MISSION VALLEY BANCORP

Annual Report 2006

Table of Contents

1
Corporate Profile / Financial Highlights

2
Message to Shareholders

4
Bancorp Directors

5
Financial Statements

10
Notes to Financial Statements

26
Independent Auditors' Report

27
Banking Services

28
Directors & Management Team

29
Investor Information

Who We Are

When Mission Valley Bank first opened its doors in 2001, it was with the shared vision of our investors and senior management team that we were opening a strong business bank that was more about the client – and less about the bank.

Our Board of Directors, Management Team and entire staff share an unparalleled dedication to providing outstanding financial products & services delivered by creative bankers that truly love what they do. We appreciate the importance of our role in the financial success of the businesses and individuals we assist. We understand that to truly effect our clients success we must do so on a personal level, as a financial partner, invested in the individual success of both our clients and our communities.

Sun Valley Office

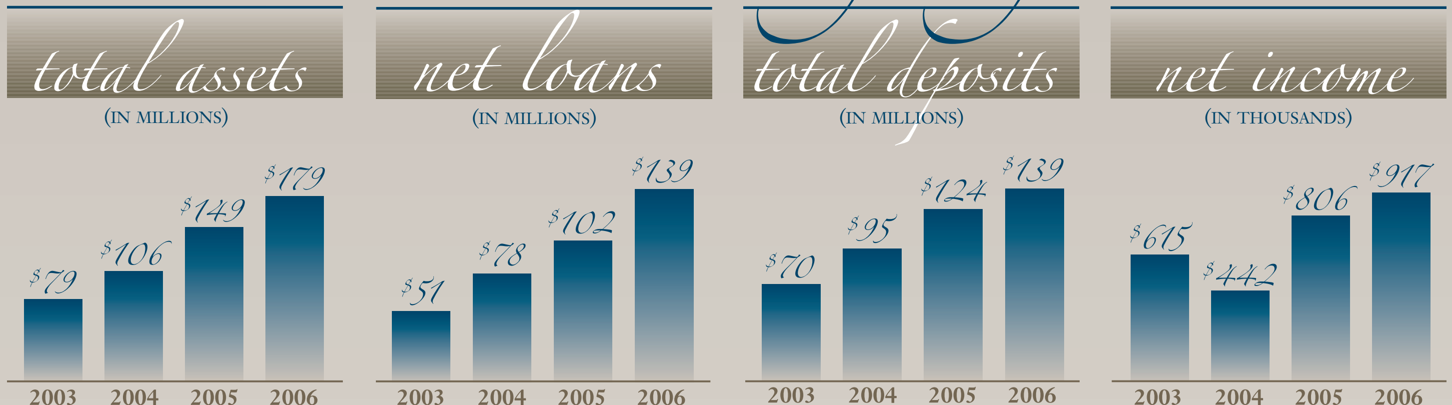
In 2006 Mission Valley Bank was once again honored by the prestigious Findley Reports by being named a Premier Performing Bank – our fourth consecutive year for this honor (not one easily earned by young banks). Additionally, Bauer Financial Inc., continues to rate Mission Valley Bank as a Five Star Bank – Bauer's highest ranking, indicating that we are among the safest financial institutions in the country.

Valencia Office

Our logo states "Your Success Is Our Mission". This is much more than a "marketing slogan" to all of us at Mission Valley Bank – it is a promise. A promise to actively seek new and better ways to serve the financial needs of every client, every day. It is a promise to deliver personal service that exceeds expectations at every turn. It is also a promise to sustain this dedication to excellence as the Bank continues to grow in size and services.

Your Success Is Our Mission and our vision is to make your financial dreams come true.

Financial Highlights



Message to Shareholders

To Our Shareholders, Clients and Friends,

2006 proved to be another exciting year for Mission Valley Bank as we reached an important milestone in July celebrating our five-year birthday. Like many of you I'm sure, I look back and wonder where the time went. In spite of that, it has been an amazing journey and we are truly grateful for the continued confidence, support, and enthusiasm that you, our clients, shareholders and the community, show us on a daily basis.

Last January, we started our Specialized Lending Division, which produced over $12 million in loan growth to businesses in our community that required creative financing to help them achieve their goals. This is an important segment of our communities and in 2007 we plan to further expand our lending in this area. Our determination to reach out to this traditionally underserved segment of the market resulted in Mission Valley Bank being awarded Preferred Lender Program (PLP) status from the U. S. Small Business Administration. This important designation allows our Bank to approve and fund loans directly, enabling us to better assist growing businesses in our community.

The financial services industry continues to evolve and change at a faster pace each year, driven largely by technological advances. New technologies present us with many opportunities to enhance our products and services as well as improve our systems, delivery channels, and operating efficiency. As a result, last June we made the decision to upgrade our core processing system in order to better provide financial solutions to our clients now and into the future. While the conversion presented a number of challenges, (and we sincerely appreciate the patience you demonstrated) we are confidant that the long-term benefits of this change will greatly enhance the service levels we provide to our clients and shareholders.

The Bank continues to look to new technology to improve convenience and delivery channels. Later this year, we will be offering a remote deposit solution that will allow business clients to make deposits from the convenience of their offices. This product, On-Site Teller, will eliminate the need for commuting to the Bank, giving you back productive time to grow your business. Additionally, our Internet Banking Solutions are being upgraded to provide integration to Quicken and QuickBooks and our Website is undergoing a complete makeover to incorporate numerous features that we believe you will find very helpful when making financial decisions.

Mission Valley Bank continues to operate in a growth mode, building our infrastructure with an eye on expanding the Bank's footprint, and improving operational efficiencies while enhancing long term shareholder value. In the second quarter of 2007 we will move our back office operations to a new location on Sunland Boulevard that will allow us to accommodate our growing staff in less costly facilities. This will also allow for the expansion of our Specialized Lending Division at our Headquarters location. Additionally, we are finalizing a lease for a third banking office located in the fast growing area of Centre Pointe in Santa Clarita.

