F&M BANK

ANNUAL REPORT 2023

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OUR OVERVIEW

116
YEARS STRONG

$12.04B
TOTAL ASSETS

$8.67B
TOTAL DEPOSITS

$6.65B
TOTAL NET LOANS

70.41%
LOAN TO DEPOSIT & REPURCHASE AGREEMENTS RATIO

123,135
TOTAL SHARES OUTSTANDING

$1.35B
TOTAL STOCKHOLDER EQUITY

<50%
LOAN TO VALUE RATIO

$4.1M
COMMUNITY SUPPORT

17.52%
TOTAL RISK-BASED CAPITAL RATIO

F&M's total risk-based capital (RBC) was 17.52% on 12/31/23, more than DOUBLE the federally mandated adequacy levels.

26
OFFICES

OUR EMPLOYEES

66%
DIVERSE WORKFORCE

815
EMPLOYEES

58%
FEMALE WORKFORCE

35%
10+ YEAR TENURE

52%
5+ YEAR TENURE

44
LANGUAGES SPOKEN

OUR CONTRIBUTIONS

$2.9M
TOTAL DONATION & SPONSORSHIPS

$475.5K
FHLB GRANT SUPPORT

$749K
IN-KIND DONATIONS

916
ORGANIZATIONS SUPPORTED

OUR CELEBRATION

F&M Bank celebrated 100 years in the historic downtown Long Beach building located at 302 Pine Avenue. Originally established in a storefront at 227 Pine Avenue in November of 1907, F&M Bank soon outgrew the space and moved to 301 Pine Avenue. When the 1921 Signal Hill oil boom resulted in great expansion across the city, F&M founder C.J. Walker commissioned the famed architectural firm Curlett and Beelman to design and build a new structure on the northeast corner of Pine Avenue and Third Street.

In honor of the 100th anniversary of the 302 Pine Avenue building, known colloquially as "Main Office" or "Main," F&M unveiled a historical exhibit highlighting F&M's milestones over the last century on display in the bank lobby. The H.O.M.E. (Hundredth of Main Exhibit) exhibit includes a collection of carefully curated items from our archives that highlight the place, the people, the purpose, and the praxis that originated here. The pieces and pictures on display represent just a sample of what has enabled us to serve our clients for more than a century at 302 Pine Avenue.

OUR CAMPAIGN

F&M Bank has been California's Strongest since 1907. That's not changing, even in today's economy. Some banks merge or change names. At F&M Bank, we've been opening new branches and continuing investment in technology and infrastructure to better serve our clients.

F&M Bank's dedication to strong, sound, and conservative management and banking policies has enabled us to weather economic recessions, world wars, natural disasters, and interest rate volatility for more than 116 years.

OUR FOUNDING VALUES

HONESTY
We always tell the truth.

INTEGRITY
The promises we make are ironclad.

THE HOME
Our families come first.

THE CHURCH
Our faith gives us strength in good times and bad.

SERVICE ABOVE SELF
We put the needs of others ahead of our own.

OUR MISSION

OUR MISSION IS TO FULFILL THE HIGHEST STANDARDS OF BUSINESS AND PERSONAL BANKING THROUGH OUR ESSENTIAL PRACTICES OF HONESTY, INTEGRITY, AND AN UNPARALLELED COMMITMENT OF EXCELLENCE TO OUR CUSTOMERS AND TO OUR EMPLOYEES.

WE ARE DEDICATED TO DEVELOPING THE CAREERS OF OUR EMPLOYEES, BOTH PROFESSIONALLY AND FINANCIALLY. AS WE ADHERE TO OUR CHRISTIAN VALUES, WE ARE COMMITTED TO PROVIDE COMPETITIVE FINANCIAL STRATEGIES, SUPERIOR PRODUCTS, AND EXEMPLARY RETURNS TO EVERY STAKEHOLDER.

OUR BOARD OF DIRECTORS

JoAnn M. Bourne

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

Stephen D. Cooke

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

Walter M. Florie

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

Lawrence J. McLaughlin

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

Christine A. Scheuneman

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

Daniel K. Walker

Mr. Walker has been employed by the Bank in various capacities since 1974, currently serving as Executive Chairman since 2023 and as its Chairman of the Board since 2003. Mr. Walker became a director of the Bank in 1996 and served as the Bank's Executive Vice President from 2001 to January 2008. In January 2008, Mr. Walker was appointed President of the Bank, and in May 2012, Mr. Walker became Chief Executive Officer of the Bank.

Timothy M. Wilson

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

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

OUR EXECUTIVES

Daniel K. Walker Executive Chairman

Mr. Daniel Walker has been employed by the Bank in various capacities since 1974, currently serving as Executive Chairman since 2023 and as its Chairman of the Board since 2003. Mr. Walker became a director of the Bank in 1996 and served as the Bank's Executive Vice President from 2001 to January 2008. In January 2008, Mr. Walker was appointed President of the Bank, and in May 2012, Mr. Walker became Chief Executive Officer of the Bank.

W. Henry Walker Chief Executive Officer

Mr. Henry Walker began his career with F&M in 1983 on the teller line. Today, he serves as the Bank's Chief Executive Officer. Under his leadership, F&M instituted new programs to include regional managers who oversee the health and viability of their assigned branches and the Client Service Concierge program, ensuring customers are attended to with "white glove" service. With Mr. Walker's guidance, the Bank is integrating information technology and other innovative efforts into F&M's client-centric experience.

Kevin M. Tiber President

Mr. Tiber has served as the Bank's President since November 2023. Previously he served as Executive Vice President since June 2019 and Senior Vice President of the Bank since January 2000. Prior to that, Mr. Tiber served in numerous capacities at the Bank since March 1993. Mr. Tiber also serves as Executive Vice President and Chief Operating Officer of the F&M Trust Company.

Taylor L. Hoang Executive Vice President, Chief Financial Officer

Ms. Hoang has served as the Bank's Executive Vice President and Chief Financial Officer since January 2024, after serving as Senior Vice President and Senior Financial Officer since 2008, where she held responsibility for the Bank's financial reporting, budgeting, and planning, among other financial management functions. Ms. Hoang joined F&M in 2007 as First Vice President, and previously held financial management positions at Wyle Laboratories and Hawthorne Savings and was a senior audit manager with KMPG LLP.

Phillip J. Bond Executive Vice President, Chief Credit Officer

Mr. Bond has served as the Bank's Executive Vice President and Chief Credit Officer since April 2012. He previously served as Chief Credit Officer and as a founding member of Beach Business Bank. Prior to that, Mr. Bond served as a Senior Vice President and in several other positions with City National Bank, including Manager of its government lending department and Long Beach Commercial Banking Center.

Kathleen Salmons Executive Vice President, Chief Risk Officer

Ms. Salmons has served as the Bank's Executive Vice President and Chief Risk Officer since October 2023. She joined F&M in 2013 as Senior Vice President and Chief Risk Officer, following roles as First Vice President, Finance at Beach Business Bank and Vice President Finance at Citigroup. In her expanded role at F&M, she is leading a realigned organization to create a robust enterprise risk management structure, identifying and mitigating risk throughout the Bank. Ms. Salmons is responsible for risk governance and operations, model risk management, vendor management, BSA/AML, Compliance, Bank Security, fraud, and appraisal and environmental management.

Melissa Lanfre Executive Vice President, Chief Operating Officer

Ms. Lanfre has served as the Bank's Executive Vice President and Chief Operating Officer since July 2013. Previously, Ms. Lanfre served as Executive Vice President and Chief Administrative Officer of PacTrust Bank. Prior to her experience at PacTrust Bank, Ms. Lanfre served as Executive Vice President, Chief Financial Officer and a founder of Beach Business Bank.

OUR FINANCIAL OVERVIEW

	2023	2022	2021	2020	2019
Diluted Earnings per Common Share	\$554	\$856	\$898	\$623	\$661
Dividends Declared per Common Share	\$127	\$127	\$123	\$123	\$123
Net Interest Margin	2.21%	2.70%	2.83%	2.99%	3.43%
Overhead Efficiency Ratio	70.03%	57.11%	53.51%	61.36%	60.54%
Average Assets (Dollars in Millions)	\$12,263	\$11,795	\$10,850	\$9,082	\$7,539
Total Risk-Based Capital	17.52%	16.37%	18.63%	19.57%	20.64%

OUR SHAREHOLDER LETTER

Dear Fellow Shareholders:

Profitability and stability have been hallmarks of Farmers & Merchants Bank of Long Beach since its establishment in 1907. The past year was no exception.

Now in our 116th year, we finished 2023 with profitable operations, a strong balance sheet, and capital ratios that far exceed all regulatory requirements.

As we have every year throughout our history, we again succeeded in achieving our number one priority goal, namely, safeguarding our clients' deposits. This remains the top concern of all financial institutions given the number of bank failures last year, which shook confidence throughout the sector.

Despite the continuing challenging external conditions, including the persistent high interest rate environment, F&M's client base grew during the past year, in large part because of our safety and strong balance sheet, as well as our ever-present responsive, personal service. Adding to these attributes was a stable deposit base and diversified loan portfolio, which performed well during the year, with minimal delinquencies.

During 2023, our Board of Directors declared a total of $127 per share in dividends. We are proud that the Bank has paid consecutive dividends every quarter for more than a century.

Reinforcing F&M's strategic vision and next stage of growth and development, we enter 2024 with a realigned senior management team, marking the culmination of a planned succession strategy. Part of this initiative included the creation of a new role, Executive Chairman of the Board, independent of the Chief Executive Officer, which is now being filled by Daniel K. Walker.

In other senior management changes, W. Henry Walker became Chief Executive Officer; Kevin M. Tiber was promoted to President and Chief Investment Officer; Kathleen Salmons is now Executive Vice President, Chief Risk Officer.

