MISSION VALLEY BANCORP

Success is a Journey, Not a Destination…

2010 Annual Report

To Our Shareholders, Clients & Friends

Mission Valley began its journey almost 10 years ago, opening its doors in July of 2001. The Company enjoyed early successes, including posting a profit in 2002 and the six succeeding years. Like most roads or journeys, there have been twists, turns and bumps along the way. Certainly the past year and a half has been representative of this, as Mission Valley posted its first loss at year end 2009 since opening in 2001. Though our core earnings remained strong, the need for accelerated provisions to our *allowance for loan losses* caused the loss. While economic challenges continued throughout last year, we are pleased to report that ***2010 represented the Company's return to profitability***, as net income totaled ***$859,000 for the year – a $1,526,000 increase over the previous year.*** This significant improvement in performance was achieved despite placing an additional $2.4 million toward *loan loss reserves*.

In addition to our improved earnings, Mission Valley had a number of notable achievements in 2010. Our Bank's designation as a Community Development Financial Institution (CDFI) enabled the Company to successfully exchange existing TARP funding for the more favorably structured Community Development Capital Initiative (CDCI) program funds and also facilitated our receipt of an additional $4.8 million in new capital via the same program. Receiving approval for an exchange of this nature demonstrated that both the Federal Reserve and the U.S. Treasury have confidence in our Company and in our ability to appropriately utilize this capital to the benefit of the communities we serve over the "long haul". Additionally, because the CDCI program provides less costly and more efficient capital, Mission Valley will realize an annual decrease in interest expense of more than $165,000, having a very positive effect on net operating income and thus shareholder value. These factors combined to further strengthen our Well Capitalized Position, with a Tier 1 Risk-Based Asset ratio of 18.4% (far exceeding the federal guideline of 10% to maintain Well Capitalized status). During 2010 the Company also received a Bank Enterprise Award through the CDFI fund in the amount of $600,000 in recognition of its efforts to promote economic revitalization and community development through our lending initiatives within our target market. Throughout 2010 the Bank was able to achieve steady decreases in non-performing loan ratios with classified loans down by 30% and non performing loans reduced by more than 15%.

While no one can predict what challenges may lay ahead, a conservative analysis of our remaining credit issues leads us to believe that they are relatively short term in nature and resolvable. While we will continue to closely manage our loan portfolio, our Board of Directors and Management Team believe that the Company is well positioned to take advantage of the many opportunities available to enhance growth and financial performance, and thus shareholder return. Our healthy capital position will allow us to increase our lending activity to qualified borrowers, while continuing to aggressively manage the remaining asset quality issues to resolution. Our core earnings generation has remained strong throughout the economic recession. This, coupled with a solid cushion of capital, is indicative of a sound balance sheet that will allow the Company to weather future uncertainties.

Our achievements throughout the past year were many and some of our greatest rewards were realized as the direct result of working with our clients as trusted advisors, doing all we could to assist them through these tough times. While there have been some disappointments – these were far out-numbered by the successes, including businesses and individuals that we have been able to assist with workable, creative, "win-win" solutions – helping them to meet their obligations and keep their businesses operating. Over the course

of the year we began to see slight improvements throughout the markets we serve and are hopeful that these indicators will only continue to improve.

Looking at the road ahead, though we continue to see the typical twists and turns, we have a plan to navigate them to control our journey, meet the challenges ahead and take advantage of the opportunities. During 2011 we are working on a number of our electronic service channels – having already released our first few *"eNewsletters"*, reaching out to our clients electronically with financial news and information on a monthly basis. Over the course of the year, you will also see changes to our website with the addition of a new "Business Resource" area as well as online financial education options. We will also be launching a new, enhanced business cash management system to provide greater functionality, flexibility and ease of use. We are also exploring a number of new service delivery channels including mobile banking applications.

Our journey continues with the belief that Mission Valley is well positioned to maintain our course of improved profitability and controlled growth. While the events of the past couple of years have forever changed the financial services industry, we remain steadfast in our commitment to the communities we serve and will endeavor to embrace changes that create opportunities for us to continue to make a positive impact on them.

On behalf of everyone at Mission Valley Bancorp and Mission Valley Bank, we extend our sincere appreciation for your continued confidence and support.

Sincerely,

Earle S. Wasserman

Earle S. Wasserman
Chairman of the Board
Mission Valley Bancorp
Mission Valley Bank

Tamara Gurney

Tamara Gurney
President & CEO
Mission Valley Bancorp
Mission Valley Bank

Board of Directors

Jim Bagge

Director of Mission Valley Bancorp & Bank

Mr. Bagge is the president of Helicopter Accessory Service, Inc.

Marc Foulkrod

Director of Mission Valley Bancorp

Mr. Foulkrod is the chairman and CEO of Avjet Corporation.

Tamara Gurney

President, CEO & director of Mission Valley Bancorp & Bank.

Darlynn C. Morgan

Director of Mission Valley Bancorp & Bank

Ms. Morgan has her own law firm — Morgan Law Group.

Jerold B. Neuman

Director of Mission Valley Bancorp & Bank

Mr. Neuman is an attorney with the law firm of Sheppard, Mullin, Richter & Hampton LLP.

John Richardson

Director of Mission Valley Bancorp & Bank

Mr. Richardson is Vice President & General Manager — Crown Disposal Co., Inc. & Community Recycling & Resource Recovery, Inc.

Earle S. Wasserman

Director and chairman of the board of Mission Valley Bancorp & Bank

Mr. Wasserman is also currently chairman of The Hallmark Group.

The Patrick Visciglia Spirit Award

Mission Valley Bank's Spirit Award was established in memoriam of one of our original founders and Directors, Patrick Visciglia. The award is presented annually to the individual within the Bank that most closely emulates Pat's dedication, passion and commitment to the Bank, fellow staff members and our clients.

Each year, the entire staff of Mission Valley Bank is asked to nominate the one individual that they feel is most deserving of this honor. **The 2010 recipient of the Patrick Visciglia Spirit Award is Elia Blankenship – Vice President, Service Manager.** Elia joined Mission Valley Bank in 2009 and has since worked diligently to streamline processes throughout the Bank's Operations and Loan Servicing departments. As attested to by the receipt of this honor, her efforts have been appreciated by her team members as well as management.

MISSION VALLEY BANCORP

Annual Report

Financial Statements

Consolidated Statements of Financial Condition

DECEMBER 31, 2010 AND 2009

DECEMBER 31	2010	2009
(Dollars in thousands, except share data)		
ASSETS		
Cash and due from banks	$ 5,315	$ 8,501
Federal funds sold	20,865	17,135
Total Cash and cash equivalents	26,180	25,636
Interest bearing deposits in other banks	8,664	6,074
Investment securities available-for-sale, at fair value	22,363	22,557
Loans, net	185,994	195,749
Premises and equipment, net	1,259	1,808
Other real estate owned	273	-
Deferred tax asset, net	1,336	1,672
Bank owned life insurance	5,385	5,192
Common stock, substantially restricted	2,095	2,288
Accrued interest receivable	784	872
Other assets	1,831	2,607
TOTAL ASSETS	$ 256,164	$ 264,455
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing demand	$ 59,846	$ 58,865
Interest-bearing demand	38,836	39,649
Savings, NOW, exchange and escrow	8,476	8,454
Time deposits under $100,000	8,537	16,994
Time deposits $100,000 and over	78,065	80,757
Total Deposits	193,760	204,719
Borrowings	26,000	29,000
Junior subordinated deferred interest debentures	6,186	6,186
Accrued interest payable and other liabilities	1,522	1,176
Total liabilities	$ 227,468	$ 241,081
Commitments and contingencies - Note 11		
Shareholders' Equity		
Preferred stock - 10,000,000 shares authorized; 14,916 and 10,080 shares issued and outstanding at December 31, 2010 and 2009, respectively:		
Series A, designated	-	5,500
Series B, designated	4,580	4,580
Series C, designated	5,500	-
Series D, designated	4,836	-
Common stock - 10,000,000 shares authorized; no par value; 2,543,293 and 2,503,633 shares issued and outstanding at December 31, 2010 and 2009, respectively	9,717	9,572
Additional paid in capital	60	47
Retained earnings	3,817	3,442
Accumulated other comprehensive income	186	233
Total stockholders' equity	28,696	23,374
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 256,164	$ 264,455

