

**FARMERS & MERCHANTS BANK OF LONG BEACH
2024 ANNUAL REPORT**

Contents

	<u>Page</u>
Independent Auditors' Report.....	1-2
Balance Sheets	3
Statements of Income.....	4
Statements of Comprehensive Income	5
Statements of Changes in Stockholders' Equity	6
Statements of Cash Flows.....	7-8
Notes to Financial Statements.....	9-46



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, 2024 and 2023, 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, 2024 and 2023, 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 (GAAS), the Bank's internal control over financial reporting as of December 31, 2024, 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 March 31, 2025 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 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank has elected to change its method of accounting for the recognition and measurement of credit losses as of January 1, 2023, due to the adoption of ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

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 available to be 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.

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
March 31, 2025

FARMERS & MERCHANTS BANK OF LONG BEACH
BALANCE SHEETS

	December 31,	
	2024	2023
	(In thousands, except share and per share data)	
<u>Assets</u>		
Cash and due from banks:		
Non-interest-bearing balances	\$ 72,319	\$ 74,595
Interest-bearing balances	976,039	548,874
Total cash and due from banks	1,048,358	623,469
Securities available-for-sale, at fair value	281,219	115,883
Securities held-to-maturity, at amortized cost, net of allowance for credit losses	3,687,417	4,301,060
Loans held for sale	1,132	-
Gross loans	6,467,991	6,756,207
Unamortized deferred loan fees, net	(8,811)	(11,469)
Allowance for credit losses on loans	(96,585)	(97,900)
Loans, net	6,362,595	6,646,838
Investments in FHLB and FRB stock, at cost	22,472	22,798
Premises and equipment, net	118,474	125,929
Deferred tax assets, net	42,427	45,723
Other assets	125,975	154,154
Total assets	\$ 11,690,069	\$ 12,035,854
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Non-interest-bearing deposits	\$ 2,908,598	\$ 2,880,315
Interest-bearing deposits	5,860,995	5,789,753
Total deposits	8,769,593	8,670,068
Securities sold under repurchase agreements	991,869	909,376
Borrowings	500,000	1,000,000
Other liabilities	59,724	104,965
Total liabilities	10,321,186	10,684,409
Stockholders' equity:		
Common stock, par value \$20; authorized 250,000 shares; 122,728 and 123,135 shares issued and outstanding at December 31, 2024 and 2023, respectively	2,455	2,463
Additional paid-in capital	169,136	184,483
Retained earnings	1,199,221	1,169,759
Accumulated other comprehensive loss	(1,929)	(5,260)
Total stockholders' equity	1,368,883	1,351,445
Total liabilities and stockholders' equity	\$ 11,690,069	\$ 12,035,854

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31,	
	2024	2023
	(In thousands, except per share data)	
Interest and dividend income:		
Loans	\$ 300,274	\$ 299,723
Investment securities	79,653	87,511
Interest-bearing deposits in financial institutions	57,914	26,615
Investments in FHLB and FRB stock	1,914	1,672
Total interest and dividend income	439,755	415,521
Interest expense:		
Deposits	119,006	81,556
Securities sold under repurchase agreements	37,611	31,499
Borrowings	45,942	39,398
Total interest expense	202,559	152,453
Net interest income before recapture for credit losses	237,196	263,068
(Recapture) provision for credit losses:		
Loans	(2,500)	(700)
Investment securities	-	100
Reserve for unfunded loan commitments	(4,100)	(3,000)
Total recapture for credit losses	(6,600)	(3,600)
Net interest income after recapture for credit losses	243,796	266,668
Non-interest income:		
Service charges on deposit accounts	7,541	6,971
Loss on sale of securities	(10,141)	-
Gain on sale of equity securities	7,547	-
Gain on sale of other real estate owned	1,318	-
Gain on sale of premises and equipment	4,456	125
Card income	852	1,272
Other income	7,997	8,079
Total non-interest income	19,570	16,447
Non-interest expense:		
Salaries and employee benefits	123,306	120,419
FDIC and other insurance expense	10,110	9,172
Occupancy expense	15,835	15,712
Software and equipment expense	17,662	16,025
Other real estate owned expense	370	-
Professional and legal services	10,595	8,121
Marketing expense	4,728	7,730
Other expense	17,364	24,004
Total non-interest expense	199,970	201,183
Income before income tax expense	63,396	81,932
Income tax expense	18,518	11,925
Net income	\$ 44,878	\$ 70,007
Basic earnings per common share	\$ 365.52	\$ 568.23
Diluted earnings per common share	\$ 358.63	\$ 553.79

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2024	2023
	(In thousands)	
Net income	\$ 44,878	\$ 70,007
Other comprehensive income, net of tax:		
Unrealized (losses) gains on securities available-for-sale:		
Net unrealized holding (losses) gains	(184)	2,453
Realized losses included in net income	3,515	-
Other comprehensive income, net of tax	3,331	2,453
Comprehensive income	\$ 48,209	\$ 72,460

See accompanying notes to financial statements.

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

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value	Additional Paid-In Capital			
	(In thousands, except shares)					
Balance, December 31, 2022	123,228	\$ 2,465	\$ 177,433	\$ 1,140,897	\$ (7,713)	\$ 1,313,082
Cumulative effect of change in accounting principle related to the adoption of ASU 2016-13, net of tax	-	-	-	(25,498)	-	(25,498)
Repurchase and retirement of common stock	(93)	(2)	(474)	-	-	(476)
Restricted share units awarded	-	-	7,524	-	-	7,524
Net income	-	-	-	70,007	-	70,007
Cash dividends	-	-	-	(15,647)	-	(15,647)
Other comprehensive income, net of tax	-	-	-	-	2,453	2,453
Balance, December 31, 2023	123,135	\$ 2,463	\$ 184,483	\$ 1,169,759	\$ (5,260)	\$ 1,351,445
Cumulative effect of change in accounting principle related to the adoption of ASU 2023-02, net of tax	-	-	-	154	-	154
Repurchase and retirement of common stock	(3,066)	(61)	(15,324)	-	-	(15,385)
Restricted share units awarded	-	-	4,570	-	-	4,570
Restricted share units issued, net of shares withheld for taxes	2,659	53	(4,593)	-	-	(4,540)
Net income	-	-	-	44,878	-	44,878
Cash dividends	-	-	-	(15,570)	-	(15,570)
Other comprehensive income, net of tax	-	-	-	-	3,331	3,331
Balance, December 31, 2024	122,728	\$ 2,455	\$ 169,136	\$ 1,199,221	\$ (1,929)	\$ 1,368,883

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2024	2023
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 44,878	\$ 70,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on securities	32,679	34,599
Loss on sale of securities available for sale	4,990	-
Loss on sale of securities held to maturity	5,151	-
Gain on sale of equity securities	(7,547)	-
Loans held for sale:		
Originations	(5,016)	(3,801)
Proceeds from sale	3,958	3,865
Gain on sale	(74)	(64)
Recapture for credit losses	(6,600)	(3,600)
Gain on sale of other real estate owned	(1,318)	-
Premises and equipment:		
Depreciation	9,876	9,201
Gain on sale	(4,456)	(125)
Deferred income tax expense (benefit)	2,704	(4,513)
Amortization of tax credit investments	12,213	16,010
Stock compensation cost	4,570	7,524
Decrease (increase) in other assets	19,938	(23,534)
(Decrease) increase in other liabilities	(8,442)	2,816
Total adjustments	62,626	38,378
Net cash provided by operating activities	107,504	108,385
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and pay downs	127,395	9,822
Proceeds from sale of securities available for sale	60,351	-
Purchases	(354,764)	-
Securities held-to-maturity:		
Proceeds from maturities and pay downs	446,477	455,260
Proceeds from sale of securities held to maturity	130,756	-
Proceeds from sale of equity securities	7,547	-
Net decrease in loans held for investment	283,815	5,821
Proceeds from sale of other real estate owned	4,246	-
Redemption of FRB & FHLB stock	326	4,290
Premises and equipment:		
Purchases	(5,897)	(16,906)
Proceeds from sale	7,932	129
Additional contributions of tax credit investments	(37,322)	(21,104)
Net cash provided by investing activities	670,862	437,312

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

Statements of Cash Flows, continued

	Years Ended December 31,	
	2024	2023
	(In thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	99,525	(472,428)
Net increase in securities sold under repurchase agreements	82,493	123,464
Net (decrease) increase in borrowings	(500,000)	300,000
Cash dividends paid	(15,570)	(15,646)
Common stock repurchased and retired	(15,385)	(476)
Shares withheld related to net share settlement of RSUs	(4,540)	-
Net cash used in financing activities	(353,477)	(65,086)
Net increase in cash and due from banks	424,889	480,611
Cash and cash equivalents at beginning of year	623,469	142,858
Cash and cash equivalents at end of year	\$ 1,048,358	\$ 623,469
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 196,042	\$ 159,051
Income taxes	5,475	12,352
Non-cash investing and financing activities		
Transfers of loans held for investment to other real estate owned	\$ 2,929	\$ -

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, 2024, the Bank operates 27 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.

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 sheets and statements of income for the year. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the fair value of securities available-for-sale, realization of deferred tax assets, and the fair value of financial instruments. Actual results could differ from those estimates.

Reclassifications

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

Cash and Due from Banks

Cash and cash equivalents consist of cash and due from banks, which comprise non-interest-bearing balances and interest-bearing balances. Interest-bearing balances represent cash held at the Federal Reserve Bank of San Francisco (“FRBSF”) and Federal Home Loan Bank (“FHLB”), the majority of which is immediately available.

