assets	\$ 7,414	\$ 5,608
Operating lease liabilities	7,792	6,009
Operating leases:		
Weighted-average remaining lease term (in years):	5.3	4.3
Weighted-average discount rate:	4.62%	4.05%

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, 2022</u> (In thousands)
Maturities of lease liabilities:	
2023	\$ 1,963
2024	1,705
2025	1,523
2026	1,413
2027	1,204
Thereafter	1,048
Total lease payments	<u>8,856</u>
Less: imputed interest	<u>1,064</u>
Total lease liability	<u>\$ 7,792</u>

Total lease income for the years ended December 31, 2022 and 2021, was \$3.5 million and \$3.4 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, 2022:

	<u>December 31, 2022</u> (In thousands)
2023	\$ 3,080
2024	2,494
2025	1,804
2026	1,675
2027	1,499
Thereafter	1,444
Total lease income	<u>\$ 11,996</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 expenses of \$9.2 million and \$8.4 million for the profit-sharing plan in 2022 and 2021, respectively. At December 31, 2022 and 2021, 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, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Stock compensation costs	\$ 6,932	\$ 7,499
Related net tax benefits for stock compensation plans	2,049	2,217

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 \$17.7 million as of December 31, 2022 and will be recognized over the next 7.5 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, 2020	5,950	\$ 7,351
Granted	-	-
Vested	-	-
Forfeited	(50)	8,150
Outstanding as of December 31, 2021	5,900	7,345
Granted	-	-
Vested	-	-
Forfeited	(100)	8,150
Outstanding as of December 31, 2022	<u>5,800</u>	<u>\$ 7,331</u>

The total fair value of the unvested time-based RSUs as of December 31, 2022 and December 31, 2021 was \$43.3 million and \$47.4 million, respectively. There are no vested RSUs as of December 31, 2022 and December 31, 2021.

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, 2022 and 2021, consists of the following:

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Current income taxes:		
Federal	\$ 11,491	\$ 14,142
State	14,544	16,030
Total current tax expense	<u>26,035</u>	<u>30,172</u>
Deferred income taxes:		
Federal	(176)	(828)
State	410	(24)
Total deferred tax expense (benefit)	<u>234</u>	<u>(852)</u>
Total income tax expense	<u>\$ 26,269</u>	<u>\$ 29,320</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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 25,473	\$ 24,415
Tax credit investments — state tax basis difference	4,709	4,173
Capital loss carryforward	5,386	6,230
State income taxes	930	1,125
Accrued employee compensation	8,698	6,308
Premises and equipment depreciation and amortization	1,139	442
Operating lease liabilities	2,481	1,913
Other, net	<u>1,050</u>	<u>538</u>
Gross deferred tax assets	49,866	45,144
Valuation allowance	<u>(10,032)</u>	<u>(10,169)</u>
Deferred tax assets, net of valuation allowance	<u>\$ 39,834</u>	<u>\$ 34,975</u>
Deferred tax liabilities		
Tax credit investments — federal tax basis difference	\$ 2,334	\$ 2,143
Loan origination costs	2,360	1,974
Prepaid assets	1,241	1,133
Operating lease ROU assets	<u>2,361</u>	<u>1,786</u>
Gross deferred tax liabilities	8,296	7,036
Net deferred tax assets	<u>\$ 31,538</u>	<u>\$ 27,939</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 2022 and 2021. The difference between the effective tax rate in the financial statements and the federal income tax rate is attributed to the following:

	<u>2022</u>	<u>2021</u>
Federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	8.3%	8.5%
Tax-exempt interest income	(3.8%)	(3.7%)
Tax credits, net of amortization	(6.4%)	(5.8%)
Valuation allowance	0.5%	0.5%
Other	(0.2%)	(0.2%)
	<u>19.4%</u>	<u>20.3%</u>

The lower effective tax rate during the year ended December 31, 2022, compared to the same period in 2021 was primarily due to lower pretax income and \$1.3 million more tax credits generated in 2022.

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 declined by \$0.2 million to \$10.0 million as of December 31, 2022.