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operations

DECEMBER 31, 2010 AND 2009

FOR THE YEARS ENDED DECEMBER 31,	2010	2009
(Dollars in thousands, except per share data)		
Interest Income		
Interest and fees on loans	$ 13,023	$ 13,755
Interest on investment securities	765	1,024
Other interest income	125	159
Total interest income	13,913	14,938
Interest Expense		
Interest on deposits	2,002	2,772
Interest on borrowings	713	1,051
Total interest expense	2,715	3,823
Net Interest Income	11,198	11,115
Provision for Loan Losses	2,394	5,375
Net Interest Income After Provision For Loan Losses	8,804	5,740
Non-Interest Income		
Service charges and other income	2,332	2,366
Interest earned on bank owned life insurance	193	192
Net merchant income	45	187
Net realized gains on the sale of securities	60	56
Other income	701	779
Total Noninterest Income	3,331	3,580
Non-Interest Expenses		
Salaries, wages and employee benefits	5,626	5,514
Occupancy and equipment expenses	713	650
Furniture and equipment	1,082	1,153
Data processing	867	813
Advertising	169	219
Legal, professional, and consulting	851	835
Insurance	677	700
Other operating expenses	955	977
Total Noninterest Expense	10,940	10,861
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	1,195	(1,541)
(Provision) benefit for income taxes	(336)	874
NET INCOME (LOSS)	$ 859	$ (667)
		As Restated (Note 1)
Earnings (loss) per share available to common shareholders - basic	$ 0.15	$ (0.38)
Earnings (loss) per share available to common shareholders - diluted	$ 0.14	$ (0.38)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)

DECEMBER 31, 2010 AND 2009

FOR THE YEARS ENDED DECEMBER 31

(Dollars in thousands, except for share data)

		Preferred Stock		Common Stock					
	Comprehensive Income (loss)	Number of Shares	Amount	Number of Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 2008	$ -	5,500	$ 5,500	2,495,758	$ 9,542	$ 34	$ 4,394	$ 47	$ 19,517
Stock options exercised	-	-	-	7,875	30	-	-	-	30
Stock-based compensation	-	-	-	-	-	13	-	-	13
Issuance of preferred stock Series B	-	4,580	4,580	-	-	-	-	-	4,580
Dividends on preferred stock	-	-	-	-	-	-	(285)	-	(285)
Net Loss	(667)	-	-	-	-	-	(667)	-	(667)
Change in unrealized gain on investment securities available-for-sale, net of tax expense of ($131)	186	-	-	-	-	-	-	186	186
Total comprehensive loss	(481)								
BALANCE, December 31, 2009	-	10,080	10,080	2,503,633	9,572	47	3,442	233	23,374
Stock options exercised	-	-	-	39,660	145	-	-	-	145
Stock-based compensation	-	-	-	-	-	13	-	-	13
Exchange of preferred stock Series A for Series C	-	(5,500)	(5,500)	-	-	-	-	-	(5,500)
Exchange of preferred stock Series C for Series A	-	5,500	5,500	-	-	-	-	-	5,500
Issuance of preferred stock Series D	-	4,836	4,836	-	-	-	-	-	4,836
Dividends on preferred stock	-	-	-	-	-	-	(484)	-	(484)
Net Income	859	-	-	-	-	-	859	-	859
Change in unrealized gain on investment securities available-for-sale, net of tax expense of $34	(47)	-	-	-	-	-	-	(47)	(47)
Total comprehensive income	$ 812								
BALANCE, December 31, 2010		14,916	$ 14,916	2,543,293	$ 9,717	$ 60	$ 3,817	$ 186	$ 28,696

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flow

DECEMBER 31, 2010 AND 2009

FOR THE YEARS ENDED DECEMBER 31	2010	2009
(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 859	$ (667)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	594	714
Provision for loan losses	2,394	5,375
Amortization of deferred loan fees and costs, net	216	156
Gain on sale of securities available for sale	(60)	(56)
Gain on sale of premises and equipment	-	(2)
Accretion and amortization on investments	(34)	12
Share-based compensation	13	13
Deferred taxes	370	(1,527)
Increase in cash surrender value of bank owned life insurance	(193)	(192)
Net change in:		
Accrued interest receivable and other assets	864	(1,451)
Accrued interest payable and other liabilities	346	(157)
Net cash provided by operating activities	5,369	2,218
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in interest bearing deposits with banks, net	(2,590)	(1,695)
Purchases of available-for-sale securities	(11,896)	(12,214)
Proceeds from repayments, sales, and maturities of available-for-sale investments	12,103	9,856
Proceeds from sale of common stock, substantially restricted	193	-
Net decrease (increase) in loans	6,872	(11,048)
Proceeds from the sale of premises and equipment	-	60
Purchase of premises and equipment	(45)	(111)
Net cash provided by (used in) investing activities	4,637	(15,152)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(10,959)	24,742
Net decrease in borrowings	(3,000)	(3,000)
Exercise of stock options	145	30
Proceeds from issuance of preferred stock	4,836	4,580
Dividends paid on preferred stock	(484)	(285)
Net cash provided by (used in) financing activities	(9,462)	26,067
Change in Cash and Cash Equivalents	544	13,133
Cash and cash equivalents, beginning of year	25,636	12,503
Cash and cash equivalents, end of year	$ 26,180	$ 25,636
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 2,744	$ 4,537
Taxes paid	-	131
Supplemental Disclosures of Noncash Investing and Financing Activities		
Transfers from loans to other real estate owned	$ 273	$ -
Unrealized gain on investments available-for-sale	81	(317)
Exchange of preferred stock Series A for Series C	5,500	-

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Mission Valley Bank (the "Bank") was formed during 2001 and on May 24, 2005, the shareholders of the Bank approved the exchange of common stock in Mission Valley Bank for common stock of a newly formed holding company, Mission Valley Bancorp (the "Company"). The transaction was consummated on August 20, 2005. The Company provides a full range of banking services to individual and corporate customers through the Bank. The Bank has three branches located in Sun Valley, Valencia and Santa Clarita, California. The Company has been authorized by the Federal Reserve Bank of San Francisco to engage in lending activities separate from the Bank but to date has not done so.

Mission Valley Bank is a state chartered depository institution subject to regulation and examination by the California Department of Financial Institutions ("DFI") and Federal Deposit Insurance Corporation ("FDIC").

Basis of Presentation and Consolidation
The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United State of America ("GAAP") and general practices within the banking industry. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Mission Valley Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

In 2005, the Company issued $6,186,000 of junior subordinated deferrable interest debentures through Mission Valley Statutory Trust I. The Company follows generally accounting principles that determines when variable interest entities should be consolidated and determined that the Mission Valley Statutory Trust I should not be consolidated. As a result, the consolidated balance sheet includes $6,186,000 on long-term borrowings, reported as junior subordinated deferrable interest debentures. Also included in other assets on the consolidated balance sheet is $186,000 of investments in Mission Valley Statutory Trust I, which is reported using the cost method.

Subsequent Events
The Company recognizes in the consolidated financial statements the effect of all subsequent events (transactions or events that occur after the balance sheet date but before the consolidated financial statements are issued) that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Company has evaluated subsequent events through March 31, 2011, which is the date the consolidated financial statements were available to be issued. There were no events that required disclosure in the consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the 2009 consolidated financial statements to conform to current year presentation. These reclassifications have no effect on previously reported net income or total shareholders' equity of the Company.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statement of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of investment securities, valuation of deferred tax assets and share-based compensation. Actual results could differ from the estimated amounts.

Concentration of Credit Risk
Assets and liabilities that subject the Company to concentrations of credit risk consist of interest-bearing deposits at other banks, investments available-for-sale, loans and deposits. Most of the Company's customers are located within Los Angeles County and surrounding areas. For the years ended December 31, 2010 and 2009, the Company did not have any significant concentrations in its business with any one customer or industry.

As of December 31, 2010 and 2009, the Company has cash deposits at other financial institutions in excess of the FDIC insured limits. The Company places these deposits with major financial institutions and monitors the financial condition of these institutions. Management believes the risk of loss associated with such deposits to be minimal.

The Company's loan portfolio consists primarily of loans to borrowers within Southern California. Although the Company has a diversified loan portfolio, a substantial part of the debtors' ability to honor their contracts is dependent upon the economic conditions in this region. Real estate secured loans represented approximately 54% and 57% of total gross loans at December 31, 2010 and 2009, respectively. Management has taken this factor into account in the determination of the allowance for loan losses.

Cash and Cash Equivalents
For purposes of reporting cash and cash equivalents in the consolidated statements of financial position and the consolidated statements of cash flows, cash and cash equivalents include cash, due from banks and federal funds sold, all of which mature within ninety days.