Promoting from within always has been a hallmark of F&M, and we also were pleased to announce that Taylor L. Hoang became Executive Vice President, Chief Financial Officer, succeeding John W.H. Hinrichs, who retired from the Bank at the end of the year, after serving as CFO since 2000 and joining F&M in 1964. We will miss John's wisdom and camaraderie and know that our financial team will continue to build upon and assure F&M's historic track record of success and stability. These executives are joined by our Chief Operating Officer, Melissa Lanfre and Phillip J. Bond, Chief Credit Officer to complete the executive management team of F&M.

Financial Overview

For the year ended December 31, 2023, total interest and dividend income increased to $415.5 million, from $340.3 million reported for 2022. Interest expense for 2023 was $152.5 million, versus $31.2 million in 2022.

Net interest income before provision for credit losses for 2023 was $263.1 million, compared with $309.0 million for 2022. Net interest margin for 2023 was 2.21%, compared with 2.70% last year.

The Bank recorded a recapture of provision for credit losses of $3.6 million in 2023, compared with a $3.5 million provision for credit losses in 2022. Non-interest income for 2023 was $16.4 million, compared with $18.5 million a year ago. Non-interest expense for the year ended December 31, 2023, was $201.2 million, compared with $188.8 million for the year ended December 31, 2022.

F&M has been profitable every year since its founding. For 2023, the Bank again achieved net income of $70.0 million, or $553.79 per diluted share, compared with $109.0 million, or $855.56 per diluted share, for the same period last year.

Balance Sheet

At December 31, 2023, gross loans amounted to $6.76 billion, compared with $6.77 billion a year earlier. The Bank's allowance for loan losses totaled $97.9 million, or 1.45% of loans held-for-investment at December 31, 2023, compared with $76.5 million, or 1.13% of loans held-for-investment, at December 31, 2022.

Total deposits at the end of 2023 were $8.67 billion, compared with $9.14 billion a year ago, while for the same period securities sold under repurchase agreements increased to $909.4 million from $785.9 million. Non-interest-bearing deposits represented 33.2% of total deposits at December 31, 2023, versus 36.7% of total deposits at December 31, 2022. Total assets were $12.04 billion at the end of 2023, compared with $12.05 billion at the end of 2022. Total stockholders' equity at the close of 2023 was $1.35 billion, compared with $1.31 billion a year earlier.

All of F&M's capital ratios for 2023 far exceeded regulatory capital requirements to meet the definition of a "well-capitalized" financial institution. At December 31, 2023, the Bank's total risk-based capital ratio was 17.52%; its tier 1 risk-based capital ratio was 16.26%, with a common equity tier 1 capital ratio of 16.26%, and a tier 1 leverage ratio of 11.01%. The minimum ratios for capital adequacy for a well-capitalized bank are 10.00%, 8.00%, 6.50%, and 5.00%, respectively.

Share Repurchase

During the year, the Bank repurchased 93 shares of its common stock on the open market at an average repurchase price of $5,125.78 per share, as part of the stock repurchase program announced in January 2022, which expired December 31, 2023. Reflecting its confidence in F&M's long-term outlook, our Board authorized a new stock repurchase program for 2024, allowing the Bank to repurchase up to $10 million of its common stock from time to time through various means, including open market transactions and, subject to receipt of any required governmental approvals, privately negotiated transactions, through December 31, 2024.

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

Commitment to Our Clients and the Communities We Serve

F&M today is 27 branches strong with the recent opening in January 2024 of the Laguna Beach Branch. The Bank today has a wide regional geographic reach — from San Clemente in the south to Santa Barbara in the north — with what we believe are the best banking facilities and most accommodating staff in California.

During 2023, we also consolidated operations by relocating several key departments from our historic Main Office to our six-story tower in Lakewood, providing the staff with an enhanced working environment and reducing rent expenses. We currently operate four main centers: the Main Office in Long Beach, the Client Care Center in Seal Beach, the Lakewood tower, and the Regional Orange County headquarters in Newport Beach.

Technology is an area of constant focus for us, as we compete head-on with the national banks. Technology goes hand in hand with service, and we believe it is a distinct competitive advantage. Further, we continue to push on security at all levels, with replication of our data every five seconds and dual data centers that are run simultaneously.

As always, and as is sacred to our core values, 2023 was a year in which F&M and the Farmers & Merchants Bank Foundation continued to participate in charitable activities through cash donations, sponsorships, in-kind donations, and volunteerism. $4.1 million was contributed during 2023 in support of 900 local organizations within the areas of faith-based Initiatives, education, human services, healthcare, and the arts.

2023 was a very complex and dynamic year of change for the Bank and for the banking industry. With the growth we have achieved over the years, 2023 marked F&M's first full year being categorized as a "regional" versus a "community" bank. With that change, and with today's dynamics in the banking sector, come new regulations for us and for all banks, aimed at enhancing risk management. For F&M, we estimate the complexities around meeting the new regulatory demands may add approximately $15 million in expenses over the coming years for technology and enhanced staffing and reporting. Because of recent bank failures, all banks are now required to enhance their lines of defense for the purposes of safety, from customer-facing employees to heightened risk management procedures to greater independent audit scrutiny.

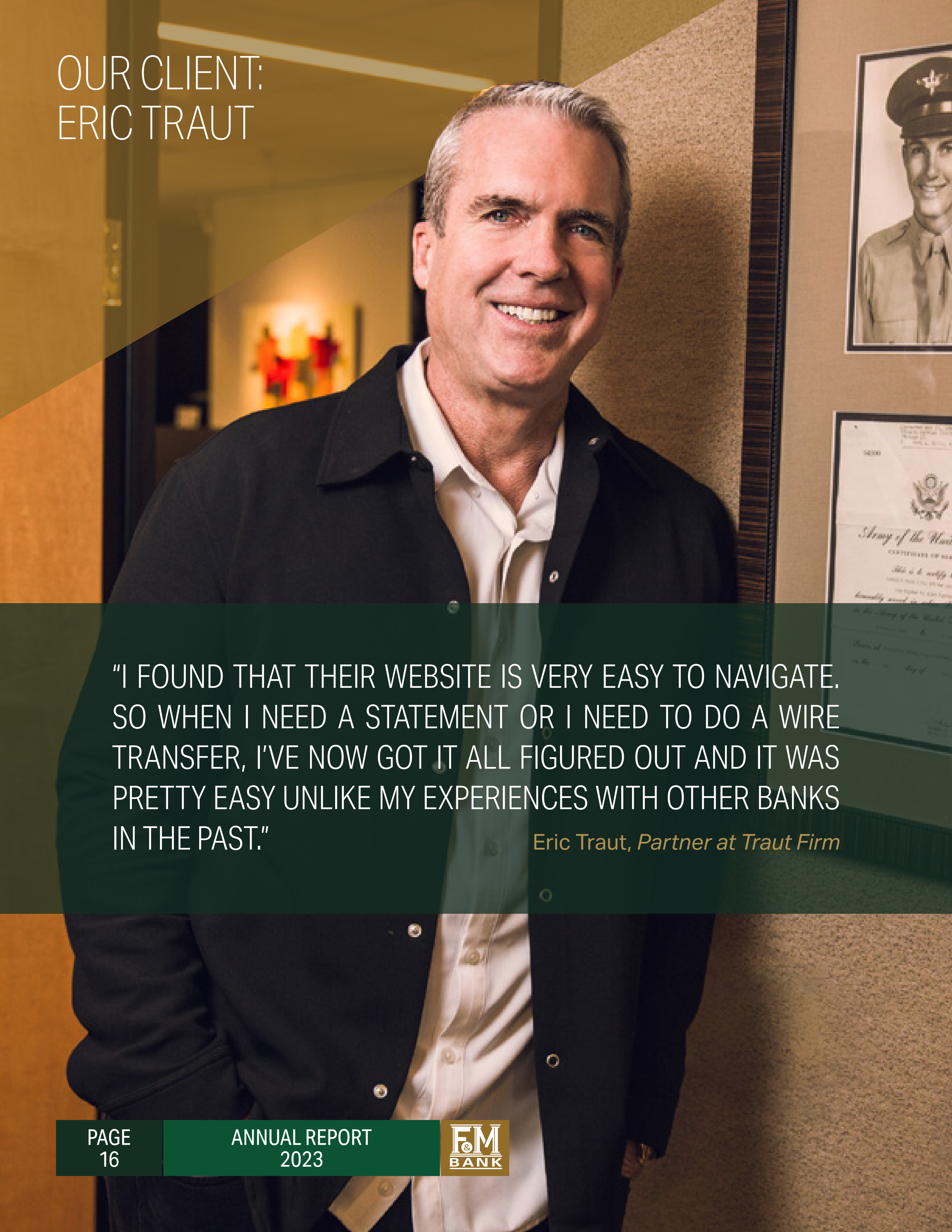
While all banks continue to face headwinds in the near term, F&M remains a safe and sound island of security for our clients and the markets we serve. Management and our Board remain steadfastly focused on safeguarding our clients' deposits and operating to create long-term value for our shareholders. Despite the challenges that continue to impact the banking industry nationwide, we remain optimistic about F&M's long-term future.

