MISSION VALLEY BANCORP

2015 FINANCIAL STATEMENTS

2015 FINANCIAL STATEMENTS • STRENGTH • COMMUNICATION
PERFORMANCE • GROWTH • ACCOUNTABILITY • DEPENDABILITY
FORTITUDE • WORK • STRATEGY • TRUSTWORTHINESS • SUCCESS
PASSION • ETHICS • DEVELOPMENT • CAPABILITY • VISION • FOCUS
PLANNING • ACCESSIBILITY • INNOVATION • STABILITY • PATIENCE
CREATIVITY • CONFIDENCE • OBJECTIVITY • TEAMWORK • LOYALTY
IMPROVEMENT • GOAL • RECOGNITION • REALIZATION • PURPOSE
RESPONSIBILITY • DEDICATION • RESILIENCE • BELIEF • SOUNDNESS
RELIABILITY • ENTHUSIASM • CONSCIENTIOUS • ADVANCEMENT
STABILITY • COMMUNICATION • TEAMWORK • FOCUS • VISION
GROWTH • ACCOUNTABILITY • STRENGTH • DEPENDABILITY
PROGRESS • FORTITUDE • WORK • STRATEGY • TRUSTWORTHINESS
SUCCESS • PASSION • TIME ETHICS • DEVELOPMENT • CAPABILITY
PURPOSE • PLANNING • ACCESSIBILITY • DESIRE • INNOVATION
PERSEVERANCE • PATIENCE • CREATIVITY • CONFIDENCE
OBJECTIVITY • DILIGENCE • IMPROVEMENT • GOAL • RECOGNITION
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TEAMWORK • FOCUS • VISION • GROWTH • ACCOUNTABILITY
STRENGTH • DEPENDABILITY • PROGRESS • FORTITUDE • WORK
STRATEGY • TRUSTWORTHINESS • SUCCESS • PASSION • TIME
ETHICS • DEVELOPMENT • CAPABILITY • PURPOSE • PLANNING
ACCESSIBILITY • DESIRE • **2015 FINANCIAL STATEMENTS**
PERSEVERANCE • PATIENCE • CREATIVITY • CONFIDENCE
OBJECTIVITY • DILIGENCE • IMPROVEMENT • GOAL • RECOGNITION
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RESILIENCE • BELIEF • SOUNDNESS • RELIABILITY • ENTHUSIASM
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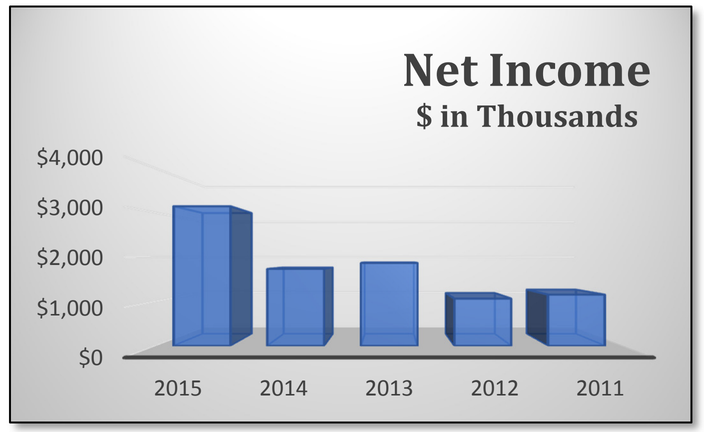
MISSION VALLEY BANCORP

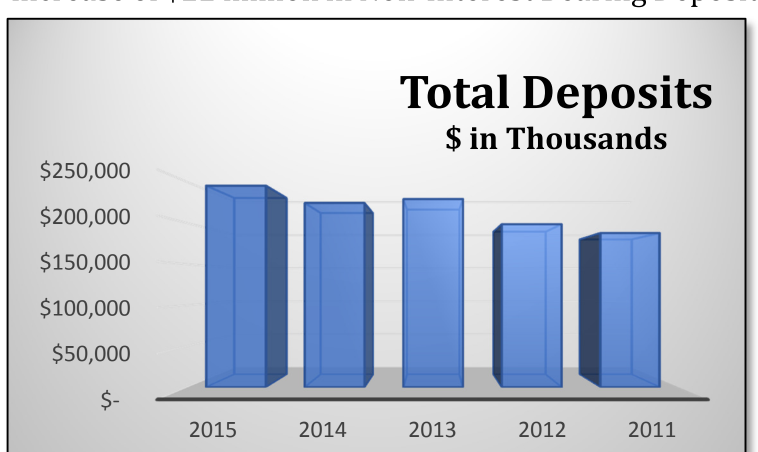
To our Shareholders, Clients & Friends,

As the founding President & CEO of Mission Valley Bancorp and Mission Valley Bank, I am very pleased to report that 2015 stands as the most profitable year in the history of our organization, having closed the books on 2015 reporting net income of $3,144,000.