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company was in compliance with its reserve requirements as of December 31, 2010 and 2009.

Interest Bearing Deposits in Other Banks
Interest-bearing deposits in other banks are purchased with an original maturity date greater than ninety days and are carried at amortized cost. Interest-bearing deposits in other banks include certificates of deposits in major financial institutions located throughout the United States of America.

Investment Securities
In accordance with generally accepted accounting principles, the Company is required to designate its readily marketable investments securities as "held-to-maturity", "available-for-sale", or "trading". The Company did not designate any of its investments as either held-to-maturity or trading securities. Debt securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity as an item of other comprehensive income. Investment transactions are recorded on the trade date. Gains and losses on held for investment securities are recognized at the time of sale based upon the specific identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related writedowns are reported in the consolidated statement of operations as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Interest income from the investment securities portfolio is accrued as earned including the accretion of discounts and the amortization of premiums based on the original cost of each security owned. Discounts and premiums are accreted and amortized on a method that approximates the effective interest method to the maturity date of the security with the exception of the mortgage backed securities. Mortgage backed securities are accreted and amortized to the expected maturity date of the investment security. Realized gains or losses on the sale of investment and mortgage-backed securities are reported in the statement of operations as of the trade date and determined using the amortized cost of the specific security sold.

Management performs regular impairment analyses on the securities available-forsale. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the debt security not impaired at acquisition, an other-than temporary impairment is considered to have occurred. When an other-than-temporary impairment ("OTTI") occurs, the cost basis of the security is written down to its fair value (as the new cost basis) and the write-down is accounted for as a realized loss if it is credit related. In assessing whether impairment represents OTTI, the Company must consider whether it intends to sell a security or if it is likely that they would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if the Company intends to sell the security or it is likely that a sale of the security may be required before recovering the cost basis, the entire impairment loss would be charged to results of operations as an OTTI. If the Company does not intend to sell the security and it is not likely the sale of the security is required by the Company, and the Company does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be charged to results of operations. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows to be expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to other factors, the difference between the present value of the cash flows to be expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI").

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation amounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Interest income on loans is calculated by the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and origination costs are capitalized and recognized as an adjustment to yield over the life of the related loan using the effective interest method. The accrual of interest on loans is discontinued at the time the loan becomes ninety-days delinquent unless the credit is well secured and in process of collection. In some cases, loans can be placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Subsequent collections of interest are applied to unpaid balances or included in interest income based upon management's assessment of the likelihood that principal will be collected.

When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

A loan is considered impaired when it is probable that the Company will not be able to collect all principal and interest amounts due according to the loan's contractual terms based upon available information and events. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The amount of the valuation allowance for impaired loans is determined by comparing the recorded investment in each loan with its value measured by one of three methods: (i) the estimated present value of total expected future cash flows, discounted at the loan's effective interest rate; (ii) the loan's observable market price, if available from a secondary market; or (iii) by the fair value of the underlying collateral if the loan is collateral dependent.

If the measure of impairment for an impaired loan is less than the related recorded investment, a specific valuation allowance (impairment allowance) is established as a component of the allowance for loan losses through a charge to the provision for loan losses. Subsequent permitted adjustments to the impairment allowance are made through a corresponding charge or credit to the provision for loan losses.

Loans are reported as restructured when the Company grants concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concession include forgiveness of principal or accrued interest, extending the maturity date(s), or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Company will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan losses.

Allowance for Loan Losses
The provision for loan losses charged to results of operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered adequate to absorb probable losses inherent in the portfolio at the date of the financial statements. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans that considers historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and qualitative components. The specific component relates to loans that are considered impaired for which an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

Premises and Equipment
Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation is computed using the straightline method over the estimated useful lives, which range from three to five years for furniture and equipment. Leasehold improvements are amortized over the shorter of the remaining lease term and the subsequent option period that is likely to be exercised or the estimated useful lives of the leasehold improvements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to results of operations as incurred. Gains and losses on dispositions are included in current results of operations.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected future cash flows is less than the stated amount of the asset, an impairment loss is recognized for the difference between the fair value of the asset and its carrying amount.

Other Real Estate Owned
Assets acquired in settlement of loans are recorded at fair value less estimated disposal costs. Any excess of the carrying amount of the loan over the fair value of the asset is charged against the allowance for loan losses at the time of transfer. Subsequent to the transfer, any losses on disposition or write-downs as a result of declines in market value of specific assets are charged against current results of operations. Real estate acquired through foreclosure sale, deed-in-lieu of foreclosure, and bank property for which banking use is no longer contemplated are classified as other real estate owned and is included in other assets. Operating income and expenses incurred on these properties are reflected in current earnings within non-interest expense.

Income taxes
The Company uses the asset and liability method to account for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

The Company's annual tax rate is based on its income, statutory tax rates and tax planning opportunities available in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. Accounting for income taxes prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company reviews its tax positions periodically and adjusts the balances as new information becomes available. It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of other expenses in the statement of operations.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. The Company uses historical

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

experience and short and long-range business forecasts to provide insight. Although realization is not assured for the remaining deferred income tax assets, the Company believes it is more likely than not the deferred tax assets will be fully recoverable within the applicable statutory expiration periods. However, deferred tax assets could be reduced in the near term if estimates of taxable income are significantly reduced or available tax planning strategies are no longer viable.

Bank Owned Life Insurance
The Company invests in Bank Owned Life Insurance (“BOLI”). BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of these policies. BOLI is recorded as an asset at cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other non-interest income and are not subject to income tax.

Common Stock, Substantially Restricted
At December 31, 2010 and 2009, the Company held $1,549,000 and $1,743,000, respectively, of shares of Federal Home Loan Bank (FHLB). The FHLB is focused on conserving capital in response to its concerns with the housing and mortgage markets. The Company evaluates its investment in FHLB stock for impairment on periodic basis. The FHLB has been in compliance with all of its regulatory capital requirements at the end of 2010 and 2009. The Company has not recorded an impairment on its investment of FHLB stock during 2010 and 2009. However, continued deterioration in the FHLB’s financial position may result in impairment in the value of those securities, or the requirement that the Company contribute additional funds to recapitalize the FHLB, or reduce the Company’s ability to borrow funds from the FHLB, which may impair the Company’s ability to meet liquidity demands.

The Company also invests in the stock of Pacific Coast Bankers Bank (PCBB) in connection with its correspondent banking arrangement with PCBB. At December 31, 2010 and 2009, the Company held $531,000 of PCBB stock. PCBB stock is restricted as to purchase, sale and redemption. As of December 31, 2010 and 2009, these investments are carried at cost which is not lower than fair market value.

The investments in FHLB stock, and PCBB stock are treated for reporting purposes as cost method investments as of December 31, 2010 and 2009.

Financial Instruments
In the ordinary course of business, the Company has entered into off-balance sheet agreements consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or the related fees are incurred or received.

Share-Based Compensation
The Company accounts for stock option awards whereby the compensation cost relating to share-based payment transactions be recognized in the statements of operations based upon the grant-date fair value of the stock options granted by the Company. The effect of stock-based accounting rules are to require entities to measure the cost of employee services received in exchange for stock options and to recognize the cost over the period the employee is required to provide services for the award. The fair value of stock options are measured using a Black-Sholes pricing model.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Advertising Costs
Advertising costs of $169,000 and $219,000 for the years ended December 31, 2010 and 2009 were expensed as incurred.

Comprehensive Income (Loss)
Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on securities available-for-sale which are also recognized as separate components of shareholders' equity.

The components of other comprehensive income (loss) for years ended December 31, 2010 and 2009 are as follows:

(Dollars in thousands)	**2010**	**2009**
Net change in unrealized holding (gain) loss on investment securities available for sale	(21)	373
Reclassification adjustment for realized gains included in net income (loss)	(60)	(56)
	(81)	317
Tax effect	34	(131)
Other comprehensive (income) loss	$ (47)	$ 186

Common Stock
The Company has authorized 10 million shares of common stock. Each share entitles the holder to one vote. There are no dividend or liquidation preferences, participation rights, call prices or dates, conversion prices or rates, sinking fund requirements, or unusual voting rights associated with these shares.