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

At the time of purchase, the Bank classifies its securities into one of two categories: available-for-sale (“AFS”) or held-to-maturity (“HTM”). If the Bank has the ability and positive intent at the time of purchase to hold securities until maturity, they are classified as HTM. All securities not identified as HTM are classified as AFS. Securities AFS are carried at estimated fair value with unrealized holding gains or losses, net of

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

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

the related tax effect, excluded from income and reported as a separate component of stockholders' equity identified as accumulated other comprehensive income until realized. Securities HTM are recorded at cost, adjusted for the amortization of premiums and accretion of discounts on a level-yield basis. The Bank has positive intent and ability to hold such securities until they recover any unrealized losses.

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 AFS to HTM 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.

Securities AFS are measured at fair value and are subject to impairment testing. Under ASC 326-30-35-1 through 35-5, a security is impaired if the fair value of the security is less than its amortized cost basis. When a security AFS is considered impaired, the Bank shall determine if it intends to sell or will more-likely-than-not be required to sell the security before recovering its amortized cost basis. If such intention or requirement exists, the Bank shall directly write down the security to its fair value in net income; if not, the Bank must determine if the decline in fair value has resulted from a credit-related loss or other factors. The amount of impairment related to the credit component is recognized in net income. The previous amortized cost basis less the impairment recognized in net income then becomes the new amortized cost basis of the investment. Non-credit related impairment is recorded in other comprehensive income. The Bank conducts its credit impairment analysis quarterly.

Securities HTM are carried at amortized cost, less any allowance. The Bank estimates and recognizes an allowance for credit losses for securities HTM using Current Expected Credit Loss ("CECL") methodology. The Bank has a zero-loss expectation for certain securities within the securities HTM portfolio, therefore is not required to estimate an allowance for credit losses related to these securities under the CECL standard. After an evaluation of qualitative factors, the Bank identified the following security types, which the Bank believes qualify for this exclusion as they are implicitly backed by the US government: US Treasury, US Agency, SBA pool securities, MBS, and CMO. To measure the expected credit losses on securities HTM that have loss expectations, the Bank estimates the expected credit losses using a discounted cash flow model developed by a third party. Assumptions used in the model for pools of securities with common risk characteristics include the historical lifetime probability of default and severity of loss in the event of default, with the model incorporating several economic cycles of loss history data to calculate expected credit losses given default at the individual security level. The model is adjusted for a probability weighted multi-scenario economic forecast to estimate future credit losses. The Bank uses a one-year reasonable and supportable forecast period, followed by a one-year period over which estimated losses revert to historical loss experience for the remaining life of the security.

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 are included in non-interest income as gain (loss) on sale of securities using the specific-identification method.

According to ASC 320-10-25, sale or transfers of securities HTM, except in qualified circumstances, would taint the remaining HTM portfolio and result in reclassification of the remaining securities HTM to AFS. Sale of securities HTM that meet either of the following conditions could be considered as qualified sale of HTM without tainting: (1) sale of the security occurs near enough to its maturity date; or (2) sale of the security occurs after the entity has collected at least 85 percent of the outstanding principal at acquisition. In the

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

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

fourth quarter of 2024, the Bank executed a sale of qualified securities HTM without tainting the remaining HTM portfolio. See Note 3 - Securities Held-to-Maturity in this Annual Report for more information.

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, Federal Reserve Bank ("FRB") Discount Window and FRB Bank Term Funding Program ("BTFP").

Equity Securities

Equity securities consist of exchange-traded equity securities. Marketable equity securities with readily determinable fair values are recorded at fair value with unrealized gains and losses due to changes in fair value, and are included in other income on the statements of income. Non-marketable equity securities that do not have readily determinable fair values are carried at cost adjusted for impairment, if any, plus or minus observable price changes in orderly transactions of an identical or similar security of the same issuer, with such changes recognized in earnings.

The Bank historically owned 30,484 shares of Visa Inc. ("Visa") Class B restricted stock ("Visa B shares"). Since these Visa B shares were considered non-marketable equity securities, the Bank held them at a cost basis of \$0. Effective January 2024, all Visa B shares were converted to Visa Class B-1 common stock ("Visa B-1 shares"). On April 24, 2024, the Bank entered into Visa's exchange program to exchange a majority of its Visa B-1 shares to 6,039 shares of Visa Class C common stock ("Visa C shares"), which are transferable to Visa's publicly traded Class A common stock ("Visa A shares"), and 15,217 shares of Visa Class B-2 common stock ("Visa B-2 shares"). The Bank recognized Visa C shares at fair value of \$6.6 million based on the closing price of the Visa A shares as of May 31, 2024. In November 2024, the Bank converted all its Visa C shares to 24,156 shares of Visa A shares, which were subsequently sold at a gain of \$965 thousand for a total of \$7.5 million. The remaining Visa B-1 shares and Visa B-2 shares remain subject to transfer restrictions and will continue to be held at a cost basis of \$0.

Loans Held for Sale

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

The Bank will occasionally transfer loans from held for investment to held for sale. Upon transfer, 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 credit losses. If the Bank decided to not sell a loan held for sale, the Bank will transfer the loan to held for investment, with the carrying value of the loan recorded in amortized cost.

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 unamortized deferred net loan fees and allowance for credit losses. 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.

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Risk Rating

The Bank monitors credit quality by evaluating various risk attributes and utilizes such information in its evaluation of the appropriateness of the allowance for credit losses. Internal credit risk ratings, within its loan risk rating system, are the credit quality indicators that the Bank most closely monitors. The analysis of credit quality includes review of all sources of repayment, borrowers' current payment performance, borrowers' current financial and liquidity status, and all other relevant information.

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 higher 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.

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.

Loan Modifications to Borrowers Experiencing Financial Difficulties

Certain loans are modified in the normal course of business for competitive reasons or in conjunction with the Bank's loss mitigation activities. Upon the adoption of ASU 2022-02 on January 1, 2023, the Bank applies the general loan modification guidance for modifications made to borrowers experiencing financial difficulty. Under the general loan modification guidance, a modification is treated as a new loan only if the following two conditions are met: (1) the terms of the new loan are at least as favorable to the Bank as the terms for comparable loans to other customers with similar collection risks; and (2) modifications to the

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Loan Modifications to Borrowers Experiencing Financial Difficulties, continued

terms of the original loan are more than minor. If either condition is not met, the modification is accounted for as the continuation of the existing loan with any effect of the modification treated as a prospective adjustment to the loan's effective interest rate. A modification may vary by program and by borrower-specific characteristics, and may include rate reductions, term extensions, payment delays, or any combination thereof, and is intended to minimize the Bank's economic loss and to avoid foreclosure or repossession of collateral.

Individually Evaluated Loans

Upon the adoption of ASU 2016-13, loans that do not share similar risk characteristics with other financial assets are individually evaluated for impairment and excluded from loan pools used within the collective evaluation of estimated credit losses.

The Bank defined the following criteria for what constitutes a "default", which results in a loan no longer sharing similar risk characteristics with other loans, and therefore requires an individual evaluation for expected credit losses. The criteria for default may include any one of the following: on nonaccrual status or modifications to borrowers experiencing financial difficulty.

Allowance for Credit Losses ("ACL")

The Bank adopted ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, on January 1, 2023, which introduced the Current Expected Credit Loss ("CECL") model. The CECL model applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to loans, securities HTM, and loan commitments. As a policy election, the Bank excludes the accrued interest receivable balance from the amortized cost basis of loans, securities HTM, and securities AFS, which are classified as other assets on the balance sheets. As of December 31, 2024, the accrued interest receivable balances were \$536 thousand, \$19.3 million and \$14.0 million for securities AFS, securities HTM and loans, respectively. As of December 31, 2023, the accrued interest receivable balances were \$1.0 million, \$20.7 million and \$14.5 million for securities AFS, securities HTM and loans, respectively.

ACL on Securities AFS

Securities AFS are measured at fair value and are subject to impairment testing. This ASU requires an allowance for credit impairment for securities AFS. When a security AFS is considered impaired, the Bank determines if it intends to sell or will more-likely-than-not be required to sell the security before recovery of its amortized cost. If such intention or requirement exists, and the Bank determines that the decline in fair value has resulted from a credit-related loss (as described previously under the Securities Available-for-Sale and Securities Held-to-Maturity section), then an allowance for credit losses will be recognized by a charge to earnings for the credit-related component of the decline in fair value.

ACL on Loans

The Bank developed allowance models that calculate the allowance over the life of the loan, which includes the remaining time to maturity, adjusted for estimated prepayments applied as an adjustment to loans. The allowance is based upon lifetime loss rate models developed from an estimation framework that uses historical lifetime loss experiences to derive loss rates at a collective pool level, for those loans that share similar risk characteristics. The Bank has six collective loan pools: Construction; Commercial Real Estate ("CRE"); Industrial; Multi Family Residential ("MFR"); Non Real Estate; and Single Family Residential

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Allowance for Credit Losses (“ACL”), continued

(“SFR”). The collective ACL methodologies include an estimation framework that uses loss experiences of data sets of unique loans aggregated by each pool, respectively, to derive loss rates at the pool level during the life of the underlying loans. The Bank’s ACL amounts are primarily driven by loan portfolio characteristics, including the Bank’s and peers’ loss history, macroeconomic variables, and the current economic outlook, as well as other key methodology assumptions, such as the Bank’s prepayment and curtailment rates and recovery lags. The Bank’s ACL estimate incorporates a one-year reasonable and supportable forecast period of various macroeconomic variables, and beyond the forecasting period, the Bank will revert back to historical long term average credit loss experience using the straight-line method over a one-year period. An alternative scenario is utilized to account for macroeconomic uncertainties in conjunction with the baseline economic scenario. In addition, management exercises judgment to identify additional credit risk, such as local economic conditions compared with national economic conditions, and make qualitative adjustments to the 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 ACL 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.

