



MISSION VALLEY BANCORP
2021 FINANCIAL STATEMENTS

**MISSION
VALLEY
BANCORP**



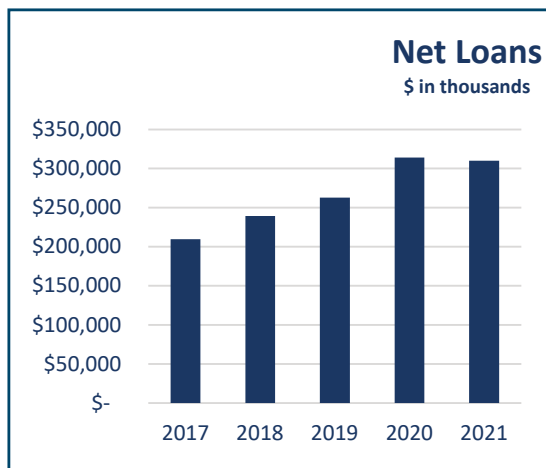
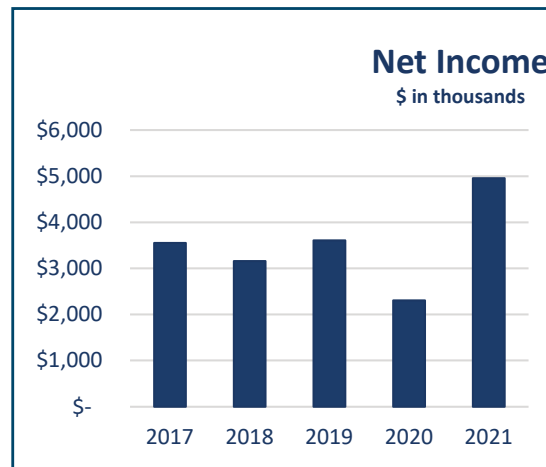


To our Shareholders, Clients & Friends,

On behalf of Management and the Board of Directors, I am pleased to share that Mission Valley Bancorp (“Mission Valley” or the “Company”) closed its 20th anniversary year posting the most profitable year in the history of the Company. Net earnings reached \$5.0 million or \$1.50 per diluted share, an increase of more than 115% compared to \$2.3 million or \$0.71 per diluted share for the year ended December 31, 2020.

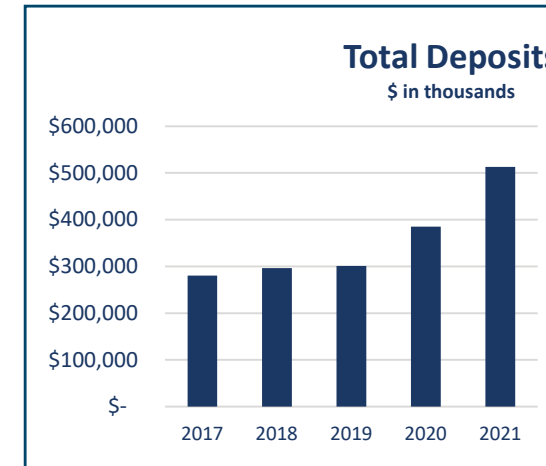
2021 Performance Highlights:

- Record Net Income of \$5.0 million, or \$1.50 per diluted share, an increase of \$2.7 million compared to 2020.
- Net Interest Income increased by \$1.0 million, or 6.86%, to \$16.1 million in 2021.
- Non-Interest Income increased by \$4.1 million, or 100.12%, to \$8.2 million in 2021 largely driven by gain on sale of loans of \$3.1 million and grant income of \$1.8 million.
- Total Assets increased \$99.7 million, or 20.91% to \$576.5 million.
- Total Deposits increased \$127.5 million, or 33.07% to \$513.1 million, which was primarily driven by one large customer relationship.
- Gross Loans, excluding Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans, increased \$56.1 million, or 21.75% to \$313.9 million.
- Established a de novo SBA lender service provider (“LSP”) subsidiary, Mission SBA Loan Servicing LLC (dba Total SBA), in March 2021 that provides SBA lending services to other financial institutions.



Each of these successes are particularly noteworthy having taken place during year two of the pandemic. Throughout 2021, our team continued to adapt to a constantly changing environment, discovering opportunity when faced with challenges. Department by department, we saw streamlined operational flow and increased production all while adjusting to the remote work environment. Testament to these achievements is the solid performance seen across the board. Net loans held steady, closing 2021 at \$310.2 million from \$314.0 million on December 31, 2020. Loan production throughout the year was very strong, enabling the sale of \$24.2 million in non-PPP SBA loans, resulting in a gain on sale of \$2.3 million, as well as the sale of \$38.9 million of SBA PPP loans resulting in an additional gain on sale of \$747 thousand.

Loan quality remained strong with no provision for loan losses in 2021 as compared to \$1.9 million in 2020. Net recoveries from previously charged-off loans totaled \$271 thousand in 2021, compared to net charge-offs of \$1.1 million in 2020. The Company reported no non-accrual loans and past due loans as of December 31, 2021, compared to \$178 thousand and \$1.4 million as of December 31, 2020, respectively. Classified loans decreased by \$5.2 million, or 88.56%, to \$670 thousand as of December 31, 2021. Allowance for loan and lease losses increased \$270 thousand, or 5.98% to \$4.8 million as of December 31, 2021.



Total deposits remained steady throughout the majority of the year, though during the fourth quarter, the sale of the business of a long-term customer significantly increased deposits, closing the year at \$513.1 million, up \$127.5 million, or 33.07% as of December 31, 2021, as compared to \$385.6 million as of December 31, 2020.

Total interest income rose 4.63% to \$16.8 million for the year ended December 31, 2021, from \$16.0 million for the year ended December 31, 2020. Total interest expense fell 28.47% to \$721 thousand for the year ended December 31, 2021, from \$1.0 million for the year ended December 31, 2020. Net interest income increased by 6.86%, or \$1.0 million to \$16.1 million for the year ended December 31, 2021 from \$15.0 million for the year ended December 31, 2020.

During the latter part of the year, Mission Valley was one of 863 community development financial institutions (“CDFIs”) to be awarded a grant through the U.S. Department of Treasury’s CDFI Rapid Response Program (“CDFI RRP”), developed to provide necessary capital for CDFIs to respond to economic challenges created by the COVID-19 pandemic. Mission Valley was awarded \$1.8 million under CDFI RRP grant, which was received and recognized into income in 2021 after meeting the performance goals and measures of the grant award agreement. This grant coupled with the Bank’s continued focus on the growth and diversification of our core top-line revenue sources propelled non-interest income to increase more than 100%, reaching \$8.2 million for the year ended December 31, 2021, as compared to \$4.1 million for the year ended December 31, 2020.

Mission Valley Bancorp’s capital position remains strong, reporting a Leverage Ratio of 10.60%, Common Equity Tier 1 Capital Ratio of 13.42%, Tier 1 Capital ratio of 15.18%, and total Risk Based Capital Ratio of 16.44%. All continuing to exceed regulatory requirements.

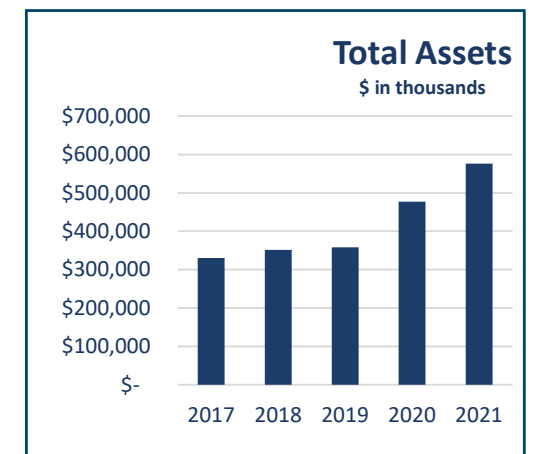
With success comes opportunity. In keeping with our commitment to give back to the communities we serve such as through our “Give Where You Live” campaigns, Mission Valley chose to commemorate our 20 years of growth and success by donating \$20,000 to local area nonprofits. These gifts allowed us the ability to assist in furthering the varied and important missions of a number of local organizations. While generously supporting area nonprofits is part of our mission, these gifts were particularly impactful when considering how significantly charitable giving declined throughout the pandemic.

In closing, as the founding President and CEO of Mission Valley Bancorp and Mission Valley Bank, I am exceedingly proud of what we have accomplished during these first 20 years and am excited to learn what the future holds.

On behalf of everyone at Mission Valley, please accept our sincere appreciation for your continued confidence and support.

Sincerely,

Tamara Gurney
 President & CEO
 Mission Valley Bancorp
 Mission Valley Bank





20 YEARS SERVING THE COMMUNITY
MISSION VALLEY BANK
 EST. 2001

Celebrating 20 Years of Growth and Success by Giving Back to Our Community

This summer marked Mission Valley Bank's 20th anniversary serving the financial needs of the San Fernando and Santa Clarita Valleys with the best of Community Business Banking. The bank's local roots run deep, motivated by the desire to be an integral part of the areas we serve. A strong community thrives on personal relationships and Mission Valley Bank supports - and is honored to be supported by - the business community.

Over the years, our team of Trusted Advisors have partnered with thousands of local area business owners, providing unique financial solutions that help both clients and communities thrive. As a full-service, independent, commercial bank that is locally owned, community minded and relationship driven, we're proud to have earned our reputation as Trusted Advisors.

To commemorate this milestone of 20 years in the community, Mission Valley Bank donated a total of \$20,000 to ten area nonprofit organizations (*shown below*) to assist in furthering their missions. As an organization, we feel strongly that there is no better way to celebrate and express our gratitude than by giving back to the communities that have supported our growth and success.