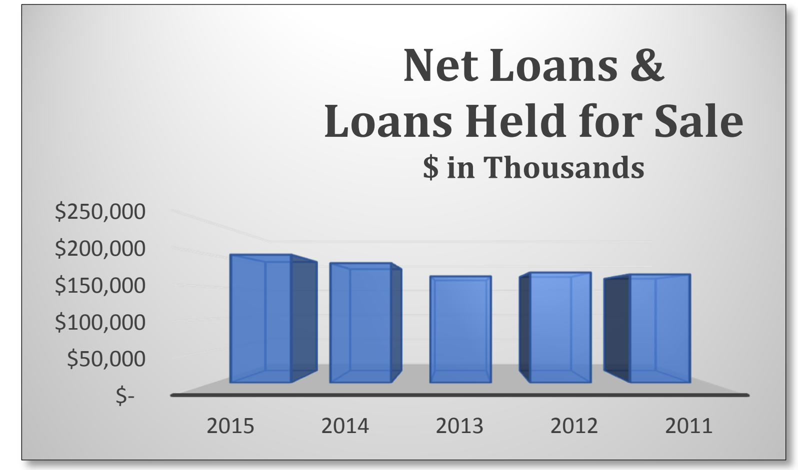
While the Company's strong performance for 2015 can in part be attributed to the gradual turnaround in the economy, it was more a result of the efforts undertaken during the downturn to manage operating expenses and asset quality. By dedicating our efforts toward streamlining operations, aggressively managing credit issues and enhancing our service and revenue streams, our Bank not only survived the "Great Recession" – but has truly begun to thrive. Today, Mission Valley enjoys a strong and diversified balance sheet and solid core revenue.



At December 31, 2015 Total Assets grew 9% to an all-time high of $289 million, up from $265 million reported at year end 2014. This was driven by 7% growth in Net Loans and Loans Held for Sale, funded by 9% growth in Total Deposits. Net Loans and Loans Held for Sale increased by more than $13 million to $200 million as of December 31, 2015 as compared to $187 million at year end 2014. Total Deposits grew to $245 million as of December 31, 2015 (primarily due to an increase of $22 million in Non-Interest Bearing Deposits) as compared to $224 million reported at year end 2014. Despite the extended flat rate environment during 2015, Mission Valley experienced a slight increase in Total Interest Income, which rose to $11.6 million for the year ended 2015 compared to $11.2 million for 2014, while Interest Expense declined 13% to $561,000 for the year ended December 31, 2015 compared to $644,000 for 2014. Net Interest Income, before recapture of provision for loan losses, increased to $11,038,000, a 5% increase over 2014.



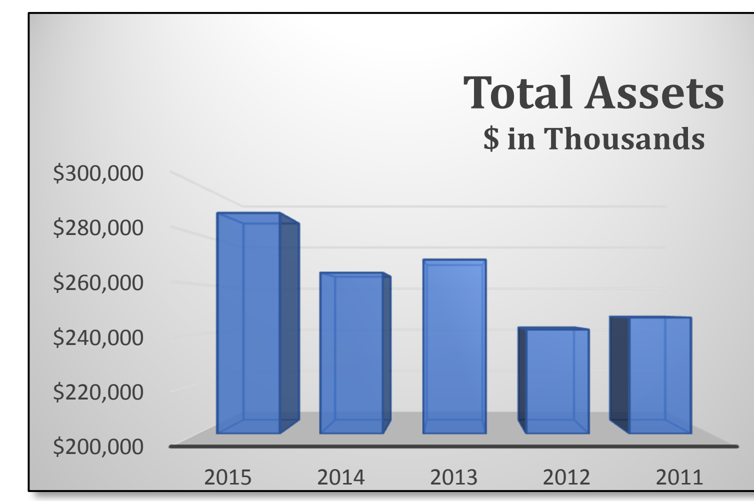
Also notable, Non-Interest Income grew to $3,495,000 as of December 31, 2015, a 9% increase from the $3,196,000 reported at year end 2014. To a great extent this continuing improvement to other income is directly attributable to the successful realignment of two key business units, SBA Lending and Merchant Bankcard Processing. Over the course of the year, Mission Valley's sale of SBA loans in the secondary market resulted in a 73% increase in Gain on Sale of Loans, closing 2015 at $1,147,000 as compared to $663,000 reported at year end 2014. In addition, income in our Merchant Services Department increased by more than 12% year over year.