Over the past five years, Mission Valley Bank has experienced consistent, strong growth in loans and deposits. Each year we have met or surpassed our income goals as we continue to focus on shareholder value while providing service excellence to our clients. Our growth is in large part due to the dedication and appreciation of this service to our clients and has resulted in their referrals of business associates, friends and family. We appreciate your thoughtfulness and thank you sincerely for your confidence.

We hope you continue to Feel the Difference that Mission Valley Bank strives to provide you in achieving your dreams and success.

Sincerely,

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

Tamara Gurney
President & CEO
Mission Valley Bancorp
Mission Valley Bank

Directors

PHOTO LEFT TO RIGHT

Mark Lefever
Director – Mission Valley Bancorp
President – Avjet Corporation

James Bagge
Director – Mission Valley Bancorp
Director – Mission Valley Bank
President – Helicopter Accessory Service, Inc.

John Richardson
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Vice President & General Manager –
Crown Disposal Co., Inc.
Community Recycling & Resource Recovery, Inc.

Earle S. Wasserman
Chairman of the Board – Mission Valley Bancorp
Chairman of the Board – Mission Valley Bank
Chairman of the Board – Hallmark Group, Inc.

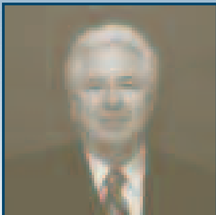
Darlynn Campbell Morgan
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney – Morgan Law Group

Tamara G. Gurney
President & CEO – Mission Valley Bancorp
President & CEO – Mission Valley Bank

Marc J. Foulkrod
Director – Mission Valley Bancorp
CEO – Avjet Corporation

Jerold B. Neuman
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney –
Allen, Matkins, Leck, Gamble & Mallory, LLC

Welcome New Board Member



In 2006 Mission Valley Bancorp and Mission Valley Bank welcomed John Richardson to our Board of Directors. Mr. Richardson is Vice President and General Manager of a group of companies inclusive of Crown Disposal Co, Inc. and Community Recycling & Resource Recovery, Inc. He joined the companies in 1980 and as General Manager oversaw the largest growth period in their history.

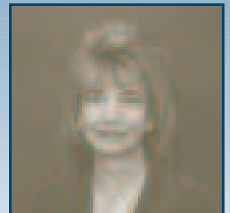
Prior to joining Crown Disposal and Community Recycling, Mr. Richardson was an Assistant Vice President and Assistant Branch Manager with First Interstate Bank. In addition to branch management, he worked in the Purchasing Department, and attended the Officer Training and Commercial Lending programs.

Having worked and lived in the communities served by Mission Valley Bank, Mr. Richardson brings a wealth of knowledge and support to the oversight and growth of the Bank.

Please join us in welcoming him to our Board of Directors.

The Patrick Visciglia Spirit Award

The Patrick Visciglia 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.



The 2006 recipient of the Patrick Visciglia Spirit Award is Lola Forbis, Vice President and Relationship Manager of our Sun Valley Office. Ms. Forbis was honored with this award in a vote cast by all employees of the Bank.

Congratulations Lola!

MISSION VALLEY BANCORP

Annual Report
Financial Statements

Consolidated Balance Sheet

As of December 31,	2006	2005
ASSETS		
Cash and due from banks	$ 8,486,542	$ 9,860,161
Federal funds sold	755,000	4,685,000
Cash and cash equivalents	9,241,542	14,545,161
Interest-bearing deposits with banks	6,122,570	7,088,629
Securities available-for-sale	14,546,146	18,564,021
Common stock, substantially restricted	1,509,100	796,700
Loans, net	139,485,204	102,269,309
Premises and equipment, net	1,457,324	1,530,667
Deferred tax asset	428,755	271,411
Cash surrender value life insurance	4,616,473	2,659,240
Accrued interest receivable	764,830	507,494
Other assets	584,380	674,372
Total Assets	$ 178,756,324	$ 148,907,004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	47,153,930	47,276,096
Interest-bearing demand	22,130,727	24,161,168
Savings	6,997,011	6,490,180
Time, under $100,000	8,232,132	5,414,668
Time, $100,000 and over	54,136,696	40,282,706
Total deposits	138,650,496	123,624,818
Borrowings	21,890,000	8,000,000
Junior subordinated deferrable interest debentures	6,186,000	6,186,000
Income taxes payable	79,010	445,521
Accrued interest payable and other liabilities	688,903	430,455
Total Liabilities	167,494,409	138,686,794
Commitments and contingencies (Note 11)		
Stockholders' Equity		
Common stock - 10,000,000 shares authorized; no par value; 1,973,177 and 1,633,912 shares outstanding in 2006 and 2005, respectively.	9,426,519	9,365,519
Retained earnings	1,999,443	1,082,109
Additional paid in capital	6,866	-
Accumulated other comprehensive loss	(170,913)	(226,418)
Total Stockholders' Equity	11,261,915	10,221,210
Total Liabilities and Stockholders' Equity	$ 178,756,324	$ 148,908,004

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

Consolidated Statements of Income

For the years ended December 31,	2006	2005
Interest Income		
Interest and fees on loans	$ 8,900,234	$ 6,160,804
Interest on federal funds sold	193,657	224,127
Interest on securities	950,397	810,704
Total Interest Income	10,044,288	7,195,635
Interest Expense		
Deposits	2,542,942	1,559,403
Federal funds purchased	11,410	187,465
Other borrowed funds	897,662	107,489
Total Interest Expense	3,452,014	1,854,357
Net Interest Income	6,592,274	5,341,278
Provision for Loan Losses	551,300	349,000
Net Interest Income After Provision for Loan Losses	6,040,974	4,992,278
Noninterest Income		
Service charges and other income	1,708,108	1,296,626
Interest earned on life insurance	167,094	118,351
Merchant discount income	333,527	284,181
Other income	225,014	26,566
Total Noninterest Income	2,433,743	1,725,724
Noninterest Expense		
Salaries and employee benefits	3,502,813	2,679,126
Occupancy	314,009	294,009
Furniture and equipment	636,198	523,116
Data processing	562,275	339,129
Advertising	223,561	254,892
Legal, professional, and consulting	425,485	378,086
Office supplies	76,568	68,371
Merchant discount expense	276,426	232,315
Bank security expense	109,186	84,390
Other operating expenses	789,472	511,736
Share-based compensation expense	6,866	-
Total Noninterest Expense	6,922,859	5,365,170
Income From Operations	1,551,858	1,352,832
Provision for Income Taxes	634,524	546,900
Net Income	$ 917,334	$ 805,932
NET INCOME PER SHARE - BASIC	$ 0.49	
NET INCOME PER SHARE - DILUTED	$ 0.44	