2021 FINANCIAL STATEMENTS

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	6-7
FINANCIAL STATEMENTS	
Consolidated statements of financial condition	9
Consolidated statements of income	10
Consolidated statements of comprehensive income	11
Consolidated statements of changes in shareholders' equity	12
Consolidated statements of cash flows	13
Notes to consolidated financial statements	14-55
Supplemental information	54-56
BOARD OF DIRECTORS	57
MANAGEMENT & OFFICERS	58
INVESTOR INFORMATION	59

Report of Independent Auditors

The Board of Directors and Shareholders
Mission Valley Bancorp

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Mission Valley Bancorp and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mission Valley Bancorp and its subsidiaries as of December 31, 2021 and 2020, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mission Valley Bancorp and its subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mission Valley Bancorp and its subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mission Valley Bancorp and its subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mission Valley Bancorp and its subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial condition and income are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Los Angeles, California
March 10, 2022



Mission Valley Bancorp
Consolidated Statements of Financial Condition
(In Thousands, Except Share Data)

ASSETS	December 31,	
	2021	2020
CASH AND DUE FROM BANKS	\$ 189,756	\$ 90,681
INTEREST BEARING DEPOSITS IN OTHER BANKS	2,820	2,915
SECURITIES AVAILABLE-FOR-SALE, at fair value	50,286	46,518
EQUITY SECURITIES	782	805
LOANS, net	310,207	314,012
PREMISES AND EQUIPMENT, net	466	419
DEFERRED TAX ASSET, net	2,151	2,188
BANK OWNED LIFE INSURANCE	10,872	10,584
RESTRICTED EQUITY SECURITIES	2,397	1,984
ACCRUED INTEREST RECEIVABLE	2,018	2,545
OTHER ASSETS	4,756	4,166
Total assets	\$ 576,511	\$ 476,817
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest-bearing demand	\$ 245,551	\$ 266,138
Interest-bearing demand	218,840	78,641
Savings	23,827	19,578
Time deposits under \$250,000	4,517	4,953
Time deposits \$250,000 and over	20,374	16,283
Total deposits	513,109	385,593
Junior subordinated deferrable interest debentures	6,186	6,186
Notes payable	3,793	5,833
Other borrowings	-	31,570
Accrued interest payable and other liabilities	9,184	8,555
Total liabilities	532,272	437,737
COMMITMENTS AND CONTINGENCIES – Note 14		
SHAREHOLDERS' EQUITY		
Preferred stock – 10,000,000 shares authorized; zero shares issued and outstanding	-	-
Common stock – 10,000,000 shares authorized; no par value; 3,270,118 and 3,245,871 shares issued and outstanding at December 31, 2021 and 2020, respectively	12,747	12,747
Additional paid-in capital	2,523	2,070
Retained earnings	30,296	25,339
Accumulated other comprehensive loss	(1,327)	(1,076)
Total shareholders' equity	44,239	39,080
Total liabilities and shareholders' equity	\$ 576,511	\$ 476,817

See accompanying notes

Mission Valley Bancorp
Consolidated Statements of Income
(In Thousands, Except Per Share Data)

	Years Ended December 31,	
	2021	2020
INTEREST INCOME		
Interest and fees on loans	\$ 15,789	\$ 15,210
Interest on securities	691	433
Other interest income	294	387
Total interest income	<u>16,774</u>	<u>16,030</u>
INTEREST EXPENSE		
Interest on deposits	222	293
Interest on borrowings	499	715
Total interest expense	<u>721</u>	<u>1,008</u>
NET INTEREST INCOME	16,053	15,022
PROVISION FOR LOAN LOSSES	-	1,850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>16,053</u>	<u>13,172</u>
NON-INTEREST INCOME		
Service charges and other income	1,602	1,947
Gain on sale of loans	3,093	496
Net merchant income	747	722
Increase in cash surrender value of bank owned life insurance	288	282
Gain on sale of OREO	6	12
Grant income	1,826	203
Other income	667	450
Total non-interest income	<u>8,229</u>	<u>4,112</u>
NON-INTEREST EXPENSES		
Salaries, wages, and employee benefits	10,917	8,254
Legal, professional, and consulting	1,196	1,263
Furniture and equipment	1,169	945
Data processing	799	758
Occupancy and equipment expenses	669	717
Advertising	256	178
Insurance	183	189
Other operating expenses	1,924	1,805
Total non-interest expenses	<u>17,113</u>	<u>14,109</u>
NET INCOME BEFORE PROVISION FOR INCOME TAXES	7,169	3,175
Provision for income taxes	2,212	873
NET INCOME	<u>\$ 4,957</u>	<u>\$ 2,302</u>
EARNINGS PER SHARE – basic	<u>\$ 1.52</u>	<u>\$ 0.71</u>
EARNINGS PER SHARE – diluted	<u>\$ 1.50</u>	<u>\$ 0.71</u>

See accompanying notes

Mission Valley Bancorp
Consolidated Statements of Comprehensive Income
(In Thousands)

	Years Ended December 31,	
	2021	2020
NET INCOME	\$ 4,957	\$ 2,302
Other comprehensive loss		
Net change in unrealized gain (loss) on cash flow hedge, net of tax of \$164 and \$(220) in 2021 and 2020, respectively	392	(525)
Change in unrealized (loss) gain on securities available-for-sale, net of tax of \$(270) and \$79 in 2021 and 2020, respectively	(643)	188
Other comprehensive loss	<u>(251)</u>	<u>(337)</u>
Total comprehensive income	<u>\$ 4,706</u>	<u>\$ 1,965</u>

See accompanying notes

Mission Valley Bancorp
Consolidated Statements of Changes in Shareholders' Equity
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
BALANCE, December 31, 2019	3,233,365	\$ 12,747	\$ 1,689	\$ 23,037	\$ (739)	\$ 36,734
Share-based compensation expense	-	-	381	-	-	381
Issuance of stock awards	12,506	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-
Total comprehensive (loss) income	-	-	-	2,302	(337)	1,965
BALANCE, December 31, 2020	3,245,871	12,747	2,070	25,339	(1,076)	39,080
Share-based compensation expense	-	-	453	-	-	453
Issuance of stock awards	24,247	-	-	-	-	-
Total comprehensive (loss) income	-	-	-	4,957	(251)	4,706
BALANCE, December 31, 2021	3,270,118	\$ 12,747	\$ 2,523	\$ 30,296	\$ (1,327)	\$ 44,239

See accompanying notes

Mission Valley Bancorp
Consolidated Statements of Cash Flows
(In Thousands)

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,957	\$ 2,302
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of premises and equipment	176	160
Provision for loan losses	-	1,850
Accretion of deferred loan fees, costs, and premium, net	(1,527)	(631)
Gain on sale of loans	(3,093)	(496)
Gain on sale of other real estate owned	(6)	(12)
Amortization of securities, net	231	175
Shared-based compensation expense	453	381
Deferred taxes	142	(621)
Increase in cash surrender value of bank owned life insurance	(288)	(282)
Net change in		
Accrued interest receivable and other assets	(132)	(758)
Accrued interest payable and other liabilities	1,186	714
Net cash provided by operating activities	2,099	2,782
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in interest bearing deposits in other banks, net	95	2,554
Purchases of securities available-for-sale	(16,209)	(36,346)
Proceeds from repayments, sales, and maturities of securities available-for-sale	11,320	7,146
Proceeds from prepayments and maturities of held-to-maturity investments	-	1
Proceeds from loans held for sale previously classified as held for investment	65,375	10,855
Proceeds from the sale of other real estate owned	75	88
Net purchases of restricted equity securities	(413)	(63)
Net increase in loans	(56,950)	(63,394)
Purchases of premises and equipment	(223)	(282)
Net cash provided by (used in) investing activities	3,070	(79,441)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in time deposits	3,655	1,046
Net decrease in notes payable	(2,040)	(859)
(Repayments on) proceeds from other borrowings	(31,570)	31,570
Net increase in other deposits	123,861	83,381
Net cash provided by financing activities	93,906	115,138
CHANGE IN CASH AND DUE FROM BANKS	99,075	38,479
Cash and due from banks, beginning of year	90,681	52,202
Cash and due from banks, end of year	\$ 189,756	\$ 90,681
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 760	\$ 938
Taxes paid	\$ 2,685	\$ 1,064
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfers of loans receivable held for investment to loans receivable held for sale	\$ 63,148	\$ 10,028
Transfers from loans receivables held for investments to other real estate owned	\$ -	\$ 568
Lease liabilities arising from obtaining right-of-use assets	\$ 193	\$ 589

See accompanying notes

Note 1 – Summary of Significant Accounting Policies

Nature of operations – Mission Valley Bancorp (the “Company”) is a bank holding company headquartered in Sun Valley, California with two wholly owned subsidiaries Mission Valley Bank (the “Bank”) and Mission SBA Loan Servicing LLC (“Mission SBA”). The Bank was founded in 2001, as a state chartered depository institution subject to regulation and examination by the California Department of Financial Protection & Innovation (“DFPI”) and Federal Deposit Insurance Corporation (“FDIC”). The Bank provides a full range of banking services to corporate and individual customers and has two branches located in Sun Valley and Valencia, California.

Mission SBA was established in 2021, as a lender service provider (“LSP”) that provides lending services, such as underwriting, processing, closing, servicing, and referral/placement services, to other financial institutions.

Basis of presentation and consolidation – The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. 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, a variable interest entity. The Company determined that it is not the primary beneficiary of Mission Valley Statutory Trust I, therefore Mission Valley Statutory Trust I is not consolidated in the Company’s financial statements. As a result, the consolidated statements of financial condition include \$6,186,000 as junior subordinated deferrable interest debentures. Also included in other assets in the consolidated statements of financial condition is \$186,000 of investments in Mission Valley Statutory Trust I, which is reported using the cost method.

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated statements of 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.

Concentrations 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, 2021 and 2020, the Company did not have any significant concentrations in its business with any one customer.

Note 1 – Summary of Significant Accounting Policies (continued)

As of December 31, 2021 and 2020, 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 57% and 48% of total gross loans held for investment at December 31, 2021 and 2020, respectively. Management has taken this factor into account in the determination of the allowance for loan losses.

Cash and due from banks – 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, 2021 and 2020.