The Bank had no OREO property as of December 31, 2024 and 2023, respectively. In 2024, the Bank acquired a SFR OREO with book value of \$2.9 million, which was subsequently sold for \$4.2 million with a gain of \$1.3 million. The Bank did not foreclose or sell any OREO in 2023.

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.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

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

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 expenses.

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, new market tax credits (NMTC) and a renewable energy project, which qualify for federal income tax credits. The Bank’s interest in its affordable housing projects and NMTC are accounted for utilizing the proportional amortization method and its investment in renewable energy is accounted for using the Hypothetical Liquidation at Book Value (“HLBV”) method. For investments accounted for using the HLBV method, a calculation is prepared at each balance sheets 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.

On January 1, 2024, the Bank adopted ASU 2023-02, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (PAM)*. This ASU updated ASC 323-740, which primarily expands the use of PAM on accounting for qualified tax credit investments. Prior to the adoption of PAM, related amortization of investments accounted for using the proportional amortization method was reported as a component of current tax expense or other expense. After adoption of PAM, these related amortizations were all reported as component of current tax expense.

Borrowings

The Bank utilizes repurchase agreements, federal funds’ lines of credit, FRB discount window, FRB BTFF, 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 BTFF was created by FRB in March 2023 for a term of up to one year and is designed to provide additional liquidity to U.S. depository institutions. The Bank has established unsecured federal funds lines of credit with several correspondent banks, as well as with the FHLB. These

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

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

Borrowings, continued

federal funds lines of credit generally mature within one business day. The Bank's available secured borrowing capacities are derived from the loans and/or securities that are pledged to the FHLB and 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, 2024 and 2023.

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 when either 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 with the exception for 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

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

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 sheets, which are classified as other assets and other liabilities. 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 the commencement date in order to determine the present value of lease payment. Many of the Bank's lease agreements include options to extend the lease, 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 entered 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 expenses for these time-based awards are 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.

Reserve for Losses on Unfunded Loan Commitments

The reserve for off-balance sheet credit exposure relates to unfunded loan commitments, standby letters of credit, and commercial lines of credit. The Bank evaluates credit risk associated with the off-balance sheet loan commitments in the same manner as it evaluates credit risk associated with the loan portfolio.

The reserve is calculated on the expected portion of the commitment to be funded over its life and the life

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, continued

of the commitment loss expectation, utilizing the same six collective pool methodologies described for the Allowance for Credit Losses. The Bank includes the reserve for unfunded loan commitments in other liabilities and the related provision in the Provision for Credit Losses.

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 from a change in tax rates is recognized in tax expense in the period that includes the enactment date. Deferred tax assets and liabilities in the same jurisdiction are grouped together and reported net on the balance sheets.

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

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

Comprehensive Income

Other comprehensive income refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity. The Bank's comprehensive income consists of net income and net unrealized gains (losses) on securities AFS 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.

Recent Accounting Standards

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

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, continued

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 was intended to help stakeholders during the global market-wide reference rate transition period and was effective for all entities from March 12, 2020 through December 31, 2024. The Bank completed the transition from LIBOR in 2024. The transition did not have a significant impact on the Bank's financial statements and related disclosures.

In March 2023, the FASB issued ASU 2023-02, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. This ASU permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Effective January 1, 2024, the Bank early adopted ASU 2023-02 using the modified retrospective approach. At adoption, the Bank elected to apply the proportional amortization method to all qualifying investments in the NMTC program. The cumulative effect to retained earnings as of January 1, 2024 was \$154 thousand.

In November 2024, the FASB issued ASU 2024-03, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Topic 220): Disaggregation of Income Statement Expenses*. This ASU requires disaggregated information disclosed in footnotes about certain income statement expense line items on an annual basis for the Bank. This guidance will be effective for annual periods beginning the year ended December 31, 2027. The adoption of this guidance is not expected to have significant impact on the Bank's financial statements and related disclosures.

NOTE 2 – SECURITIES AVAILABLE-FOR-SALE

The table below presents an analysis of the securities AFS 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, 2024				
US Treasury	\$ 246,903	\$ 212	\$ -	\$ 247,115
SBA pool securities	3,342	-	(257)	3,085
Mortgage-backed securities	18,799	-	(1,074)	17,725
Municipal securities	14,914	-	(1,620)	13,294
Total securities available-for-sale	<u>\$ 283,958</u>	<u>\$ 212</u>	<u>\$ (2,951)</u>	<u>\$ 281,219</u>
As of December 31, 2023				
US Treasury	\$ 10,000	\$ -	\$ (105)	\$ 9,895
SBA pool securities	3,553	-	(236)	3,317
Mortgage-backed securities	23,251	-	(1,334)	21,917
Municipal securities	86,546	1	(5,793)	80,754
Total securities available-for-sale	<u>\$ 123,350</u>	<u>\$ 1</u>	<u>\$ (7,468)</u>	<u>\$ 115,883</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Securities Available-for-Sale, continued

The table below presents a summary of the estimated maturities of securities AFS based on amortized cost and estimated fair value:

	Due Within One Year		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Amortized		Amortized		Amortized		Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(In thousands)										
As of December 31, 2024										
US Treasury	\$ 236,974	\$237,142	\$ 9,929	\$ 9,973	\$ -	\$ -	\$ -	\$ -	\$ 246,903	\$247,115
SBA Pool	-	-	-	-	-	-	3,342	3,085	3,342	3,085
Mortgage-backed securities	14	14	1,072	1,042	17,713	16,669	-	-	18,799	17,725
Municipal securities	2,294	2,271	2,346	2,208	5,959	5,114	4,315	3,701	14,914	13,294
	<u>\$ 239,282</u>	<u>\$239,427</u>	<u>\$ 13,347</u>	<u>\$ 13,223</u>	<u>\$ 23,672</u>	<u>\$ 21,783</u>	<u>\$ 7,657</u>	<u>\$ 6,786</u>	<u>\$ 283,958</u>	<u>\$281,219</u>
As of December 31, 2023										
US Treasury	\$ 10,000	\$ 9,895	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ 9,895
SBA Pool	-	-	-	-	-	-	3,553	3,317	3,553	3,317
Mortgage-backed securities	2	2	1,678	1,614	21,571	20,301	-	-	23,251	21,917
Municipal securities	3,666	3,651	15,503	14,856	39,028	36,152	28,349	26,095	86,546	80,754
	<u>\$ 13,668</u>	<u>\$ 13,548</u>	<u>\$ 17,181</u>	<u>\$ 16,470</u>	<u>\$ 60,599</u>	<u>\$ 56,453</u>	<u>\$ 31,902</u>	<u>\$ 29,412</u>	<u>\$ 123,350</u>	<u>\$115,883</u>

The table below shows the fair value and the gross unrealized loss on securities AFS 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	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
(In thousands)						
As of December 31, 2024						
US Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SBA pool securities	-	-	3,085	(257)	3,085	(257)
Mortgage-backed securities	-	-	17,725	(1,074)	17,725	(1,074)
Municipal securities	55	-	13,083	(1,620)	13,138	(1,620)
Total temporarily impaired securities	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 33,893</u>	<u>\$ (2,951)</u>	<u>\$ 33,948</u>	<u>\$ (2,951)</u>
As of December 31, 2023						
US Treasury	\$ -	\$ -	\$ 9,895	\$ (105)	\$ 9,895	\$ (105)
SBA pool securities	-	-	3,317	(236)	3,317	(236)
Mortgage-backed securities	13	-	21,904	(1,334)	21,917	(1,334)
Municipal securities	1,157	(4)	79,067	(5,789)	80,224	(5,793)
Total temporarily impaired securities	<u>\$ 1,170</u>	<u>\$ (4)</u>	<u>\$ 114,183</u>	<u>\$ (7,464)</u>	<u>\$ 115,353</u>	<u>\$ (7,468)</u>

The number of securities AFS with unrealized loss less than 12 months and 12 months or longer was 1 and 77, respectively, for the year ended December 31, 2024, and 8 and 578, respectively, for the year ended December 31, 2023. Whenever the cost of a security exceeds its fair value, management evaluates, among other factors, general market conditions, and the amount of difference between cost and fair value. Management believes that securities AFS in an unrealized loss position at December 31, 2024 and 2023 are primarily attributable to declining market prices caused by the yield curve movement. These loss positions were temporary in nature, and therefore no impairment losses were recognized in the income statements. Since the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these securities AFS are not considered impaired.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Securities Available-for-Sale, continued

During 2024, the Bank sold \$65.4 million of municipal securities AFS, for which a pre-tax loss of \$5.0 million or an after-tax loss of \$3.5 million was recognized. The Bank did not sell any securities AFS during 2023.