The continued improvement in asset quality throughout 2015 allowed Mission Valley to reverse $1.0 million in loan loss reserves. It should be noted that while the recapture of these funds had a significant positive impact on Net Income for the year, 2015 would still have been our most profitable year without this extraordinary occurrence.

Further testament to the strength of our organization is the fact that Mission Valley Bancorp and Mission Valley Bank capital ratios continue to exceed regulatory requirements with Mission Valley Bancorp reporting a Tier 1 Leverage Ratio of 13.9%, Common Equity Tier 1 Capital Ratio of 10.6%, Tier 1 Capital Ratio of 17.8% and a Total Capital Ratio of 19.0%. Likewise, Mission Valley Bank reported a Tier 1 Leverage Ratio of 13.5%, Common Equity Tier 1 Capital Ratio of 17.3%, Tier 1 Capital Ratio of 17.3% and a Total Capital Ratio of 18.5%. Regulatory requirements for a "well-capitalized bank" are 5%, 6.5%, 8% and 10%, respectively.

With a focus on creating shareholder value, Mission Valley has issued four stock splits to its shareholders since the Company was founded. In March of 2015 our Board of Directors approved the issuance of Mission Valley Bancorp's first ever common stock cash dividend of $0.05 per share to all shareholders of record as of March 16, 2015. During 2014 the Company elected to list its shares on the OTCQX trading platform in order to provide greater visibility for the stock and thus improve liquidity for shareholders.



2015 was a very good year for Mission Valley and as we enter into 2016, our 15th year of operation, we are starting strong. We have a sound, diversified balance sheet, a solid capital base to carry us forward and a tremendous team dedicated to our success and to the success of our clients and shareholders. Mission Valley Bancorp is well positioned to maintain our course of steady and controlled growth throughout 2016 and beyond.

Sincerely,

Tamara Gurney

President & CEO
Mission Valley Bancorp
Mission Valley Bank

2015 FINANCIAL STATEMENTS

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Mission Valley Bancorp

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Mission Valley Bancorp and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, 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 financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mission Valley Bancorp and its subsidiary as of December 31, 2015 and 2014, 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.

Moss Adams LLP

Los Angeles, California
March 14, 2016

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

MISSION VALLEY BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2015 AND 2014
(Dollars in thousands, except share data)

	2015	2014
ASSETS		
Cash and due from banks	$ 8,635	$ 9,329
Federal funds sold	44,290	24,925
Total cash and cash equivalents	52,925	34,254
Interest bearing deposits in other banks	7,849	10,829
Investment securities:		
Available-for-sale, at fair value	12,608	16,056
Held-to-maturity, at amortized cost	3,996	4,341
Loans, net	192,051	183,816
Loans held for sale	8,184	3,233
Premises and equipment, net	246	340
Deferred tax asset, net	669	1,044
Bank owned life insurance	6,356	6,161
Restricted equity securities	1,655	1,579
Accrued interest receivable	599	609
Other assets	1,385	2,320
TOTAL ASSETS	$ 288,523	$ 264,582
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing demand	$ 120,918	$ 99,103
Interest-bearing demand	58,395	62,645
Savings, NOW, exchange and escrow	21,429	15,610
Time deposits under $250,000	16,992	19,978
Time deposits $250,000 and over	27,527	27,003
Total deposits	245,261	224,339
Junior subordinated deferrable interest debentures	6,186	6,186
Accrued interest payable and other liabilities	2,749	3,033
Total liabilities	254,196	233,558
Commitments and contingencies - Note 11		
Shareholders' Equity		
Preferred stock - 10,000,000 shares authorized; 10,336 shares issued and outstanding at December 31, 2015 and 2014		
Series C, designated	5,500	5,500
Series D, designated	4,836	4,836
Common stock - 10,000,000 shares authorized; no par value; 3,154,865 and 3,065,365 shares issued and outstanding at December 31, 2015 and 2014, respectively	12,747	12,747
Additional paid in capital	812	279
Retained earnings	10,492	7,711
Accumulated other comprehensive loss	(60)	(49)
Total shareholders' equity	34,327	31,024
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 288,523	$ 264,582

See accompanying notes.