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

Sincerely,

Daniel K. Walker
Executive Chairman

W. Henry Walker
Chief Executive Officer



OUR CLIENT: ERIC TRAUT

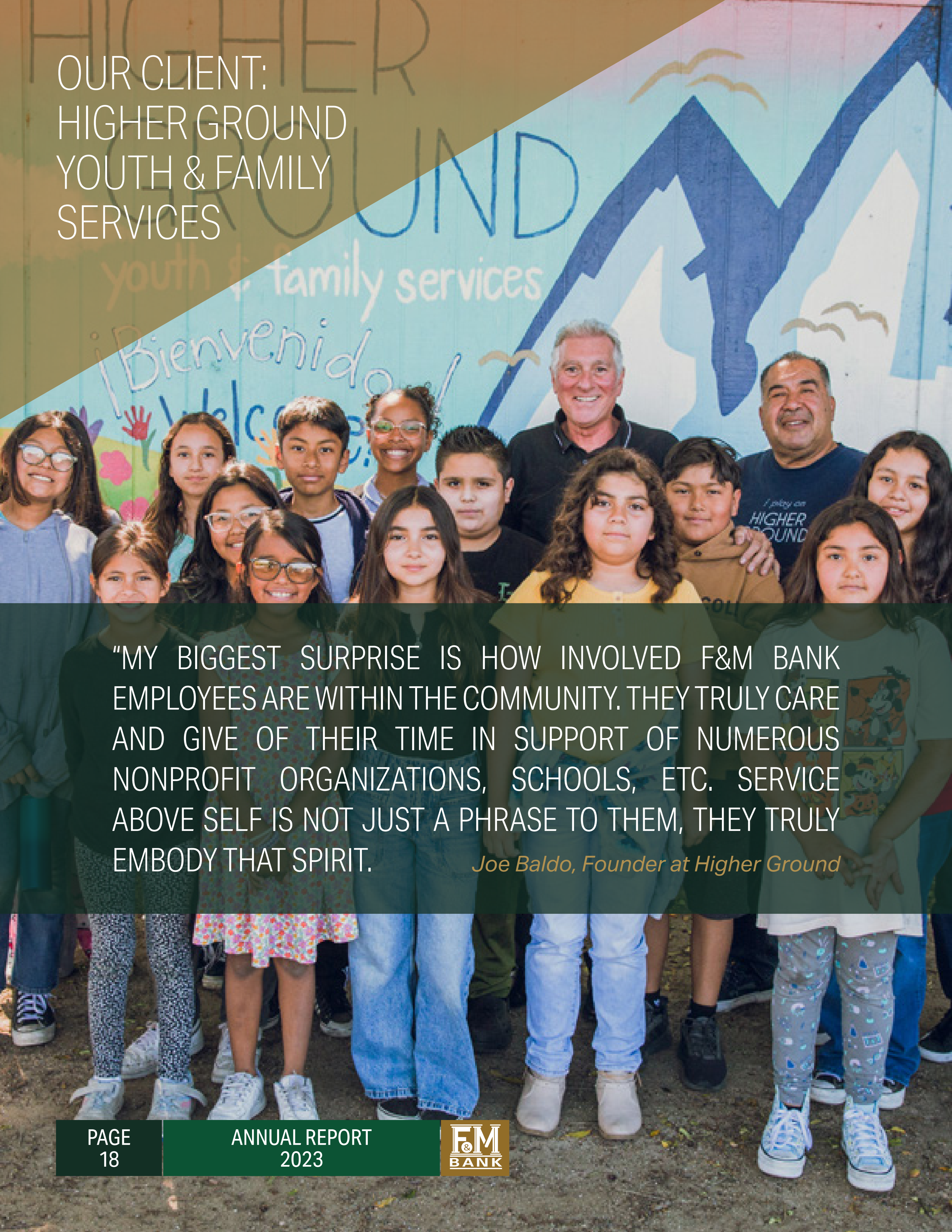
"I FOUND THAT THEIR WEBSITE IS VERY EASY TO NAVIGATE. SO WHEN I NEED A STATEMENT OR I NEED TO DO A WIRE TRANSFER, I'VE NOW GOT IT ALL FIGURED OUT AND IT WAS PRETTY EASY UNLIKE MY EXPERIENCES WITH OTHER BANKS IN THE PAST."

Eric Traut, *Partner at Traut Firm*

OUR CLIENT: COLETTE'S CATERING

"I DON'T MAKE SHORT-TERM DECISIONS, AND HAVE BEEN SO SATISFIED WITH THE SERVICE AND DEDICATION WE RECEIVED FROM F&M. IF YOU WANT TO TRY A TRUSTED, SECURE, AND NEIGHBORLY BANKING RELATIONSHIP, CHECK OUT AN F&M BRANCH NEAR YOU." Colette Coffman, *Founder of Collette Catering*

OUR CLIENT: HIGHER GROUND YOUTH & FAMILY SERVICES



"MY BIGGEST SURPRISE IS HOW INVOLVED F&M BANK EMPLOYEES ARE WITHIN THE COMMUNITY. THEY TRULY CARE AND GIVE OF THEIR TIME IN SUPPORT OF NUMEROUS NONPROFIT ORGANIZATIONS, SCHOOLS, ETC. SERVICE ABOVE SELF IS NOT JUST A PHRASE TO THEM, THEY TRULY EMBODY THAT SPIRIT.

Joe Baldo, Founder at Higher Ground

FINANCIAL REPORT 2023

FINANCIALS

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 1, 2024 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 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
April 1, 2024

FARMERS & MERCHANTS BANK OF LONG BEACH
BALANCE SHEETS

	December 31, 2023	December 31, 2022
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks:		
Non-interest-bearing balances	$ 74,595	$ 75,489
Interest-bearing balances	548,874	67,369
Total cash and due from banks	623,469	142,858
Securities available-for-sale, at fair value	115,883	123,919
Securities held-to-maturity, at amortized cost, net of allowance for credit losses	4,301,060	4,789,522
Gross loans	6,756,207	6,765,391
Unamortized deferred loan fees, net	(11,469)	(14,429)
Allowance for credit losses on loans	(97,900)	(76,503)
Loans, net	6,646,838	6,674,459
Investments in FHLB and FRB stock, at cost	22,798	27,088
Premises and equipment, net	125,929	118,228
Deferred tax assets, net	45,723	31,538
Other assets	154,154	147,132
Total assets	**$ 12,035,854**	**$ 12,054,744**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing deposits	$ 2,880,315	$ 3,355,298
Interest-bearing deposits	5,789,753	5,787,198
Total deposits	8,670,068	9,142,496
Securities sold under repurchase agreements	909,376	785,912
Borrowings	1,000,000	700,000
Other liabilities	104,965	113,254
Total liabilities	10,684,409	10,741,662
Stockholders' equity:		
Common stock, par value $20; authorized 250,000 shares; 123,135 and 123,228 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively	2,463	2,465
Additional paid-in capital	184,483	177,433
Retained earnings	1,169,759	1,140,897
Accumulated other comprehensive loss	(5,260)	(7,713)
Total stockholders' equity	1,351,445	1,313,082
Total liabilities and stockholders' equity	**$ 12,035,854**	**$ 12,054,744**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31, 2023	Years Ended December 31, 2022
	(In thousands, except per share data)	
Interest and dividend income:		
Loans	$ 299,723	$ 246,818
Investment securities	87,511	87,601
Interest-bearing deposits in financial institutions	26,615	4,628
Investments in FHLB and FRB stock	1,672	1,226
Total interest and dividend income	415,521	340,273
Interest expense:		
Deposits	81,556	15,732
Securities sold under repurchase agreements	31,499	8,762
Borrowings	39,398	6,740
Total interest expense	152,453	31,234
Net interest income before provision for credit losses	263,068	309,039
(Recapture) provision for credit losses:		
Loans	(700)	3,500
Investment securities	100	-
Reserve for unfunded loan commitments	(3,000)	-
Total (recapture) provision for credit losses	(3,600)	3,500
Net interest income after (recapture) provision for credit losses	266,668	305,539
Non-interest income:		
Service charges on deposit accounts	6,971	6,451
Card income	1,272	2,543
Other income	8,204	9,536
Total non-interest income	16,447	18,530
Non-interest expense:		
Salaries and employee benefits	120,419	119,978
FDIC and other insurance expense	9,172	4,306
Occupancy expense	15,712	15,354
Software and equipment expense	16,025	15,060
Professional and legal services	8,121	7,612
Marketing expense	7,730	6,886
Other expense	24,004	19,602
Total non-interest expense	201,183	188,798
Income before income tax expense	81,932	135,271
Income tax expense	11,925	26,269
Net income	**$ 70,007**	**$ 109,002**
Basic earnings per common share	$ 568.23	$ 876.17
Diluted earnings per common share	$ 553.79	$ 855.56

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2023	2022
	(In thousands)	
Net income	$ 70,007	$ 109,002
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities available-for-sale:	2,453	(9,129)
Other comprehensive income (loss)	2,453	(9,129)
Comprehensive income	**$ 72,460**	**$ 99,873**

See accompanying notes to financial statements.

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

	Common Stock				Accumulated	
	Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Total Stockholders' Equity
	(In thousands, except shares)					
Balance, December 31, 2021	**125,628**	**$ 2,513**	**$ 89,972**	**$ 1,147,661**	**$ 1,416**	**$ 1,241,562**
Transfer from retained earnings to additional paid-in capital	-	-	100,000	(100,000)	-	-
Repurchase and retirement of common stock	(2,400)	(48)	(19,471)	-	-	(19,519)
Restricted share units awarded	-	-	6,932	-	-	6,932
Net income	-	-	-	109,002	-	109,002
Cash dividends	-	-	-	(15,766)	-	(15,766)
Other comprehensive loss, net of tax	-	-	-	-	(9,129)	(9,129)
Balance, December 31, 2022	**123,228**	**$ 2,465**	**$ 177,433**	**$ 1,140,897**	**$ (7,713)**	**$ 1,313,082**
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**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	Years Ended December 31, 2022
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 70,007	$ 109,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on securities	34,599	39,872
Gain on sale of securities available for sale	-	(39)
Stock compensation cost	7,524	6,932
(Recapture) provision for credit losses	(3,600)	3,500
Loans held for sale:		
Originations	(3,801)	(2,112)
Proceeds from sale	3,865	3,434
Gain on sale	(64)	(83)
Gain on sale of other real estate owned	-	(100)
Amortization of tax credit investments	16,010	13,534
Premises and equipment:		
Depreciation	9,201	8,768
Gain on sale	(125)	(5)
Reduction of reserve for losses on unfunded loan commitments	-	(300)
Deferred income tax (benefit) expense	(4,513)	234
(Increase) decrease in other assets	(23,534)	2,977
Increase in other liabilities	2,816	5,268
Total adjustments	38,378	81,880
Net cash provided by operating activities	108,385	190,882
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and pay downs	9,822	14,702
Proceeds from sale of securities available for sale	-	39,639
Purchases	-	(53,103)
Securities held-to-maturity:		
Proceeds from maturities and pay downs	455,260	574,387
Purchases	-	(1,035,093)
Net decrease (increase) in loans held for investment	5,821	(1,298,019)
Proceeds from sale of other real estate owned	-	1,066
Redemption (purchase) of FRB & FHLB stock	4,290	(7,057)
Additional contributions of tax credit investments	(21,104)	(10,014)
Premises and equipment:		
Purchases	(16,906)	(11,175)
Proceeds from sale	129	11
Net cash provided by (used in) investing activities	437,312	(1,784,656)

Statements of Cash Flows, continued

	Years Ended December 31, 2023	2022
	(In thousands)	
Cash flows from financing activities:		
Net decrease in deposits	(472,428)	(98,994)
Net increase (decrease) in securities sold under repurchase agreements	123,464	(130,760)
Net increase in borrowings	300,000	700,000
Cash dividends paid	(15,646)	(15,766)
Common stock repurchased and retired	(476)	(19,519)
Net cash (used in) provided by financing activities	(65,086)	434,961
Net increase (decrease) in cash and due from banks	480,611	(1,158,813)
Cash and cash equivalents at beginning of year	142,858	1,301,671
Cash and cash equivalents at end of year	**$ 623,469**	**$ 142,858**
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 159,051	$ 33,771
Income taxes	12,352	17,806
Non-cash investing and financing activities		
Transfers of loans held for sale to loans held for investment	$ -	$ 8,191
New commitment to fund tax credit investments	-	76,316
Transfer of retained earnings to additional paid-in capital	-	100,000

See accompanying notes to financial statements.