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

Consolidated Statement of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005

	Number of Shares Outstanding	Amount	Comprehensive Income	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, January 1, 2005	1,087,418	$ 9,349,520	$ 447,524	$ -	$ 276,177	$ (42,373)	$10,030,848
Shares issued as a result of a 3:2 stock split	543,681	-	-	-	-	-	-
Proceeds from the exercise of stock options	2,813	14,999	-	-	-	-	14,999
Net income	-	-	805,932	-	805,932	-	805,932
Unrealized losses on investment securities, net of taxes $158,512	-	-	(184,045)	-	-	(184,045)	(184,045)
			$ 1,069,411				
Balance, December 31, 2005	1,633,912	9,364,519		-	1,082,109	(226,418)	10,220,210
Shares issued as a result of a 6:5 stock split	327,355	-	-	-	-	-	-
Proceeds from the exercise of stock options	11,910	62,000	-	-	-	-	62,000
Net income	-	-	917,334	-	917,334	-	917,334
Share-based compensation	-	-	-	6,866	-	-	6,866
Unrealized gains on investment securities, net of taxes of $28,772	-	-	69,949	-	-	69,949	69,949
Realized loss on sale available-for-sale securities, net of taxes of $10,120	-	-	(14,444)	-	-	(14,444)	(14,444)
			$ 2,042,250				
Balance, December 31, 2006	1,973,177	$ 9,426,519		$ 6,866	$ 1,999,443	$ (170,913)	$11,261,915

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

Consolidated Statements of Cash Flows

For the years ended December 31,	2006	2005
Cash Flows from Operating Activities		
Net income	$ 917,334	$ 805,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	551,300	349,000
Depreciation and amortization	409,935	356,630
Share-based compensation	6,866	-
Net accretion of discount and amortization of premium	17,019	35,217
Loss realized on the sale of securities	24,564	-
Loss on disposal of premises and equipment	-	1,014
Increase in cash surrender value life insurance, net of mortality costs	(1,957,233)	(104,278)
Increase in accrued interest receivable and other assets	(840,110)	(587,216)
Increase in accrued interest payable and other liabilities	256,866	617,855
Net Cash (Used) Provided by Operating Activities	(613,459)	1,474,154
Cash Flows from Investing Activities		
Purchase of premises and equipment	(336,592)	(483,918)
Proceeds from sales of premises and equipment	-	1,900
Change in interest bearing deposits with banks, net	966,059	(210,723)
Proceeds from sales, repayments and maturities of securities available-for-sale	4,070,690	2,089,330
Purchases of securities available-for-sale	-	(9,542,890)
Purchase of common stock, substantially restricted	(600,800)	(46,600)
Recoveries of loans previously charged off	(10,898)	-
Net increase in loans	(37,756,297)	(24,433,740)
Net Cash Used in Investing Activities	(33,667,838)	(32,626,641)
Cash Flows from Financing Activities		
Net increase in deposits	15,025,678	28,394,778
Increase in borrowings, net of repayments	13,890,000	6,780,000
Net proceeds from deferrable interest debentures	-	6,186,000
Proceeds from the exercise of stock options	62,000	14,999
Net Cash Provided by Financing Activities	28,977,678	41,375,777
Net (Decrease) Increase in Cash and Cash Equivalents	(5,303,619)	10,223,290
Cash and Cash Equivalents, Beginning of Year	14,545,161	4,321,871
Cash and Cash Equivalents, End of Year	$ 9,241,542	$ 14,545,161
Supplemental Disclosures of Cash Flow Information		
Interest payments	$ 4,689,097	$ 1,673,431
Income taxes paid	$ 1,001,035	$ 148,000

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

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank was formed during 2001 and on May 24, 2005, the stockholders of Mission Valley Bank (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"). This transaction was consummated on August 30, 2005 and was accounted for at historical cost. The consolidated financial statements include the accounts of Mission Valley Bancorp and its wholly owned subsidiary, Mission Valley Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Banking Activities

Mission Valley Bancorp is a bank holding company, which provides a full range of banking services to individual and corporate customers through its principal subsidiary, Mission Valley Bank. The Bank has two branches, one branch located in Sun Valley, California, and one in Valencia, California, which opened in 2004. 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. As a State chartered bank, the Bank is subject to regulation by the California Department of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC").

In 2005, the Company issued $6,186,000 of junior subordinated deferrable interest debentures through Mission Valley Statutory Trust I. Pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46R (FIN 46R), "*Consolidation of Variable Interest Entities*", issued December 2003, the activities of the Mission Valley Statutory Trust I were deconsolidated at December 31, 2005. As a result, the consolidated balance sheet includes $6,186,000 of long-term borrowings, reported as junior subordinated deferrable interest debentures. Also included in other assets on the consolidated balance sheet is $186,000 investment in Mission Valley Statutory Trust 1. The overall effect on the Company's financial position and operating results of the deconsolidation is not material.

Prior to the corporate reorganization, Mission Valley Bank announced a 3-for-2 stock split declared at its Board of Directors meeting held February 22, 2005. Stockholders of record of common stock on March 18, 2005, were entitled to the split. The additional shares were distributed on April 1, 2005, and fractional shares were paid out in cash.