Earnings (loss) per share (EPS)
Earnings or Loss per share ("EPS") amounts have been computed using both the weighted average number of shares outstanding of common stock for the purposes of computing basic EPS and the weighted average number of shares outstanding of common stock plus dilutive common stock equivalents for the purpose of computing diluted EPS. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Basic EPS excludes the dilutive effect that could occur if any securities or other contracts to issue common stock were exercised or converted into or resulted in the issuance of common stock. Diluted EPS is computed by dividing net income available to common shareholders by the sum of the weighted average number of common shares outstanding for the period plus the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Basic and diluted EPS are calculated as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

(Dollars in thousands, except per share data)	2010	As Restated 2009	As Previously Reported 2009
BASIC EARNINGS (LOSS) PER SHARE			
Net income (loss)	$ 859	$ (667)	$ (667)
Less: Dividends paid on preferred stock	(484)	(285)	-
Net income (loss) available to common shareholders	375	(952)	(667)
Divided by: Weighted average common shares outstanding	2,528	2,504	2,504
Basic earnings (loss) per share available to common shareholders	$ 0.15	$ (0.38)	$ (0.27)
DILUTED EARNINGS (LOSS) PER SHARE			
Net income (loss)	$ 859	$ (667)	$ (667)
Less: Dividends paid on preferred stock	(484)	(285)	-
Net income (loss) available to common shareholders	375	(952)	$ (667)
Weighted average common shares outstanding	2,528	2,504	2,504
Add: Dilutive effect of stock options	61	-	-
Divided by: Weighted average shares outstanding, including potentially dilutive effect of stock options	2,589	2,504	2,504
Diluted earnings (loss) per share available to common shareholders	$ 0.14	$ (0.38)	$ (0.27)

The basic and diluted EPS amounts for the year ended December 31, 2009 have been restated to incorporate dividends paid on preferred stock into the calculation of net loss available to common shareholders.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the 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. FASB ASC 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. In general, fair values determined by Level 1 inputs utilize quoted prices for identical assets or liabilities traded in active markets that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Recently issued accounting pronouncements

In December 2009, FASB issued Accounting Standards Update ("ASU") No. 2009-16, *Transfers and Servicing (Topic 860)—Accounting for Transfers of Financial Assets*. This update codifies SFAS No. 166, *Accounting for Transfers of Financial Assets—an Amendment of FASB Statement No. 140*, which was previously issued by FASB in June 2009 but was not included in the original codification. ASU 2009-16 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. This statement is effective for annual reporting periods beginning after November 15, 2009. This standard will primarily impact the Company's accounting and reporting of transfers representing a portion of a financial asset for which the Company has a continuing involvement, generally known as loan participations. In order to recognize the transfer of a portion of a financial asset as a sale, the transferred portion and any portion that continues to be held by the transferor must represent a participating interest, and the transfer of the participating interest must meet the conditions for surrender of control. To qualify as a participating interest (i) the portions of a financial asset must represent a proportionate ownership interest in an entire financial asset, (ii) from the date of transfer, all cash flows received from the entire financial asset must be divided proportionately among the participating interest holders in an amount equal to their share of ownership, (iii) involve no recourse (other than standard representation and warranties) to, or subordination by, any participating interest holder, and (iv) no party has the right to pledge or exchange the entire financial asset. If the participating interest or surrender of control criteria are not met the transfer is not accounted for as a sale and de-recognition of the asset is not appropriate. Rather the transaction is accounted for as a secured borrowing arrangement. The impact of certain participations being reported as secured borrowings rather than derecognizing a portion of a financial asset would increase total assets (loans), liabilities (term debt) and their respective interest income and expense. An increase in total assets also increases regulatory risk-weighted assets and could negatively impact the Company's capital ratios. The implementation of this standard did not have a significant impact on the Company's 2010 financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

In January 2010, The FASB has issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and
- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The Company has conformed its disclosures to encompass the requirements of this ASU within its financial statements for the year ended December 31, 2010 for the sections of this ASU that were required to be implemented during this fiscal year.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The ASU expands existing disclosures to require an entity to provide additional information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a roll forward of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. The ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For public entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2010. For public entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this ASU did not have a material impact on the Company's financial statements. See Note 3 for the additional disclosure requirements related to this ASU. ASU 2011-11, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 201020*, temporarily deferred the effective date for disclosures related to trouble debt restructurings to coincide with the effective date of a proposed ASU related to troubled debt restructurings, which is currently expected to be effective for reporting periods ending after June 15, 2011.

NOTE 2 - INVESTMENT SECURITIES

Investment securities have been classified in the statements of financial condition according to management's intent and ability as available-for-sale. The carrying amount of securities and their estimated fair values at December 31, 2010 and 2009 were as follows:

	December 31, 2010			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale				
Agency securities	$ 2,000	$ -	$ (40)	$ 1,960
Mortgage and asset-backed securities	19,247	404	(46)	19,605
Mutual fund investments	800	-	(2)	798
Total Available-for-Sale Securites	$ 22,047	$ 404	$ (88)	$ 22,363

	December 31, 2009			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale				
Mortgage and asset-backed securities	$ 18,233	$ 373	$ (14)	$ 18,592
Municipal bonds	1,751	49	-	1,800
Mutual fund investments	2,176	-	(11)	2,165
Total Available-for-Sale Securities	$ 22,160	$ 422	$ (25)	$ 22,557

Information pertaining to investment securities with gross unrealized losses at December 31, 2010 and 2009 aggregated by investment category and length of time that individual securities have been in continuous loss position is as follows:

	December 31, 2010		December 31, 2009	
	Less Than 12 Months		Less Than 12 Months	
(Dollars in thousands)	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
Available-for-Sale				
Agency securities	$ 1,960	$ (40)	$ -	$ -
Mortgage and asset-backed securities	4,508	(46)	1,917	(14)
Mutual fund investments	798	(2)	790	(11)
Total Investment Securities	$ 7,266	$ (88)	$ 2,707	$ (25)

NOTE 2 - INVESTMENT SECURITIES, *Continued*

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, which may be maturity. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Company does not have any securities that were considered to be other than temporarily impaired in 2010 and 2009.

The amortized cost and estimated fair values of available-for-sale securities (excluding mutual fund investments which do not have stated maturities) at December 31, 2010 and 2009, by contractual maturity, are shown below. Expected and actual maturities may differ from contractual maturities because issuers or borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	December 31, 2010		**December 31, 2009**	
(Dollars in thousands)	**Amortized Value**	**Estimated Fair Value**	**Amortized Value**	**Estimated Fair Value**
Due in one year or less	$ 59	$ 60	$ 5,873	$ 5,955
Due from one to five years	2,368	2,337	12,360	12,637
Due in more than five years	18,820	19,168	1,751	1,800
	$ 21,247	$ 21,565	$ 19,984	$ 20,392

Sales of investment securities available-for-sale for the years ended December 31, 2010 and 2009 resulted in $60,000 and $56,000, respectively, in gross realized gains and no realized losses.

As of December 31, 2010 and 2009, securities pledged as collateral for borrowings and to secure U.S. Government, State & Local Agencies and trust deposits as required by contract or law were $8,465,000 and $12,002,000, respectively.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Company's loan portfolio at December 31, 2010 and 2009 was as follows:

(Dollars in thousands)	**2010**	**2009**
Real estate loans	$ 103,775	$ 114,618
Commercial loans	39,483	42,279
Consumer loans	5,719	4,985
SBA Loans	12,612	12,463
Accounts Receivable loans	14,875	14,323
Leasing	2,866	6,192
Advanced Restaurant Financing	12,507	7,533
Overdrafts	52	96
Gross loans	191,889	202,489
Less:		
Allowance for loan losses	5,741	6,547
Deferred loan cost, net	154	193
Net Loans	$ 185,994	$ 195,749

The adequacy of the allowance for loan losses is determined by the Company's management based upon evaluation and review of credit quality of the loan portfolio, consideration of historical loss experience, relevant internal and external factors that affect the collection of a loan, and other pertinent factors. The allowance for loan loss analysis is a formula methodology based upon assigning a risk rating to each loan upon loan origination and is periodically reassessed and validated during the term of the loan through the Company's credit review processes. The Company's risk rating methodology assigns risk ratings ranging from 1 to 9 where a higher rating represents a higher risk.

Additionally, the Company's management utilizes qualitative adjustments to the allowance for loan loss analysis in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio. The qualitative factors considers the following nine factors, which are patterned after the guidelines provided under the Federal Financial Institutions Examination Council Interagency Policy Statement on the Allowance for Loan and Lease Losses issued in 2006:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

- Changes in the experience and ability of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the institution's loan review system;
- Changes in the value of underlying collateral for collateral-depending loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.