The table below 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 (Expense)</u>	<u>Net-of-Tax Amount</u>
		(In thousands)	
Year ended December 31, 2024			
Unrealized gain on securities:			
Unrealized holding loss arising during period	\$ (262)	\$ 78	\$ (184)
Realized losses included in net income	<u>4,990</u>	<u>(1,475)</u>	<u>3,515</u>
Other comprehensive income	<u>\$ 4,728</u>	<u>\$ (1,397)</u>	<u>\$ 3,331</u>
Year ended December 31, 2023			
Unrealized gain on securities:			
Unrealized holding gain arising during period	\$ 3,483	\$ (1,030)	\$ 2,453
Other comprehensive income	<u>\$ 3,483</u>	<u>\$ (1,030)</u>	<u>\$ 2,453</u>

NOTE 3 – SECURITIES HELD-TO-MATURITY

The table below presents an analysis of the securities HTM 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, 2024				
US Treasury	\$ 69,852	\$ -	\$ (265)	\$ 69,587
US Agency	71,000	-	(2,907)	68,093
SBA pool securities	51,099	-	(3,285)	47,814
Mortgage-backed securities	2,022,235	-	(220,206)	1,802,029
Municipal securities	1,444,372	14	(171,927)	1,272,459
CMO	29,159	-	(1,403)	27,756
Total securities held-to-maturity	<u>\$3,687,717</u>	<u>\$ 14</u>	<u>\$ (399,993)</u>	<u>\$3,287,738</u>
As of December 31, 2023				
US Treasury	\$ 119,409	\$ -	\$ (1,609)	\$ 117,800
US Agency	81,000	-	(3,976)	77,024
SBA pool securities	59,714	-	(4,303)	55,411
Mortgage-backed securities	2,517,374	2	(236,506)	2,280,870
Municipal securities	1,478,004	225	(148,173)	1,330,056
CMO	45,859	-	(2,135)	43,724
Total securities held-to-maturity	<u>\$4,301,360</u>	<u>\$ 227</u>	<u>\$ (396,702)</u>	<u>\$3,904,885</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Securities Held-to-Maturity, continued

The table below is a summary of the estimated maturities of securities HTM based on amortized cost and estimated fair value:

	Due Within One Year		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After 10 Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)										
As of December 31, 2024										
US Treasury	\$ 69,852	\$ 69,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,852	\$ 69,587
US Agency	10,000	9,903	61,000	58,190	-	-	-	-	71,000	68,093
SBA Pool	1,173	1,161	20,107	19,002	18,024	16,710	11,795	10,941	51,099	47,814
Mortgage-backed securities	3,639	3,609	30,635	28,189	453,133	409,201	1,534,828	1,361,030	2,022,235	1,802,029
Municipal securities	7,153	7,104	34,206	32,065	953,773	841,665	449,240	391,625	1,444,372	1,272,459
CMO	-	-	9,104	8,927	20,055	18,829	-	-	29,159	27,756
	<u>\$ 91,817</u>	<u>\$ 91,364</u>	<u>\$ 155,052</u>	<u>\$ 146,373</u>	<u>\$ 1,444,985</u>	<u>\$ 1,286,405</u>	<u>\$ 1,995,863</u>	<u>\$ 1,763,596</u>	<u>\$ 3,687,717</u>	<u>\$ 3,287,738</u>
As of December 31, 2023										
US Treasury	\$ 49,919	\$ 49,486	\$ 69,490	\$ 68,314	\$ -	\$ -	\$ -	\$ -	\$ 119,409	\$ 117,800
US Agency	10,000	9,912	61,000	57,845	10,000	9,267	-	-	81,000	77,024
SBA Pool	-	-	12,914	12,344	33,546	30,648	13,254	12,419	59,714	55,411
Mortgage-backed securities	746	741	131,571	124,830	486,307	442,257	1,898,750	1,713,042	2,517,374	2,280,870
Municipal securities	5,526	5,503	20,792	20,163	687,146	619,333	764,540	685,057	1,478,004	1,330,056
CMO	-	-	2,534	2,438	41,895	39,898	1,430	1,388	45,859	43,724
	<u>\$ 66,191</u>	<u>\$ 65,642</u>	<u>\$ 298,301</u>	<u>\$ 285,934</u>	<u>\$ 1,258,894</u>	<u>\$ 1,141,403</u>	<u>\$ 2,677,974</u>	<u>\$ 2,411,906</u>	<u>\$ 4,301,360</u>	<u>\$ 3,904,885</u>

The table below shows the gross unrealized loss on securities HTM and the related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In thousands)						
As of December 31, 2024						
US Treasury	\$ -	\$ -	\$ 69,587	\$ (265)	\$ 69,587	\$ (265)
US Agency	-	-	68,093	(2,907)	68,093	(2,907)
SBA pool securities	-	-	47,814	(3,285)	47,814	(3,285)
Mortgage-backed securities	19	-	1,802,010	(220,206)	1,802,029	(220,206)
Municipal securities	11,472	(242)	1,255,235	(171,685)	1,266,707	(171,927)
CMO	-	-	27,756	(1,403)	27,756	(1,403)
Total temporarily impaired securities	<u>\$ 11,491</u>	<u>\$ (242)</u>	<u>\$ 3,270,495</u>	<u>\$ (399,751)</u>	<u>\$ 3,281,986</u>	<u>\$ (399,993)</u>
As of December 31, 2023						
US Treasury	\$ -	\$ -	\$ 117,800	\$ (1,609)	\$ 117,800	\$ (1,609)
US Agency	-	-	77,024	(3,976)	77,024	(3,976)
SBA pool securities	-	-	55,411	(4,303)	55,411	(4,303)
Mortgage-backed securities	1,493	(15)	2,279,249	(236,491)	2,280,742	(236,506)
Municipal securities	8,427	(275)	1,308,229	(147,898)	1,316,656	(148,173)
CMO	-	-	43,724	(2,135)	43,724	(2,135)
Total temporarily impaired securities	<u>\$ 9,920</u>	<u>\$ (290)</u>	<u>\$ 3,881,437</u>	<u>\$ (396,412)</u>	<u>\$ 3,891,357</u>	<u>\$ (396,702)</u>

The Bank's held-to-maturity portfolio is primarily composed of mortgage-backed securities issued or guaranteed by FNMA (Fannie Mae) or GNMA (Ginnie Mae), and municipal securities. The unrealized losses are primarily attributable to declining market prices caused by the yield curve movement. The number of securities HTM with unrealized losses less than 12 months and 12 months or longer was 33 and 2,590, respectively for the year ended December 31, 2024, and 102 and 3,087, respectively, for the year ended December 31, 2023. Management believes that securities HTM in an unrealized loss position as December 31, 2024 and 2023 had a loss position that was temporary in nature, and therefore no impairment losses

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Securities Held-to-Maturity, continued

were recognized in the statements of income. Since the Bank has the ability and intent to hold these investments until maturity, these securities HTM are not considered impaired.

Under ASC 320-10-25, sales of securities HTM that meet either of the following conditions could be considered as a qualified sale of HTM without tainting the remaining HTM portfolio: (1) the sale of the security occurs near enough to its maturity date; or (2) the sale of the security occurs after the entity has collected at least 85 percent of the outstanding principal at acquisition. In the fourth quarter of 2024, the Bank executed the sale of qualified securities HTM satisfying the above conditions without tainting its remaining HTM portfolio. The sale was comprised of MBSs and CMOs with an amortized cost of \$136.0 million with a fair value of \$130.8 million, which resulted in a pre-tax loss of \$5.2 million or an after-tax loss of \$3.6 million. The average book yield on the qualified HTM sold was 2.68%. Proceeds from the sale were used to reduce the Bank's borrowings, with the remainder used to purchase short-term securities at higher yields. Furthermore, the Bank does not have the intent to sell any of the remaining securities HTM and believes that it is more-likely-than-not that the Bank will not be required to sell any such securities before a recovery of cost. For additional information on the Bank's accounting policy related to qualified HTM sale, see Note 1 – Nature of Operations and Summary of Significant Accounting Policies - Securities Available-for-Sale and Securities Held-to-Maturities in this Annual Report. There were no sales or transfer of securities HTM in 2023.

The Bank separately evaluates its securities HTM for any credit losses using the CECL model, similar to the methodology used for loans. Since US government bonds are considered credit-risk free assets, only municipal securities are included in the ACL calculation. The total allowance for credit losses for municipal securities HTM was \$300 thousand as of December 31, 2024 and 2023, respectively.

The Bank uses S&P and Moody's ratings as the credit quality indicators for its securities HTM. The table below presents our securities HTM portfolio at amortized cost by the lowest available credit rating as of December 31, 2024 and 2023:

	AAA	AA+	AA	AA-	A+	BBB+	BBB	NR	Total
	(In thousands)								
As of December 31, 2024									
US Treasury	\$ -	\$ 69,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,852
US Agency	-	71,000	-	-	-	-	-	-	71,000
SBA pool securities	-	-	-	-	-	-	-	51,099	51,099
Mortgage-backed securities	-	-	-	-	-	-	-	2,022,235	2,022,235
Municipal securities	1,050,811	258,835	80,201	16,254	-	-	30,724	7,547	1,444,372
CMO	-	-	-	-	-	-	-	29,159	29,159
Total	\$1,050,811	\$ 399,687	\$ 80,201	\$ 16,254	\$ -	\$ -	\$ 30,724	\$2,110,040	\$3,687,717
As of December 31, 2023									
US Treasury	\$ 119,409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,409
US Agency	81,000	-	-	-	-	-	-	-	81,000
SBA pool securities	-	-	-	-	-	-	-	59,714	59,714
Mortgage-backed securities	-	-	-	-	-	-	-	2,517,374	2,517,374
Municipal securities	1,078,009	262,606	85,037	12,837	754	31,791	-	6,970	1,478,004
CMO	-	-	-	-	-	-	-	45,859	45,859
Total	\$1,278,418	\$ 262,606	\$ 85,037	\$ 12,837	\$ 754	\$ 31,791	\$ -	\$2,629,917	\$4,301,360

Total securities with an amortized cost of approximately \$3.58 billion at December 31, 2024, and \$4.19 billion at December 31, 2023, were pledged to secure securities sold under repurchase agreements, public deposits, FRB discount window and BTFP, and for other purposes required by law.