Cash equivalents include federal funds sold, securities, and interest-bearing deposits in other banks with original maturities of ninety days or less. There were no cash equivalents as of December 31, 2021 and 2020.

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 deposit in major financial institutions located throughout the United States of America.

Securities – In accordance with generally accepted accounting principles, the Company is required to designate its readily marketable investment securities as “held-to-maturity,” “available-for-sale,” or “trading.” Debt securities that the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions are classified as “held-to-maturity” and reported at amortized cost. The Company did not classify any debt securities as “held-to-maturity” at December 31, 2021 and 2020.

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.

The Company did not designate any of its investments as trading securities at December 31, 2021 and 2020.

Gains and losses realized on disposition of investment securities are recognized at the time of sale based upon the specific identification method. 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. Discounts and premiums on 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 consolidated statement of income as of the trade date and determined using the amortized cost of the specific security sold. Declines in the fair value of individual securities below their cost that are deemed other than temporary result in write-downs of the individual securities to their fair value.

Management performs regular impairment analyses on the securities portfolio in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 320, *Investments-Debt and Equity Securities* (“ASC 320”) related to the consideration of impairment related to certain debt and equity securities. 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”).

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Loans are reported as Troubled Debt Restructuring (“TDR”) 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, TDR 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 allowances on non-collateral dependent TDR loans are measured by comparing the present value of expected future cash flows on the TDR loans discounted at the interest rate of the original loan agreement to the loan’s carrying value. These impairment allowances are recognized as a specific component to be provided for in the allowance for loan losses.

The Coronavirus Aid, Relief and Economic Security (“CARES”) Act, as amended by the Consolidated Appropriations Act, 2021 (“CAA”), permits financial institutions to suspend TDR classification requirements under U.S. GAAP for any COVID-19 pandemic-related loan modifications for borrowers who were less than 30 days past due as of December 31, 2019, that were executed after March 1, 2020, and earlier of (i) 60 days after the end of the COVID-19 national emergency declaration under the National Emergencies Act, or (ii) January 1, 2022.

The Company implemented a short-term modification program to provide temporary payment relief from the economic impacts of the COVID-19 pandemic under the CARES Act, in the form of interest only payment deferrals or principal and interest payment deferrals, to borrowers who meet the program’s qualifications. The Company is not adjusting the aging of loans for customers granted a payment deferral in response to the COVID-19 pandemic. These loans remain in the aging category that was applicable at the time of payment deferral and interest continues to accrue on these loans. The Company did not grant any payment deferrals in the year ended December 31, 2021.

Note 1 – Summary of Significant Accounting Policies (continued)

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 consolidated 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 unallocated components. The specific component relates to loans that are classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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, the shortfall is charged-off or 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.

The Company utilizes qualitative factors 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 consider 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;

Note 1 – Summary of Significant Accounting Policies (continued)

- 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;
- 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-dependent 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.

Loans held for sale – Loans held for sale are recorded at the lower of aggregate cost or estimated fair value. The fair value of loans held for sale is based primarily on prices that secondary markets are currently offering for loans with similar characteristics. Net unrealized losses, if any, are recognized through a valuation allowance through a charge to earnings. The carrying value of loans held for sale is net of premiums as well as deferred origination fees and costs. Premiums and net origination fees and costs are deferred and included in the basis of the loans in calculating gains and losses upon sale.

Loans that are originated with the intent to sell them in the secondary market are initially classified as loans held for sale. The Company may also periodically review loans held for investment for subsequent sale. Once a decision has been made to sell loans not previously classified as held for sale, such loans shall be transferred into the loans held for sale classification and measured at the lower of cost or fair value.

Servicing assets – The Company recognizes servicing assets when loans are sold with servicing retained. The Company initially recognizes and measures at fair value servicing assets obtained from the sale of loan as a component of the gain or loss on sale. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company subsequently measures these servicing assets by using the fair value method to recognize servicing assets at fair value at each reporting date with changes in fair value of servicing assets reported in earnings.

Note 1 – Summary of Significant Accounting Policies (continued)

Transfer of financial assets – Transfers of financial assets are accounted for as sales when control over the assets have been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and equipment – Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which typically range from three to seven 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.

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 on the consolidated statements of financial condition. Operating income and expenses incurred on these properties are reflected in current earnings within non-interest expense. There were no other real estate owned properties acquired and one sold for the year ended December 31, 2021. There were three other real estate owned properties acquired and one sold for the year ended December 31, 2020.

Derivative financial instruments and hedging activities – The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the future cash flows of certain assets. FASB ASC Topic 815, *Derivatives and Hedging* (“ASC 815”), establishes accounting and reporting standards requiring that every derivative instrument be recorded in the consolidated statements of financial condition as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship. On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge, a cash flow hedge, or a non-designated derivative. The Company’s derivative contract is designated as a cash flow hedge.

Note 1 – Summary of Significant Accounting Policies (continued)

Cash flow hedges are accounted for by recording the changes in the fair value of the effective portion of the derivative instrument in other comprehensive income (loss) and are recognized in the consolidated statements of income when the hedged item affects earnings.

The Company formally documents the relationship between a derivative instrument and a hedged asset or liability, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Income taxes – The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes* (“ASC 740”). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income. The Company determines deferred income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are established 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. Changes in enacted tax rates result in a revaluation of deferred tax assets and liabilities through the income tax provision in the period that the tax rate changes are enacted. A valuation allowance, if needed, reduces deferred assets to the amount expected to be realized.

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 50% likely of being realized upon ultimate settlement. Interest and penalties associated with uncertain tax positions are recognized as components of other operating expenses in the consolidated statements of income. The Company did not recognize any uncertain tax positions at December 31, 2021 or 2020.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Equity securities – Equity securities are carried at fair value with changes in fair value reported in earnings.

Restricted equity securities – The Bank is a member of the Federal Home Loan Bank (“FHLB”) system. Members are required to own a certain amount of FHLB stock based on the level of borrowing and other factors. At December 31, 2021 and 2020, the Company held \$1,866,000 and \$1,453,000, respectively, of shares of FHLB stock, which is carried at cost and classified as restricted equity securities.

The Company also invests in the stock of Pacific Coast Bankers Bank (“PCBB”) in connection with its correspondent banking arrangement with PCBB. PCBB stock is restricted as to purchase, sale, and redemption. At December 31, 2021 and 2020, the Company held \$531,000 of PCBB stock, which is carried at cost and classified as restricted equity securities.

The Company evaluates restricted equity securities for impairment on a periodic basis. No impairment was recorded on restricted equity securities for the years ended December 31, 2021 and 2020.

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 income based upon the grant-date fair value of the stock options granted by the Company. The effect of stock-based accounting rules is 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 is measured using a Black-Scholes pricing model.

The Company’s 2017 Stock Option and Restricted Stock Grant Plan provides for granting of restricted stock awards for the benefit of certain members of the board of directors, executives, and key employees of the Company and its affiliates. Restricted stock grants are subject to performance-based vesting as well as other approved vesting conditions. Compensation expense is recognized over the service period to the extent restricted stock units are expected to vest.

Advertising costs – Advertising costs of \$256,000 and \$178,000 for the years ended December 31, 2021 and 2020, respectively, were expensed as incurred.

Comprehensive income – Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on the Company’s cash flow hedge and securities available-for-sale, which are also recognized as separate components of consolidated shareholders’ equity.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Preferred stock – The Company has authorized 10 million shares of preferred stock.

Earnings per share (“EPS”) – Earnings per share amounts have been computed using the weighted average number of shares outstanding of common stock for the purposes of computing basic 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 reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings available to common shareholders of the Company. The Company’s restricted stock awards outstanding are not eligible to be issued or to receive dividends until fully vested. There were 23,997 and 12,506 restricted stock awards that vested and issued during the years ended December 31, 2021 and 2020, respectively. The treasury stock method is applied to determine the dilutive effect of stock options and restricted stock awards in computing dilutive earnings per share. Basic and diluted EPS is calculated as follows:

	2021	2020
<i>(In thousands, except per share data)</i>		
BASIC EARNINGS PER SHARE		
Net income	\$ 4,957	\$ 2,302
Weighted-average common shares outstanding	3,260	3,242
Earnings per share – basic	\$ 1.52	\$ 0.71
DILUTED EARNINGS PER SHARE		
Net income	\$ 4,957	\$ 2,302
Weighted-average common shares outstanding	3,260	3,242
Dilutive effect of stock options and restricted stock awards	36	5
Weighted-average shares outstanding, including potentially dilutive effect of stock options and restricted stock awards	3,296	3,247
Earnings per share available to common shareholders – diluted	\$ 1.50	\$ 0.71

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Fair value measurements – FASB ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), 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. 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 the Company’s 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.

Reclassification – Certain amounts from the prior year footnotes have been reclassified, in order to conform to the current year presentation. There was no impact on net income or retained earnings.