The Company also establishes specific loss allowances for loans where management has identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by FASB ASC 310-10-35-22, *Measurement of Impairment*. The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuations as follows:

1) the present value of future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, the Company obtains an appraisal to determine the amount of impairment at the date that the loan becomes impaired. If the third party market data indicates that the value of collateral property values has declined since the most recent valuation date, the value of the property is adjusted downward to reflect current market conditions. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, the Company either recognizes impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses or charge-off the impaired balance on collateral dependent loans if it is determined that such loss amount represents a confirmed loss.

Management believes that the allowance for loan losses was adequate as of December 31, 2010 and 2009. There is, however, no assurance that future loan losses will not exceed the levels provided for in the allowance for loan losses and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Company, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. A significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of the Company's residential development, commercial real estate, commercial construction and commercial loan portfolios. A continued deterioration in the Company's markets may adversely affect its loan portfolio and may lead to additional charges to the provision for loan losses.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

The following table presents activity related to the Company's allowance for loan losses as of and for the year ended December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Balance, beginning of year	$ 6,547	$ 2,633
Provision for loan losses charged to expense	2,394	5,375
Charge-offs	(4,004)	(1,647)
Recoveries on loans previously charged off	804	186
Balance, end of year	$ 5,741	$ 6,547

The following tables present by portfolio segment, the activity in the allowance for loan losses for the year ended December 31, 2010. The following also presents by loan type, the balance in the allowance for loan losses disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans and leases as of December 31, 2010:

Allowance for Loan Losses
As of and For the Year Ended December 31, 2010

(Dollars in thousands)	Beginning Balance	Provision for Loan Losses charged to Expense	Charge-offs	Recoveries on Loans Previously Charged-off	Ending Balance	Ending Balance Individually Evaluated for Impairment
Real Estate	$ 3,124	$ 1,264	$ (3,441)	$ 568	$ 1,515	$ 401
Commercial	2,354	1,072	(421)	214	3,219	2,036
Consumer	113	84	(142)	22	77	15
SBA	373	(227)	-	-	146	73
Accounts Receivable	348	187	-	-	535	-
Leasing	113	(49)	-	-	64	-
Advance Restaurant Financing	120	45	-	-	165	-
Overdrafts	2	18	-	-	20	-
Total	$ 6,547	$ 2,394	$ (4,004)	$ 804	$ 5,741	$ 2,525

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

	Recorded Investment in Loans As of December 31, 2010		
(Dollars in thousands)	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance
Real Estate	$ 9,879	$ 93,896	$ 103,775
Commercial	3,141	36,342	39,483
Consumer	15	5,704	5,719
SBA	1,587	11,025	12,612
Accounts Receivable	-	14,875	14,875
Leasing	-	2,866	2,866
Advance Restaurant Financing	-	12,507	12,507
Overdrafts	-	52	52
Total	$ 14,622	$ 177,267	$ 191,889

As previously noted, the Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's primary credit quality indicators are to use an internal credit risk rating system that categorizes loans and leases into pass, special mention, or classified categories. Credit risk ratings are applied individually to all loans that have significant or unique credit characteristics that benefit from a case-by-case evaluation. The following are the definitions of the Company's credit quality indicators:

- Pass/Watch: Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
- Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

- Doubtful/Loss: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge off) is deferred until more exact status may be determined. In certain circumstances, a Doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to Substandard, however must remain on non-accrual. A loss rating is assigned to loans considered un-collectible and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following table presents by class and by credit quality indicator, the recorded investment in the Company's loans as of December 31, 2010:

	Internal risk rating by loan class For the Year Ended December 31, 2010					
(Dollars in Thousands)	**Pass/Watch**	**Special Mention**	**Substandard**	**Doubtful/Loss**	**Impaired**	**Total**
Real estate loans	$ 92,961	$ 935	$ -	$ -	$ 9,879	$ 103,775
Commercial loans	33,580	400	2,362	-	3 ,141	39,483
Consumer loans	4,706	-	998	-	15	5,719
SBA loans	9,439	1,586	-	-	1,587	12,612
Accounts Receivable loans	9,055	5,785	35	-	-	14,875
Leasing	2,866	-	-	-	-	2,866
Advanced Restaurant Financing	12,507	-	-	-	-	12,507
Overdrafts	52	-	-	-	-	52
Total	$ 165,166	$ 8,706	$ 3,395	$ -	$ 14,622	$ 191,889

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

The following table presents by loan type, an aging analysis and the recorded investment in loans and leases past due as of December 31, 2010:

Aging Analysis of Past Due Loans
As of December 31, 2010

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables
Real Estate	$ -	$ -	$ 2,077	$ 2,077	$ 101,698	$ 103,775
Commercial	333	10	36	379	39,104	39,483
Consumer	-	-	-	-	5,719	5,719
SBA	-	17	-	17	12,595	12,612
Accounts Receivable	-	-	-	-	14,875	14,875
Leasing	-	-	-	-	2,866	2,866
Advanced Restaurant Financing	-	-	-	-	12,507	12,507
Overdrafts	-	-	-	-	52	52
Total	$ 333	$ 27	$ 2,113	$ 2,473	$ 189,416	$ 191,889

There were no loans that were greater than ninety days past due and still accruing interest at December 31, 2010. The recorded investment in loans and leases on nonaccrual status as of December 31, 2010 consisted of $5.2 million in real estate loans, $335 thousand in commercial loans, and $869 thousand of loans partially guaranteed by the SBA.

The following table presents information related to impaired loans as of and for the year ended December 31, 2010. The table below does not include impaired loans in the amount of $2,525,000 that were fully reserved with allowance for loan losses:

Impaired Loans
For the Year Ended December 31, 2010

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,030	$ 1,030	$ -	$ 576	$ 47
Real estate	6,581	6,581	-	4,720	291
SBA	752	752	-	916	14
With an allowance recorded:					
Commercial	$ 92	$ 92	$ 16	$ 46	$ -
Real estate	3,298	3,298	402	1,920	238
SBA	835	835	73	925	66
Total:					
Commercial	$ 1,122	$ 1,122	$ 16	$ 622	$ 47
Real estate	9,879	9,879	402	6,640	529
SBA	1,587	1,587	73	1,841	80

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *Continued*

As of December 31, 2009 loans classified as impaired amounted to $15,835,000. The total allowance for loan losses related to impaired loans as of December 31, 2009 amounted to $3,579,000. The average balance of impaired loans amounted to approximately $417,000 for the year ended December 31, 2009. Loans on non-accrual status as of December 31, 2009 amounted to approximately $7,664,000. Interest income that would have been recognized on nonaccrual loans if they had performed in accordance with the terms of the loans was $148,000 for the year ended December 31, 2009.

As of December 31, 2010, there were 49 restructured loans in the amount of $11,259,000 with a $2,351,000 allocated allowance included with impaired loan balance as of December 31, 2010. There were no restructured loans as of December 31, 2009.

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment as of December 31, 2010 and 2009 are summarized as follows:

(Dollars in thousands)	**2010**	**2009**
Building improvements	$ 2,066	$ 2,042
Furniture, fixtures, and equipment	2,937	2,916
	5,003	4,958
Less accumulated depreciation and amortization	(3,744)	(3,150)
	$ 1,259	$ 1,808

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 amounted to $594,000 and $714,000, respectively.

NOTE 5 - DEPOSITS

At December 31, 2010, the scheduled maturities of time deposits are as follows:

(Dollars in thousands)	**Time Deposits under $100,000**	**Time Deposits $100,000 and Over**
Matures during year ending December 31,		
2011	$ 7,066	$ 58,906
2012	770	3,451
2013	368	2,389
2014	246	7,356
2015	71	5,963
Thereafter	16	-
	$ 8,537	$ 78,065

NOTE 6 - BORROWINGS

The Company has a line of credit available from the FHLB, which is secured by pledged loans. Borrowings may include overnight advances as well as loans with terms of up to 30 years. At December 31, 2010 and 2009, the Company had fixed rate borrowings of $26,000,000 and $29,000,000, respectively, maturing at various dates through 2013 with an average annual weighted rate of 1.36% and 1.71%, respectively. The Company had $27,741,000 and $26,785,000 of borrowing capacity from the FHLB at December 31, 2010 and 2009, respectively, based upon loans and securities available to be pledged.

The Company has an unsecured revolving line of credit with PCBB providing for federal fund purchases up to $7,500,000, and up to $3,000,000 with Union Bank. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2010 and 2009, the Company did not have an outstanding balance against these lines of credit.