Interest income on tax-exempt AFS and HTM securities was \$18.4 million and \$18.6 million for the years ended December 31, 2024 and December 31, 2023, respectively.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT 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 table below is the presentation of the loan portfolio:

	December 31,	
	2024	2023
	(In thousands)	
Commercial & industrial	\$ 386,794	\$ 304,749
SBA PPP	17	88
Construction	392,982	784,811
Commercial real estate	4,470,602	4,397,009
Residential mortgages	972,123	1,034,354
Equity lines	42,601	42,365
Installment and other loans	194,061	181,362
Total loans held for investment	6,459,180	6,744,738
Allowance for credit losses on loans	(96,585)	(97,900)
Loans held for investment, net	\$ 6,362,595	\$ 6,646,838
Loans held for sale	1,132	-
Total loans receivable, net	\$ 6,363,727	\$ 6,646,838

Total loans with a balance of \$3.71 billion and \$3.73 billion at December 31, 2024 and 2023, respectively, were pledged to secure the Bank's FHLB advance line. In addition, total loans with an amortized cost of \$562.1 million and \$775.5 million at December 31, 2024 and 2023, respectively, were pledged for the FRB's Discount Window.

Credit Quality Indicators

The following table summarizes the Bank's loan held for investment and current year-to-date gross charge-offs by loan pools, internal risk ratings and vintage year as of December 31, 2024, and 2023. The vintage year is the year of origination, renewal or major modification:

	Term Loans						Revolving Loans	Revolving loans converted to term	Total
	Amortized Cost by Origination Year and Risk Ratings								
	2024	2023	2022	2021	2020	Prior			
	(In thousands)								
As of December 31, 2024									
Commercial & Industrial									
Pass	\$ 20,900	\$ 17,360	\$ 61,627	\$ 48,364	\$ 2,718	\$ 63,085	\$ 159,101	\$ -	\$ 373,155
Special Mention	-	-	335	-	-	-	2,236	-	2,571
Substandard	-	-	5	-	58	9,026	1,979	-	11,068
Doubtful	-	-	-	-	-	-	-	-	-
Total Commercial loans	20,900	17,360	61,967	48,364	2,776	72,111	163,316	-	386,794
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	19	-	31	39	-	-	89
YTD period net charge-offs	-	-	(19)	-	(31)	(39)	-	-	(89)

FARMERS & MERCHANTS BANK OF LONG BEACH NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Credit Quality Indicators, continued

	Term Loans						Revolving Loans	Revolving loans converted to term	Total
	Amortized Cost by Origination Year and Risk Ratings								
	2024	2023	2022	2021	2020	Prior			
	(In thousands)								
As of December 31, 2024									
SBA PPP									
Pass	-	-	-	17	-	-	-	-	17
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total SBA PPP loans	-	-	-	17	-	-	-	-	17
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-
Construction									
Pass	55,574	66,365	143,177	450	805	825	28,730	-	295,926
Special Mention	24,212	-	-	-	-	-	-	-	24,212
Substandard	25,520	3,522	43,802	-	-	-	-	-	72,844
Doubtful	-	-	-	-	-	-	-	-	-
Total Construction loans	105,306	69,887	186,979	450	805	825	28,730	-	392,982
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	76	-	-	76
YTD period net charge-offs	-	-	-	-	-	(76)	-	-	(76)
Commercial Real Estate									
Pass	292,610	185,561	1,395,747	881,417	475,019	621,044	60,292	-	3,911,690
Special Mention	37,949	2,155	66,808	10,148	34,744	23,140	-	-	174,944
Substandard	43,429	20,604	76,638	25,776	116,616	100,900	5	-	383,968
Doubtful	-	-	-	-	-	-	-	-	-
Total Commercial Real Estate loans	373,988	208,320	1,539,193	917,341	626,379	745,084	60,297	-	4,470,602
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-
Residential Mortgage									
Pass	63,286	30,311	298,215	258,446	88,689	129,167	49,400	-	917,514
Special Mention	265	106	7,406	-	-	660	2,149	-	10,586
Substandard	1,110	-	5,825	4,443	30,454	2,190	1	-	44,023
Doubtful	-	-	-	-	-	-	-	-	-
Total Residential Mortgage loans	64,661	30,417	311,446	262,889	119,143	132,017	51,550	-	972,123
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	826	-	-	826
YTD period net charge-offs	-	-	-	-	-	(826)	-	-	(826)
Equity Lines									
Pass	-	-	-	-	-	-	41,528	-	41,528
Special Mention	-	-	-	-	-	-	237	-	237
Substandard	-	-	-	-	-	-	836	-	836
Doubtful	-	-	-	-	-	-	-	-	-
Total Equity Lines loans	-	-	-	-	-	-	42,601	-	42,601
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	223	-	-	223
YTD period net charge-offs	-	-	-	-	-	(223)	-	-	(223)
Installment & other loans									
Pass	-	400	58,890	79,796	53,192	986	797	-	194,061
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Installment & other loans	-	400	58,890	79,796	53,192	986	797	-	194,061
YTD period gross charge-offs	-	-	-	-	-	30	-	-	30
YTD period recoveries	-	-	-	-	-	1	-	-	1
YTD period net charge-offs	-	-	-	-	-	29	-	-	29
Portfolio Total	564,855	326,384	2,158,475	1,308,857	802,295	951,023	347,291	-	6,459,180
YTD period gross charge-offs	-	-	-	-	-	30	-	-	30
YTD period recoveries	-	-	19	-	31	1,165	-	-	1,215
YTD period net charge-offs	\$ -	\$ -	\$ (19)	\$ -	\$ (31)	\$ (1,135)	\$ -	\$ -	\$ (1,185)

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Credit Quality Indicators, continued

	Term Loans						Revolving Loans	Revolving loans converted to term	Total
	Amortized Cost by Origination Year and Risk Ratings								
	2023	2022	2021	2020	2019	Prior			
	(In thousands)								
As of December 31, 2023									
Commercial & Industrial									
Pass	\$ 28,100	\$ 58,383	\$ 25,778	\$ 5,690	\$ 257	\$ 74,802	\$ 67,965	\$ -	\$ 260,975
Special Mention	-	-	24,443	-	14,331	-	2,150	-	40,924
Substandard	-	100	-	134	-	-	2,616	-	2,850
Doubtful	-	-	-	-	-	-	-	-	-
Total Commercial loans	<u>28,100</u>	<u>58,483</u>	<u>50,221</u>	<u>5,824</u>	<u>14,588</u>	<u>74,802</u>	<u>72,731</u>	<u>-</u>	<u>304,749</u>
YTD period gross charge-offs	278	33	-	-	-	-	-	-	311
YTD period recoveries	22	68	40	-	-	12	-	-	142
YTD period net charge-offs	<u>256</u>	<u>(35)</u>	<u>(40)</u>	<u>-</u>	<u>-</u>	<u>(12)</u>	<u>-</u>	<u>-</u>	<u>169</u>
SBA PPP									
Pass	-	-	88	-	-	-	-	-	88
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total SBA PPP loans	<u>-</u>	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88</u>
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Construction									
Pass	129,994	308,663	133,927	52,562	-	901	41,920	-	667,967
Special Mention	48,066	5,092	-	1,142	-	-	-	-	54,300
Substandard	19,319	26,040	11,103	-	3,692	-	2,390	-	62,544
Doubtful	-	-	-	-	-	-	-	-	-
Total Construction loans	<u>197,379</u>	<u>339,795</u>	<u>145,030</u>	<u>53,704</u>	<u>3,692</u>	<u>901</u>	<u>44,310</u>	<u>-</u>	<u>784,811</u>
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commercial Real Estate									
Pass	223,613	1,454,546	923,785	509,399	146,735	650,632	75,901	-	3,984,611
Special Mention	6,952	70,625	31,264	55,941	39,648	19,295	2,178	-	225,903
Substandard	46,245	17,209	11,748	45,627	42,058	22,846	762	-	186,495
Doubtful	-	-	-	-	-	-	-	-	-
Total Commercial Real Estate loans	<u>276,810</u>	<u>1,542,380</u>	<u>966,797</u>	<u>610,967</u>	<u>228,441</u>	<u>692,773</u>	<u>78,841</u>	<u>-</u>	<u>4,397,009</u>
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Residential Mortgage									
Pass	55,113	339,846	262,377	125,254	38,872	121,690	31,605	-	974,757
Special Mention	11,185	9,163	4,984	893	229	173	175	-	26,802
Substandard	1,296	680	3,155	17,451	1,026	7,711	1,476	-	32,795
Doubtful	-	-	-	-	-	-	-	-	-
Total Residential Mortgage loans	<u>67,594</u>	<u>349,689</u>	<u>270,516</u>	<u>143,598</u>	<u>40,127</u>	<u>129,574</u>	<u>33,256</u>	<u>-</u>	<u>1,034,354</u>
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equity Lines									
Pass	-	-	-	-	-	-	40,644	-	40,644
Special Mention	-	-	-	-	-	-	252	-	252
Substandard	-	-	-	-	-	-	1,469	-	1,469
Doubtful	-	-	-	-	-	-	-	-	-
Total Equity Lines loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,365</u>	<u>-</u>	<u>42,365</u>
YTD period gross charge-offs	-	-	-	-	-	-	236	-	236
YTD period recoveries	-	-	-	-	-	-	23	-	23
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213</u>	<u>-</u>	<u>213</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Credit Quality Indicators, continued

	Term Loans						Revolving Loans	Revolving loans converted to term	Total
	Amortized Cost by Origination Year and Risk Ratings								
	2023	2022	2021	2020	2019	Prior			
	(In thousands)								
As of December 31, 2023									
Installment & other loans									
Pass	1,987	47,043	61,332	50,641	1,679	1,459	17,221	-	181,362
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Installment & other loans	<u>1,987</u>	<u>47,043</u>	<u>61,332</u>	<u>50,641</u>	<u>1,679</u>	<u>1,459</u>	<u>17,221</u>	<u>-</u>	<u>181,362</u>
YTD period gross charge-offs	-	-	1	-	-	21	-	-	22
YTD period recoveries	-	-	-	-	-	1	-	-	1
YTD period net charge-offs	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>21</u>
Portfolio Total	<u>571,870</u>	<u>2,337,390</u>	<u>1,493,984</u>	<u>864,734</u>	<u>288,527</u>	<u>899,509</u>	<u>288,724</u>	<u>-</u>	<u>6,744,738</u>
YTD period gross charge-offs	278	33	1	-	-	21	236	-	569
YTD period recoveries	22	68	40	-	-	13	23	-	166
YTD period net charge-offs	<u>\$ 256</u>	<u>\$ (35)</u>	<u>\$ (39)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ 403</u>