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, 2023, the Bank operates 26 branches in California's Los Angeles County, Orange County and Santa Barbara County, as well as through robust online and mobile banking platforms. As a full-service commercial bank, FMB offers a broad range of banking products and services, including accepting demand, money market, savings, and time deposits; originating loans, including commercial real estate loans, construction loans, and commercial business loans; and providing other business-oriented banking products and services. The Bank also provides financing for residential loans, including single-family and multifamily loans.

Risks and Uncertainties

The Bank's operations, like those of other financial institutions operating in Southern California, are significantly influenced by economic conditions in Southern California, including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state governments and the regulatory authorities that govern financial institutions.

Basis of Financial Statement Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry. The policies that materially affect the determination of balance sheets, statements of income, and cash flow are summarized below.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and income statement for the year. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the fair value of securities AFS, 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 held-to-maturity. All securities not identified as HTM are classified as AFS. Securities AFS are carried at estimated fair value with unrealized holding gains or losses,

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

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

net of the related tax effect, excluded from income and reported as a separate component of stockholders' equity identified as accumulated other comprehensive income (loss) 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 the 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.

Effective January 1, 2023, upon the adoption of ASU 2016-13, securities AFS are measured at fair value and are subject to impairment testing. 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 must determine if the decline in fair value has resulted from a credit-related loss or other factors: (i) For credit related losses, the Bank calculates the credit component per ASC 320-10-35-33D, which measures impairment as the excess of the asset's recorded balance over the present value of expected future cash flows discounted at the security's effective interest rate. The amount of impairment related to the credit component is recognized in earnings. The previous amortized cost basis less the impairment recognized in earnings then becomes the new amortized cost basis of the investment. (ii) For non-credit related losses, the unrealized loss is recognized in other comprehensive income (loss).

Furthermore, starting January 1, 2023, with the adoption of ASU 2016-13, 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, and 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.

Prior to January 1, 2023, if a decline in market value of any security below cost was deemed other-than-temporary, the security was written down to its fair value, which became the new cost basis, and an impairment loss was recognized. In estimating other-than-temporary impairment losses, management considered, among other things, (i) the length of time and the extent of which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Any impairment on securities the Bank intended, or was more likely than not required to sell, was recognized in earnings as the entire difference between the amortized cost and its fair value. Any impairment on securities the Bank did not intend or was not required to sell before recovery was separated into an amount representing the credit loss, which was recognized in earnings and the amount related to all other factors, which was recognized in other comprehensive income.

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

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

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

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

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 had no loans held for sale as of December 31, 2023 and 2022.

The Bank will occasionally transfer loans from held for investment to held for sale. Upon transfer, the carrying value of the loan is adjusted to the lower of cost or estimated fair value, and any shortfall will be charged off to allowance for loan losses. 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 the allowance for loan losses and unamortized deferred net loan fees and costs. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income on an effective yield basis over the contractual loan term. Interest income on loans is recorded on an accrual basis in accordance with the terms of the respective loans.

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.

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

Risk Rating, continued

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, 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 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 (following adoption of CECL)

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

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

Individually Evaluated Loans, continued

expected credit losses. The criteria for default may include any one of the following: on nonaccrual status or modifications to borrowers experiencing financial difficulty.

Impaired Loans (prior to adoption of CECL)

Prior to January 1, 2023, loans were considered impaired when it was probable that the Bank would be unable to collect all amounts due according to the original contractual terms. Impaired loans included loans on nonaccrual status or classified as a Troubled Debt Restructured ("TDR").

Allowance for Credit Losses ("ACL") following adoption of CECL

On January 1, 2023, the Bank adopted ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU replaces the current "incurred loss" approach with an "expected loss" model. The new model, referred to as 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. Securities AFS are measured at fair value and are subject to impairment testing. This ASU modifies the other-than-temporary impairment ("OTTI") model for securities AFS to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. When a security AFS is considered impaired, and the Bank determines that the decline in fair value has resulted from a credit-related loss (as described previously under Securities Available-for-Sale and Securities Held-to-Maturity), 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. 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 sheet. As of December 31, 2023, the accrued interest receivable balances were $14.5 million, $20.7 million, and $1.0 million for loans, securities HTM and securities AFS, respectively.

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 ("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. Our 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.

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

Allowance for Loan Losses ("ALL") prior to adoption of CECL

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank's overall loan portfolio.

Prior to adoption of CECL, the allowance for loan losses was management's estimate of probable losses inherent in the loan portfolio. The allowance was maintained at a level deemed appropriate by the Bank to adequately provide for known and inherent risks in the loan portfolio at the balance sheet date. The ALL was based upon a continuing review of the portfolio, past loan loss experience, current economic conditions and external conditions that might affect borrowers' ability to pay and the underlying collateral value of the loans. Loans that were deemed to be uncollectible were charged off and deducted from the ALL. The provision for loan losses and recoveries on loans previously charged off were added to the ALL.

The ALL consisted of two components: a general allowance for loans not considered impaired and a specific allowance for loans determined to be impaired.

The methodology the Bank used to estimate the general allowance component of our ALL was the classification migration methodology, which considered both objective and subjective criteria. The objective criteria used the Bank's actual historical loan charge-off experience on pools of similar loans to establish loss rates that were applied to the Bank's current loan balances to estimate inherent credit losses. The Bank recognized that the estimation of the ALL was sensitive to the assigned credit risk ratings and loss rates at any given point in time. To ensure the accuracy of our credit risk ratings, an independent credit review function assessed the ratings assigned to loans on an ongoing basis.

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

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

Investment in Federal Home Loan Bank Stock

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

Investment in Federal Reserve Bank Stock

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

Premises and Equipment

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

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

Premises and Equipment, continued

assets:

Type	Estimated Useful Life
Buildings	20 to 39 years
Building improvements	15 to 39 years
Furniture, fixtures, and equipment	3 to 7 years
Leasehold improvements	Shorter of useful lives or the terms of the lease

Construction in progress is carried at cost and includes land acquisition, architectural fees, general contractor fees, and other costs related directly to the construction of a property. Maintenance and repairs are charged to expense.

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

Tax Credit Investments

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

Borrowings

The Bank utilizes repurchase agreements, federal funds' lines of credit, FRB discount window, FRB BTFP, 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 BTFP was created by the Federal Reserve in March 2023 and is designed to provide additional liquidity to U.S. depository institutions. The BTFP is limited to the par value of eligible collateral pledged by the Bank, for a term of up to one year, which can be prepaid early with no penalty. The Bank has established unsecured federal funds lines of credit with several correspondent banks, as well as with the FHLB. These federal funds lines of credit generally mature within one business day. The Bank's available secured borrowing capacities are derived from the loans 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

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

Revenue Recognition, continued

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, 2023 and December 31, 2022.

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 of merchant and debit card interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal.
>
> *Revenue earned over time:* The Bank earns certain revenue from contracts with customers as services are rendered on a monthly, quarterly or annual basis. Examples of this type of revenue are deposit account service fees, HELOC fees, letter of credit, and safe deposit box fees. Account service fees are recognized on a monthly basis. Revenue is primarily based on services rendered on the number and type of transactions. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

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

Operating Leases

The Bank enters into a variety of lease contracts, as lessee, generally for premises. Lease contracts that do not transfer substantially all of the benefits and risks of ownership, and do not meet the accounting requirements for capital lease classification are treated as operating leases. The Bank determines if a contract is a lease at inception. The Bank's operating leases are included within right-of-use ("ROU") assets and lease liabilities on the balance sheet, which are classified as other assets and other liabilities, respectively. The ROU asset is based on the operating lease liabilities adjusted for any prepaid or deferred rent.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, the Bank uses its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment at 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 enters into a variety of lease contracts, as lessor, for Bank-owned properties or, as sublessee, for properties leased by the Bank. The Bank accounts for lease income on an accrual basis.

Long Term Compensation

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

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

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

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. Effective January 1, 2023, the reserve is calculated on the expected portion of the commitment to be funded over its life and the life 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.

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

Reserve for Losses on Unfunded Loan Commitments, continued

Prior to adoption of CECL, the Bank used the historical loan loss factors described under our allowance for loan losses to calculate the loan loss experience if unfunded loan commitments were funded. Separately, the Bank used historical trends to calculate a probability of an unfunded loan commitment being funded. The Bank included the reserve for unfunded loan commitments in other liabilities and the related provision in other noninterest expense.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, the deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities 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 (Loss)

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

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

Recent Accounting Standards

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 will significantly change the way entities recognize credit losses for financial assets (loans and off balance sheet commitments) and net investments that are not accounted for at fair value through net income. This ASU requires an entity to use a broader range of reasonable and supportable forecasts, in addition to historical experience and current conditions, to develop an expected credit loss estimate, referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL approach, the standard requires immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable forecasts.