Note 2 – Investment Securities

The carrying amounts of securities and their estimated fair values at December 31, 2021 and 2020, were as follows:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(In thousands)</i>				
<u>Available-for-Sale</u>				
Agency securities	\$ 6,142	\$ 5	\$ (41)	\$ 6,106
Mortgage- and asset-backed securities	37,539	172	(800)	36,911
Corporate bonds	7,225	60	(16)	7,269
	<u>\$ 50,906</u>	<u>\$ 237</u>	<u>\$ (857)</u>	<u>\$ 50,286</u>

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 2 – Investment Securities (continued)

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(In thousands)</i>				
<u>Available-for-Sale</u>				
Agency securities	\$ 967	\$ -	\$ (19)	\$ 948
Mortgage- and asset-backed securities	39,218	363	(40)	39,541
Corporate bonds	6,041	3	(15)	6,029
	<u>\$ 46,226</u>	<u>\$ 366</u>	<u>\$ (74)</u>	<u>\$ 46,518</u>

Information pertaining to investment securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in continuous loss position is as follows:

	2021					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>						
<u>Available-for-Sale</u>						
Agency securities	\$ 5,136	\$ (41)	\$ -	\$ -	\$ 5,136	\$ (41)
Mortgage- and asset-backed securities	16,913	(427)	9,484	(373)	26,397	(800)
Corporate bonds	2,203	(16)	-	-	2,203	(16)
	<u>\$ 24,252</u>	<u>\$ (484)</u>	<u>\$ 9,484</u>	<u>\$ (373)</u>	<u>\$ 33,736</u>	<u>\$ (857)</u>
	2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>						
<u>Available-for-Sale</u>						
Agency securities	\$ 948	\$ (19)	\$ -	\$ -	\$ 948	\$ (19)
Mortgage- and asset-backed securities	33,906	(40)	-	-	33,906	(40)
Corporate bonds	5,019	(15)	-	-	5,019	(15)
	<u>\$ 39,873</u>	<u>\$ (74)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,873</u>	<u>\$ (74)</u>

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 2 – Investment Securities (continued)

As of December 31, 2021, the Company had thirty available-for-sale securities in an unrealized loss position. The Company had thirteen available-for-sale securities in an unrealized loss position as of December 31, 2020. There were six available-for-sale securities in an unrealized loss position for twelve months or more as of December 31, 2021. There were no available-for-sale securities in an unrealized loss position for twelve months or more as of December 31, 2020.

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 2021 or 2020.

The amortized cost and estimated fair values of investment securities at December 31, 2021 and 2020, 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, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<i>(In thousands)</i>				
<u>Available-for-Sale</u>				
Due in one year or less	\$ 36	\$ 36	\$ 197	\$ 203
Due from one to five years	1,209	1,216	9,031	9,092
Due in more than five years	49,661	49,034	36,998	37,223
	<u>\$ 50,906</u>	<u>\$ 50,286</u>	<u>\$ 46,226</u>	<u>\$ 46,518</u>

There were no sales of available-for-sale securities for the year ended December 31, 2021 or 2020.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses

The composition of the Company's loan portfolio at December 31, 2021 and 2020, was as follows:

	2021	2020
<i>(In thousands)</i>		
Real estate loans	\$ 180,371	\$ 153,602
Commercial loans	39,844	50,530
Consumer loans	2,074	2,281
SBA loans	78,180	97,889
Accounts receivable loans	8,183	9,044
Advanced restaurant financing	5,313	6,749
Overdrafts	125	66
	<u>314,090</u>	<u>320,161</u>
Less		
Allowance for loan losses	4,785	4,514
Discount on retained loans	1,428	1,378
Deferred loan fees (costs), net	(2,330)	257
	<u>\$ 310,207</u>	<u>\$ 314,012</u>

From April to August 2020, the Company accepted Small Business Administration ("SBA") Paycheck Protection Program ("PPP") applications and originated loans to qualified small businesses under the PPP established by the CARES Act. The CAA extended the PPP to March 31, 2021. PPP loans are included in the SBA loans portfolio, carrying an interest rate of 1%, and are 100% guaranteed by the SBA. No allowance for loan losses was recorded for these loans as of December 31, 2021. The SBA paid the Company fees for processing PPP loans and such fees are accounted for as loan origination fees, where net deferred fees are recognized over the term of the loan as a yield adjustment on the loans. The substantial majority of the Company's PPP loans have a term of two years. Under the terms of the PPP, if certain conditions are satisfied, such loans are eligible to be forgiven in which case the SBA will make payments to the Company for the forgiven amounts. If a loan is paid off or forgiven by the SBA prior to its projected estimated life, the remaining unamortized deferred fees will be recognized as interest income in that period. The Company originated approximately 220 PPP loans totaling \$38,974,000 for the year ended December 31, 2021, compared to approximately 350 PPP loans totaling \$70,333,000 for the year ended December 31, 2020. Fees totaling \$1,566,000 and \$2,298,000 were collected on PPP loans for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021, the outstanding loan balance of PPP loans was \$163,000 and net deferred fees remaining was \$2,000. At December 31, 2020, the outstanding loan balance of PPP loans was \$62,480,000 and net deferred fees remaining was \$1,311,000.

In June 2021, the Company sold \$38,974,000 of PPP loans that were originated in 2021 resulting in gain on sale of \$747,000 for the year ended December 31, 2021.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses (continued)

The following tables present by portfolio segment the activity in the allowance for loan losses for the years ended December 31, 2021 and 2020. The following also presents by loan type the balance and activity for 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 and for the years ended December 31, 2021 and 2020. Recorded investment is defined as the unpaid principal balance, adjusted for deferred fees/costs, premiums, discounts, accrued interest, and may also reflect a previous write-down of the investment. However, for reporting purposes, recorded investments for the Company approximate unpaid principal balance as the other components are not deemed material.

Allowance for Loan Losses As of and For the Year Ended December 31, 2021						
	Beginning Balance	Provision (Recapture) for Loan Losses Charged to Expense	Charge-offs	Recoveries on Loans Previously Charged-off	Ending Balance	Ending Balance Individually Evaluated for Impairment
<i>(In thousands)</i>						
Real estate loans	\$ 2,624	\$ 201	\$ -	\$ -	\$ 2,825	\$ -
Commercial loans	801	(296)	-	144	649	-
Consumer loans	24	(8)	-	-	16	-
SBA loans	724	219	-	7	950	-
Accounts receivable loans	162	(134)	-	120	148	-
Advance restaurant financing loans	98	(19)	-	-	79	-
Overdrafts	10	14	-	-	24	-
Unallocated	71	23	-	-	94	-
Total	\$ 4,514	\$ -	\$ -	\$ 271	\$ 4,785	\$ -

Allowance for Loan Losses As of and For the Year Ended December 31, 2020						
	Beginning Balance	Provision (Recapture) of Loan Losses Charged to Expense	Charge-offs	Recoveries on Loans Previously Charged-off	Ending Balance	Ending Balance Individually Evaluated for Impairment
<i>(In thousands)</i>						
Real estate loans	\$ 1,962	\$ 662	\$ -	\$ -	\$ 2,624	\$ 40
Commercial loans	623	736	(1,015)	457	801	15
Consumer loans	25	75	(77)	1	24	-
SBA loans	497	661	(434)	-	724	12
Accounts receivable loans	308	(146)	-	-	162	-
Advance restaurant financing loans	12	86	-	-	98	-
Overdrafts	211	(201)	-	-	10	-
Unallocated	94	(23)	-	-	71	-
Total	\$ 3,732	\$ 1,850	\$ (1,526)	\$ 458	\$ 4,514	\$ 67

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses (continued)

Management believes that the allowance for loan losses was adequate as of December 31, 2021 and 2020. 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 losses.

	Recorded Investment in Loans As of December 31, 2021		
	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance
	<i>(In thousands)</i>		
Real estate	\$ 541	\$ 179,830	\$ 180,371
Commercial	169	39,675	39,844
Consumer	-	2,074	2,074
SBA	410	77,770	78,180
Accounts receivable	-	8,183	8,183
Advance restaurant financing	-	5,313	5,313
Overdrafts	-	125	125
Total	\$ 1,120	\$ 312,970	\$ 314,090

	Recorded Investment in Loans As of December 31, 2020		
	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance
	<i>(In thousands)</i>		
Real estate	\$ 2,260	\$ 151,342	\$ 153,602
Commercial	179	50,351	50,530
Consumer	-	2,281	2,281
SBA	814	97,075	97,889
Accounts receivable	-	9,044	9,044
Advance restaurant financing	-	6,749	6,749
Overdrafts	-	66	66
Total	\$ 3,253	\$ 316,908	\$ 320,161

Note 3 – Loans and Allowance for Loan Losses (continued)

The Company uses several credit quality indicators to manage credit risk in an ongoing manner by 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 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.
- **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, it must remain on nonaccrual. 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.

Note 3 – Loans and Allowance for Loan Losses (continued)

The following tables present, by portfolio segment and by credit quality indicator, the recorded investment in the Company's loans as of December 31, 2021 and 2020:

	Internal Risk Rating by Loan Class For the Year Ended December 31, 2021				
	Pass/Watch	Special Mention	Substandard	Doubtful/Loss	Total
<i>(In thousands)</i>					
Real estate loans	\$ 172,915	\$ 7,288	\$ 168	\$ -	\$ 180,371
Commercial loans	39,617	135	92	-	39,844
Consumer loans	2,074	-	-	-	2,074
SBA loans	77,155	615	410	-	78,180
Accounts receivable loans	8,183	-	-	-	8,183
Advanced restaurant financing	5,313	-	-	-	5,313
Overdrafts	125	-	-	-	125
Total	\$ 305,382	\$ 8,038	\$ 670	\$ -	\$ 314,090

	Internal Risk Rating by Loan Class For the Year Ended December 31, 2020				
	Pass/Watch	Special Mention	Substandard	Doubtful/Loss	Total
<i>(In thousands)</i>					
Real estate loans	\$ 142,082	\$ 7,318	\$ 4,202	\$ -	\$ 153,602
Commercial loans	49,568	783	179	-	50,530
Consumer loans	2,281	-	-	-	2,281
SBA loans	96,415	-	1,219	255	97,889
Accounts receivable loans	9,044	-	-	-	9,044
Advanced restaurant financing	6,749	-	-	-	6,749
Overdrafts	66	-	-	-	66
Total	\$ 306,205	\$ 8,101	\$ 5,600	\$ 255	\$ 320,161

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses (continued)

The following tables present, by portfolio segment, an aging analysis and the recorded investment in loans and leases past due as of December 31, 2021 and 2020:

	Aging Analysis of Past Due Loans As of December 31, 2021					Total Loans Receivable
	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	
<i>(In thousands)</i>						
Real estate	\$ -	\$ -	\$ -	\$ -	\$ 180,371	\$ 180,371
Commercial	-	-	-	-	39,844	39,844
Consumer	-	-	-	-	2,074	2,074
SBA	-	-	-	-	78,180	78,180
Accounts receivable	-	-	-	-	8,183	8,183
Advanced restaurant financing	-	-	-	-	5,313	5,313
Overdrafts	-	-	-	-	125	125
Total	\$ -	\$ -	\$ -	\$ -	\$ 314,090	\$ 314,090