Nonaccrual and Past Due Loans

Loans are tracked by the numbers of days that borrowers' payments are past due. The table below 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, 2024						
Loan Segment						
Commercial & industrial	\$ -	\$ -	\$ -	\$ -	\$ 386,794	\$ 386,794
SBA PPP	-	-	-	-	17	17
Construction	-	-	-	21,032	371,950	392,982
Commercial real estate	-	-	-	486	4,470,116	4,470,602
Residential mortgages	1,701	665	-	1,252	968,505	972,123
Equity lines	9	-	-	-	42,592	42,601
Installment and other loans	-	-	-	-	194,061	194,061
Amortized cost	<u>\$ 1,710</u>	<u>\$ 665</u>	<u>\$ -</u>	<u>\$ 22,770</u>	<u>\$ 6,434,035</u>	<u>\$ 6,459,180</u>
As of December 31, 2023						
Loan Segment						
Commercial & industrial	\$ -	\$ -	\$ -	\$ -	\$ 304,749	\$ 304,749
SBA PPP	-	-	-	-	88	88
Construction	-	-	-	25,573	759,238	784,811
Commercial real estate	277	-	-	5,693	4,391,039	4,397,009
Residential mortgages	2,952	350	-	5,231	1,025,821	1,034,354
Equity lines	-	357	-	325	41,683	42,365
Installment and other loans	-	-	-	-	181,362	181,362
Amortized cost	<u>\$ 3,229</u>	<u>\$ 707</u>	<u>\$ -</u>	<u>\$ 36,822</u>	<u>\$ 6,703,980</u>	<u>\$ 6,744,738</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Nonaccrual and Past Due Loans, continued

The following is a summary of selected information related to the nonaccrual loans outstanding under amortized cost as of December 31, 2024 and 2023, and the related contractual interest income foregone for the years indicated:

	December 31,	
	2024	2023
	(In thousands)	
Nonaccrual loans		
Amortized Cost	\$ 22,770	\$ 36,822
Average balance	26,672	37,378
Interest income recorded	54	803
Interest income foregone	504	349

The table below is amortized cost for loans on nonaccrual status, including loans with no allowance, by loan type as of December 31, 2024 and 2023:

	December 31, 2024			December 31, 2023		
	Nonaccrual with No Allowance for Credit Losses	Total Non- Accrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual with No Allowance for Credit Losses	Total Non- Accrual	Loans Past Due Over 90 Days Still Accruing
	(In thousands)					
Loan Segment						
Construction	\$ 21,032	\$ 21,032	\$ -	\$ 25,573	\$ 25,573	\$ -
Commercial real estate	486	486	-	5,693	5,693	-
Residential mortgages	1,252	1,252	-	5,231	5,231	-
Equity lines	-	-	-	325	325	-
Total	\$ 22,770	\$ 22,770	\$ -	\$ 36,822	\$ 36,822	\$ -

Modifications of Loans to Borrowers Experiencing Financial Difficulty

The following table reflects the amortized cost of loans and the related financial effect by loan type made to borrowers experiencing financial difficulty that were modified during 2024 and 2023:

	Year ended December 31, 2024			Financial Effect
	Term Extension	Interest Rate Reduction	% of total class of loans	
	(Dollars in thousands)			
Loan Type				
Construction	\$ 9,893	\$ -	2.5%	Added a weighted-average 0.7 years to the life of loans, which extended the debt's contractual due date.
Commercial real estate	54,679	-	1.2%	Added a weighted-average 2.4 years to the life of loans, which reduced monthly payment amounts for the borrowers.
Total	\$ 64,572	\$ -		

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Modifications of Loans to Borrowers Experiencing Financial Difficulty, continued

	Year ended December 31, 2023			Financial Effect
	Term Extension	Interest Rate Reduction	% of total class of loans	
	(Dollars in thousands)			
Loan Type				
Construction	\$ -	\$ 25,573	3.3%	Reduced interest rate from 4% to 2%.
Commercial real estate	-	-	-	
Total	\$ -	\$ 25,573		

The table below presents the performance of loans as of December 31, 2024 and 2023, that were modified for borrowers experiencing financial difficulty within the past 12 months:

	December 31, 2024			December 31, 2023		
	Current	30-89 Days Past Due	90 Days Over Past Due	Current	30-89 Days Past Due	90 Days Over Past Due
	(In thousands)					
Loan Type						
Construction	\$ 9,893	\$ -	\$ -	\$ 25,573	\$ -	\$ -
Commercial real estate	54,679	-	-	-	-	-
Total	\$ 64,572	\$ -	\$ -	\$ 25,573	\$ -	\$ -

As of December 31, 2024 and 2023, there were no commitments to lend additional funds to borrowers experiencing financial difficulty and whose loans were modified.

Individually Evaluated for Impairment

The table below segregates the loan segments between those loans that were individually evaluated for impairment and those loans that were collectively evaluated for impairment as of December 31, 2024 and 2023:

	December 31, 2024			December 31, 2023		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(In thousands)					
Loan Segment						
Commercial & industrial	\$ -	\$ 386,794	\$ 386,794	\$ -	\$ 304,749	\$ 304,749
SBA PPP	-	17	17	-	88	88
Construction	30,925	362,057	392,982	25,573	759,238	784,811
Commercial real estate	55,165	4,415,437	4,470,602	5,693	4,391,316	4,397,009
Residential mortgages	1,252	970,871	972,123	5,231	1,029,123	1,034,354
Equity lines	-	42,601	42,601	325	42,040	42,365
Installment and other loans	-	194,061	194,061	-	181,362	181,362
Total	\$ 87,342	\$ 6,371,838	\$ 6,459,180	\$ 36,822	\$ 6,707,916	\$ 6,744,738

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Collateral Dependent Loans

Loans are considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The table below presents the collateral-dependent loans by type of loans as of December 31, 2024 and 2023:

Loan Segment	As of December 31, 2024		As of December 31, 2023	
	Real Estate	Number of Loans Dependent on Collateral	Real Estate	Number of Loans Dependent on Collateral
	(Dollars in thousands)			
Construction	\$ 30,925	2	\$ 25,573	1
Commercial real estate	55,165	5	5,693	2
Residential mortgages	1,252	3	5,231	2
Equity lines	-	-	325	1
Total collateral-dependent loans	<u>\$ 87,342</u>	<u>10</u>	<u>\$ 36,822</u>	<u>6</u>

Allowance for Credit Losses (“ACL”)

The table below summarizes ACL 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, 2022	\$ 3,492	\$ 16,033	\$ 49,504	\$ 5,894	\$ 57	\$ 1,523	\$ 76,503
CECL adoption adjustment	3,727	6,216	851	10,050	477	1,179	22,500
CECL adoption reserve	7,219	22,249	50,355	15,944	534	2,702	99,003
Provision	(1,751)	4,587	693	(3,739)	116	(606)	(700)
Charge-Offs	(311)	-	-	-	(236)	(22)	(569)
Recoveries	142	-	-	-	23	1	166
December 31, 2023	\$ 5,299	\$ 26,836	\$ 51,048	\$ 12,205	\$ 437	\$ 2,075	\$ 97,900
Provision	2,367	(17,439)	10,621	614	(97)	1,434	(2,500)
Charge-Offs	-	-	-	-	-	(30)	(30)
Recoveries	89	76	-	826	223	1	1,215
December 31, 2024	<u>\$ 7,755</u>	<u>\$ 9,473</u>	<u>\$ 61,669</u>	<u>\$ 13,645</u>	<u>\$ 563</u>	<u>\$ 3,480</u>	<u>\$ 96,585</u>

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

Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	\$ 7,755	\$ 9,473	\$ 61,669	\$ 13,645	\$ 563	\$ 3,480	\$ 96,585

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Loans and Allowance for Credit Losses, continued

Reserve for Unfunded Loan Commitments

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Bank evaluates credit risk associated with the off-balance sheet loan commitments in the same manner as it evaluates credit risk associated with the loan portfolio. Activities in the reserve for unfunded loan commitments included in other liabilities in the accompanying balance sheets for the years ended December 31, 2024 and 2023, were as follows:

	December 31,	
	2024	2023
	(In thousands)	
Balance, beginning of year	\$ 14,000	\$ 3,500
CECL adoption adjustment	-	13,500
Reduction	(4,100)	(3,000)
Balance, end of year	\$ 9,900	\$ 14,000

NOTE 5 – PREMISES AND EQUIPMENT

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

	December 31,	
	2024	2023
	(In thousands)	
Land	\$ 46,939	\$ 50,164
Buildings and building improvements	116,111	110,352
Furniture, fixtures and equipment	54,078	53,897
Leasehold improvements	5,580	5,580
Construction in progress	363	4,301
	223,071	224,294
Less accumulated depreciation	(104,597)	(98,365)
Total premises and equipment, net	\$ 118,474	\$ 125,929

In 2024, the Bank sold a building in Lakewood, California for cash proceeds of \$4.8 million and recognized a gain of \$4.4 million, which was recorded in non-interest income in the statements of income.

Depreciation expense was \$9.9 million in 2024 and \$9.2 million in 2023.