NOTE 7 - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Mission Valley Statutory Trust I (“the Trust”) was formed by the Company for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trust is not consolidated and the fixed rate junior subordinated deferrable interest debentures held by the Trust, issued and guaranteed by the Company, are reflected in borrowings within the Company’s consolidated balance sheet.

On September 16, 2005, the Trust issued $6,000,000 fixed rate Capital Trust Pass- Through Securities (TRUPS) with a liquidation value of $1,000 per security for gross proceeds of $6,000,000. The entire proceeds of the issuance were invested by the Trust in $6,186,000 of junior subordinated deferrable interest debentures issued by the Company with identical maturity, repricing, and payment terms as the TRUPS. These debentures represent the sole assets of the Trust and mature on December 15, 2035, and bear interest at 5.97% through September 15, 2010 and variable rate equal to LIBOR plus 1.50% from September 15, 2010 through maturity. Interest payments are due on a quarterly basis. The interest is deferrable, at the Company’s option for a period of up to twenty consecutive quarterly periods, but in any event not beyond September 16, 2035. The debentures are redeemable at the Company’s option on any March 15, June 15, September 15, December 15, on or after December 15, 2010.

NOTE 8 - INCOME TAXES

The provision (benefit) for income taxes for years ended December 31, 2010 and 2009 consisted of the following:

(Dollars in thousands)	2010	2009
Current		
Federal	$ (35)	$ 507
State	1	146
	(34)	653
Deferred		
Federal	63	(1,124)
State	307	(403)
	370	(1,527)
	$ 336	$ (874)

NOTE 8 - INCOME TAXES, *Continued*

A reconciliation of the Company's effective tax rate with the statutory Federal income tax rate for years ended December 31, 2010 and 2009 is as follows:

(Dollars in thousands)	**2010**	**2009**
Statutory Federal income tax rate	34.0 %	34.0 %
State franchise tax, net of federal benefit	7.0	11.0
Other	(12.9)	11.7
	28.1 %	56.7 %

Change in deferred taxes of $34,000 and $131,000 related to unrealized gains and losses on investment securities available-for-sale during 2010 and 2009, respectively, were allocated to other comprehensive income.

The following is a summary of the components of the net deferred tax asset at December 31, 2010 and 2009:

(Dollars in thousands)	**2010**	**2009**
Deferred tax assets:		
Allowance for loan losses	$ 1,917	$ 2,462
Depreciation and amortization	286	238
State tax	1	50
Non-accrual interest	96	-
Deferred compensation	230	-
Other, net	47	-
Total deferred tax assets	2,577	2,750
Deferred tax liabilities:		
Certain prepaid assets	93	88
Unrealized gain on investment securities	129	163
Bank Enterprise Award (BEA)	1,019	772
Other, net	-	55
Total deferred tax liabilities	1,241	1,078
Net deferred tax asset	$ 1,336	$ 1,672

Management believes, based upon the Company's historical performance and future projections, it is more likely than not the deferred tax asset will be realized in the normal course of operations and has determined that no valuation allowance is necessary as of December 31, 2010 and 2009, respectively.

The Company adopted the provisions of FASB ASC 740-10, Income Taxes, relating to accounting for uncertain tax positions on January 1, 2009, which had no financial statement impact to the Company. The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

NOTE 8 - INCOME TAXES, *Continued*

The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months. There were no interest and penalties accrued for the year ended December 31, 2010 and 2009. The Company files income tax returns in the U.S. federal jurisdiction and in California. The Company is no longer subject to U.S. federal tax authority examination for years before 2007 and California state tax authority examinations for years before 2006.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company has established a 401(k) Plan for the benefit of eligible employees, whereby each employee being at least twenty-one years of age may become a participant at specified intervals. Employees may contribute up to 50% of their annual compensation to the 401(k) Plan each year subject to certain limits based on federal tax laws. The Company may elect to make some level of matching contributions to the Plan at the discretion of the Board of Directors. Matching contributions of $122,000 per year were made for the years ended December 31, 2010 and 2009.

The Company sponsors a supplemental executive retirement plan (“SERP”) which is a nonqualified unfunded pension plan covering a select group of senior executives. The plan provides a retirement benefit payable in the form of a life annuity to the participants, which is based on a specified dollar amount as stated in the agreements. The accrued post retirement benefit balance was $478,000 and $354,000 at December 31, 2010 and 2009, respectively, and is reported in accrued interest payable and other liabilities within the consolidated statements of financial condition. The post retirement benefit expense reported within salaries, wages and employee benefits in the consolidated statements of operations was $146,000 and $201,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 10 - STOCK OPTION PLAN

The Company has stock option plan (the “Plan”) whereby officers, directors and key employees may be granted both nonqualified and incentive stock options. Directors and other individuals who are not officers or employees may only be granted nonqualified stock options under the Plan. The Plan provides for options to purchase up to 547,027 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the plan. When options are exercised, the Company intends to issue new stock rather than purchase stock from existing shareholders. At December 31, 2010, 303,640 shares had been issued leaving 173,521 options available for future issuance. No stock options were granted during 2010 and 2009.

The Company recognized stock-based compensation costs of $13,000 per year for the years ended December 31, 2010 and 2009, respectively. The Company also recognized income tax benefits related to stock based compensation of $3,000 per year for the years ended December 31, 2010 and 2009, respectively.

NOTE 10 - STOCK OPTION PLAN, *Continued*

Based solely on stock options outstanding at December 31, 2010, the estimated pretax compensation expense related to these options for each of the future years ending December 31, 2011, 2012, and 2013 is $9,000, $5,000, and $2,000, respectively. Future expense related to stock option awards would be impacted by new awards and/or modifications, repurchases and forfeitures of existing awards.

A summary of the Company's stock option plan activity for the years ended December 31, 2010 and 2009 is as follows:

	2010		2009	
(Dollars in thousands)	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at Beginning of Year	353,050	$ 3.63	367,490	$ 3.77
Exercised	(39,660)	3.66	(7,875)	3.81
Expired or forfeited	(9,750)	6.40	(6,565)	11.00
Outstanding at end of year	303,640	$ 4.37	353,050	$ 3.63
Options exercisable	208,130	$ 3.56	314,804	$ 3.94
Weighted average remaining contractual life of options outstanding	1.7 years		3.0 years	

Options exercised in 2010 had an aggregate intrinsic value (market value of the stock at the date of exercise less the exercise price) of $33,000. The aggregate intrinsic value of options exercisable at December 31, 2010 plus options expected to vest in future years is approximately $40,000 based on a stock price of $4.75 per share. Options exercised in 2009 had an aggregate intrinsic value of $26,000.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the statements of financial condition. To mitigate this risk posed by these off-balance sheet exposures, the Company has established an off-balance sheet exposure reserve totaling $85 thousand and $82 thousand as of December 31, 2010 and 2009.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are preliminarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All standby letters of credit issued by the Company expire within one year of issuance.

NOTE 11 - COMMITMENTS AND CONTINGENCIES, *Continued*

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Collateral held varies but may include receivables, inventory, property, plant, and equipment, residential properties, and income-producing commercial properties.

A summary of the contractual or notional amounts of the Company's significant offbalance sheet financial instruments as of December 31, 2010 and 2009 is as follows:

(Dollars in thousands)	**2010**	**2009**
Commitments to extend credit	$ 23,054	$ 28,554
Standby letters of credit	884	713
	$ 23,938	$ 29,267

Litigation
In the ordinary course of business, the Company becomes involved in litigation. Management believes, based upon opinions of legal counsel, that the disposition of all suits pending against the Company will not have a material adverse effect on its financial position or results of operations.

Lease Commitments
The Company currently leases its administrative offices and the Sun Valley branch facility from a shareholder of the Company. The Company leases office locations and equipment which have been classified as noncancelable operating leases. These lease agreements call for various monthly payments expiring at dates through the year 2015. Rental expense for the years ended December 31, 2010 and 2009 amounted to $508,000 and $498,000, respectively.

The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2010:

Year Ending December 31, *(Dollars in thousands)*	
2011	$ 522
2012	411
2013	374
2014	288
2015	205
Thereafter	319
	$ 2,119

NOTE 12 - TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, the Company enters into transactions with certain directors, officers and shareholders and certain affiliates of the Company. As part of its normal banking activities, the Company has extended credit to and received deposits from certain members of its Board of Directors, major shareholders, officers as well as entities with which these individuals are associated. These related parties had deposits and loans at the Company totaling approximately $33,291,000 and $1,396,000, respectively, at December 31, 2010, and $35,992,000 and $998,000, respectively, at December 31, 2009. Management believes these transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral requirements, as comparable loans and deposits with other customers, and the loans did not involve more than normal credit risk or present other unfavorable features. Each loan has been approved by the Board of Directors.