Effective January 1, 2023, the Bank adopted ASU 2016-13 using the modified retrospective approach and recognized a cumulative effect adjustment to retained earnings. The Bank replaced the incurred loss accounting approach with a CECL approach for financial instruments measured at amortized cost and other commitments to extend credit. 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, loan commitments, and financial guarantees. For loans and securities HTM, this ASU requires a CECL measurement to estimate the allowance for credit losses ("ACL") for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts. The new standard is generally intended to require earlier recognition of credit losses. While the standard changes the measurement of the allowance for credit losses, it does not change the credit risk of our lending portfolios or the ultimate losses in those portfolios. The following table sets forth the cumulative effect of the changes to the Bank's balance sheets at January 1, 2023, for the adoption of ASC 326:

	Balance at December 31, 2022	Adjustment due to Adoption of ASC 326	Balance at January 1, 2023
		(In thousands)	
Assets			
Allowance for credit losses on securities HTM	$ -	$ 200	$ 200
Allowance for credit losses on loans	76,503	22,500	99,003
Deferred tax assets	31,538	10,702	42,240
Liabilities:			
Allowance for unfunded commitments	$ 3,500	$ 13,500	$ 17,000
Stockholders' equity:			
Retained earnings, net of tax	$ 1,140,897	$ (25,498)	$ 1,115,399

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the accounting guidance for Troubled Debt Restructurings ("TDR") Loans by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current period gross charge-offs by year of origination for loans. The Bank adopted this guidance on January 1, 2023, concurrent with its adoption of the CECL standard. As part of the adoption, the Bank has elected to apply the pending content prospectively and the practical expedient to exclude the accrued interest receivable balance from the disclosed amortized cost basis of

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

Recent Accounting Standards, continued

loan modifications to debtors experiencing financial difficulty, consistent with our ACL approach. Since this guidance requires loan balances to be disclosed at amortized cost, loan balances on Note 4 for 2023 are stated at amortized cost, while loan balances for 2022 are stated at gross balance.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications, subject to meeting certain criteria that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date.* The amendments in this update defer the sunset date of Topic 848 to December 31, 2024. The adoption of this guidance is not expected to have a significant impact on the Bank's financial statements and related disclosures.

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. ASU 2023-02 is effective for fiscal years after December 15, 2025, the Bank will early adopt this guidance in 2024. At adoption, the amortization for newly qualifying investments will move to be reported as a component of income tax expense, compared to current classification as a component of non-interest expense. There will be an adjustment between other assets and deferred tax assets, with a net increase to retained earnings, resulting in an immaterial impact to the balance sheet.

NOTE 2 – SECURITIES AVAILABLE-FOR-SALE

The following table presents an analysis of the securities AFS portfolio:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(In thousands)		
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	$ 123,350	$ 1	$ (7,468)	$ 115,883
As of December 31, 2022				
US Treasury	$ 10,497	$ -	$ (236)	$ 10,261
SBA pool securities	3,672	-	(208)	3,464
Mortgage-backed securities	28,290	-	(1,784)	26,506
Municipal securities	92,410	1	(8,723)	83,688
Total securities available-for-sale	$ 134,869	$ 1	$ (10,951)	$ 123,919

NOTE 2 – Securities Available-for-Sale, continued

The following table 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 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, 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
	$ 13,668	$ 13,548	$ 17,181	$ 16,470	$ 60,599	$ 56,453	$ 31,902	$ 29,412	$ 123,350	$ 115,883
As of December 31, 2022										
US Treasury	$ 497	$ 497	$ 10,000	$ 9,764	$ -	$ -	$ -	$ -	$ 10,497	$ 10,261
SBA Pool	-	-	-	-	-	-	3,672	3,464	3,672	3,464
Mortgage-backed securities	68	68	165	162	28,057	26,277	-	-	28,290	26,507
Municipal securities	3,948	3,933	14,617	13,914	31,621	28,689	42,224	37,151	92,410	83,687
	$ 4,513	$ 4,498	$ 24,782	$ 23,840	$ 59,678	$ 54,966	$ 45,896	$ 40,615	$ 134,869	$ 123,919

The Bank did not sell any securities AFS during 2023. During the year ended December 31, 2022, the Bank sold $39.6 million of securities AFS, for which the Bank recognized a gain of $39 thousand.

The following table 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	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In thousands)			
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	$ 1,170	$ (4)	$ 114,183	$ (7,464)	$ 115,353	$ (7,468)
As of December 31, 2022						
US Treasury	$ 10,261	$ (236)	$ -	$ -	$ 10,261	$ (236)
SBA pool securities	3,464	(208)	-	-	3,464	(208)
Mortgage-backed securities	26,506	(1,784)	-	-	26,506	(1,784)
Municipal securities	43,354	(3,553)	38,891	(5,170)	82,245	(8,723)
Total temporarily impaired securities	$ 83,585	$ (5,781)	$ 38,891	$ (5,170)	$ 122,476	$ (10,951)

NOTE 2 – Securities Available-for-Sale, continued

The number of securities AFS with unrealized loss less than 12 months and 12 months or longer was 8 and 578, respectively, for the year ended December 31, 2023, and 319 and 313, respectively, for the year ended December 31, 2022. 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, 2023 and 2022 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. Because 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.

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

	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
		(In thousands)	
Year ended December 31, 2023			
Unrealized gain on securities:			
Unrealized holding gain arising during period	$ 3,483	$ (1,030)	$ 2,453
Other comprehensive income	$ 3,483	$ (1,030)	$ 2,453
Year ended December 31, 2022			
Unrealized loss on securities:			
Unrealized holding loss arising during period	$ (12,962)	$ 3,833	$ (9,129)
Other comprehensive loss	$ (12,962)	$ 3,833	$ (9,129)

NOTE 3 – SECURITIES HELD-TO-MATURITY

The following table presents an analysis of the securities HTM portfolio:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(In thousands)		
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	$ 4,301,360	$ 227	$ (396,702)	$ 3,904,885

NOTE 3 – Securities Held-to-Maturity, continued

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

The following table 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, 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
	$ 66,191	$ 65,642	$ 298,301	$ 285,934	$ 1,258,894	$ 1,141,403	$ 2,677,974	$ 2,411,906	$ 4,301,360	$ 3,904,885
As of December 31, 2022										
US Treasury	$ 19,959	$ 19,229	$ 118,865	$ 116,079	$ -	$ -	$ -	$ -	$ 138,824	$ 135,308
US Agency	-	-	71,000	66,094	10,000	9,060	-	-	81,000	75,154
SBA Pool	-	-	2,271	2,169	49,722	45,957	14,895	14,024	66,888	62,150
Mortgage-backed securities	587	587	107,163	103,062	483,544	441,870	2,330,640	2,075,639	2,921,934	2,621,158
Municipal securities	8,922	8,900	19,507	19,129	428,421	374,148	1,058,964	905,263	1,515,814	1,307,440
CMO	11	11	1,207	1,155	57,317	54,851	6,527	6,235	65,062	62,252
	$ 29,479	$ 28,727	$ 320,013	$ 307,688	$ 1,029,004	$ 925,886	$ 3,411,026	$ 3,001,161	$ 4,789,522	$ 4,263,462

There were no sales or transfers of securities HTM in 2023 and 2022.

The table on the following page 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:

NOTE 3 – Securities Held-to-Maturity, continued

	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, 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	$ 9,920	$ (290)	$3,881,437	$ (396,412)	$3,891,357	$ (396,702)
As of December 31, 2022						
US Treasury	$ 135,308	$ (3,516)	$ -	$ -	$ 135,308	$ (3,516)
US Agency	61,927	(4,073)	13,227	(1,773)	75,154	(5,846)
SBA pool securities	62,150	(4,738)	-	-	62,150	(4,738)
Mortgage-backed securities	1,817,531	(166,692)	803,080	(134,088)	2,620,611	(300,780)
Municipal securities	453,229	(62,668)	837,473	(145,842)	1,290,702	(208,510)
CMO	58,084	(1,863)	4,168	(947)	62,252	(2,810)
Total temporarily impaired securities	$2,588,229	$ (243,550)	$1,657,948	$ (282,650)	$4,246,177	$ (526,200)

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 102 and 3,087, respectively for the year ended December 31, 2023, and 1,869 and 1,404, respectively, for the year ended December 31, 2022. Management believes that securities HTM in an unrealized loss position as December 31, 2023 and 2022 had a loss position that was temporary in nature, and therefore no impairment losses were recognized in the statements of income. Because the Bank has the ability and intent to hold these investments until maturity, these securities HTM are not considered impaired.

As part of the ASU 2016-13 adoption, the Bank separately evaluates its securities HTM for any credit losses using 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. At the adoption of CECL on January 1, 2023, the allowance for credit losses for securities HTM under the CECL model was $200 thousand, and additional provision of $100 thousand was recognized during the year. At December 31, 2023, the total allowance for credit losses for municipal securities HTM was $300 thousand.

The Bank uses S&P and Moody's ratings as the credit quality indicators for its securities HTM. The table on the following page presents our securities HTM portfolio at amortized cost by the lowest available credit rating as of the dates indicated:

NOTE 3 – Securities Held-to-Maturity, continued

	AAA	AA+	AA	AA-	A+	BBB+	NR	Total
				(In thousands)				
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 $4.19 billion at December 31, 2023, and $2.08 billion at December 31, 2022, 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 securities was $18.6 million for the years ended December 31, 2023 and December 31, 2022.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio is composed mainly of credit extended to borrowers in Southern California with the majority of loans secured by real estate, although a substantial amount of the Bank's loans are intended for business purposes. There is no concentration of loans to borrowers in a specific industry within the loan portfolio. Loans are generally expected to be paid off from the operating cash flow of the borrowers, refinancing by another lender, or through sale by the borrowers of the secured collateral. Since the adoption of ASU 2022-02 in 2023, which requires loan balances to be disclosed at amortized cost, loan balances in this footnote for 2023 are stated at amortized cost, while loan balances for 2022 are stated at gross balance.