NOTE 6 – TAX CREDIT INVESTMENTS

The Bank has invested in certain limited liability companies and partnerships that make investments in affordable housing projects, NMTC projects, and renewable energy projects for the purpose of utilizing the tax credits these investments generate. The Bank evaluates these investments to determine whether they meet the definition of variable interest entity (VIE) and whether they are required to be consolidated. While the Bank has determined that these investments meet the definition of VIE in accordance with ASC 810, the Bank is not the primary beneficiary of these investments and has no control over the significant operations; therefore, the Bank is not required to consolidate these entities on its financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Tax Credit Investments, continued

The Bank adopted ASU 2023-02 on January 1, 2024, and elected to account for its investments in NMTC projects using PAM on a program-by-program basis. For the Bank’s accounting policies on PAM, see Note 1 – Nature of Operations and Summary of Significant Accounting Policies – Tax Credit Investments in this Annual Report.

The table below presents the Bank’s tax credit investments and related unfunded commitments, which are included in other assets and other liabilities on the balance sheets as of December 31, 2024 and 2023, respectively:

	December 31, 2024		December 31, 2023	
	Assets	Liabilities - Unfunded Commitments	Assets	Liabilities - Unfunded Commitments
	(In thousands)			
PAM				
Affordable housing partnership	\$ 49,214	\$ 9,933	\$ 51,988	\$ 38,259
NMTC	12,980	-	18,932	5,944
HLBV Method				
Renewable energy	2,025	-	3,111	-
Total	\$ 64,219	\$ 9,933	\$ 74,031	\$ 44,203

The table below presents the amortization of the Bank’s tax credit investments for the years ended December 31, 2024 and 2023, respectively:

	2024	2023
		(In thousands)
Amortization as a component of current federal income tax expense:		
PAM		
Affordable housing partnership	\$ 6,401	\$ 6,520
NMTC	5,301	-
Total amortization as a component of current federal income tax expense	11,702	6,520
Amortization recorded in other expense:		
PAM		
NMTC	\$ -	\$ 9,555
HLBV method		
Renewable energy	511	(65)
Total amortization recorded in other expense	511	9,490
Total amortization of tax credit investments	\$ 12,213	\$ 16,010

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Tax Credit Investments, continued

The table below presents the federal tax credits and benefits recognized on the Bank's tax credit investments during the years ended December 31, 2024 and 2023, respectively:

	2024	2023
	(In thousands)	
Tax Credits and Benefits		
Affordable housing partnership	\$ 7,300	\$ 6,726
NMTC	6,059	8,619
Total	\$ 13,359	\$ 15,345

At December 31, 2024, the Bank's tax credit investments are expected to generate approximately \$63.4 million of federal tax credits in future years.

NOTE 7 – DEPOSITS

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

	December 31,	
	2024	2023
	(In thousands)	
Non-interest-bearing checking	\$ 2,908,598	\$ 2,880,315
Interest-bearing checking	2,047,524	2,069,275
Money market accounts	1,792,468	1,678,714
Savings deposits	992,210	982,598
Total core deposits	7,740,800	7,610,902
Time deposits:		
\$250,000 or less	\$ 371,460	\$ 392,197
Greater than \$250,000	657,333	666,969
Total time deposits	1,028,793	1,059,166
Total deposits	\$ 8,769,593	\$ 8,670,068

As of December 31, 2024, the maturity distribution of the Bank's time deposits was as follows:

	\$250,000 or Less	Greater Than \$250,000	Total
	(In thousands)		
2025	\$ 334,442	\$ 616,198	\$ 950,640
2026	19,054	20,301	39,355
2027	9,641	9,998	19,639
2028	5,710	6,860	12,570
2029	2,613	3,976	6,589
	\$ 371,460	\$ 657,333	\$1,028,793

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – 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, with interest rates reset daily to reflect market movement.

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

	December 31,	
	2024	2023
	(Dollars in thousands)	
Securities sold under repurchase agreements	\$ 991,869	\$ 909,376
Weighted average interest rate	3.53%	4.14%
Securities underlying repurchase agreements	\$ 1,221,623	\$ 1,137,278
Fair value of securities underlying repurchase agreements	\$ 1,112,024	\$ 1,031,438

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 table below summarizes securities sold under repurchase agreements' activities during 2024 and 2023, respectively:

	2024	2023
		(Dollars in thousands)
Average outstanding	\$ 943,573	\$ 902,647
Weighted average interest rate	3.99%	3.49%
Maximum amounts outstanding	\$ 1,069,128	\$ 1,011,859

NOTE 9 – OTHER BORROWINGS

The Bank's available borrowing capacity from federal funds lines of credit, FRB discount window and BTFP amounted to \$2.18 billion and \$3.14 billion as of December 31, 2024 and 2023, respectively. The Bank's available secured borrowing capacity for FHLB advances totaled \$1.62 billion and \$1.92 billion as of December 31, 2024 and 2023, respectively.

The table below summarizes information about other borrowings as of December 31, 2024 and 2023, respectively:

	December 31,	
	2024	2023
	(Dollars in thousands)	
Bank Term Funding Program at year-end	\$ -	\$ 800,000
FHLB advances outstanding at year-end	\$ 500,000	\$ 200,000
Weighted average interest rate on outstanding at year-end	4.07%	4.68%
Highest month-end balance	\$ 1,200,000	\$ 1,000,000
Average amount outstanding	\$ 982,738	\$ 898,562
Weighted average interest rate	4.67%	4.38%

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – LEASES

The Bank enters into leases in the normal course of business and 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 \$2.2 million for the years ended December 31, 2024 and 2023, respectively.

	December 31,	
	2024	2023
	(In thousands)	
Operating lease expense	\$ 1,784	\$ 1,858
Variable lease expense (common area maintenance)	365	352
Sublease income	(144)	(98)
Net lease cost	\$ 2,005	\$ 2,112
Cash paid for amounts included in the measurements of lease liabilities	\$ 1,947	\$ 1,963
ROU assets obtained in the exchange for lease liabilities	1,571	495
Balance Sheet:		
Operating lease ROU assets	\$ 6,345	\$ 6,362
Operating lease liabilities	6,633	6,671
Operating leases:		
Weighted-average remaining lease term (in years):	4.7	4.4
Weighted-average discount rate:	5.26%	4.82%

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

	December 31, 2024
	(In thousands)
Maturities of lease liabilities:	
2025	\$ 1,885
2026	1,778
2027	1,561
2028	831
2029	620
Thereafter	837
Total lease payments	7,512
Less: imputed interest	879
Total lease liability	\$ 6,633

Total lease income for the years ended December 31, 2024 and 2023, was \$3.4 million and \$3.6 million, respectively.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Leases, continued

The table below 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, 2024:

	December 31, 2024	
	(In thousands)	
2025	\$	2,411
2026		2,247
2027		1,607
2028		470
2029		217
Thereafter		714
Total lease income	\$	7,666

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

NOTE 11 – 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 \$7.3 million and \$10.2 million for the profit-sharing plan in 2024 and 2023, respectively. As of December 31, 2024 and 2023, no shares of the Bank’s stock were held by the plan.

NOTE 12 – 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 table below 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, 2024 and 2023.

	2024		2023	
	(In thousands)			
Stock compensation costs	\$	4,570	\$	7,524
Related net tax benefits for stock compensation plans		1,351		2,224

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 \$6.0 million as of

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – Long Term Incentive Plan, continued

December 31, 2024 and will be recognized over the next 5.5 years.

The table below 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, 2022	5,800	\$ 7,331
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding As of December 31, 2023	5,800	\$ 7,331
Granted	-	-
Vested	(3,625)	8,150
Forfeited	(25)	5,965
Outstanding As of December 31, 2024	<u>2,150</u>	<u>\$ 5,965</u>

The total fair value of the unvested time-based RSUs as of December 31, 2024 and 2023 was \$12.3 million and \$29.7 million, respectively.

NOTE 13 – INCOME TAXES

The income tax expense attributable to income from continuing operations for the years ended December 31, 2024 and 2023, consisted of the following:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Current income tax expense:		
Federal	\$ 13,794	\$ 8,127
State	2,020	8,343
Total current income tax expense	<u>15,814</u>	<u>16,470</u>
Deferred income tax expense (benefit):		
Federal	14	(3,597)
State	2,690	(948)
Total deferred income tax expense (benefit)	<u>2,704</u>	<u>(4,545)</u>
Total income tax expense	<u>\$ 18,518</u>	<u>\$ 11,925</u>

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – Income Taxes, continued

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2024 and 2023 were as follows:

	2024	2023
	(In thousands)	
Deferred tax assets		
Allowance for credit losses	\$ 34,000	\$ 35,725
Tax credit carryforward	9,868	4,065
Tax credit investments — state tax basis difference	1,365	4,685
Capital loss carryforward	2,935	2,105
Accrued employee compensation	2,823	10,711
Premises and equipment depreciation and amortization	163	-
Operating lease liabilities	2,112	2,124
Capitalized research and experimentation costs	1,803	1,890
Other, net	430	197
Gross deferred tax assets	55,499	61,502
Valuation allowance	(4,300)	(6,703)
Deferred tax assets, net of valuation allowance	\$ 51,199	\$ 54,799
Deferred tax liabilities		
Loan origination costs	\$ 1,709	\$ 2,021
Tax credit investments — federal tax basis difference	1,459	1,995
State income taxes	2,164	1,360
Premises and equipment depreciation and amortization	-	623
Prepaid assets	1,420	1,051
Lease right-of-use assets	2,020	2,026
Gross deferred tax liabilities	8,772	9,076
Net deferred tax assets	\$ 42,427	\$ 45,723

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 tax credit investments and capital loss carryforward in California.