The Company entered into a lease agreement on September 5, 2003 with a related party for the leasing of the administrative offices and the Sun Valley branch facility. The lease agreement calls for rental payments of $140,000 per year and has a term of ten years with two five year renewal options. Management believes these transactions were made in the ordinary course of business on substantially the same terms and conditions as if the transaction would have been consummated with a non-related party.

NOTE 13 - FAIR VALUE OF FINANCIAL STATEMENTS

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information.

Because no quoted market price exists for a significant portion of the Company's financial instruments, the fair values of such financial instruments are derived based on the amount and timing of future cash flows, estimated discount rates, as well as management's best judgment with respect to current economic conditions. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision.

The fair value information provided is indicative of the estimated fair values of those financial instruments and should not be interpreted as an estimate of the fair market value of the Company taken as a whole. The disclosures do not address the value of recognized and unrecognized non-financial assets and liabilities or the value of future anticipated business. In addition, tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into any of the estimates.

Cash and Cash Equivalents
The carrying value of cash and cash equivalents approximate the fair value.

Interest Bearing Deposits in Other Banks
Interest bearing deposits in other banks are reported at their fair value based upon discounting estimated future cash flows using currently offered rates for deposits of similar maturities.

NOTE 13 - FAIR VALUE OF FINANCIAL STATEMENTS, *Continued*

Investment securities
Investment securities are reported at fair value based upon independent third party market valuations of the Company's investment securities. The fair values are determined by using several sources for valuing securities. The techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid, and other market information.

Loans
The Company's loan portfolio is held for investment purposes. Included in the portfolio are loans categorized as being impaired. Fair values were calculated by sorting the portfolio by different product categories such as Commercial, Real Estate and Consumer and then further segmented into fixed and variable indexes and using a discounted present value model. The model uses the Treasury yield curve, LIBOR or prime rate as the basis to derive a "risk free" rate modified for credit quality.

Bank Owned Life Insurance
The fair value of the bank owned life insurance is the cash surrender value which is also its carrying value.

Common Stock, Substantially Restricted
The carrying value of FHLB stock and PCBB stock approximates fair value based on the redemption provisions of the respective stock.

Accrued Interest
The carrying amounts of accrued interest approximate fair value.

Deposits
The fair value of deposits with no stated maturity, such as noninterestbearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Borrowings
The fair value of other borrowed money is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments
Fair values for the off-balance sheet financial instruments related to commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values for such financial instruments are nominal.

NOTE 13 - FAIR VALUE OF FINANCIAL STATEMENTS, *Continued*

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2010 and 2009:

(Dollars in thousands)	2010 Carrying Value	2010 Estimated Fair Value	2009 Carrying Value	2009 Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 26,180	$ 26,180	$ 25,636	$ 25,636
Interest bearing deposit in other banks	8,664	8,664	6,074	6,085
Investment securities, available-for-sale	22,363	22,363	22,557	22,557
Loans, net	185,994	189,040	195,749	196,643
Bank owned life insurance	5,385	5,385	5,192	5,192
Common stock, substantially restricted	2,095	2,095	2,288	2,288
Accrued interest receivable	784	784	872	872
Financial Liabilities				
Deposits	193,760	190,888	204,719	204,719
Borrowings	26,000	26,230	29,000	29,146
Accrued interest payable	135	135	164	164
Subordinated debentures	6,186	5,306	6,186	6,186

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2010 and 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Securities available for sale
The table below presents the balance of available-for-sale securities, which is measured at fair value on a recurring basis. An independent third party performs market valuations of the Company's available-for-sale securities. The fair values are determined by using several sources for valuing securities. The techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid, and other market information. The market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

NOTE 13 - FAIR VALUE OF FINANCIAL STATEMENTS, *Continued*

Impaired loans
The impaired loans amount below represents collateral dependent loans that have been adjusted to fair value. The fair value measurement is based on the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining independent external appraisals. If the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral.

The table below presents information about the Company's assets measured at fair value on recurring and nonrecurring basis as of December 31, 2010 and 2009, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	December 31, 2010				
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total Gains (Losses) Level 3**
Recurring items:					
Agency Securities	$ 1,960	$ -	$ 1,960	$ -	$ -
Mortgage backed securities	19,605	-	19,605	-	-
Mutual funds	798	798	-	-	-
	$ 22,363	$ 798	$ 21,565	$ -	$ -
Nonrecurring items:					
Impaired loans	$ 3,734	$ -	$ -	$ 3,734	$ (331)

	December 31, 2009				
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total Gains (Losses) Level 3**
Recurring items:					
Mortgage backed securities	$ 18,592	$ -	$ 18,592	$ -	$ -
Mutual funds	2,165	2,165	-	-	-
Municipal bonds	1,800	-	1,800	-	-
	$ 22,557	$ 2,165	$ 20,392	$ -	$ -
Nonrecurring items:					
Impaired loans	$ 12,256	$ -	$ -	$ 12,256	$ (3,579)

NOTE 14 - REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of Total and Tier I capital to riskweighted assets and of Tier I capital to average assets. As of December 31, 2010 and 2009, management believes that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios computed in accordance with bank regulatory requirements as of December 31, 2010 and 2009 are as follows (amounts are in thousands of dollars). The Company's and Bank's capital amounts and ratios are substantially the same.

			Amount of Capital Required			
			Minimum Capital Requirement		**Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2010						
Total Capital to risk-weighted assets	$ 35,503	17.75%	$ 16,002	8.00%	$ 20,002	10.00%
Tier 1 Capital to risk-weighted assets	$ 32,962	16.48%	$ 8,001	4.00%	$ 12,001	6.00%
Tier 1 Capital to average assets	$ 32,962	12.72%	$ 10,369	4.00%	$ 12,961	5.00%
As of December 31, 2009						
Total Capital to risk-weighted assets	$ 30,932	13.74%	$ 18,006	8.00%	$ 22,508	10.00%
Tier 1 Capital to risk-weighted assets	$ 28,071	12.47%	$ 9,003	4.00%	$ 13,505	6.00%
Tier 1 Capital to average assets	$ 28,071	10.56%	$ 10,637	4.00%	$ 13,297	5.00%

NOTE 15 - U.S. TREASURY CAPITAL PURCHASE PROGRAM, COMMUNITY DEVELOPMENT CAPITAL INITIATIVE PROGRAM AND TRUST PREFERRED SHARES

During 2009, the Company was a participant in the U.S. Treasury Capital Purchase Program ("CPP"), under which the Company issued preferred stock shares to the Treasury for an aggregate purchase price of $5,500,000. On August 20, 2010, Mission Valley Bancorp completed an exchange of its CPP capital into the Community Development Capital Initiative ("CDCI") program. Under both programs the Company is subject to certain restrictions and requirements, such as restrictions on repurchases and payment of dividends, requirements relating to executive compensation, and corporate governance practices.

Mission Valley Bancorp was able to participate in this limited program because the bank was recognized as a Community Development Financial Institution ("CDFI") since 2006. The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in, and assistance to, community development financial institutions (CDFIs).

As a result, 5,500 shares of Series A, 5% fixed rate, non-voting, non-cumulative perpetual preferred shares were exchanged for 5,500 shares of Series C, 2% fixed rate, nonvoting, noncumulative perpetual preferred shares. This was a noncash transaction.

On September 24, 2010, Mission Valley Bancorp received an additional $4,836,000 in capital via the CDCI program. As a result, 4,836 shares of Series D, 2% fixed rate nonvoting non-cumulative perpetual preferred shares were issued for an aggregate issue price of $4,836,000. Series C and D preferred shares qualify as Tier 1 capital.

Series C and D have a dividend rate of 2% per annum for eight years escalating to 9% for an additional five years. Series C and D have quarterly dividend payments payable on each February 15, May 15, August 15 and November 15.

On December 31, 2009, the Company issued and sold 458,000 shares of 6% mandatory convertible cumulative preferred stock, Series B, for an aggregate price of $4,580,000. These preferred shares qualify as Tier 1 capital. Series B dividend payments are payable semiannually at the rate of 6% per annum on each of June 15 and December 15. During 2010, the Company declared and paid dividends on Series B in the cumulative amount of $263,000.