MISSION VALLEY BANCORP
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands, except per share data)

	2015	2014
INTEREST INCOME		
Interest and fees on loans	$ 10,947	$ 10,540
Interest on investment securities	329	390
Other interest income	323	269
Total interest income	11,599	11,199
INTEREST EXPENSE		
Interest on deposits	449	535
Interest on borrowings	112	109
Total interest expense	561	644
NET INTEREST INCOME	11,038	10,555
RECAPTURE OF PROVISION FOR LOAN LOSSES	(1,011)	-
NET INTEREST INCOME AFTER RECAPTURE OF PROVISION FOR LOAN LOSSES	12,049	10,555
NON-INTEREST INCOME		
Service charges and other income	1,437	1,591
Gain on sale of loans	1,147	663
Net merchant income	391	348
Net realized gains on the sale of securities	-	16
Increase in cash surrender value of bank owned life insurance	195	193
Other income	325	385
Total non-interest income	3,495	3,196
NON-INTEREST EXPENSES		
Salaries, wages and employee benefits	5,580	6,434
Occupancy and equipment expenses	643	669
Furniture and equipment	730	767
Data processing	543	518
Advertising	170	119
Legal, professional, and consulting	749	847
Insurance	227	389
Other operating expenses	1,721	1,231
Total non-interest expenses	10,363	10,974
NET INCOME BEFORE PROVISION FOR INCOME TAXES	5,181	2,777
Provision for income taxes	2,037	1,044
NET INCOME	3,144	1,733
Preferred stock dividends	(207)	(482)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 2,937	$ 1,251
Earnings per share available to common shareholders - basic and diluted	$ 0.94	$ 0.46

See accompanying notes.

MISSION VALLEY BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
NET INCOME	$ 3,144	$ 1,733
Other comprehensive income (loss):		
Change in unrealized gains (losses) on available for sale securities, net of taxes of $8 and ($178) in 2015 and 2014, respectively	(11)	272
Reclassification adjustment for net gains included in net income, net of taxes of $7 in 2014	-	(9)
Other comprehensive income (loss)	(11)	263
TOTAL COMPREHENSIVE INCOME	$ 3,133	$ 1,996

See accompanying notes.

MISSION VALLEY BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands, except share data)

	Preferred Stock		Common Stock					
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, December 31, 2013	468,336	$ 14,916	2,631,233	$ 9,917	$ 191	$ 6,460	$ (312)	$ 31,172
Dividends on preferred stock	-	-	-	-	-	(482)	-	(482)
Redemption of preferred stock	(175,000)	(1,750)	-	-	88	-	-	(1,662)
Conversion of preferred stock	(283,000)	(2,830)	434,132	2,830	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,733	263	1,996
BALANCE, December 31, 2014	10,336	10,336	3,065,365	12,747	279	7,711	(49)	31,024
Dividends on preferred stock	-	-	-	-	-	(207)	-	(207)
Share-based compensation expense					533	-	-	533
Issuance of stock awards	-	-	89,500	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	(156)	-	(156)
Total comprehensive income	-	-	-	-	-	3,144	(11)	3,133
BALANCE, December 31, 2015	10,336	$ 10,336	3,154,865	$ 12,747	$ 812	$ 10,492	$ (60)	$ 34,327

See accompanying notes.

MISSION VALLEY BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,144	$ 1,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	137	160
Recapture of provision for loan losses	(1,011)	-
Amortization of deferred loan fees, costs, and premium, net	1,664	1,172
Gain on sale of securities available for sale	-	(16)
Origination of loans held for sale	(20,614)	(8,459)
Proceeds from sale of loans held for sale	13,262	6,372
Gain on sale of loans held for sale	(1,147)	(663)
Accretion and amortization on investments	51	111
Share-based compensation expense	533	-
Deferred taxes	381	(200)
Increase in cash surrender value of bank owned life insurance	(195)	(193)
Net change in:		
Accrued interest receivable and other assets	462	757
Accrued interest payable and other liabilities	(284)	(388)
Net cash (used in) provided by operating activities	(3,617)	386
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in interest bearing deposits in other banks, net	2,980	(681)
Purchases of available-for-sale investments	(997)	-
Proceeds from repayments, sales, and maturities of available-for-sale investments	4,375	4,764
Proceeds from prepayments and maturities of held-to-maturity investments	345	450
Net (purchases) proceeds of restricted equity securities	(76)	17
Net change in loans	(4,855)	(19,906)
Purchases of premises and equipment	(43)	(70)
Net cash provided by (used in) investing activities	1,729	(15,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in time deposits	(2,462)	(11,852)
Net increase in other deposits	23,384	7,167
Redemption of preferred stock	-	(1,662)
Dividends paid on preferred stock	(207)	(482)
Dividends on common stock	(156)	-
Net cash provided by (used in) financing activities	20,559	(6,829)
Change in Cash and Cash Equivalents		
Cash and cash equivalents, beginning of year	18,671	(21,869)
Cash and cash equivalents, end of year	34,254	56,123
	$ 52,925	$ 34,254
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 568	$ 669
Taxes paid	1,990	1,265
Supplemental Disclosures of Noncash Investing and Financing Activities		
Change in unrealized gain on investments available for sale	19	450

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

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

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

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

In 2005, the Company issued $6,186,000 of junior subordinated deferrable interest debentures through Mission Valley Statutory Trust I. The Company follows generally accepted accounting principles that determines when variable interest entities should be consolidated and determined that the Mission Valley Statutory Trust I should not be consolidated. As a result, the consolidated 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2015 and 2014, the Company did not have any significant concentrations in its business with any one customer.