In 2024, the Bank carried forward \$5.8 million in federal tax credits into future years. This carryforward increased the federal tax credit carryforward balance from \$4.1 million as of December 31, 2023 to \$9.9 million as of December 31, 2024. Tax credits are recognized using the flow through method. If not utilized, \$6.4 million of these tax credit carryforwards will expire in 2030 and the remaining \$3.5 million will expire in 2044.

In relation to California's capital loss carryforward balance, the gross pretax amount was \$27.1 million and \$19.4 million as of December 31, 2024 and 2023, respectively. If not utilized, these carryforwards will expire as follows: \$0.8 million in 2026, \$1.6 million in 2027, \$5.6 million in 2028 and \$19.1 million in 2029. For the

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – Income Taxes, continued

year ended December 31, 2024, the Bank did not have net operating losses (NOLs) for Federal or California, and carried a NOL of \$5.2 million for the state of Colorado due to allocations of losses from tax credit investments. These NOL carryforwards will begin to expire in 2029 if not utilized.

The statutory federal income tax rate was 21% for both 2024 and 2023. The difference between the effective tax rate in the financial statements and the federal income tax rate was attributed to the following:

	<u>2024</u>	<u>2023</u>
Federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	5.1%	6.9%
Amortization of tax credit investments	18.4%	7.9%
Share-based compensation	4.2%	-
Tax-exempt interest income, net	(0.1%)	(2.0%)
Tax credits and benefits	(21.8%)	(19.9%)
Valuation allowance	1.4%	0.8%
Other	1.0%	(0.2%)
	<u>29.2%</u>	<u>14.5%</u>

The higher effective tax rate in 2024 compared to 2023 was primarily due to the Bank's implementation of PAM for its NMTC investments. This method amortizes the investments in proportion to the tax benefits received and the amortization expense is reported as a component of current federal income tax expense in 2024 instead of other expense as reported in 2023 and prior years for the NMTC investments. In addition, the Bank incurred a \$12.5 million shortfall related to the RSU vesting, which contributed \$2.6 million in tax expense. This was caused by a lower share price at vesting compared to the higher share price at grant date.

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, 2024, tax years 2021 through 2024 for federal purposes and tax years 2020 through 2024 for state purposes, remained open to examination. The Bank had \$146 thousand in unrecognized tax benefits as of December 31, 2024, and expects the amount to reduce to zero in the next 12 months due to the resolution of uncertain tax positions. 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 14 – 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,					
	2024			2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except share and per share data)					
Net income	\$ 44,878			\$ 70,007		
Basic EPS, income	\$ 44,878	122,778	\$ 365.52	\$ 70,007	123,202	\$ 568.23
Effect of RSU		2,360			3,211	
Diluted EPS, income	\$ 44,878	125,138	\$ 358.63	\$ 70,007	126,413	\$ 553.79

NOTE 15 – 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 from 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 table below presents a summary of the Bank's commitments to extend credit as of the dates indicated:

	December 31,	
	2024	2023
	(In thousands)	
Commitments to extend credit	\$ 1,438,081	\$ 1,810,851
Financial standby letters of credit	30,640	29,412
Performance standby letters of credit	3,052	19,676
Total Commitments	\$ 1,471,773	\$ 1,859,939

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

FARMERS & MERCHANTS BANK OF LONG BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – Commitments and Contingencies, continued

Legal Matters, continued

probable and estimable. In such cases, there may be an exposure to loss in excess of any amount 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 16 – FAIR VALUE MEASUREMENTS

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 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 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.

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.

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.

Individually evaluated 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 individually evaluated loans are recorded based on either current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals that are adjusted based on recent market trends, a Level 3 measurement. The individually evaluated

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 16 – Fair Value Measurements, continued

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 similar techniques.

The following table presents the Bank’s hierarchy for its assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the balance sheets at their fair values as of December 31, 2024 and 2023, respectively:

	Fair Value Measurements Using			Total at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
As of December 31, 2024				
Assets				
<i>On a recurring basis:</i>				
Securities available-for-sale	\$ 247,116	\$ 34,103	\$ -	\$ 281,219
<i>On a non-recurring basis:</i>				
Loans held for sale	-	1,134	-	1,134
Individually evaluated loans	-	-	-	-
Total assets	\$ 247,116	\$ 35,237	\$ -	\$ 282,353
As of December 31, 2023				
Assets				
<i>On a recurring basis:</i>				
Securities available-for-sale	\$ 9,895	\$ 105,988	\$ -	\$ 115,883
<i>On a non-recurring basis:</i>				
Loans held for sale	-	-	-	-
Individually evaluated loans	-	-	-	-
Total assets	\$ 9,895	\$ 105,988	\$ -	\$ 115,883

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are defined under 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 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 the 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, 2024 and 2023, the amounts that will actually be realized could be significantly different.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 17 – Fair Value of Financial Instruments, continued

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 AFS and securities HTM as disclosed in Notes 2 and 3, respectively.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. Fair values are based on quoted prices from third party sale analysis, existing sale agreements, or appraisal reports adjusted by sales commission assumption.

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 credit losses was deducted from the loan portfolio. Accordingly, they are considered to be carried at fair value, as the allowance for credit 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

For short-term borrowings, the fair value approximates carrying value due to the terms and nature of the obligations. The fair value of borrowings with term over one year is estimated by using lender's indicative pricing or discounting the future cash flow using the current interest rates offered for similar advances.

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 17 – Fair Value of Financial Instruments, continued

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

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Estimated Fair Value</u>
	(In thousands)				
As of December 31, 2024					
Financial Assets:					
Cash and due from banks	\$1,048,358	\$1,048,358	\$ -	\$ -	\$1,048,358
Securities available-for-sale	281,219	247,116	34,103	-	281,219
Securities held-to-maturity, net of credit losses	3,687,417	137,680	3,149,609	449	3,287,738
Loans held for sale	1,132	-	1,134	-	1,134
Loans, net of allowance for credit losses	6,362,595	-	-	5,946,963	5,946,963
Investments in FHLB and FRB stock	22,472	-	22,472	-	22,472
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	\$2,908,598	\$ -	\$2,908,598	\$ -	\$2,908,598
Interest-bearing deposits	2,047,524	-	2,047,524	-	2,047,524
Savings and money market deposits	2,784,678	-	2,784,678	-	2,784,678
Time deposits	1,028,793	-	1,028,793	-	1,028,793
Securities sold under repurchase agreements	991,869	-	991,869	-	991,869
Borrowings	500,000	-	-	497,908	497,908
As of December 31, 2023					
Financial Assets:					
Cash and due from banks	\$ 623,469	\$ 623,469	\$ -	\$ -	\$ 623,469
Securities available-for-sale	115,883	9,895	105,988	-	115,883
Securities held-to-maturity	4,301,060	194,824	3,684,502	25,559	3,904,885
Loans, net of allowance for credit losses	6,646,838	-	-	6,180,121	6,180,121
Investments in FHLB and FRB stock	22,798	-	22,798	-	22,798
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	\$2,880,315	\$ -	\$2,880,315	\$ -	\$2,880,315
Interest-bearing deposits	2,069,275	-	2,069,275	-	2,069,275
Savings and money market deposits	2,661,312	-	2,661,312	-	2,661,312
Time deposits	1,059,166	-	1,059,166	-	1,059,166
Securities sold under repurchase agreements	909,376	-	909,376	-	909,376
Borrowings	1,000,000	-	800,000	198,062	998,062

NOTE 18 – 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 executives 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 18 – 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:

	2024	2023
	(In thousands)	
Lease payments paid to:		
Queen City Investments, Inc.	\$ 362	\$ 328
Farmers & Merchants Trust Company	5	5
Lease payments received from:		
Farmers & Merchants Trust Company	\$ 259	\$ 236

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 2024 and 2023, the Trust Company paid the Bank a net total of \$624 thousand and \$495 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. The net amount due to the Trust Company was \$129 thousand and \$57 thousand as of December 31, 2024 and 2023, respectively, for the difference between the values and services exchanged between the parties.

Related-party loans were \$3.1 million as of both December 31, 2024 and 2023. As of December 31, 2024 and 2023, related-party deposits were \$257.6 million and \$231.4 million, respectively, of which, \$253.5 million and \$231.3 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, 2024 and 2023.

NOTE 19 – 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 judgments by the regulators about components, risk weightings, common equity, and other factors. As of December 31, 2024 and 2023, 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,

FARMERS & MERCHANTS BANK OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 19 – Regulatory Matters, continued

common equity tier 1 capital ratios, and tier 1 leverage ratios as set forth in the table below.

	<u>Actual</u>		<u>Minimum Capital Requirements</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
	(Dollars in thousands)					
As of December 31, 2024						
Total risk-based capital ratio	\$ 1,460,616	18.77%	\$ 622,532	8.00%	\$ 778,165	10.00%
Tier 1 risk-based capital ratio	1,363,229	17.52%	466,859	6.00%	622,479	8.00%
Common equity tier 1 capital ratio	1,363,229	17.52%	350,144	4.50%	505,764	6.50%
Tier 1 leverage ratio	1,363,229	11.42%	477,488	4.00%	596,860	5.00%
As of December 31, 2023						
Total risk-based capital ratio	\$ 1,457,860	17.52%	\$ 665,690	8.00%	\$ 832,112	10.00%
Tier 1 risk-based capital ratio	1,353,714	16.26%	499,526	6.00%	666,034	8.00%
Common equity tier 1 capital ratio	1,353,714	16.26%	374,644	4.50%	541,153	6.50%
Tier 1 leverage ratio	1,353,714	11.01%	491,813	4.00%	614,766	5.00%

NOTE 20 – SUBSEQUENT EVENTS

The Bank has evaluated events subsequent to December 31, 2024 and through March 31, 2025, 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 disclosures in 2024.