	Aging Analysis of Past Due Loans As of December 31, 2020					Total Loans Receivable
	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	
<i>(In thousands)</i>						
Real estate	\$ -	\$ 636	\$ -	\$ 636	\$ 152,966	\$ 153,602
Commercial	131	-	178	309	50,221	50,530
Consumer	-	-	-	-	2,281	2,281
SBA	443	-	-	443	97,446	97,889
Accounts receivable	-	-	-	-	9,044	9,044
Advanced restaurant financing	-	-	-	-	6,749	6,749
Overdrafts	-	-	-	-	66	66
Total	\$ 574	\$ 636	\$ 178	\$ 1,388	\$ 318,773	\$ 320,161

There were no loans that were greater than ninety days past due and still accruing interest at December 31, 2021 and 2020. There were no loans and leases on nonaccrual status as of December 31, 2021. The recorded investment in loans and leases on nonaccrual status as of December 31, 2020, consisted of \$178,000 in SBA loans.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses (continued)

The following tables present information related to impaired loans as of and for the years ended December 31, 2021 and 2020. There were no impaired loans that were fully reserved with an allowance for loan loss for the years ended December 31, 2021 and 2020:

	Impaired Loans For the Year Ended December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
With no related allowance recorded					
Real estate	\$ 541	\$ 541	\$ -	\$ 1,005	\$ 29
Commercial	169	169	-	109	17
SBA	410	410	-	294	30
With an allowance recorded					
Real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial	-	-	-	-	-
SBA	-	-	-	-	-
Total	\$ 541	\$ 541	\$ -	\$ 1,005	\$ 29
Real estate	169	169	-	109	17
SBA	410	410	-	294	30

	Impaired Loans For the Year Ended December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
With no related allowance recorded					
Real estate	\$ 1,470	\$ 1,470	\$ -	\$ 937	\$ 73
Commercial	48	48	-	115	9
SBA	178	178	-	652	8
With an allowance recorded					
Real estate	\$ 790	\$ 790	\$ 40	\$ 395	\$ 33
Commercial	131	131	15	591	6
SBA	636	636	12	318	50
Total	\$ 2,260	\$ 2,260	\$ 40	\$ 1,332	\$ 106
Commercial	179	179	15	706	15
SBA	814	814	12	970	58

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 3 – Loans and Allowance for Loan Losses (continued)

Troubled debt restructurings – The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest only modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination modification – Any other type of modification, including the use of multiple categories above.

As of December 31, 2021, there was one restructured loan in the amount of \$372,000 with no allocated allowance included within the impaired loan balance.

As of December 31, 2020, there were two restructured loans in the amount of \$402,000 with no allocated allowance included within the impaired loan balance.

There were no newly restructured loans that met the definition of a troubled debt restructuring in the years ended December 31, 2021 and 2020.

As of December 31, 2021, the Company had 66 loans with an aggregate loan balance of \$48,290,000 that were granted payment deferral in response to the COVID-19 pandemic and were excluded from TDR classification as permitted under the CARES Act and guidance from federal banking regulators.

As of December 31, 2020, the Company had 76 loans with an aggregate loan balance of \$66,210,000 that were granted payment deferral in response to the COVID-19 pandemic and were excluded from TDR classification as permitted under the CARES Act and guidance from federal banking regulators.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 4 – Premises and Equipment

Premises and equipment as of December 31, 2021 and 2020, are summarized as follows:

	2021	2020
<i>(In thousands)</i>		
Building improvements	\$ 1,175	\$ 1,550
Furniture, fixtures, and equipment	2,624	2,702
	3,799	4,252
Less: accumulated depreciation and amortization	(3,333)	(3,833)
	<u>\$ 466</u>	<u>\$ 419</u>

Depreciation and amortization expense for the years ended December 31, 2021 and 2020, amounted to \$186,000 and \$160,000, respectively.

Note 5 – Servicing Assets

Activity for servicing assets and the related changes in fair value for the years ended December 31, 2021 and 2020, is as follows:

	2021	2020
<i>(In thousands)</i>		
Beginning balance	\$ 1,018	\$ 1,008
Additions, net	336	33
Changes in fair value	(85)	(23)
	<u>\$ 1,269</u>	<u>\$ 1,018</u>
Ending balance		

Loans serviced for others, consisting solely of SBA loans, are not included in the consolidated statements of financial condition. The unpaid principal balances of these loans serviced for others were \$73,237,000 and \$65,060,000 as of December 31, 2021 and 2020, respectively. Net servicing fees totaled \$670,000 and \$417,000 for the years ended December 31, 2021 and 2020, respectively.

Note 6 – Deposits

At December 31, 2021, the scheduled maturities of time deposits are as follows:

<i>(In thousands)</i>	Time Deposits Under \$250,000	Time Deposits \$250,000 and Over
Matures During Years Ending December 31,		
2022	\$ 3,748	\$ 19,827
2023	341	-
2024	122	-
2025	231	547
2026	75	-
	<u>\$ 4,517</u>	<u>\$ 20,374</u>

Note 7 – Notes Payable and Other Borrowings

On May 1, 2017, the Company entered into three unsecured term notes for \$1,750,000 with a maturity date of May 1, 2022, bearing interest at a rate of 5.00% with interest only paid semi-annually and principal due at maturity. In March 2021, the Company paid off the outstanding balance of \$1,750,000. At December 31, 2020, the outstanding balance of these notes was \$1,750,000 and interest paid on these notes was \$88,000 for the year ended December 31, 2020.

On August 1, 2017, the Company entered into an unsecured note agreement for \$8,586,000 with a maturity date of August 14, 2022, and bears interest at a rate of 5.23%. At December 31, 2020, the outstanding balance on this note was \$4,083,000 and interest paid was \$238,000 for the year ended December 31, 2020. On January 15, 2021, the Company refinanced the \$8,586,000 unsecured note agreement by entering into an Amended and Restated Loan Agreement for a \$10,000,000 revolving loan. The \$10,000,000 revolving loan under the Amended and Restated Loan Agreement has a maturity date of January 15, 2023 (plus two one year renewal options), and bears interest at a rate of Prime Rate plus 1.00% with a floor rate of 4.50%. At December 31, 2021, the outstanding balance on the revolving loan was \$3,800,000, and interest paid was \$112,000 for the year ended December 31, 2021.

The Company has a line of credit available from the FHLB, which is secured by pledged loans. FHLB borrowings may include overnight advances as well as loans with terms of up to 30 years. At December 31, 2021, there were no FHLB advances outstanding. At December 31, 2020, there was \$5,000,000 in outstanding FHLB advances with a maturity date of May 26, 2021, and bearing interest at a rate of 0%. The Company had \$104,926,000 and \$83,381,000 of borrowing capacity from the FHLB at December 31, 2021 and 2020, respectively, based upon loans available to be pledged. The carrying value of loans pledged to the FHLB as collateral was \$226,178,000 at December 31, 2021.

Note 7 – Notes Payable and Other Borrowings (continued)

The Company had \$2,147,000 and \$2,295,000 of borrowing capacity from the Federal Reserve Bank of San Francisco ("FRB") as of December 31, 2021 and 2020, respectively, based upon loans available to be pledged. The carrying balance of loans pledged to the FRB as collateral was \$2,636,000 at December 31, 2021. There was no outstanding balance as of December 31, 2021 and 2020.

In April 2020, the Company entered into the FRB PPP Liquidity Facility ("Facility"). Under the Facility, the FRB lends to eligible borrowers on a non-recourse basis, taking PPP loans as pledged collateral, at an interest rate of 0.35% and maturity date equal to the maturity date of the PPP loans pledged. At December 31, 2020, the outstanding balance of the Facility was \$26,570,000. In February 2021, the Company paid off the outstanding balance of the Facility.

The Company has unsecured revolving lines of credit with PCBB and Zions Bank providing for federal fund purchases up to \$10,000,000 and \$8,000,000, respectively. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2021 and 2020, the Company did not have an outstanding balance against these lines of credits.

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 borrowings within the Company's consolidated statements of financial condition.

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 bore interest at 5.97% through September 15, 2010, and variable rate equal to 3-month 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.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 9 – Derivative Instrument and Hedge Activity

During the year ended December 31, 2018, the Company entered into an interest rate swap agreement with a counterparty to manage interest rate risk associated with its variable rate borrowings on the TRUPS. The interest rate swap is designated as a cash flow hedge with the aggregate fair value of the swap recorded in other assets or other liabilities with changes in fair value of the hedge accounted for within the consolidated statements of comprehensive income, net of taxes, to the extent effective. The amount included in accumulated other comprehensive income would be reclassified to current interest incurred from the hedged variable rate borrowings on the TRUPS when it affects earnings. The Company assesses the effectiveness of the hedging relationship by comparing the changes in fair value of the derivative hedging instrument with the changes in fair value of the designated hedged transaction. The Company expects the hedge to remain highly effective during the remaining terms of the swap. The notional amount of the swap agreement is \$6,000,000 with a variable interest rate of 3-month LIBOR plus 1.50% maturing on December 15, 2035. The fixed rate paid on the instrument was 3.27% at December 31, 2021. The fair value of the swap is approximately \$1,264,000 and \$1,820,000 and is recorded in accrued interest payable and other liabilities at December 31, 2021 and 2020, respectively. The Company did not recognize any ineffectiveness on the cash flow hedge for the years ended December 31, 2021 or 2020.