In 2022 and 2021, \$14.3 million and \$13.0 million, respectively, of tax credits were generated. These credits originated from tax credit investments, and research & development activities. In 2021, the Bank utilized \$0.56 million in tax credits carried forward 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 \$49.6 million at the end of 2022 and \$57.5 million at the end of 2021. If unused these carryforwards will expire as follows; \$36.1 million in 2023, \$6.2 million in 2025, \$5.7 million in 2026 and \$1.6 million in 2027. The Bank does not have net operating losses (NOLs) for Federal or California. Due to allocations of losses from tax credit investments, the Bank carries a NOL for the state of Colorado in the amount of \$4.5 million. If unused these NOL carryforwards will begin to expire in 2029.

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, 2022, tax years 2019 through 2022 for federal purposes and tax years 2018 through 2022 for state purposes, remain open to examination. The Bank has \$593 thousand in unrecognized tax benefits and expects a decrease of approximately \$502 thousand 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 of the basic and diluted earnings per share computations for the years indicated:

	Year Ended December 31,					
	2022			2021		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except share and per share data)					
Net income	\$ 109,002			\$ 115,205		
Basic EPS, income	\$ 109,002	124,407	\$ 876.17	\$ 115,205	126,100	\$ 913.60
Effect of RSU		2,997			2,146	
Diluted EPS, income	\$ 109,002	127,404	\$ 855.56	\$ 115,205	128,246	\$ 898.31

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:

	December 31,	
	2022	2021
	(In thousands)	
Commitments to extend credit	\$ 2,107,561	\$ 1,870,361
Financial standby letters of credit	23,417	20,649
Performance standby letters of credit	17,616	9,182
Total Commitments	\$ 2,148,594	\$ 1,900,192

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 and Agency 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 and Agency 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, 2022 and 2021:

	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
As of December 31, 2022				
Assets				
On a recurring basis:				
Securities available-for-sale	\$ 10,260	\$113,659	\$ -	\$ 123,919
On a non-recurring basis:				
Loans held for sale	-	-	-	-
Impaired loans	-	-	-	-
Other real estate owned	-	-	-	-
Total assets	\$ 10,260	\$113,659	\$ -	\$ 123,919

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 17 – Fair Value Measurements, continued

	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
As of December 31, 2021				
Assets				
<i>On a recurring basis:</i>				
Securities available-for-sale	\$ -	\$139,947	\$ -	\$ 139,947
<i>On a non-recurring basis:</i>				
Loans held for sale	-	-	-	-
Impaired loans	-	-	-	-
Other real estate owned	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$139,947</u>	<u>\$ -</u>	<u>\$ 139,947</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, 2022 and 2021, 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, 2022					
Financial Assets:					
Cash and due from banks	\$ 142,858	\$ 142,858	\$ -	\$ -	\$ 142,858
Securities available-for-sale	123,919	10,260	113,659	-	123,919
Securities held-to-maturity	4,789,522	210,462	4,026,635	26,365	4,263,462
Loans held for sale	-	-	-	-	-
Loans, net of allowance for loan losses	6,674,459	-	-	6,292,276	6,292,276
Investments in FHLB and FRB stock	27,088	-	27,088	-	27,088
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	\$3,355,298	-	\$3,355,298	\$ -	\$ 3,355,298
Interest-bearing deposits	2,212,509	-	2,212,509	-	2,212,509
Savings and money market deposits	2,668,334	-	2,668,334	-	2,668,334
Time deposits	906,355	-	906,355	-	906,355
Securities sold under repurchase agreements	785,912	-	785,912	-	785,912
Borrowings	700,000	-	700,000	-	700,000
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
Borrowings	-	-	-	-	-

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>2022</u>	<u>2021</u>
	(In thousands)	
Lease payments paid to:		
Queen City Investments, Inc.	\$ 293	\$ 310
Farmers & Merchants Trust Company	5	4
Lease payments received from:		
Farmers & Merchants Trust Company	229	225

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 2022 and 2021, the Trust Company paid the Bank a net total of \$497 thousand and \$458 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, 2022 and 2021, the Trust Company paid the Bank a total of \$97 thousand and \$109 thousand, respectively, for the difference between the values of services exchanged between the parties.

At December 31, 2022 and 2021, related-party loans were \$3.2 million and \$1.7 million, respectively. At December 31, 2022 and 2021, related-party deposits were \$205.2 million and \$256.7 million, respectively, of which, \$204.6 million and \$253.7 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, 2022 and 2021.