Use of Estimates in Preparation of Financial Statements

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to prevailing practices within the banking industry. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during reported periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are the allowance for loan losses and the valuation of deferred tax assets.

Certain prior year amounts have been reclassified to conform to current year presentation, with no impact on "stockholders" equity and net income as previously reported.

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, loans and deposits. Most of the Company's customers are located within Los Angeles County and the surrounding areas. As of December 31, 2006, there was no concentration of customer deposits.

The types of securities the Company invests in are discussed in Note 2 and the Company's primary lending products are discussed in Note 3.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash, and cash equivalents includes cash, due from banks and Federal funds sold, that are purchased with an original maturity of less than ninety days.

Certificates of Deposits

Interest-bearing deposits in banks are purchased with an original maturity date greater than ninety days and are carried at cost. Interest-bearing deposits with banks include certificates of deposit in major financial institutions located throughout the United States of America. At times, these deposits exceed the Federal Deposit Insurance Corporation ("FDIC") insured amount of $100,000.

Securities

The Bank is required to specifically identify its securities as "held-to-maturity", "available-for-sale", or "trading". The Bank did not invest in securities that were classified as trading or held-to-maturity during the years ended December 31, 2006 and 2005.

Securities available-for-sale consists of securities not classified as trading securities or as held-to-maturity. Securities available-for-sale are carried at fair value. Fair values for these investment securities are based on quoted market prices. Unrealized holdings gains and losses, net of deferred income taxes, on available-for-sale securities are reported as other comprehensive income (loss) and carried as accumulated comprehensive income (loss) within stockholders' equity until realized.

Premiums and discounts on purchased securities are recognized in interest income using the effective interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-far-sale securities below cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank and Pacific Coast Bankers' Bank Stock

The Bank, as a member of the Federal Home Loan Bank of San Francisco ("FHLB"), is required to purchase FHLB stock in accordance with its advances, securities, and deposit agreement. The stock may be redeemed at par value, however only in connection with the Bank surrendering its FHLB membership. The Bank also invests in the stock of Pacific Coast Bankers' Bank ("PCBB"), in connection with its correspondent banking arrangement with PCBB. These investments are carried at cost as of December 31, 2006 and 2005 and are included in common stock, substantially restricted on the balance sheet.

Loans

The Company, through the Bank, grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is secured by real estate throughout Los Angeles County and the surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

Loans that management has the intent and ability to hold for the foreseeable future, until maturity or until pay-off; are reported at their outstanding unpaid principal balances adjusted for charge-offs, allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

The accrual of interest on loans is discontinued at the time a 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 or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due become current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectibility of loan principal becomes unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on an on-going basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, changes in the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as conditions change.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting future scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial construction, and consumer term loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Equipment, furniture, and fixtures are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of improvements. Maintenance and repairs are expensed as incurred while major improvements or additions are capitalized. Gains and losses on dispositions are included in current operations.

Advertising Costs

Advertising costs of $223,561 and $254,892 for the years ended December 31, 2006 and 2005, respectively, were expensed as incurred.

Financial Instruments

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

Employee Compensation and Benefits

The Company procures all of its labor from an independent staffing provider. The provider is responsible for the hiring, administrative maintenance, payroll processing, and compensation, including income taxes, of all Company employees. The Company pays the provider a fee for these services. During the year ended December 31, 2006, the Company made contributions to the 40l(k) plan offered by the independent staffing provider of approximately $54,882.

Income Taxes

The Company records its provision for income taxes under the asset and liability method. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Company's financial statements and its tax return. The principal items giving rise to these differences include the allowance for loan losses, unused net operating losses, accruals for interest income and expense, and depreciation.

Share-Based Compensation

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R "Share Based Payment" ("SFAS No. 123R"), requiring the measurement and recognition of all share-based compensation under the fair value method. Prior to January 1, 2006, the Company accounted for share-based awards under Accounting Principles Board (APB) No. 25, which resulted in compensation expense.

Under the provisions of SFAS No. 123(R), the Company began recognizing share-based compensation costs relating to stock option awards effective January 1, 2006 over the requisite service period of the award, which is generally the option vesting term. The Company measures the fair value of the award as of the award's grant date using the Black Scholes option pricing model.

Change in Accounting Principle

The Bank adopted SFAS No. 123(R) on January 1, 2006 using the "modified prospective method". Under this method compensation expense is recognized using the fair-value method for all stock option awards since 2005 as well as any existing awards that are modified repurchased or canceled after January 1, 2006 and prior periods are not restated. In addition, the unvested portion of previously awarded options outstanding prior to 2005 will vest over the requisite service period based on the fair value of those options as calculated at the grant date and continue to be disclosed under the pro-forma disclosure of SFAS No. 123. The fair value of each grant is estimated using the Black-Scholes option pricing model. During 2006 the Bank recognized pre-tax stock-based compensation expense of $6,866, as a result of adopting SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Bank accounted for stock-based awards using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations. Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Bank's stock at the date of the grant over the amount an employee must pay to acquire the stock. All of the Bank's stock option grants included exercise prices equal to the Bank's current market price per share; accordingly, no compensation expense was reported using the intrinsic value method of APB Opinion No. 25.

Had compensation cost for the Bank's 2001 through 2004 stock option plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS No. 123(R) and SFAS No. 123 for 2006 and 2005, respectively, the Bank's net income and income per share for 2006 and 2005 would have changed to the pro forma amounts indicated below:

	2006	2005
Net Income:		
As Reported	$ 917,334	$ 805,932
Stock-Based Compensation that would have been reported using the Fair Value Method of SFAS 123	(43,528)	(40,308)
Pro Forma	$ 873,806	$765,624
Per Share:		
Net Income - Basic		
As Reported	$ 0.49	
Pro Forma	$ 0.41	
Net Income - Diluted		
As Reported	$ 0.44	
Pro Forma	$ 0.36	

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in stockholders' equity from non-owner sources, such as gains and losses on available-for-sale securities, are reported with net income as comprehensive income and shown as a separate component of the equity section of the balance sheet. For the years ended December 31, 2006 and 2005, holding gains (losses) on available-for-sale securities were the only items of comprehensive income (loss) other than net income for the respective period.