The following table is the presentation of the loan portfolio.

	December 31,	
	2023	2022
	(In thousands)	
Commercial & industrial	$ 304,749	$ 284,201
SBA PPP	88	813
Construction	784,811	787,752
Commercial real estate	4,397,009	4,444,046
Residential mortgages	1,034,354	1,051,023
Equity lines	42,365	45,921
Installment and other loans	181,362	151,635
Gross loans		$ 6,765,391
Unamortized deferred loan fees, net		(14,429)
Amortized cost	6,744,738	6,750,962
Allowance for loan losses	(97,900)	(76,503)
Total loans receivable, net	$ 6,646,838	$ 6,674,459

Total loans with a balance of $3.73 billion and $3.84 billion at December 31, 2023, and December 31, 2022, respectively, were pledged to secure the Bank's FHLB advance line. In addition, total loans with a balance of $775.5 million at December 31, 2023, were pledged for the FRB's Discount Window.

NOTE 4 – Loans and Allowance for Loan Losses, continued

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 the period presented. The vintage year is the year of origination, renewal or major modification:

	Term Loans Amortized Cost by Origination Year and Risk Ratings								
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving loans converted to term	Total
					(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	28,100	58,483	50,221	5,824	14,588	74,802	72,731	-	304,749
YTD period gross charge-offs	278	33	-	-	-	-	-	-	311
YTD period recoveries	22	68	40	-	-	12	-	-	142
YTD period net charge-offs	256	(35)	(40)	-	-	(12)	-	-	169
SBA PPP									
Pass	-	-	88	-	-	-	-	-	88
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total SBA PPP loans	-	-	88	-	-	-	-	-	88
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-
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	197,379	339,795	145,030	53,704	3,692	901	44,310	-	784,811
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-
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	276,810	1,542,380	966,797	610,967	228,441	692,773	78,841	-	4,397,009
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-
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	67,594	349,689	270,516	143,598	40,127	129,574	33,256	-	1,034,354
YTD period gross charge-offs	-	-	-	-	-	-	-	-	-
YTD period recoveries	-	-	-	-	-	-	-	-	-
YTD period net charge-offs	-	-	-	-	-	-	-	-	-

NOTE 4 – Loans and Allowance for Loan Losses, continued

Credit Quality Indicators, continued

	Term Loans Amortized Cost by Origination Year and Risk Ratings								
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving loans converted to term	Total
					(In thousands)				
As of December 31, 2023									
Equity Lines									
Pass	-	-	-	-	-	-	40,644	-	40,644
Special Mention	-	-	-	-	-	-	252	-	252
Substandard	-	-	-	-	-	-	1,469	-	1,469
Doubtful	-	-	-	-	-	-	-	-	-
Total Equity Lines loans	-	-	-	-	-	-	42,365	-	42,365
YTD period gross charge-offs	-	-	-	-	-	-	236	-	236
YTD period recoveries	-	-	-	-	-	-	23	-	23
YTD period net charge-offs	-	-	-	-	-	-	213	-	213
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	1,987	47,043	61,332	50,641	1,679	1,459	17,221	-	181,362
YTD period gross charge-offs	-	-	1	-	-	21	-	-	22
YTD period recoveries	-	-	-	-	-	1	-	-	1
YTD period net charge-offs	-	-	1	-	-	20	-	-	21
Portolio Total	571,870	2,337,390	1,493,984	864,734	288,527	899,509	288,724	-	6,744,738
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	$ 256	$ (35)	$ (39)	$ -	$ -	$ 8	$ 213	$ -	$ 403

Nonaccrual and Past Due Loans

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

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Nonaccrual	Current	Total
			(In thousands)			
As of December 31, 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	$ 3,229	$ 707	$ -	$ 36,822	$ 6,703,980	$ 6,744,738
As of December 31, 2022						
Loan Segment						
Commercial & industrial	$ -	$ -	$ -	$ -	$ 284,201	$ 284,201
SBA PPP	-	-	-	-	813	813
Construction	-	-	-	-	787,752	787,752
Commercial real estate	-	-	-	-	4,444,046	4,444,046
Residential mortgages	5,228	1,492	-	2,975	1,041,328	1,051,023
Equity lines	305	254	-	236	45,126	45,921
Installment and other loans	-	-	-	-	151,635	151,635
Gross loans	$ 5,533	$ 1,746	$ -	$ 3,211	$ 6,754,901	$ 6,765,391

NOTE 4 – Loans and Allowance for Loan Losses, continued

Nonaccrual and Past Due Loans, continued

The following is a summary of selected information related to the nonaccrual loans outstanding as of December 31, 2023 and 2022, and the related contractual interest income foregone for the years indicated:

	2023 (Amortized Cost)		2022 (Gross Loans)	
	(In thousands)			
Nonaccrual loans				
Outstanding balance	$	36,822	$	3,211
Average balance		37,378		3,219
Interest income recorded		803		-
Interest income foregone		349		135

Following the adoption of CECL on January 1, 2023, the definitions of impairment and related impaired loan disclosures were removed. Loans that are on nonaccrual status, including loans with no allowance, are presented as of December 31, 2023 by type of loan.

	Amortized Cost at December 31, 2023					
	Nonaccrual with No Allowance for Credit Losses		Total Non Accrual		Loans Past Due Over 90 Days Still Accruing	
			(In thousands)			
Loan Segment						
Construction	$	25,573	$	25,573	$	-
Commercial real estate		5,693		5,693		-
Residential mortgages		5,231		5,231		-
Equity lines		325		325		-
Total	$	36,822	$	36,822	$	-

Modifications of Loans to Borrowers Experiencing Financial Difficulty

The Bank adopted ASU 2022-02 as of January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measurement of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

The table below reflects the amortized cost of loans by type made to borrowers experiencing financial difficulty that were modified during the fiscal year ended December 31, 2023.

	Interest Rate Reduction		
Loan Type	Amortized Cost at December 31, 2023		% of total class of financing receivables
	(In thousands)		
Construction	$	25,573	3.3%
Total	$	25,573	

NOTE 4 – Loans and Allowance for Loan Losses, continued

Modifications of Loans to Borrowers Experiencing Financial Difficulty, continued

The following table describes the financial effect of the loan modifications made to borrowers experiencing financial difficulty during the fiscal year ended December 31, 2023.

	Financial Effect December 31, 2023
Loan Type	**Interest Rate Reduction**
Construction	Reduced interest rate from 4% to 2%

The following table presents the amortized cost and the aging of past due loans, by type of loans, made to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date the Bank adopted ASU 2022-02.

	Payment Status (Amortized Cost) at December 31, 2023		
Loan Type	**Current**	**30-89 Days Past Due**	**90 Days Over Past Due**
		(In thousands)	
Construction	$ 25,573	$ -	$ -
Total	$ 25,573	$ -	$ -

Prior to January 1, 2023, loans reported as TDRs were considered impaired and charge-off amounts were taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal.

As of December 31, 2022, there was only one loan with balance of $34.0 million classified as a TDR, which was a performing commercial real estate loan. During the same term, no allowance was made to this loan and there were no loans that were modified as a TDR within the previous 12 months that subsequently defaulted.

Impaired Loans (prior to adoption of CECL)

Following the adoption of CECL as of January 1, 2023, the definitions of impairment and related impaired loan disclosures were removed. As a result of the change, the following table presents information about our impaired loans, individually evaluated for impairment by type of loans, as of December 31, 2022, prior to the date of adoption of the amendments to the credit loss standard.

	Unpaid Principal Balance	Recorded Investment with No ALL	Recorded Investment with ALL	Related ALL	Total	Average Recorded Investment	Interest Income Recognized
				(In thousands)			
As of December 31, 2022							
Loan Segment							
Commercial real estate	$ 33,960	$ 33,960	$ -	$ -	$ 33,960	$ 34,197	$ 1,474
Residential mortgages	2,975	2,975	-	-	2,975	2,975	-
Equity lines	253	236	-	-	236	244	2
Total gross balance	$ 37,188	$ 37,171	$ -	$ -	$ 37,171	$ 37,416	$ 1,476

NOTE 4 – Loans and Allowance for Loan Losses, continued

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.

	December 31, 2023 (Amortized Cost)			December 31, 2022 (Gross Loans)		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
			(In thousands)			
Loan Segment						
Commercial & industrial	$ -	$ 304,749	$ 304,749	$ -	$ 284,201	$ 284,201
SBA PPP	-	88	88	-	813	813
Construction	25,573	759,238	784,811	-	787,752	787,752
Commercial real estate	5,693	4,391,316	4,397,009	33,960	4,410,086	4,444,046
Residential mortgages	5,231	1,029,123	1,034,354	2,975	1,048,048	1,051,023
Equity lines	325	42,040	42,365	236	45,685	45,921
Installment and other loans	-	181,362	181,362	-	151,635	151,635
Total	$ 36,822	$ 6,707,916	$ 6,744,738	$ 37,171	$ 6,728,220	$ 6,765,391

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 following table presents the collateral-dependent loans by type of loans as of the date presented.