Note 10 – Income Taxes

The provision for income taxes for years ended December 31, 2021 and 2020, consisted of the following:

	2021	2020
<i>(In thousands)</i>		
Current		
Federal	\$ 1,396	\$ 963
State	674	531
	<u>2,070</u>	<u>1,494</u>
Deferred		
Federal	124	(544)
State	18	(77)
	<u>142</u>	<u>(621)</u>
	<u>\$ 2,212</u>	<u>\$ 873</u>

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 10 – Income Taxes (continued)

A reconciliation of the Company's effective tax rate with the statutory federal income tax rate for years ended December 31, 2021 and 2020, is as follows:

	2021		2020	
<i>(In thousands)</i>				
Statutory federal income tax rate	\$ 1,506	21.0 %	\$ 667	21.0 %
State franchise tax, net of federal benefit	614	8.6	272	8.6
Stock compensation	46	0.6	72	2.3
BOLI	(85)	(0.1)	(83)	(2.6)
Tax exempt interest	(4)	(1.2)	(4)	(0.1)
Other	135	1.9	(51)	(1.6)
	<u>\$ 2,212</u>	<u>30.8 %</u>	<u>\$ 873</u>	<u>27.6 %</u>

The following is a summary of the components of the net deferred tax asset at December 31, 2021 and 2020:

	2021	2020
<i>(In thousands)</i>		
Deferred tax assets		
Allowance for loan losses	\$ 1,217	\$ 1,217
Lease liability	395	494
State tax	141	129
Net unrealized loss on interest rate swap and investment securities	557	452
Non-accrual interest	-	26
Deferred compensation	1,270	1,144
	<u>3,580</u>	<u>3,462</u>
Total deferred tax assets		
Deferred tax liabilities		
Loan origination costs	(821)	(595)
Right of use asset	(382)	(492)
Depreciation and amortization	(69)	(56)
Certain prepaid assets	(157)	(131)
	<u>(1,429)</u>	<u>(1,274)</u>
Total deferred tax liabilities		
Net deferred tax asset	<u>\$ 2,151</u>	<u>\$ 2,188</u>

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, 2021 and 2020.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 10 – Income Taxes (continued)

There were no interest and penalties accrued for the years ended December 31, 2021 and 2020. The Company files income tax returns in the U.S. federal jurisdiction and in California.

Note 11 – 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 \$231,000 and \$148,000 were made for the years ended December 31, 2021 and 2020, respectively.

The Company sponsors a supplemental executive retirement plan (SERP), which is a nonqualified unfunded pension plan covering a select group of 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 postretirement benefit balance was \$2,769,000 and \$2,650,000 at December 31, 2021 and 2020, respectively, and is reported in accrued interest payable and other liabilities within the consolidated statements of financial condition. The postretirement benefit expense reported within salaries, wages, and employee benefits in the consolidated statements of income was \$267,000 and \$276,000 for the years ended December 31, 2021 and 2020, respectively.

Note 12 – Share-Based Compensation

The Company approved the 2017 Omnibus Stock Equity Plan (the “Plan”), voted into effect by the majority of shares represented at its May 23, 2017 Annual Shareholders’ Meeting and set to expire March 28, 2027. Under the Plan, directors and key employees receive long-term incentives (“Awards”) in the form of incentive and nonqualified stock options and restricted stock. The Plan is administered by the Board of Directors, or a committee to be appointed by the Board, who will select the directors and key executives to receive options or Awards, the form of those Awards, the number of shares or dollar targets, and all terms and conditions. The Plan provides for terms with respect to accelerated vesting should a change in control occur.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 12 – Share-Based Compensation (continued)

Stock options expire no later than ten years from the date of grant. Stock options granted to an optionee who owns stock representing more than 10% of the voting power of all classes of stock of the Company shall expire not more than five years from the date of grant.

	December 31, 2021		December 31, 2020	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	79,700	\$ 14.71	84,319	\$ 14.69
Exercised	-	-	-	-
Granted	77,770	13.82	-	-
Expired or forfeited	(4,025)	14.72	(4,619)	14.31
Outstanding at end of year	<u>153,445</u>	<u>\$ 14.26</u>	<u>79,700</u>	<u>\$ 14.71</u>
Options exercisable	<u>62,346</u>	<u>\$ 14.89</u>	<u>36,448</u>	<u>\$ 15.02</u>
Weighted-average remaining contractual life of options outstanding	<u>8.2 years</u>		<u>8.0 years</u>	

No stock options were exercised during 2021 and 2020. As of December 31, 2021, there was \$290,000 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average remaining period of 2.3 years. Compensation cost associated with the fair value of stock options that vested in 2021 and 2020 was \$133,000 and \$139,000, respectively. At December 31, 2021, the aggregate intrinsic value of options exercisable plus options expected to vest in future years was \$0 and \$7,000, respectively, based on a stock price of \$14.30.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions shown in the following table. The expected volatility was based on the volatility of the Company’s stock price over a period commensurate with the expected term of the option. The Company uses historical data on option exercises to determine the expected term within the valuation model.

	2021	2020
Risk free interest rate	0.94%-1.26%	Not applicable
Weighted-average expected life	6.5 years	Not applicable
Volatility	25.7%-31.6%	Not applicable
Dividends	None	Not applicable

The weighted-average fair value of options granted during the year ended December 31, 2021, was \$4.26.

Note 12 – Share-Based Compensation (continued)

The maximum number of shares available for all Awards under the 2017 Plan is up to 600,000 shares of the Bank's common stock. No more than 250,000 shares may be issued pursuant to Awards of restricted stock, and no more than 500,000 shares may be issued pursuant to Awards of incentive stock options, provided, however, that in no event may the total of all the restricted stock awards ("RSA"), incentive stock options, and nonqualified stock options granted under the 2018 Plan exceed 600,000. Restricted stock awards are ineligible to received stock dividends during the period in which they are unvested. At December 31, 2021, there were 133,500 shares of restricted stock awards available for future grant. At December 31, 2021, there were 196,555 shares of incentive stock options and nonqualified stock options available for future grant.

The following table presents a summary of RSA activity for 2021 and 2020:

	December 31, 2021		December 31, 2020	
	RSA	Weighted-Average Grant-Date Fair Value	RSA	Weighted-Average Grant-Date Fair Value
Nonvested at beginning of year	36,744	\$ 14.71	50,250	\$ 14.56
Granted	67,500	15.00	-	-
Vested	(23,997)	15.00	(12,506)	15.95
Forfeited	(250)	15.95	(1,000)	14.12
Nonvested at end of year	<u>79,997</u>	<u>\$ 14.86</u>	<u>36,744</u>	<u>\$ 14.71</u>

Compensation expense related to the grant of restricted stock for the years ended December 31, 2021 and 2020, totaled \$302,000 and \$242,000, respectively. Restricted stock awards are ineligible to receive stock dividends during the period in which they are unvested. As of December 31, 2021, there was \$983,000 of total unrecognized compensation cost related to nonvested restricted stock awards granted under the Plan. The cost is expected to be recognized over a weighted-average remaining period of 2.45 years.

Note 13 – Leases

The operating lease right-of-use asset represents the right to use an underlying asset during the lease term. Operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the date of implementation of the new accounting standard or lease commencement date for leases executed after the adoption of the new accounting standard. Short-term leases (initial term of less than 12 months) are not recorded on the consolidated statements of financial condition and lease expense is recognized on a straight-line basis over the lease term. The Company has no material finance leases. The Company currently has operating leases for its administrative offices and branches.

Operating lease right-of-use assets were \$1,479,000 and \$1,663,000 as of December 31, 2021 and 2020, respectively, and are recorded in other assets in the consolidated statements of financial condition. Operating lease liabilities were \$1,529,000 and \$1,672,000 as of December 31, 2021 and 2020, respectively, and are recorded in other liabilities in the consolidated statements of financial condition. The Company recorded lease expense of \$415,000 and \$423,000 for the years ended December 31, 2021 and 2020, respectively.

Additional information regarding operating leases is summarized below for the year ended December 31:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities for operating leases	\$ 415	\$ 423
ROU assets obtained in exchange for lease liabilities	1,479	1,663
Weighted-average remaining lease term in months	72	81
Weighted-average discount rate	2.14%	2.66%

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 13 – Leases (continued)

The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2021:

Years Ending December 31 <i>(in thousands)</i> ,	
2022	\$ 448
2023	344
2024	163
2025	100
2026	103
Thereafter	<u>424</u>
Total undiscounted lease payments	1,582
Less: interest	<u>(53)</u>
Present value of lease liabilities	<u>\$ 1,529</u>

Note 14 – 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 reserve totaling \$9,000 as of December 31, 2021 and 2020, included in accrued interest payable and other liabilities on the statements of financial condition.

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.

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.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 14 – Commitments and Contingencies (continued)

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 off-balance-sheet financial instruments as of December 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
<i>(In thousands)</i>		
Commitments to extend credit	\$ 39,726	\$ 58,274
Standby letters of credit	<u>1,260</u>	<u>1,085</u>
	<u>\$ 40,986</u>	<u>\$ 59,359</u>

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.

Note 15 – 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, and officers, as well as entities with which these individuals are associated. These related parties had deposits at the Company totaling approximately \$12,624,000 and \$9,882,000 at December 31, 2021 and 2020, respectively. There was one related-party loan in the amount of \$632,000 at December 31, 2021. There were three related-party loans in the amount of \$1,894,000 at December 31, 2020. 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.

Note 16 – Fair Value of Financial Instruments

Fair value measurements within the ASC defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurement. Fair value measurements apply to all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis.

Note 16 – Fair Value of Financial Instruments (continued)

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A three-level hierarchy is used 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 the Company's estimates about market data.

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.

Note 16 – Fair Value of Financial Instruments (continued)

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, 2021 and 2020, 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.