New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "*Accounting Changes and Error Corrections*", ("SFAS No. 154"). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154, effective January 1, 2006, did not have any impact on the Bank's financial condition or operating results.

In February 2006, FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Instruments*", ("SFAS No. 155"), an amendment of SFAS No. 133, and SFAS No. 140. The provisions of this statement allow financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The new statement also amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The provisions of this standard are effective as of the beginning of our fiscal year 2007. The adoption of SFAS No. 155 is not expected to have any impact on the Bank's financial condition or operating results.

In March 2006, FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140*", ("SFAS No. 156"). The provisions of this statement require mortgage servicing rights to be initially valued at fair value. SFAS No. 156 also allows servicers to choose one of the following measurement methods subsequent to the initial fair value measurement: (1) the "fair-value-measurement method", which measures servicing rights at fair value at each reporting date, with changes in fair value reported in earnings or (2) the "amortization method", which allows continued amortization of servicing rights over the period of estimated net servicing income or loss, consistent with the existing requirements of SFAS No. 140. The provisions of this standard are effective as of the beginning of our fiscal year 2007. The adoption of SFAS No. 156 is not expected to have any impact on the Bank's financial condition or operating results.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*", ("FIN No. 48"). This interpretation clarifies the accounting for uncertainty in income taxes in a company's financial statements, in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*" by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Bank does not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have any impact on the Bank's financial condition or operating results.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurement*", a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies' measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The Bank will adopt SFAS No. 157 on January 1, 2008 and does not expect the adoption of SFAS No. 157 to have any impact on the Bank's financial condition or operating results.

In September 2006, the FASB issued SFAS No. 158 "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*", which will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors, employees, retirees and others to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity. The adoption of SFAS No. 158 did not have a material impact on the Bank's financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006.

On February 15, 2007, FASB issued SFAS No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities*", which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, "*Fair Value Measurements*".

Note 2 – INVESTMENT SECURITIES

The amortized cost and fair values of investment securities held to maturity at December 31, 2006 and 2005 were:

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage and asset-backed securities	$ 8,133,274	$ -	$ (145,166)	$ 7,988,108
U.S. Government Agencies	4,101,433	-	(67,816)	4,033,617
Corporate bonds	1,002,106	-	(23,466)	978,640
Mutual funds	1,600,000	-	(54,219)	1,545,781
Total Available-For-Sale	$ 14,836,813	$ -	$ (290,667)	$ 14,546,146

December 31, 2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage and asset-backed securities	$ 12,254,258	$ 4,891	$ (205,671)	$ 12,053,478
U.S. Government Agencies	4,091,294	-	(103,229)	3,988,065
Corporate bonds	1,003,534	-	(31,024)	972,510
Mutual funds	1,600,000	-	(50,032)	1,549,968
Total Available-For-Sale	$ 18,949,086	$ 4,891	$ (389,956)	$ 18,564,021

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2006, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2006	Amortized Cost	Fair Value
Due in one year or less	$ 999,882	$ 997,500
Due after one year through five years	5,906,774	5,788,026
Due after five years through ten years	2,621,132	2,569,991
Due after fifteen years	3,709,023	3,644,848
No stated maturity	1,600,000	1,545,781
Total	$ 14,836,811	$ 14,546,146

For the year ended December 31, 2006, proceeds from sales of securities available-for-sale amounted to $2,080,683. The realized loss related to these sales amounted $24,564. During the year ended December 31, 2005, there were no sales of securities available-for-sale.

The Company does not have securities pledged to secure public deposits or for other purposes required or permitted by law at December 31, 2006 and 2005.

Information pertaining to securities with gross unrealized losses at December 31, 2006 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage and asset-backed securities	$ 1,280,220	$ (14,517)	$ 6,707,887	$ (130,649)	$ 7,988,107	$ (145,166)
U.S. Governmental Agencies	997,500	(2,382)	3,036,118	(65,434)	4,033,618	(67,816)
Corporate bonds	-	-	978,640	(23,466)	978,640	(23,466)
Mutual Funds	-	-	1,545,781	(54,219)	1,545,781	(54,219)
Total	$ 2,277,720	$ (16,899)	$ 12,268,426	$ (273,768)	$ 14,546,146	$ (290,667)

Management evaluates securities for other-than-temporary impairment 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.

The Company believes that the primary reason for the decline in value of mutual funds is due to the volatility of interest rates. The Company does not believe that the decline in the net asset value of these securities has given rise to other-than-temporary-impairment and furthermore, it has the intent and ability to hold these securities for the foreseeable future, and therefore does not expect to realize a loss on the mutual fund investment. As such, the Company does not consider the impairment on this security to be other-than-temporary.

Note 3 – LOAN RECEIVABLES

The following is a summary of loan receivables:

	December 31, 2006	December 31, 2005
Loans:		
Real estate	$ 78,980,503	$ 52,548,955
Commercial	45,203,679	49,705,955
Consumer	1,723,588	1,553,044
SBA Loans	1,947,067	-
Leasing	11,415,727	-
ARF	1,779,052	-
Overdrafts	592,688	-
Gross loans	141,642,304	103,807,954
Less: Deferred loan fees, net of costs	(387,364)	(214,966)
Less: Allowance for loan losses	(1,769,736)	(1,323,679)
Net Loans	$ 139,485,204	$ 102,269,309

Note 4 – ALLOWANCE FOR POSSIBLE LOAN LOSSES

The following is a summary of the allowance for possible loan losses during the year ended December 31:

	2006	
	Loans	Unfunded Commitments
Balance, as of the beginning of the year	$ 1,323,679	$ 29,793
Add: Provision for loan losses	551,300	-
Transfers	(25,837)	25,837
Recovery	10,898	-
Less: Charge-offs	(90,304)	-
Balance, as of the end of the year	$ 1,769,736	$ 55,630

The following is a summary of the allowance for possible loan losses during the year ended December 31:

	2005	
	Loans	Unfunded Commitments
Balance, as of the beginning of the year	$ 976,342	$ 28,130
Add: Provision for loan losses	349,000	-
Transfers	(1,663)	1,663
Balance, as of the end of the year	$ 1,323,679	$ 29,793

At December 31, 2006 and 2005, the Bank had loans specifically classified as impaired amounting to approximately $78,999 and $-0-, respectively, all of which are on a nonaccrual basis. The average balance of impaired loans amounted to approximately $80,000 and $-0- for the years ended December 31, 2006 and 2005, respectively. There was no allowance for loan losses related to impaired loans at December 31, 2006 and 2005, respectively.

Interest income that would have been recognized on nonaccrual loans if they had performed in accordance with the terms of the loans was $5,565 and $-0- for the years ended December 31, 2006 and 2005, respectively.

Note 5 – PROPERTY AND EQUIPMENT

The following is a summary of the property and equipment:

	December 31,	
	2006	2005
Building	$ 69,398	$ 7,345
Building improvements	978,339	908,781
Furniture and equipment	1,778,264	1,570,281
	2,826,001	2,486,407
Less: Accumulated depreciation and amortization	(1,368,677)	(955,740)
Total	$ 1,457,324	$ 1,530,667

Note 6 – CERTIFICATES OF DEPOSIT

Certificates of deposit at December 31, 2006, had scheduled maturities as follows:

Matures During	Time Deposits <$100,000	Time Deposits >$100,000
2007	$ 7,611,111	$ 45,699,779
2008	284,895	964,712
2009	220,519	5,700,031
2010	90,282	752,104
2011	25,325	1,020,070
	$ 8,232,132	$ 54,136,696

Note 7 – 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, 2006, the Company's had a fixed-rate borrowing of $20,500,000 maturing at various dates through 2009 with an average annual rate of 5.05 percent.

The Company had $27,495,841 of unused borrowing capacity from FHLB at December 31, 2006 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. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2006 the Company had $1,390,000 outstanding against the line at an annual interest rate of 6.20 percent. As of December 31, 2005, the Company had no outstanding borrowings against the line.

Note 8 – 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 the Company's consolidated balance sheet in accordance with the provisions of FIN 46.

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 junior subordinated deferrable interest debentures represent the sole assets of the Trust. The junior subordinated deferrable interest debentures issued by the Trust mature on December 15, 2035 and bear interest at 5.972 percent on March 15, June 15, September 15, and December 15 of each year. 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, in whole or in part, at the Company's option on any March 15, June 15, September 15, and December 15, on or after December 15, 2010.

Note 9 – INCOME TAXES

For Federal and State income tax reporting purposes, the Bank is included in the consolidated Federal and combined State income tax returns of its parent company, Mission Valley Bancorp.

The provisions for income taxes for the year ended December 31, consisted of the following:

	December 31	
	2006	2005
Current:		
Federal	$ 645,720	$ 460,718
State	185,040	86,182
	830,760	546,900
Deferred:		
Federal	(151,283)	(2,735)
State	(44,953)	2,735
	(196,236)	-
The provision for income taxes	$ 634,524	$ 546,900

The following summarizes the differences between the provision for income taxes for financial statement purposes and the Federal statutory rate of 34 percent for the years ended December 31, 2006 and 2005.

	2006	2005
Federal tax rate	34.0%	34.0%
State taxes, net of Federal tax benefits	7.2%	5.6%
Other	- 0.5%	- 2.1%
Net deferred tax asset	40.7%	37.5%

The tax effects of each type of significant item that gave rise to deferred taxes are:

	2006	2005
Allowance for credit losses	$ 684,251	$ 457,367
Depreciation and amortization	(76,436)	(151,937)
Current State taxes	67,923	52,654
Certain prepaid assets	(141,144)	(132,095)
Unrealized loss on investment securities	119,755	158,647
Accruals for income and expense	(101,369)	(63,352)
Other, net	(124,225)	(49,873)
Net deferred tax asset	$ 428,755	$ 271,411

Note 10 – REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Under existing regulatory capital guidelines, the Company is restricted in its ability to pay cash dividends.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets all of which are defined in the regulations.

To be categorized as adequately capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. Management believes, as of December 31, 2006 and 2005, that the Company met all the capital adequacy requirements to which it is subject.

As December 31, 2006, the most recent notification from the FDIC categorized the Company as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain a minimum total risk based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's category.

The Company's required and accrual capital amounts and ratios are as follows:

	Actual Capital		Amount of Capital Required: To Be Adequately Capitalized		Amount of Capital Required: To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total capital to risk-weighted assets						
Mission Valley Bancorp	$ 18,886,000	11.25%	$ 13,432,000	8.00%	$ 16,789,000	10.00%
Mission Valley Bank	18,312,000	10.93%	13,404,000	8.00%	16,755,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	17,061,000	10.16%	6,716,000	4.00%	10,074,000	6.00%
Mission Valley Bank	16,487,000	9.84%	6,702,000	4.00%	10,530,000	6.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	17,061,000	10.34%	6,596,000	4.00%	8,245,000	5.00%
Mission Valley Bank	16,487,000	10.25%	6,896,000	4.00%	8,621,000	5.00%
As of December 31, 2005						
Total capital to risk-weighted assets						
Mission Valley Bancorp	$ 17,750,000	14.51%	$ 9,784,000	8.00%	$ 12,230,000	10.00%
Mission Valley Bank	15,790,000	12.97%	9,737,000	8.00%	12,172,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	16,396,000	13.41%	4,892,000	4.00%	7,338,000	6.00%
Mission Valley Bank	14,436,000	11.86%	4,869,000	4.00%	7,303,000	6.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	16,396,000	11.67%	5,620,000	4.00%	7,025,000	5.00%
Mission Valley Bank	14,436,000	10.44%	5,532,000	4.00%	6,915,000	5.00%

Note 11 – COMMITMENTS AND CONTINGENCIES

The Company currently leases its administrative offices and the Sun Valley branch facility from a stockholder of the Company. The Company leases its facilities under non-cancelable operating leases expiring in 2008 through 2015. Rent expense for the years ended December 31, 2006 and 2005 was $198,814 and $189,841, respectively.