As of December 31, 2015 and 2014, 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 55% and 59% of total gross loans at December 31, 2015 and 2014, respectively. Management has taken this factor into account in the determination of the allowance for loan losses.

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

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company was in compliance with its reserve requirements as of December 31, 2015 and 2014.

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

Note 1 – Summary of Significant Accounting Policies (continued)

Investment securities – In accordance with generally accepted accounting principles, the Company is required to designate its readily marketable investments securities as "held-to-maturity", "available-for-sale", or "trading". The Company did not designate any of its investments as trading securities. Debt securities are classified as held to maturity if 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. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives. 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 settlement date. 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.

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 operations 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Management performs regular impairment analyses on the securities portfolio in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance 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").

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

If the measure of impairment for an impaired loan is less than the related recorded investment, 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.

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

Allowance for loan losses – The provision for loan losses charged to results of operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered adequate to absorb probable losses inherent in the portfolio at the date of the 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

In addition, bank regulatory authorities, as part of their periodic examination of the Company, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. A significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The prolonged U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of the Company's residential development, commercial real estate, commercial construction and commercial loan portfolios. A continued deterioration in the Company's markets may adversely affect its loan portfolio and may lead to additional charges to the provision for loan losses.

Note 1 – Summary of Significant Accounting Policies (continued)

Loans held for sale – The portions of U.S. Small Business Administration ("SBA") loans that are guaranteed by the SBA are classified by management as loans held for sale since the Company intends to sell these loans subsequent to the date of the statement of financial position. These loans are recorded at the lower of aggregate cost or estimated fair value. The fair value of SBA 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 income. The carrying value of SBA 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. SBA loans are generally secured by the borrowing entities' assets such as accounts receivable, property and equipment, and other business assets. The Company generally recognizes gains or losses on these loan sales based on the difference between the sales proceeds received and the allocated carrying value of the loans sold (which can include deferred premiums and net origination fees and costs). The non-guaranteed portion of SBA loans is not typically sold by the Company and is classified as held for investment. In connection with the Company's SBA lending activities, the Company recognizes servicing assets when servicing rights are retained. The Company initially recognizes and measures at fair value servicing rights obtained from SBA loan sales. The Company subsequently measures these servicing assets by using the amortization method, which amortizes servicing assets in proportion to, and over the period of, estimated net servicing income. The amortization of the servicing assets is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates. The servicing asset is immaterial to the consolidated financials and is included in other assets on the consolidated statements of financial condition and the related amortization is net against other non-operating income in the consolidated statements of income.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 position. Operating income and expenses incurred on these properties are reflected in current earnings within non-interest expense.

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

The Company's annual tax rate is based on its income, statutory tax rates and tax planning opportunities available in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. Accounting for income taxes prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Benefits from tax positions are recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company reviews its tax positions periodically and adjusts the balances as new information becomes available. It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of other operating expenses in the statements of operations.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carry forwards. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. The Company uses historical experience and short and long-range business forecasts to provide insight. Deferred tax assets could be reduced in the near term if estimates of taxable income are significantly reduced or available tax planning strategies are no longer viable.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Restricted equity securities – At December 31, 2015 and 2014, the Company held $1,124,000 and $1,048,000, respectively, of shares of Federal Home Loan Bank ("FHLB"). The Company evaluates its investment in FHLB stock for impairment on periodic basis. The FHLB has been in compliance with all of its regulatory capital requirements at the end of 2015 and 2014. The Company has not recorded an impairment on its investment of FHLB stock during 2015 and 2014.

The Company also invests in the stock of Pacific Coast Bankers Bank ("PCBB") in connection with its correspondent banking arrangement with PCBB. At December 31, 2015 and 2014, the Company held approximately $531,000, par value, of PCBB stock. PCBB stock is restricted as to purchase, sale and redemption.

The investments in FHLB stock, and PCBB stock are carried as cost method investments as of December 31, 2015 and 2014.

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

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

The Company's 2006 Stock Option and Restricted Stock Grant Plan provides for granting of restricted stock units 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 $170,000 and $119,000 for the years ended December 31, 2015 and 2014 were expensed as incurred.

Note 1 – Summary of Significant Accounting Policies (continued)

Comprehensive income – Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on securities available-for-sale which is also recognized as a separate component of consolidated shareholders' equity.