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

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 20 – Regulatory Matters, continued

judgments by the regulators about components, risk weightings, common equity, and other factors. As of December 31, 2022 and 2021, 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.

	Actual			Minimum Capital Requirements			To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Rate		Amount	Rate		Amount	Rate		
	(Dollars in thousands)									
As of December 31, 2022:										
Total risk-based capital ratio	\$ 1,400,798	16.37%	≥	\$ 684,569	≥	8.00%	≥	\$ 855,711	≥	10.00%
Tier 1 risk-based capital ratio	1,320,795	15.44%	≥	513,262	≥	6.00%	≥	684,350	≥	8.00%
Common equity tier 1 capital ratio	1,320,795	15.44%	≥	384,947	≥	4.50%	≥	556,034	≥	6.50%
Tier 1 leverage ratio	1,320,795	10.91%	≥	484,251	≥	4.00%	≥	605,314	≥	5.00%
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%

NOTE 21– SUBSEQUENT EVENTS

The Bank has evaluated events subsequent to December 31, 2022 and through April 21, 2023, 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 2022.



F&M's 26th branch office, Santa Ana Main, opened its doors for business on December 22, 2022.



OUR 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, Chief Investment Officer

Auditor

KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618

Legal Counsel

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

Investor Relations

PondelWilkinson Inc.
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 (OTCQX) 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 - Long Beach



Fullerton



Memorial



San Juan Capistrano



Belmont Shore



Garden Grove



Newport Beach



Santa Ana - Cabrillo



Bixby Knolls



Huntington Beach



Orange



Santa Ana - Main



Corona del Mar



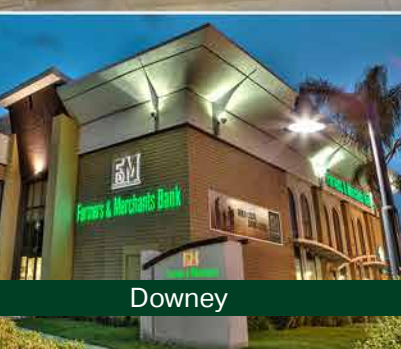
Laguna Hills



Redondo Beach



Santa Barbara



Downey



Lake Forest



Rolling Hills Estates



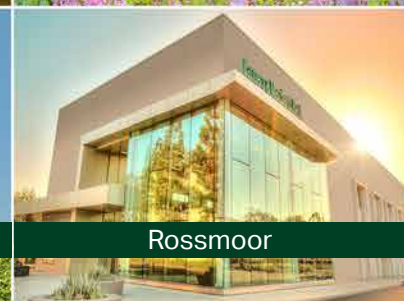
Torrance



East Long Beach



Lakewood



Rossmore



Tustin - The District



Los Altos



San Clemente

OUR OFFICE LOCATIONS

Main — Long Beach

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

Belmont Shore

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

Bixby Knolls

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

Corona del Mar

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

Downey

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

East Long Beach

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

Fullerton

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

Garden Grove

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

Huntington Beach

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

Laguna Hills

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

Lake Forest

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

Lakewood

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

Los Altos

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

Memorial

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

Newport Beach

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

Orange

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

Redondo Beach

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

Rolling Hills Estates

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

Rossmoor

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

San Clemente

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

San Juan Capistrano

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

Santa Ana — Cabrillo

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

Santa Ana — Main

1702 N. Main St.
Santa Ana, CA 92706
714-888-2630
Since 2022

Santa Barbara

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

Torrance

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

Tustin — The District

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

COMING SOON

Laguna Beach

401 Glenneyre St.
Laguna Beach, CA 92651
Fall 2023

Tustin — North

13612 Newport Ave.
Tustin, CA 92780
Spring 2024

SPECIALIZED CLIENT SERVICES

Home Loan Center

12515 Seal Beach Blvd.
Seal Beach, CA 90740
866-649-3863

OC Regional Headquarters

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

Religious Client Services

12535 Seal Beach Blvd.
Seal Beach, CA 90740
562-344-4070





Where
Tradition & Technology
Come Together



MEMBER FDIC