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
<i>(In thousands)</i>				
<u>Recurring Items</u>				
Financial assets				
Securities available-for-sale				
Agency securities	\$ 6,106	\$ -	\$ 6,106	\$ -
Mortgage backed securities	36,911	-	36,911	-
Corporate bonds	7,269	-	7,269	-
Equity securities	782	782	-	-
Servicing assets	1,269	-	-	1,269
Financial liabilities				
Derivative liability	1,264	-	1,264	-
<u>Nonrecurring Items</u>				
Impaired loans	1,120	-	-	1,120
	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<i>(In thousands)</i>				
<u>Recurring Items</u>				
Financial assets				
Securities available-for-sale				
Agency securities	\$ 948	\$ -	\$ 948	\$ -
Mortgage backed securities	39,541	-	39,541	-
Corporate bonds	6,029	-	6,029	-
Equity securities	805	805	-	-
Servicing assets	1,018	-	-	1,018
Financial liabilities				
Derivative liability	1,820	-	1,820	-
<u>Nonrecurring Items</u>				
Impaired loans	3,253	-	-	3,253

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

The following table presents additional information about the unobservable inputs used in the fair value measurements on a recurring basis that were categorized within Level 3 of the fair value hierarchy as of December 31, 2021:

Financial Instrument	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average Input	Impact to Valuation from an Increased or Higher Input Value
Servicing assets	Discounted cash flow	Prepayment speeds	8.31%–25.50%	17.52%	Decrease
		Discount rate	-2.32%–35.91%	9.89%	Decrease
		Expected weighted average life on loan	1.23–5.69 years	3.77 years	Increase

Securities available-for-sale – The table above presents the balance of securities available-for-sale, which is measured at fair value on a recurring basis. An independent third party performs market valuations of the Company's securities available-for-sale. 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. Market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

Servicing assets – Fair value is based on a loan-by-loan basis, taking into consideration the original term to maturity, the current age of the loan, and the remaining term to maturity. The valuation methodology utilized for the servicing assets begins with generating future cash flows for each servicing asset, based on their unique characteristics and market-based assumptions for prepayment speeds. The present value of the future cash flows is then calculated utilizing market-based discount rate assumptions.

Derivative instruments – Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. Derivative financial instruments are included in other assets and other liabilities in the consolidated statements of financial condition.

Impaired loans and other real estate owned – The loan balance shown in the table above represents all of the Company's impaired loans for which impairment was recognized during the period. These loans are measured at fair value on a non-recurring basis. Impaired loans that are collateral-dependent are measured based on the fair value of their collateral while non-collateral-dependent loans are measured on a discounted cash flow basis. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral. The estimated fair value of other real estate owned is based on the appraised values or other information for the estimated fair values of such assets. The Company generally uses an 8–10% discount for selling costs which is applied to all properties, regardless of size. Appraised values may be adjusted to reflect changes in market conditions that have occurred subsequent to the appraisal date or for revised estimates regarding the timing or cost of the property sale. These adjustments are based on qualitative judgments made by management on a case-by-case basis. There have been no significant changes in the valuation techniques during the period ended December 31, 2021.

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

The following tables present information about the level in the fair value hierarchy for the Company's assets and liabilities that are not measured at fair value as of December 31, 2021 and 2020.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the events or circumstances that caused the transfer, which generally corresponds to the Company's quarterly valuation process. During the years ended December 31, 2021 and 2020, there were no transfers between levels of the fair value hierarchy.

(In thousands)	2021				
	Carrying Value	Estimated Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 189,756	\$ 189,756	\$ 189,756	\$ -	\$ -
Interest bearing deposit in other banks	2,820	2,820	-	2,820	-
Investment securities, held-to-maturity	-	-	-	-	-
Loans, net	310,207	320,139	-	-	320,139
Loans, held for sale	-	-	-	-	-
Bank owned life insurance	10,872	10,872	10,872	-	-
Restricted equity securities	2,397	2,397	-	-	-
Accrued interest receivable	2,018	2,018	2,018	-	-
Financial liabilities					
Deposits	\$ 513,109	\$ 481,011	\$ -	\$ -	\$ 481,011
Subordinated debentures	6,186	6,186	-	-	6,186
Notes payable	3,793	3,793	-	-	3,793
Accrued interest payable	59	59	59	-	-
	2020				
(In thousands)	Carrying Value	Estimated Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 90,681	\$ 90,681	\$ 90,681	\$ -	\$ -
Interest bearing deposit in other banks	2,915	2,915	-	2,915	-
Investment securities, held-to-maturity	-	-	-	-	-
Loans, net	314,012	327,845	-	-	327,845
Loans, held for sale	-	-	-	-	-
Bank owned life insurance	10,584	10,584	10,584	-	-
Restricted equity securities	1,984	1,984	1,984	-	-
Accrued interest receivable	2,545	2,545	2,545	-	-
Financial liabilities					
Deposits	\$ 385,593	\$ 371,645	\$ -	\$ -	\$ 371,645
Subordinated debentures	6,186	6,061	-	-	6,061
Notes payable	5,833	5,928	-	-	5,928
Accrued interest payable	-	-	-	-	-

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 17 – Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the 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 Company’s and the Bank’s financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Company’s and the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s and the Bank’s capital 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 Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined) and minimum ratios of Tier 1, common equity Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Company and the Bank meet all capital requirements to which they are subject.

The Bank has been notified by its regulator that, as of its most recent regulatory examination, the Bank is regarded as “well capitalized” under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank’s Tier 1, common equity Tier 1, total capital, and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank’s categorization as well capitalized under the ratios listed below.

The Company’s and the Bank’s actual and required capital amounts and ratios are (dollars in thousands):

	Amount of Capital Required					
	Actual		Minimum Capital Requirement		Minimum to Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
As of December 31, 2021						
Total capital ratio	\$ 55,820	16.44%	\$ 27,171	8.00%	\$ 33,964	10.00%
Tier 1 capital ratio	51,568	15.18%	20,378	6.00%	27,171	8.00%
Tier 1 leverage ratio	51,568	10.60%	19,456	4.00%	24,321	5.00%
Common equity Tier 1 capital ratio	45,568	13.42%	15,284	4.50%	22,076	6.50%
As of December 31, 2020						
Total capital ratio	\$ 49,930	16.59%	\$ 24,080	8.00%	\$ 30,100	10.00%
Tier 1 capital ratio	46,158	15.33%	18,060	6.00%	24,080	8.00%
Tier 1 leverage ratio	46,158	10.27%	17,972	4.00%	22,465	5.00%
Common equity Tier 1 capital ratio	40,158	13.34%	13,545	4.50%	19,565	6.50%

Mission Valley Bancorp
Notes to Consolidated Financial Statements

Note 17 – Regulatory Matters (continued)

	Amount of Capital Required					
	Actual		Minimum Capital Requirement		Minimum to Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
As of December 31, 2021						
Total capital ratio	\$ 55,169	16.27%	\$ 27,129	8.00%	\$ 33,911	10.00%
Tier 1 capital ratio	50,923	15.02%	20,347	6.00%	27,129	8.00%
Tier 1 leverage ratio	50,923	10.54%	19,320	4.00%	24,149	5.00%
Common equity Tier 1 capital ratio	50,923	15.02%	15,260	4.50%	22,042	6.50%
As of December 31, 2020						
Total capital ratio	\$ 48,440	16.13%	\$ 24,030	8.00%	\$ 30,037	10.00%
Tier 1 capital ratio	44,676	14.87%	18,022	6.00%	24,030	8.00%
Tier 1 leverage ratio	44,676	10.06%	17,771	4.00%	22,214	5.00%
Common equity Tier 1 capital ratio	44,676	14.87%	13,517	4.50%	19,524	6.50%

The Bank was required to establish and phase-in a “conservation buffer,” consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets by 2019. As of December 31, 2021, the “conservation buffer” amount was 2.50% and fully phased-in. An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The difference in common equity Tier 1 capital ratio between Mission Valley Bancorp and Mission Valley Bank is due to the TRUPS disclosed in Note 8.

Note 18 – Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized in non-interest income. Gains/losses on the sale of other real estate owned are included in non-interest expense and are generally recognized when the performance obligation is completed. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Note 18 – Revenue from Contracts with Customers (continued)

The following table presents the Company's sources of non-interest income for the twelve months ended December 31:

<i>(In thousands)</i>	2021	2020
Non-interest income		
Service charges and other income	\$ 1,602	\$ 1,947
Gain (loss) on sale of loans ^(a)	3,093	496
Net merchant income	747	722
Increase in cash surrender value of bank owned life insurance ^(a)	288	282
Gain on sale of OREO	6	12
Grant income ^(a)	1,826	203
Other income	667	450
Total non-interest income	\$ 8,229	\$ 4,112

(a) Not within the scope of ASC 606.

Deposit service charges – The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and ATM interchange fee income and expenses – Debit and ATM interchange income represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Merchant fee income – Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants. These payments to the third-party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received represents interchange fees, which are passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied and the related fee is earned when each payment is accepted by the processing network.

Note 18 – Revenue from Contracts with Customers (continued)

Credit card and interchange income and expenses – Credit card interchange income represents fees earned when a credit card issued by the Company is used. Similar to the debit card interchange, the Company earns an interchange fee for each transaction made with the Company's branded credit cards. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' credit card. Certain expenses and rebates directly related to the credit card interchange contract are recorded net to the interchange income.

Note 19 – Grant Income

On June 15, 2021, the Bank was awarded a \$1,826,000 grant under the U.S. Department of Treasury's Community Development Financial Institution ("CDFI") Rapid Response Program ("RRP"), which is intended to provide capital for CDFIs to respond to economic challenges created by the COVID-19 pandemic in the distressed and underserved communities. The \$1,826,000 grant proceed was received and recognized into income in the year ended December 31, 2021, after meeting the performance goals and measures of the grant award agreement.

Note 20 – Subsequent Events

The Company's board of directors declared a cash dividend of \$0.15 per share on January 25, 2022. The dividend will be payable on or about February 28, 2022, to shareholders of record as of the close of business on February 15, 2022.

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 consolidated statements of financial condition but arose after the consolidated statements of financial condition date and before consolidated financial statements are available to be issued. The Company has evaluated subsequent events through March 10, 2022, which is the date the consolidated financial statements were available to be issued.