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

Earnings per share ("EPS") – Earnings per share amounts have been computed using both the weighted average number of shares outstanding of common stock for the purposes of computing basic EPS and the weighted average number of shares outstanding of common stock plus dilutive common stock equivalents for the purpose of computing diluted EPS. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Basic EPS excludes the dilutive effect that could occur if any securities or other contracts to issue common stock were exercised or converted into or resulted in the issuance of common stock. Diluted EPS 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 Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing dilutive earnings per share. The dilutive calculation excludes 4,695 and 9,195 options outstanding for both the years ended December 31, 2015 and 2014, respectively for which the exercise price exceeded the average market price of the Company's common stock during those years. There were no dilutive effects on EPS that were material to the consolidated financial statements. Basic and diluted EPS are calculated as follows:

	2015	2014
(Dollars in thousands, except share and per share data)		
BASIC EARNINGS PER SHARE		
Net income	$ 3,144	$ 1,733
Dividends paid on preferred stock	(207)	(482)
Net income available to common shareholders	2,937	1,251
Weighted average common shares outstanding	3,136	2,741
Earnings per share available to common shareholders- basic and diluted	$ 0.94	$ 0.46

Note 1 – Summary of Significant Accounting Policies (continued)

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

Recently issued accounting pronouncements – In August, 2014, FASB issued ASU 2014-14, Receivables—Troubled Debt Restructuring by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendment affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are present:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments are effective for a public business entity for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company does not expect this ASU to have a material impact on the Bank's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendment also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for certain provisions. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The guidance separates leases into finance and operating categories, both of which are required to be recognized as an asset and liability on the financial statements. The asset and liability are initially measured at the present value of the lease payments, in the statement of financial position for both finance and operating leases. For finance leases, lessees are to recognize interest on the lease liability separate from amortization of the right-of-use asset in the statement of comprehensive income, and classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, lessees are to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and all cash payments are to be classified within operating activities in the statement of cash flows. The amendments of this Update are effective for fiscal years beginning after December 15, 2018, for public business entities. The Company is currently evaluating the impact this ASU will have on the Company's financial statements.

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.

MISSION VALLEY BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investment Securities

Investment securities have been classified in the statements of financial condition according to management's intent and ability as available-for-sale or held-to-maturity. The carrying amounts of securities and their estimated fair values at December 31, 2015 and 2014 were as follows:

	December 31, 2015			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale				
Agency securities	$ 1,000	$ -	$ (21)	$ 979
Mortgage and asset-backed securities	10,390	17	(100)	10,307
Municipal investments	520	7	-	527
Mutual fund investments	800	-	(5)	795
	$ 12,710	$ 24	$ (126)	$ 12,608

	December 31, 2015			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Held-to-Maturity				
Mortgage and asset-backed securities	$ 496	$ 2	$ -	$ 498
Corporate bonds	3,500	8	-	3,508
	$ 3,996	$ 10	$ -	$ 4,006

See accompanying notes.

Note 2 – Investment Securities (continued)

	December 31, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Agency securities	$ 2,215	$ 3	$ (51)	$ 2,167
Mortgage and asset-backed securities	11,571	44	(93)	11,522
Corporate bonds	1,016	3	-	1,019
Municipal investments	537	12	-	549
Mutual fund investments	800	-	(1)	799
	$ 16,139	$ 62	$ (145)	$ 16,056

	December 31, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity				
Mortgage and asset-backed securities	$ 841	$ 6	$ -	$ 847
Corporate bonds	3,500	50	-	3,550
	$ 4,341	$ 56	$ -	$ 4,397

See accompanying notes.

Note 2 – Investment Securities (continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2015 and 2014 aggregated by investment category and length of time that individual securities have been in continuous loss position is as follows:

	2015					
	Less Than 12 Months		12 months or longer		Total	
(Dollars in thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available-for-Sale						
Agency securities	$ -	$ -	$ 979	$ (21)	$ 979	$ (21)
Mortgage and asset-backed securities	5,930	(42)	2,124	(58)	8,054	(100)
Mutual Fund Investments	795	(5)	-	-	795	(5)
	$ 6,725	$ (47)	$ 3,103	$ (79)	$ 9,828	$ (126)

	2014					
	Less Than 12 Months		12 months or longer		Total	
(Dollars in thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available-for-Sale						
Agency securities	$ -	$ -	$ 1,949	$ (51)	$ 1,949	$ (51)
Mortgage and asset-backed securities	755	(2)	15,372	(91)	16,127	(93)
Mutual Fund Investments	-	-	799	(1)	799	(1)
	$ 755	$ (2)	$ 18,120	$ (143)	$ 18,875	$ (145)

There were ten and nine available-for-sale and no held-to-maturity securities in an unrealized loss position for the years ended December 31, 2015 and 2014, respectively. There were four available for sale securities in an unrealized loss position for twelve months or more for the year ended December 31, 2015 and five available for sale securities in an unrealized loss position for twelve months or more for the year ended December 31, 2014.