Minimum payments requited under non-cancelable operating leases with terms in excess of one year are as follows for future years ending December 31:

Year Ending	
2007	$ 339,618
2008	339,618
2009	339,618
2010	339,618
2011	339,618
Thereafter	584,432
	$ 2,282,522

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

At December 31, 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

Unfunded commitments under revolving and non-revolving lines of credit	$ 20,444,206
Unfunded commitments under letters of credit	$ 474,866
Unfunded commitments under merchant card transactions	$ 2,107,922

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.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. All standby letters of credit issued by the Company expire within one year of issuance. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

Note 12 – RELATED PARTY TRANSACTIONS

The Company grants loans to and accepts deposits from directors, officers, and employees as well as to entities with which these individuals are associated. Management believes these transactions were made in the ordinary course of business under substantially the same terms and conditions, including interest rates and collateral requirements, as comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. Loan balances outstanding at December 31, 2006 and 2005 were approximately $1,202,000 and $1,581,000, respectively. During 2006 and 2005, new loans made to such related parties amounted to approximately $44,000 and $1,529,000, respectively; and payments amounted to approximately $1,633,000 and $2,012,000, respectively. Deposits from related parties held by the Company at December 31, 2006 and 2005 were $12,401,000 and $13,239,000, respectively.

Note 13 – STOCK OPTION PLAN

The Company has an Employee Stock Option Plan (hereinafter the “Plan”). The Plan provides for options to purchase 281,250 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of 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. The Company recognized stock-based compensation cost of $6,866 in 2006. The Company also recognized income tax benefits related to stock based compensation of $1,115 in 2006.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions presented below:

	2006	2005
Vesting period	5 years	5 years
Risk-free interest rate	4.61	4.14%
Dividend yield rate	0%	0%
Price volatility	26.10%	16%
Weighted average expected life of options	5 years	6 years

Since the Bank has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the “simplified” method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

A summary of the status of the Company's stock option plan as of December 31, 2006 and changes during the year ending thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value in Thousands
Outstanding at Beginning of Year	310,860	$ 4		
Granted	12,850	$ 14		
Exercised	(11,910)	$ (5)		
Forfeited or Expired	(3,600)	$ (13)		
Outstanding at End of Year	308,200	$ 5	5.42 Years	$ 2,967
Options Exercisable	250,830	$ 5	4.93 Years	$ 2,548

The total intrinsic value of options exercised during the year ended December 31, 2006 was $113,683. As of December 31, 2006, there was $123,880 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 5.4 years.

Note 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2006 and 2005:

Cash and short-term investments - The carrying amounts of cash and short-term investments approximate their fair value.

Interest-bearing deposits in banks - Interest-bearing deposits in banks are reported at their fair values based on quoted market prices.

Investment securities, available-for-sale - Investment securities, available-for-sale, are reported at their fair values based on quoted market prices.

Common stock, substantially restricted - The carrying amounts of common stock, substantially restricted, which include FHLB stock and PCBB stock, are considered to reasonably estimate their fair value.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., real estate construction and mortgage, commercial and installment loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest - The carrying amounts of accrued interest approximate their fair value.

Deposits - The fair values of demand deposits, savings deposits, and money market accounts were the amounts payable on demand at December 31, 2006 and 2005. The fair value of time deposits was based on the discounted value of contractual cash flows. The discount rate was estimated utilizing the rates currently offered for deposits of similar remaining maturities.

Short-term borrowings - For such short-term borrowings, the carrying amount was considered to be a reasonable estimate of fair value.

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 9,241,542	$ 9,241,542	$ 14,545,161	$ 14,545,161
Interest bearing deposits in other banks	6,122,570	6,072,000	7,088,629	7,055,000
Common stock, substantially restricted	1,509,100	1,509,100	796,700	796,700
Investment securities, available-for-sale	14,546,146	14,546,144	18,564,021	18,564,021
Loans, net	139,485,204	136,762,264	102,269,309	97,685,000
Accrued interest receivable	764,830	764,830	507,494	507,494
Liabilities				
Deposits	$ 138,650,496	$ 128,268,000	$ 123,624,818	$ 113,850,000
Borrowings	21,890,000	21,755,000	8,000,000	7,906,000
Accrued interest payable	150,354	150,354	96,661	96,661

	2006		2005	
	Notional Amount	Cost to Cede	Notional Amount	Cost to Cede
Off-balance Sheet Instruments:				
Commitment to extend credit and standby letter of credit	$ 23,026,994	$ 230,270	$ 15,547,000	$ 155,470

Note 15 – PARENT COMPANY INFORMATION

The following financial information presents the condensed balance sheet of the Company on a parent-only basis as of December 31, 2006 and 2005, and the related condensed balance sheet, statement of operations and cash flows for the year then ended.