	Amortized Cost at December 31, 2023			
	Real Estate	Business Assets	Other	Number of Loans Dependent on Collateral
		(In thousands)		
Construction	$ 25,573	$ -	$ -	1
Commercial real estate	5,693	-	-	2
Residential mortgages	5,231	-	-	2
Equity lines	325	-	-	1
Total collateral-dependent loans	$ 36,822	$ -	$ -	6

NOTE 4 – Loans and Allowance for Loan Losses, continued

Allowance for Credit Losses ("ACL")

The following table 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, 2021	$ 3,019	$ 10,636	$ 50,928	$ 6,509	$ 187	$ 1,601	$ 72,880
Provision	481	5,397	(1,591)	(615)	(133)	(39)	3,500
Charge-Offs	(107)	-	-	-	-	(40)	(147)
Recoveries	99	-	167	-	3	1	270
December 31, 2022	$ 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
The ending ACL balance is composed of amounts applicable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 5,299	$ 26,836	$ 51,048	$ 12,205	$ 437	$ 2,075	$ 97,900

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, 2023 and 2022, were as follows:

	December 31,	
	2023	2022
	(In thousands)	
Balance, beginning of year	$ 3,500	$ 3,800
CECL adoption adjustment	13,500	-
Addition/(Reduction)	(3,000)	(300)
Balance, end of year	$ 14,000	$ 3,500

NOTE 5 – PREMISES AND EQUIPMENT

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

	December 31,	
	2023	2022
	(In thousands)	
Land	$ 50,164	$ 50,164
Buildings and building improvements	110,352	98,787
Furniture, fixtures and equipment	53,897	46,712
Leasehold improvements	5,580	5,925
Construction in progress	4,301	10,023
	224,294	211,611
Less accumulated depreciation	(98,365)	(93,383)
Total premises and equipment, net	$ 125,929	$ 118,228

Depreciation expense was $9.2 million in 2023 and $8.8 million in 2022.

NOTE 6 – TAX CREDIT INVESTMENTS

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

The Bank's tax credit investments totaled $74.0 million and $91.0 million at December 31, 2023, and December 31, 2022, respectively, and are included in other assets on the balance sheets. Unfunded commitments related to these tax credit investments totaled $44.2 million at December 31, 2023 and $66.3 million at December 31, 2022.

These investments generated $16.4 million and $14.2 million of federal tax credits in 2023 and 2022, respectively. At December 31, 2023 and December 31, 2022, these investments are expected to generate approximately $69.8 million and $86.1 million, respectively, of federal tax credits in future years. The Bank records its investment in affordable housing projects using the proportional amortization method. Under the proportional amortization method, the amortization of the investments recognized as a component of income tax expenses were $6.5 million and $4.2 million in 2023 and 2022, respectively.

NOTE 7 – DEPOSITS

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

	December 31, 2023	December 31, 2022
	(In thousands)	
Non-interest-bearing checking	$ 2,880,315	$ 3,355,298
Interest-bearing checking	2,069,275	2,212,509
Money market accounts	1,678,714	1,612,947
Savings deposits	982,598	1,055,387
Total core deposits	$ 7,610,902	$ 8,236,141
Time deposits:		
$250,000 or less	$ 392,197	$ 361,658
Greater than $250,000	666,969	544,697
Total time deposits	1,059,166	906,355
Total deposits	$ 8,670,068	$ 9,142,496

As of December 31, 2023, the maturity distribution of the Bank's time deposits was as follows:

	$250,000 or Less	Greater Than $250,000	Total
		(In thousands)	
2024	$ 328,340	$ 625,641	$ 953,981
2025	35,061	23,328	58,389
2026	13,506	5,993	19,499
2027	8,826	5,212	14,038
2028	6,464	6,795	13,259
	$ 392,197	$ 666,969	$ 1,059,166

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 and interest rates reset daily to reflect market movement.

NOTE 8 – Securities Sold Under Repurchase Agreements, continued

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

	December 31, 2023	December 31, 2022
	(In thousands)	
Securities sold under repurchase agreements	$ 909,376	$ 785,912
Weighted average interest rate	4.14%	2.84%
Securities underlying repurchase agreements	$ 1,137,278	$ 977,388
Fair value of securities underlying repurchase agreements	$ 1,031,438	$ 877,031

The securities underlying these agreements are held by a custodian bank until the maturity of the agreement. The identical securities will be repurchased by the Bank. The following table summarizes securities sold under repurchase agreements' activity during the periods 2023 and 2022, respectively:

	2023	2022
	(In thousands)	
Average outstanding	$ 902,647	$ 881,003
Weighted average interest rate	3.49%	0.99%
Maximum amounts outstanding	$ 1,011,859	$ 1,084,238

NOTE 9 – OTHER BORROWINGS

The Bank's available borrowing capacity from federal funds lines of credit, FRB discount window and BTFP amounted to $3.14 billion and $706.7 million as of December 31, 2023 and 2022, respectively. The Bank's available secured borrowing capacity for FHLB advances totaled $1.92 billion and $1.30 billion as of December 31, 2023 and 2022, respectively.

The following table summarizes information about other borrowings as of the periods indicated:

	December 31, 2023	December 31, 2022
	(In thousands)	
Bank Term Funding Program at year-end	$ 800,000	$ -
FHLB advances outstanding at year-end	$ 200,000	$ 700,000
Weighted average interest rate on outstanding at year-end	4.68%	3.95%
Highest month-end balance	$ 1,000,000	$ 700,000
Average amount outstanding	$ 898,562	$ 180,825
Weighted average interest rate	4.38%	3.73%

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 $2.2 million and $2.1 million for the years ended December 31, 2023 and 2022, respectively.

	December 31, 2023	December 31, 2022
	(In thousands)	
Operating lease expense	$ 1,858	$ 1,794
Variable lease expense	352	319
Sublease income	(98)	(94)
Net lease cost	$ 2,112	$ 2,019
Cash paid for amounts included in the measurements of lease liabilities	$ 1,963	$ 1,942
ROU assets obtained in the exchange for lease liabilities	495	3,448
Balance Sheet:		
Operating lease ROU assets	$ 6,362	$ 7,414
Operating lease liabilities	6,671	7,792
Operating leases:		
Weighted-average remaining lease term (in years):	4.4	5.3
Weighted-average discount rate:	4.82%	4.62%

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

	December 31, 2023 (In thousands)
Maturities of lease liabilities:	
2024	$ 1,811
2025	1,632
2026	1,525
2027	1,328
2028	655
Thereafter	433
Total lease payments	7,384
Less: imputed interest	713
Total lease liability	$ 6,671

Total lease income for the years ended December 31, 2023 and 2022, was $3.6 million and $3.5 million, respectively. The table on the following page 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, 2023:

NOTE 10 – Leases, continued

	December 31, 2023 (In thousands)
2024	$ 2,840
2025	2,152
2026	2,017
2027	1,754
2028	777
Thereafter	864
Total lease income	$ 10,404

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 $10.2 million and $9.2 million for the profit-sharing plan in 2023 and 2022, respectively. At December 31, 2023 and 2022, no shares of the Bank's stock are 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 following table presents a summary of the total share-based compensation expense and the related net tax benefits associated with the Bank's employee share-based compensation plan for the years ended December 31, 2023 and 2022.

	2023	2022
	(In thousands)	
Stock compensation costs	$ 7,524	$ 6,932
Related net tax benefits for stock compensation plans	2,224	2,049

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 $10.4 million as of December 31, 2023 and will be recognized over the next 6.5 years.

NOTE 12 – Long Term Incentive Plan, continued

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

	Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2021	5,900	$ 7,345
Granted	-	-
Vested	-	-
Forfeited	(100)	8,150
Outstanding as of December 31, 2022	5,800	7,331
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding as of December 31, 2023	5,800	$ 7,331

The total fair value of the unvested time-based RSUs as of December 31, 2023 and December 31, 2022 was $29.7 million and $43.3 million, respectively. There are no vested RSUs in 2023 and 2022.

NOTE 13 – INCOME TAXES

The income tax expense attributable to income from continuing operations for the years ended December 31, 2023 and 2022, consists of the following:

	2023	2022
	(In thousands)	
Current income taxes:		
Federal	$ 8,127	$ 11,491
State	8,343	14,544
Total current tax expense	16,470	26,035
Deferred income taxes:		
Federal	(3,597)	(176)
State	(948)	410
Total deferred tax (benefit) expense	(4,545)	234
Total income tax expense	$ 11,925	$ 26,269

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 at December 31, 2023 and 2022 are as follows:

	2023	2022
	(In thousands)	
Deferred tax assets		
Allowance for credit losses	$ 35,725	$ 25,473
Tax credit investments — state tax basis difference	4,685	4,709
Tax credit carryforward	4,065	-
Capital loss carryforward	2,105	5,386
State income taxes	-	930
Accrued employee compensation	10,711	8,698
Premises and equipment depreciation and amortization	-	1,139
Operating lease liabilities	2,124	2,481
Capitalized R&E costs	1,890	965
Other, net	197	85
Gross deferred tax assets	61,502	49,866
Valuation allowance	(6,703)	(10,032)
Deferred tax assets, net of valuation allowance	$ 54,799	$ 39,834
Deferred tax liabilities		
Loan origination costs	$ 2,021	$ 2,360
Tax credit investments — federal tax basis difference	1,995	2,334
State income taxes	1,360	-
Premises and equipment depreciation and amortization	623	-
Prepaid assets	1,051	1,241
Lease right-of-use assets	2,026	2,361
Gross deferred tax liabilities	9,076	8,296
Net deferred tax assets	$ 45,723	$ 31,538

The statutory federal income tax rate was 21% for 2023 and 2022. The difference between the effective tax rate in the financial statements and the federal income tax rate is attributed to the following:

	2023	2022
Federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	6.9%	8.3%
Tax-exempt interest income, net	(2.0%)	(3.8%)
Investment tax credits, net	(10.8%)	(6.4%)
Research tax credits	(0.4%)	(0.1%)
Solar tax credits	(0.8%)	-
Valuation allowance	0.8%	0.5%
Other	(0.2%)	(0.1%)
	14.5%	19.4%

NOTE 13 – Income Taxes, continued

The lower effective tax rate during the year ended December 31, 2023, compared to the same period in 2022 was primarily due to lower pretax income compounded with $3.0 million more tax credits generated in 2023.

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 carry forward in California. The net valuation allowance declined by $3.3 million to $6.7 million as of December 31, 2023.

In 2023 and 2022, $17.3 million and $14.3 million, respectively, of tax credits were generated. These credits originated from tax credit investments and research and development activities. The Bank increased the Federal tax credit carryforward balance from zero to $4.1 million at the end of 2023. These tax credits are recognized using the flow through method.