Supplemental Information

Mission Valley Bancorp
Consolidating Statement of Financial Condition
December 31, 2021
(In Thousands, Except Share Data)

	Mission Valley Bancorp	Mission Valley Bank	Mission SBA Loan Servicing LLC	Eliminating Entries	Consolidated Total
ASSETS					
CASH AND DUE FROM BANKS	\$ 2,096	\$ 187,718	\$ 351	\$ (409)	\$ 189,756
INTEREST BEARING DEPOSITS IN OTHER BANKS	-	2,820	-	-	2,820
SECURITIES AVAILABLE-FOR-SALE, at fair value	-	50,286	-	-	50,286
EQUITY SECURITIES	-	782	-	-	782
LOANS, net	-	310,518	-	(311)	310,207
PREMISES AND EQUIPMENT, net	-	363	103	-	466
DEFERRED TAX ASSET, net	416	1,735	-	-	2,151
BANK OWNED LIFE INSURANCE	-	10,872	-	-	10,872
RESTRICTED EQUITY SECURITIES	-	2,397	-	-	2,397
ACCRUED INTEREST RECEIVABLE	-	2,018	-	-	2,018
OTHER ASSETS	53,346	2,020	431	(51,041)	4,756
Total assets	\$ 55,858	\$ 571,529	\$ 885	\$ (51,761)	\$ 576,511
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Deposits					
Non-interest-bearing demand	\$ -	\$ 245,960	\$ -	\$ (409)	\$ 245,551
Interest-bearing demand	-	218,840	-	-	218,840
Savings	-	23,827	-	-	23,827
Time deposits under \$250,000	-	4,517	-	-	4,517
Time deposits \$250,000 and over	-	20,374	-	-	20,374
Total deposits	-	513,518	-	(409)	513,109
Junior subordinated deferrable interest debentures	6,186	-	-	-	6,186
Notes payable	3,793	-	-	-	3,793
Other borrowings	-	-	-	-	-
Accrued interest payable and other liabilities	1,328	7,524	438	(106)	9,184
Total liabilities	11,307	521,042	438	(515)	532,272
SHAREHOLDERS' EQUITY					
Common stock	12,747	9,717	-	(9,717)	12,747
Additional paid-in capital	2,523	18,416	-	(18,416)	2,523
Member's capital	-	-	1,000	(1,000)	-
Retained earnings	30,608	22,791	(553)	(22,550)	30,296
Accumulated other comprehensive loss	(1,327)	(437)	-	437	(1,327)
Total shareholders' equity	44,551	50,487	447	(51,246)	44,239
Total liabilities and shareholders' equity	\$ 55,858	\$ 571,529	\$ 885	\$ (51,761)	\$ 576,511

Mission Valley Bancorp
Consolidating Statement of Income
Year Ended December 31, 2021
(In Thousands, Except Per Share Data)

	Mission Valley Bancorp	Mission Valley Bank	Mission SBA Loan Servicing LLC	Eliminating Entries	Consolidated Total
INTEREST INCOME					
Interest and fees on loans	\$ -	\$ 15,781	\$ -	\$ 8	\$ 15,789
Interest on securities	-	691	-	-	691
Other interest income	7	287	-	-	294
Total interest income	7	16,759	-	8	16,774
INTEREST EXPENSE					
Interest on deposits	-	222	-	-	222
Interest on borrowings	486	13	-	-	499
Total interest expense	486	235	-	-	721
NET INTEREST INCOME	(479)	16,524	-	8	16,053
PROVISION FOR LOAN LOSSES	-	-	-	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(479)	16,524	-	8	16,053
NON-INTEREST INCOME					
Service charges and other income	-	1,602	-	-	1,602
Gain on sale of loans	-	3,038	-	55	3,093
Net merchant income	-	747	-	-	747
Increase in cash surrender value of bank owned life insurance	-	288	-	-	288
Gain on sale of OREO	-	6	-	-	6
Grant income	-	1,826	-	-	1,826
Other income	5,696	502	1,023	(6,554)	667
Total non-interest income	5,696	8,009	1,023	(6,499)	8,229
NON-INTEREST EXPENSES					
Salaries, wages, and employee benefits	174	9,713	1,274	(244)	10,917
Legal, professional, and consulting	75	1,111	63	(53)	1,196
Furniture and equipment	11	1,066	92	-	1,169
Data processing	-	794	5	-	799
Occupancy and equipment expenses	7	637	25	-	669
Advertising	-	201	55	-	256
Insurance	-	183	-	-	183
Other operating expenses	45	2,004	61	(186)	1,924
Total non-interest expenses	312	15,709	1,575	(483)	17,113
NET INCOME BEFORE PROVISION FOR INCOME TAXES	4,905	8,824	(552)	(6,008)	7,169
Provision for income taxes	(364)	2,576	-	-	2,212
NET INCOME	\$ 5,269	\$ 6,248	\$ (552)	\$ (6,008)	\$ 4,957

Board of Directors



Tamara Gurney
President, CEO & Director of Mission Valley Bancorp & Bank



Kathleen Kellogg
Director of Mission Valley Bancorp & Bank
Ms. Kellogg is an experienced banking executive and director.



John Miller
Director of Mission Valley Bancorp & Bank
Mr. Miller is Co-Founder and serves on the Board of Lexicon Bank, an investment advisory professional and community banker.



Jerold B. Neuman, ESQ
Director of Mission Valley Bancorp & Bank
Mr. Neuman is a partner with the law firm of DLA Piper, LLP.



Ara Ogghorian, CFA, CFP®, CPA
Director of Mission Valley Bancorp & Bank
Mr. Ogghorian is the Founder & President of ACap Advisors & Accountants, LLC.



John Parker
Director of Mission Valley Bancorp & Bank
Mr. Parker is the Executive Officer and Co-Founder of Parker Brown Inc.



Eric Sato, CPA
Director of Mission Valley Bancorp & Bank
Mr. Sato is a CPA and Consultant to Edwards, Sato & Yang, CPAs.



Earle S. Wasserman
Director and Chairman of the Board of Mission Valley Bancorp & Bank
Mr. Wasserman is the Chairman of the Hallmark Group Inc.

The Patrick Visciglia Spirit Award



Mission Valley Bank's Spirit Award was established in memoriam of one of our original founders & directors, Patrick Visciglia. Each year, the entire staff is asked to nominate the individual that they believe most closely emulates Pat Visciglia's dedication, passion and commitment to the Bank, fellow staff members and clients.

The 2021 recipient of the Patrick Visciglia Spirit Award is Tony Rodriguez – Vice President, Sun Valley Branch Operations Manager. A true Trusted Advisor to our clients and team, Tony is most deserving of this honor.

Senior Management

Tamara Gurney
President &
Chief Executive Officer

Jeffrey Watson
Chief Operating Officer

Brian Carlson
Executive Vice President
Managing Director SBA

Anthony Chuan
Executive Vice President
Chief Financial Officer

Michael Henry
Executive Vice President
Chief Credit Officer

Linda Rousseau
Executive Vice President
Chief Administrative Officer

Frank Abraham
Senior Vice President
Senior Credit Officer

Steve Choe
Senior Vice President
Head of Commercial Banking

Roy Fisher
Senior Vice President
Operations Administrator

Paul Foster
Senior Vice President
SBA Credit & Operations Manager

Petra Hatzesberger
Senior Vice President
Head of People & Culture

Debbie Hefner
Senior Vice President
SBA Processing Manager

Yolanda Ortiz
Senior Vice President
Compliance & Risk Manager

Leigh Wren
Senior Vice President
Loan Operations Manager

Administrative Officers

Christina Ahn
Vice President
SBA Portfolio Manager

Michael Bindman
Vice President
Information Technology Manager

Carrie Burrell
Vice President
Marketing Manager

Dennis Byun
Vice President
SBA Business Development Officer

Michael Carlson
Vice President
SBA Business Development Officer

Michael Cantor
Assistant Vice President
SBA Business Development Officer

Brian Cho
Assistant Vice President
Assistant SBA Portfolio Manager

Heidi DeMattos
Vice President / Manager
Accounts Receivable Lending

Maria Gonzalez
Vice President
Central Operations Manager

Jean Grall
Vice President
BSA Officer

Selena Hsu
Vice President
Controller

Ashley Leary
Assistant Vice President
Senior Underwriter

Timothy Moore
Assistant Vice President
Senior Underwriter

Lucas Olson
Vice President
SBA Business Development Officer

Ryan Roques
Vice President
SBA Business Development Officer

Sami Zodo
Vice President
SBA Business Development Officer

Sun Valley Office

Silva Agasyan
Vice President
Relationship Manager

Griselda De Mel
Vice President
Relationship Manager

Carlos Huerta
Vice President
Relationship Manager

Nicole McWilliams
Vice President
Relationship Manager

Tony Rodriguez
Vice President
Branch Operations Manager

William Wang
Vice President
Relationship Manager

Simon Wong
Vice President
Relationship Manager

Santa Clarita Valley

Rachel Carrillo
Assistant Vice President
Business Development Officer

Steve Nuñez
Vice President
Relationship Manager

Laura Soto
Assistant Vice President
Operations Manager

Investor Information

Common Stock:

Effective July 23, 2014, Mission Valley Bancorp's stock began trading on the OTCQX market under the symbol "MVLY". As of December 31, 2021 there were 151 shareholders of record and 3,270,118 shares of common stock outstanding.

Stock Information:

Hilltop Securities

Community Bank & Wealth Management Group

Michael R. Natzic, CWS® | Senior Vice President

Katy E. Ehlers, CWS® | Vice President

909.584.4500 | 800.288.2811

www.communitybankinggroup.com

Stock Transfer Agent:

Shareholders with inquiries regarding accounts, lost stock certificates or changes of address, may contact Lisa Mora, Corporate Secretary of Mission Valley Bancorp at (818) 394-2300 during regular business hours or Computershare at (800) 962-4284 24 hours a day.

Written correspondence may be sent to:

Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202





MISSION VALLEY BANCORP
2021 FINANCIAL STATEMENTS

Corporate Offices & Sun Valley Branch Office
9116 Sunland Boulevard
Sun Valley, CA 91352
(818) 394-2300

Santa Clarita Valley Branch Office
26701 McBean Parkway, Suite 100
Santa Clarita, CA 91355
(661) 253-9500