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 2015 or 2014.

Note 2 – Investment Securities (continued)

The amortized cost and estimated fair values of investment securities at December 31, 2015 and 2014, by contractual maturity, are shown below. Mutual fund investments which do not have stated maturities are included in the due in more than five years category. 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, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in thousands)				
Available-for-Sale				
Due in one year or less	$ -	$ -	$ 1,016	$ 1,020
Due from one to five years	1,171	1,181	1,311	1,330
Due in more than five years	11,539	11,427	13,812	13,706
	$ 12,710	$ 12,608	$ 16,139	$ 16,056

	December 31, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in thousands)				
Held-to-Maturity				
Due in one year or less	$ 3,500	$ 3,508	$ -	$ -
Due from one to five years	496	498	4,119	4,174
Due in more than five years	-	-	222	223
	$ 3,996	$ 4,006	$ 4,341	$ 4,397

There were no sales of available-for-sale securities for the year ended 2015. Sales of available-for-sale securities for the year ended 2014 resulted in $16,000 in gross realized gains.

As of December 31, 2015 and 2014, securities pledged as collateral for borrowings and to secure U.S. Government, State & Local Agencies and trust deposits as required by contract or law were $10,848,000 and $14,604,000, respectively.

Note 3 – Loans and Allowance for Loan Losses

The composition of the Company's loan portfolio at December 31, 2015 and 2014 was as follows:

(Dollars in thousands)	2015	2014
Real estate loans	$ 108,216	$ 111,675
Commercial loans	39,361	32,019
Consumer loans	3,557	4,832
SBA loans	21,523	18,832
Accounts Receivable loans	14,038	9,695
Leasing	223	361
Advanced Restaurant Financing	8,616	10,568
Overdrafts	18	39
Gross loans	195,552	188,021
Less:		
Allowance for loan losses	3,585	4,119
Discount on retained loans	600	370
Deferred loan costs, net	(684)	(284)
Net loans	$ 192,051	$ 183,816

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

Additionally, the Company's management utilizes qualitative adjustments to the allowance for loan loss analysis in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio. The qualitative factors 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 3 – Loans and Allowance for Loan Losses (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.

The Company also establishes specific loss allowances for loans where management has identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by FASB ASC 310-10-35-22, *Measurement of Impairment*. The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuations as follows: (1) the present value of future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, the Company obtains an appraisal to determine the amount of impairment at the date that the loan becomes impaired. If third party market data indicates that the value of collateral property values has declined since the most recent valuation date, the value of the property is adjusted downward to reflect current market conditions. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, the Company either recognizes impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses or charge-off the impaired balance on collateral dependent loans if it is determined that such loss amount represents a confirmed loss.

Management believes that the allowance for loan losses was adequate as of December 31, 2015 and 2014. 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.

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, 2015 and 2014. 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 December 31, 2015 and 2014. 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 approximates unpaid principal balance as the other components are not deemed material.

	Allowance for Loan Losses As of and For the Year Ended December 31, 2015					
(Dollars in thousands)	Beginning Balance	(Recapture of) Provision for Loan Losses charged to Expense	Charge-offs	Recoveries on Loans Previously Charged-off	Ending Balance	Ending Balance Individually Evaluated for Impairment
Real Estate loans	$ 1,808	$ (756)	$ (117)	$ 450	$ 1,385	$ 4
Commercial loans	1,024	(665)	-	48	407	18
Consumer loans	51	(44)	-	21	28	-
SBA loans	201	60	-	-	261	1
Accounts Receivable loans	66	932	-	57	1,055	-
Leasing	32	(47)	-	18	3	-
Advance Restaurant Financing	165	(80)	-	-	85	-
Overdrafts	7	(4)	-	-	3	-
Unallocated	765	(407)	-	-	358	-
Total	$ 4,119	$ (1,011)	$ (117)	$ 594	$ 3,585	$ 23

	Allowance for Loan Losses As of and For the Year Ended December 31, 2014					
(Dollars in thousands)	Beginning Balance	Provision for Loan Losses charged to Expense	Charge-offs	Recoveries on Loans Previously Charged-off	Ending Balance	Ending Balance Individually Evaluated for Impairment
Real Estate loans	$ 1,364	$ -	$ (81)	$ 525	$ 1,808	$ 63
Commercial loans	551	-	(65)	538	1,024	121
Consumer loans	51	-	(5)	5	51	2
SBA loans	254	-	(53)	-	201	13
Accounts Receivable loans	408	-	(380)	38	66	72
Leasing	14	-	-	18	32	-
Advance Restaurant Financing	165	-	-	-	165	-
Overdrafts	4	-	(5)	8	7	-
Unallocated	765	-	-	-	765	-
Total	$ 3,576	$ -	$ (589)	$ 1,132	$ 4,119	$ 271