The Preferred Shares will mandatorily convert on December 15, 2014 into shares of Common Shares at the conversion rate equal to the quotient of the sum of $10.00 plus any unpaid dividends on the Preferred Shares after issuance divided by the higher of (i) 100% of the book value per Common Share as of the calendar quarter-end immediately prior to the conversion date (adjusted for any stock splits, stock dividends and certain other events after such quarter-end and prior to the conversion date) or (ii) the market value of a Common Share as of the calendar quarter end immediately prior to the conversion (adjusted for any stock splits, stock dividends and certain other events after such quarterend and prior to the conversion date), up to a maximum of 1.1 times book value referenced in (i). Holders of Preferred Shares may, at their option, convert their Preferred Shares into Common Shares at the Conversion Rate prior to the Mandatory Conversion Date. The Preferred Shares when issued and the Common Stock when issued upon conversion of the Preferred Shares will be restricted stock and will contain a restrictive legend as to he transferability, unless an applicable securities law exemption applies as determined by the Company, in its sole discretion with advice of counsel.

NOTE 15 - U.S. TREASURY CAPITAL PURCHASE PROGRAM, COMMUNITY DEVELOPMENT CAPITAL INITIATIVE PROGRAM AND TRUST PREFERRED SHARES, *Continued*

If the Company does not declare a dividend on the preferred shares in respect to any dividend period, the Company shall have no obligation to pay a dividend for such dividend period, whether or not dividends are declared for any subsequent period. However, dividends on common stock cannot be paid if dividends on preferred stock have not been paid for the most recently completed dividend period. Furthermore, if preferred stock dividends have not been paid for an aggregate of six quarters, whether or not consecutive, Treasury can appoint two new members to the Company's Board of Directors.

The Company can redeem the stock at anytime subject to approval of its banking regulators. However, the Series C and D stock must be redeemed entirely before the Series B stock can be redeemed.

NOTE 16 - PARENT COMPANY ONLY INFORMATION

(Dollars in thousands)	**2010**	**2009**
ASSETS		
Cash and due from banks	$ 60	$ 171
Federal funds sold	1,270	895
Total cash and cash equivalents	1,330	1,066
Investment in bank subsidiary	33,149	28,304
Other assets	409	235
TOTAL ASSETS	$ 34,888	$ 29,605
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Junior subordinated deferred interest debentures	6,186	6,186
Accrued interest payable and other liabilities	6	45
Total liabilities	6,192	6,231
Shareholders' Equity		
Preferred stock	14,916	10,080
Common stock	9,717	9,572
Additional paid in capital	60	47
Retained earnings	3,817	3,442
Accumulated other comprehensive income	186	233
Total shareholders' equity	28,696	23,374
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 34,888	$ 29,605

NOTE 16 - PARENT COMPANY ONLY INFORMATION, *Continued*

(Dollars in thousands)	2010	2009
INTEREST INCOME		
Interest income	$ 12	$ 15
Interest expense	295	369
Net interest expense	(283)	(354)
Income (loss) from subsidiary	1,148	(142)
NONINTEREST EXPENSES		
Salaries, wages and employee benefits	65	62
Occupancy and equipment expenses	8	7
Legal, professional, and consulting	96	64
Share-based compensation expense	13	13
Other operating expenses	27	25
Total non-interest expenses	209	171
NET INCOME (LOSS) BEFORE BENEFIT FOR INCOME TAXES	656	(667)
Benefit for income taxes	203	-
NET INCOME (LOSS)	$ 859	$ (667)

NOTE 16 - PARENT COMPANY ONLY INFORMATION, *Continued*

(Dollars in thousands)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	$ 859	$ (667)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Share-based compensation	13	13
Other	(213)	353
Net cash provided by (used in) operating activities	659	(301)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in subsidiary	(3,836)	(4,580)
Decrease (increase) in investment from subsidiary	(1,148)	142
Net cash used in investing activities	(4,984)	(4,438)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock	4,836	4,580
Dividends paid on preferred securities	(247)	-
Net cash provided by financing activities	4,589	4,580
Change in Cash and Cash Equivalents	264	(159)
Beginning of year	1,066	1,225
End of year	$ 1,330	$ 1,066
Supplemental Disclosures of Cash Flow Information		
Proceeds from exercise of stock options	$ 145	$ 30
Interest paid	295	-
Exchange of Series A preferred stock for Series C	5,500	-

Report of Independent Auditors

DECEMBER 31, 2010 AND 2009

To the Board of Directors and Shareholders of
Mission Valley Bancorp

We have audited the accompanying consolidated statement of financial condition of Mission Valley Bancorp and subsidiary (the "Company") as of December 31, 2010 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company as of and for the year ended December 31, 2009 were audited by other auditors, prior to the restatement as described in the explanatory paragraph below, whose report, dated February 23, 2010, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mission Valley Bancorp and subsidiary as of December 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments to the loss per share calculation reported for the year ended December 31, 2009 as presented in Note 1 to the accompanying consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Moss Adams LLP

Los Angeles, California
March 31, 2011

Investor Information

Common Stock:

Effective September 1, 2005, Mission Valley Bancorp's stock began trading on the Bulletin Board in the over-the-counter market with the new symbol "MVLY." As of December 31, 2010 there were approximately 250 shareholders of record and 2,543,293 shares of common stock as well as 458,000 shares of preferred stock issued and outstanding.

Stock Information:

Stone & Youngberg, LLC
Troy K. Norlander, Managing Director
Michael R. Natzic, Senior Vice President
(909) 584-4500
(800) 288-2811

Wedbush Morgan Securities
Joey Warmenhoven
Senior Vice President – Community Bank Specialist
(503) 922-4888
(866) 662-0351

Hoefer & Arnett
John Cavender
(415) 538-5725

Stock Transfer Agent:
Shareholders with inquiries regarding accounts, lost stock certificates or changes of address, may contact either Mary Ann Hagler, Corporate Secretary of Mission Valley Bancorp at (818) 394-2382 or Computershare by calling (800) 962-4284 or (303) 262-0600 between 9:00 a.m. and 5:00 p.m. (MST). Written correspondence may be sent to:

Computershare
350 Indiana Street, Suite 350
Golden, CO 80401

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- Payroll Services
- Debit Card Services
- Online Banking
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- Retirement Products
- Credit – Debit & ATM Cards
- Overdraft Protection
- Online Bill Payment
- Time Deposits
- Notary Services
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- Courier Services
- Safe Deposit Services

Management & Officers

Senior Management:

Tamara Gurney
President / Chief Executive Officer

Diane Auten
Senior Vice President / Chief Financial Officer

Marianne Cederlind
Senior Vice President / Chief Business Banking Officer

Jim Hackbarth
Senior Vice President / Chief Credit Officer

Frankie Powell
Senior Vice President / Human Resources Manager

Linda Rousseau
Senior Vice President / Administration

Administrative Officers:

Cindy Albers
Vice President, CRCM / Compliance Manager

Elia Blankenship
Vice President / Service Manager

Cindy Brown
Vice President / Loan Operations

Carrie Burrell
Vice President, CFMP / Marketing Manager

Raul Carrion
Vice President / Information Technology Manager

Diana Cervantes
Vice President / Human Resource Officer / Trainer

Maria Gonzalez
E-Banking Manager

Andrew Kim
Vice President / Credit Administrator

Sandy Konish
Vice President / Product, Application & Core Specialist

Sally Reichhardt
Assistant Vice President / Deposit Operations Manager

Janet Shinkle
Vice President /
Accounts Receivable Relationship Manager

Frank Wong
Vice President / Controller

Sun Valley Office:

Jahun Smith
Vice President / Branch Manager

Vanessa Acosta
Vice President / Business Banker

Lola Forbis
Vice President / Relationship Manager

Carlos Guillen
Vice President / Operations Manager

Santa Clarita Valley:

Marti Heinbaugh
Vice President / Regional Manager

Valencia Office :

Carol Dignard
Vice President / Operations Manager

Linda Rodriguez
Vice President / Relationship Manager

Centre Pointe Office:

Patti Handy
Vice President / Business Banker

Laura Soto
Assistant Vice President / Operations Officer

10th Anniversary
MISSION VALLEY BANK
EST. 2001

Corporate Offices &
Sun Valley Office
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Sun Valley, CA 91352
(818) 394-2300

Centre Pointe Branch &
Business Banking Office
26415 Carl Boyer Drive
Santa Clarita, CA 91350
(661) 253-9500

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25060 West Avenue Stanford
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