	2006	2005
ASSETS		
Cash and due from banks	$ 138,237	$ 88,981
Federal funds sold	755,000	1,900,000
Cash and cash equivalents	893,237	1,988,981
Investment in bank	16,369,352	14,259,552
Accrued interest receivable and other assets	200,930	203,672
Total Assets	$ 17,463,519	$ 16,452,205
LIABILITIES		
Junior subordinated deferrable interest debentures	$ 6,186,000	$ 6,186,000
Accrued interest payable and other liabilities	15,604	43,250
Total liabilities	6,201,604	6,229,250
STOCKHOLDERS' EQUITY		
Common stock	9,426,519	9,364,519
Retained earnings	1,999,443	1,042,481
Additional paid in capital	6,866	-
Accumulated other comprehensive loss	(170,913)	(184,045)
Total stockholders' equity	11,261,915	10,222,955
Total Liabilities and Stockholders' Equity	$ 17,463,519	$ 16,452,205
STATEMENT OF OPERATIONS		
Interest Income	$ 52,524	$ 22,415
Interest Expense	369,428	107,489
NET INTEREST INCOME (LOSS)	(316,904)	(85,074)
NON-INTEREST INCOME		
Income from subsidiary	1,350,621	948,790
Total non-interest income	1,350,621	948,790
NON-INTEREST EXPENSE		
Salaries and employee benefits	63,441	21,875
Occupancy	4,694	3,521
Furniture and equipment	3,000	2,250
Legal, professional, and consulting	37,307	25,974
Share based compensation	6,866	-
Other operating	1,075	4,164
Total non-interest expense	116,383	57,784
NET INCOME	$ 917,334	$ 805,932

	2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 917,334
Adjustments to reconcile net income to net cash provided by operating activities:	
Share-based compensation	6,866
Other	(66,541)
Net Cash Provided by Operating Activities	857,659
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in Investment in Subsidiary	(2,015,403)
Net Cash Used in Investing Activities	(2,015,403)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from the exercise of stock options	62,000
Net Cash Provided by Financing Activities	62,000
Net Decrease in Cash and Cash Equivalents	(1,095,744)
Cash and Cash Equivalents, Beginning of Year	1,988,981
Cash and Cash Equivalents, End of Year	$ 893,237

Independent Auditors' Report

Board of Directors and Stockholders
Mission Valley Bancorp and Subsidiary
Sun Valley, California

We have audited the accompanying balance sheet of Mission Valley Bancorp and Subsidiary (the "Company"), as of December 31, 2006, and the related statement of income, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2005 were audited by other auditors whose report dated January 31, 2006, expressed an unqualified opinion.

We conducted our audit in accordance with accounting principles 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Valley Bancorp and Subsidiary, as of December 31, 2006, and the results of its operations, changes in its stockholders' equity, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 26, 2007

Your Success is Our Mission

Financial products, tools & services designed to meet the unique needs of each of our clients.

Complete Business & Personal Banking Services

Commercial Real Estate Acquisition

SBA Financing

Construction Loans

Business Financing

Lines of Credit

Equipment Financing

Apartment Financing

On-Site Teller / Remote Deposit

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Home Equity Loans

Mortgage Financing

Letters of Credit

Cash Management

Merchant Bankcard Services

Payroll Services

Debit Cards

Online Banking

Savings Products

Retirement Products

Credit – Debit & ATM Cards

Overdraft Protection

Online Bill Payment

Time Deposits

Notary Services

International Services

Courier Services

Safe Deposit Services

Directors & Management Team

BOARD OF DIRECTORS:

Earle S. Wasserman
Chairman of the Board – Mission Valley Bancorp
Chairman of the Board – Mission Valley Bank
Chairman of the Board – Hallmark Group, Inc.

Tamara G. Gurney
President & CEO – Mission Valley Bancorp
President & CEO – Mission Valley Bank

James Bagge
Director – Mission Valley Bancorp
Director – Mission Valley Bank
President – Helicopter Accessory Service, Inc.

Darlynn Campbell Morgan
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney – Morgan Law Group

Jerold B. Neuman
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney – Allen, Matkins, Leck,
Gamble & Mallory, LLC

John Richardson
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Vice President & General Manager –
Crown Disposal Co., Inc. Community
Recycling & Resource Recovery, Inc.

Marc J. Foulkrod
Director – Mission Valley Bancorp
CEO – Avjet Corporation

Mark Lefever
Director – Mission Valley Bancorp
President – Avjet Corporation

EXECUTIVE COMMITTEE:

Tamara G. Gurney
President & CEO

Marianne L. Cederlind
Senior Vice President

Jim Hackbarth
Senior Vice President
Chief Credit Officer

Linda Rousseau
Senior Vice President

OFFICERS:

Administration:

Cindy Albers
Vice President / Compliance Manager

Traci Bunker
Vice President / Information Systems

Carrie Burrell
Vice President / Marketing Manager

Jane Chen
Chief Financial Officer

Mark DeMik
Senior Vice President /
Santa Clarita Valley Region

Marti Heinbaugh
Vice President / Branch Manager

Carlos Jones
Vice President / Loan Analyst

Sandra Kay
Vice President / Loan Servicing Manager

Sandy Konish
Vice President / Operations Administration

Frankie Powell
Vice President / Human Resource Manager

Sally Reichhardt
Assistant Vice President / Central Service Manager

Specialized Lending Division:

Vladimir Victorio
Senior Vice President

Cynthia Brown
Vice President / Loan Operations

Sun Valley Office:

Carol Dignard
Senior Vice President / Manager

Lola Forbis
Vice President / Relationship Manager

Julian Sandoval
Vice President / Relationship Manager

Elizabeth Halif
Vice President / Operations Manager

Valencia Office:

Greg Wells
Vice President / Manager

Amy Gibbs
Vice President / Operations Manager

Greg Spencer
Vice President / Business Banking

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 our new symbol "MVLY". As of December 31, 2006 there were approximately 300 shareholders of record and 1,973,177 shares of common 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, Investments
(800) 357-3680
(503) 675-3104

Hoefer & Arnett
Dave Bonaccorso
(415) 538-5723
(415) 398-4875 FAX

Stock Transfer Agent:

Shareholders with inquiries about accounts, lost stock certificates, or changes of address, may contact U.S. Stock Transfer Corporation by calling (818) 502-1404 between 9:00 a.m. and 5:00 p.m. Pacific Time. Written correspondence may be sent to:

U.S. Stock Transfer Corporation
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Mission Valley Bank

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