California's capital loss carryforward balance was $19.4 million at the end of 2023 and $49.6 million at the end of 2022. If unused, these carryforwards will expire as follows: $6.2 million in 2025, $5.7 million in 2026, $1.6 million in 2027 and $5.8 million in 2028. The Bank does not have net operating losses (NOLs) for Federal or California. Due to allocations of losses from tax credit investments, the Bank carries a NOL for the state of Colorado in the amount of $4.8 million. If unused, these NOL carryforwards will begin to expire in 2029.

FASB ASC 740-10, Accounting for Uncertainty in Income Taxes requires that all tax positions be assessed and to the extent the position is more likely than not to be sustained on its technical merits, a benefit will 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, 2023, tax years 2020 through 2023 for federal purposes and tax years 2019 through 2023 for state purposes, remain open to examination. The Bank has $244 thousand in unrecognized tax benefits and expects the amount to reduce to zero in the next 12 months. The Bank may, from time to time, be assessed interest or penalties by taxing authorities, although any such assessments historically have been minimal and immaterial to our financial results.

NOTE 14 – EARNINGS PER SHARE

The table on the following page is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years indicated:

NOTE 14 – Earnings Per Share, continued

	Year Ended December 31,					
	2023			2022		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except share and per share data)					
Net income	$ 70,007			$ 109,002		
Basic EPS, income	$ 70,007	123,202	$ 568.23	$ 109,002	124,407	$ 876.17
Effect of RSU		3,211			2,997	
Diluted EPS, income	$ 70,007	126,413	$ 553.79	$ 109,002	127,404	$ 855.56

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 as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the reserve for unfunded loan commitments. Commitments to extend credit are agreements to lend to a customer, provided there is no violation of any condition established in the agreement.

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

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

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

	December 31,	
	2023	2022
	(In thousands)	
Commitments to extend credit	$ 1,810,851	$ 2,107,561
Financial standby letters of credit	29,412	23,417
Performance standby letters of credit	19,676	17,616
Total Commitments	$ 1,859,939	$ 2,148,594

Legal Matters

From time to time, the Bank is a defendant or plaintiff in various legal proceedings, including litigation arising in the ordinary course of our business. The outcome of such legal proceedings and the timing of ultimate resolution are inherently difficult to predict. In accordance with applicable accounting guidance, the Bank establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts

NOTE 15 – Commitments and Contingencies, continued

Legal Matters, continued

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

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The three-level inputs to measure the fair value of assets and liabilities are as follows:

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

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

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

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.

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 appraisals that are adjusted based on recent market trends, a Level 3 measurement. The individually evaluated loans categorized as Level 3 also include loans whose fair values are based on unobservable inputs such as cash flows discounted at the effective loan rate, management’s judgment, or in the event current appraised value was higher than the Bank’s book balance.

NOTE 16 – Fair Value Measurements, continued

The following tables present the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the balance sheets at their fair values as of December 31, 2023 and 2022:

	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
		(In thousands)		
As of December 31, 2023				
Assets				
On a recurring basis:				
Securities available-for-sale	$ 9,895	$105,988	$ -	$ 115,883
On a non-recurring basis:				
Individually evaluated loans	-	-	-	-
Total assets	$ 9,895	$105,988	$ -	$ 115,883

	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
		(In thousands)		
As of December 31, 2022				
Assets				
On a recurring basis:				
Securities available-for-sale	$ 10,261	$113,658	$ -	$ 123,919
On a non-recurring basis:				
Individually evaluated loans	-	-	-	-
Total assets	$ 10,261	$113,658	$ -	$ 123,919

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are defined under FASB ASC 825-50, *Financial Instruments – Disclosures,* as cash, evidence of an ownership in an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. A significant portion of the Bank's assets and liabilities are financial instruments as defined under FASB ASC 825-50.

The following presents a description of the Bank's financial instruments and the methodologies and assumptions used to estimate their fair value. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized; however, for a significant portion of the Bank's financial instruments, active markets may not exist. Therefore, considerable judgments are required in estimating fair value of certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 2023 and 2022, the amounts that will actually be realized could be significantly different.

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

Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms, by performing and nonperforming categories, and credit quality. The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates with an "exit price concept," that reflect the credit and interest rate risk inherent in the loan. The entire allowance for loan losses was deducted from the loan portfolio. Accordingly, they are considered to be carried at fair value, as the allowance for loan losses represents the estimated discount for credit risk for the applicable loans.

Investments in FHLB and FRB Stock

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

Deposits

The fair value of demand deposits, savings and money market saving accounts represents the amount payable on demand at the reporting date. For fixed maturity time deposits, the fair value was estimated by discounting expected cash flows by the current offering rates of term deposits with similar maturities; however, since the Bank's current interest rate is approximately at market, fixed maturity time deposits were determined to approximate the carrying value.

Securities Sold under Repurchase Agreements

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

Other Borrowings

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 maturity over one year are estimated by discounting the future cash flow using the current interest rates offered for similar advances.

Off-Balance-Sheet Financial Instruments

As the standby letters of credit and commitments to lend have terms that are consistent with current market terms, the Bank estimates the fair value of the fees charged to enter into such agreements to be nominal.

NOTE 17 – Fair Value of Financial Instruments, continued

Off-Balance-Sheet Financial Instruments

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

	Carrying Value	Level 1	Level 2	Level 3	Estimated Fair Value
			(In thousands)		
As of December 31, 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, net of credit losses	4,301,060	194,824	3,684,502	25,559	3,904,885
Loans, net of allowance for loan 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
As of December 31, 2022					
Financial Assets:					
Cash and due from banks	$ 142,858	$142,858	$ -	$ -	$ 142,858
Securities available-for-sale	123,919	10,261	113,658	-	123,919
Securities held-to-maturity	4,789,522	210,462	4,026,635	26,365	4,263,462
Loans, net of allowance for loan losses	6,674,459	-	-	6,292,276	6,292,276
Investments in FHLB and FRB stock	27,088	-	27,088	-	27,088
Financial Liabilities:					
Deposits					
Non-interest-bearing deposits	$3,355,298	$ -	$3,355,298	-	$3,355,298
Interest-bearing deposits	2,212,509	-	2,212,509	-	2,212,509
Savings and money market deposits	2,668,334	-	2,668,334	-	2,668,334
Time deposits	906,355	-	906,355	-	906,355
Securities sold under repurchase agreements	785,912	-	785,912	-	785,912
Borrowings	700,000	-	700,000	-	700,000

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 executive and other officers of the Bank serve as officers and/or directors of Queen City and/or its subsidiaries, including the Trust Company.

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:

	2023	2022
	(In thousands)	
Lease payments paid to:		
Queen City Investments, Inc.	$ 328	$ 293
Farmers & Merchants Trust Company	5	5
Lease payments received from:		
Farmers & Merchants Trust Company	236	229

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 2023 and 2022, the Trust Company paid the Bank a net total of $495 thousand and $497 thousand, respectively, under this agreement.

In addition, the Bank and the Trust Company have entered into various agreements for the exchange of other services, which provide for the periodic settlement between the parties of the differences in the values of respective services provided between each other. Under this arrangement, the Bank provides human resources, payroll services, and IT support to the Trust Company, and the Trust Company provides financial services to the Bank and maintains deposits with the Bank. For the year ended December 31, 2023, the Bank paid the Trust Company a total of $57 thousand for the difference between the values of services exchanged between the parties. For the year ended December 31, 2022, the Trust Company paid the Bank a total $97 thousand for the difference between the values of services exchanged between the parties.

At December 31, 2023 and 2022, related-party loans were $3.1 million and $3.2 million, respectively. At December 31, 2023 and 2022, related-party deposits were $231.4 million and $205.2 million, respectively, of which, $231.3 million and $204.6 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, 2023 and 2022.

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

NOTE 19 – Regulatory Matters, continued

December 31, 2023 and 2022, the Bank continued to exceed all ”well capitalized” capital requirements and the required minimum capital requirements under the Basel III Capital Rules. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital ratios, Tier 1 risk-based capital ratios, Tier 1 common equity capital ratios, and Tier 1 leverage ratios as set forth in the following table.

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

NOTE 20 – SUBSEQUENT EVENTS

The Bank has evaluated events subsequent to December 31, 2023 and through April 1, 2024, the date that these financial statements were issued. There have been no subsequent events that occurred during the period that would require recognition in the financial statements or its disclosure in 2023.

Los Angeles Business Journal
NONPROFIT
& Corporate Citizenship
2023 AWARDS

Points of Light
THE CIVIC 50
ORANGE COUNTY

Farmers & Merchants Bank
www.bauerfinancial.com
Rated 5-Stars by Bauer

Orange County Business Journal
COMPANIES THAT CARE
HONOREE
2023
COMPANIES THAT CARE

OUTSTANDING
UNITED STATES
FEDERAL RESERVE SYSTEM
Federal Reserve rating of F&M Bank's work to meet the needs of the community.

OUR INFO

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

Principal Officers
Daniel K. Walker, Executive Chairman
W. Henry Walker, CEO
Kevin M. Tiber, President
Taylor Hoang, Chief Financial Officer
Phillip J. Bond, Chief Credit Officer
Kathleen Salmons, Chief Risk Officer
Melissa Lanfre, Chief Operating Officer

Auditor
KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618

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

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

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

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

Corporate Headquarters
302 Pine Avenue.
Long Beach, CA 90802

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


Main - Long Beach
Belmont Shore
Bixby Knolls
Corona del Mar
Downey
East Long Beach
Fullerton
Garden Grove
Huntington Beach
Laguna Hills
Lake Forest
Lakewood
Los Altos
Memorial
Newport Beach
Orange
Redondo Beach
Rolling Hills Estates
Rossmoor
San Clemente
San Juan Capistrano
Santa Ana - Cabrillo
Santa Ana - Main
Santa Barbara
Torrance
Tustin - The District

OUR OFFICE LOCATIONS

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

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

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

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

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

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

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

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

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

Laguna Beach
401 Glenneyre St.
Laguna Beach, CA 92651
949-900-8275
Since 2024

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OUR SPECIALIZED CLIENT SERVICES

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

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

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

2023

F&M BANK

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MEMBER FDIC