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

Recorded Investment in Loans As of December 31, 2015

(Dollars in thousands)	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance
Real Estate	$ 1,500	$ 106,716	$ 108,216
Commercial	875	38,486	39,361
Consumer	-	3,557	3,557
SBA	1,199	20,324	21,523
Accounts Receivable	-	14,038	14,038
Leasing	-	223	223
Advance Restaurant Financing	-	8,616	8,616
Overdrafts	-	18	18
Total	$ 3,574	$ 191,978	$ 195,552

Recorded Investment in Loans As of December 31, 2014

(Dollars in thousands)	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance
Real Estate	$ 3,421	$ 108,254	$ 111,675
Commercial	1,329	30,690	32,019
Consumer	40	4,792	4,832
SBA	1,597	17,235	18,832
Accounts Receivable	205	9,490	9,695
Leasing	-	361	361
Advance Restaurant Financing	-	10,568	10,568
Overdrafts	-	39	39
Total	$ 6,592	$ 181,429	$ 188,021

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

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

- Pass/Watch: Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

- Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

- Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

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, 2015 and 2014:

Internal Risk Rating by Loan Class
For the Year Ended December 31, 2015

(Dollars in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful/Loss	Total
Real estate loans	$ 106,272	$ -	$ 1,944	$ -	$ 108,216
Commercial loans	38,516	8	837	-	39,361
Consumer loans	3,557	-	-	-	3,557
SBA loans	19,921	409	1,193	-	21,523
Accounts Receivable loans	10,122	3,655	261	-	14,038
Leasing	223	-	-	-	223
Advanced Restaurant Financing	8,616	-	-	-	8,616
Overdrafts	18	-	-	-	18
Total	$ 187,245	$ 4,072	$ 4,235	$ -	$ 195,552

Internal Risk Rating by Loan Class
For the Year Ended December 31, 2014

(Dollars in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful/Loss	Total
Real estate loans	$ 103,621	$ 3,855	$ 4,199	$ -	$ 111,675
Commercial loans	28,149	2,104	1,766	-	32,019
Consumer loans	4,770	-	62	-	4,832
SBA loans	17,052	55	1,725	-	18,832
Accounts Receivable loans	6,339	150	3,206	-	9,695
Leasing	361	-	-	-	361
Advanced Restaurant Financing	10,568	-	-	-	10,568
Overdrafts	37	1	1	-	39
Total	$ 170,897	$ 6,165	$ 10,959	$ -	$ 188,021

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, 2015 and 2014:

Aging Analysis of Past Due Loans
As of December 31, 2015

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real Estate	$ -	$ -	$ -	$ -	$ 108,216	$ 108,216
Commercial	444	16	-	460	38,901	39,361
Consumer	-	-	-	-	3,557	3,557
SBA	-	-	-	-	21,523	21,523
Accounts Receivable	-	-	-	-	14,038	14,038
Leasing	-	-	-	-	223	223
Advanced Restaurant Financing	-	-	-	-	8,616	8,616
Overdrafts	-	-	-	-	18	18
Total	$ 444	$ 16	$ -	$ 460	$ 195,092	$ 195,552

Aging Analysis of Past Due Loans
As of December 31, 2014

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real Estate	$ 499	$ -	$ -	$ 499	$ 111,176	$ 111,675
Commercial	-	-	617	617	31,402	32,019
Consumer	-	-	-	-	4,832	4,832
SBA	-	-	-	-	18,832	18,832
Accounts Receivable	-	-	-	-	9,695	9,695
Leasing	-	-	-	-	361	361
Advanced Restaurant Financing	-	-	-	-	10,568	10,568
Overdrafts	-	-	-	-	39	39
Total	$ 499	$ -	$ 617	$ 1,116	$ 186,905	$ 188,021

There were no loans that were greater than ninety days past due and still accruing interest at December 31, 2015 and 2014. The recorded investment in loans and leases on nonaccrual status as of December 31, 2015 consisted of $260,000 in real estate loans, $452,000 in commercial loans and $375,000 in SBA loans. The recorded investment in loans and leases on nonaccrual status as of December 31, 2014 consisted of $782,000 in real estate loans, $1,071,000 in commercial loans and $425,000 in SBA loans.

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, 2015 and 2014. There were no impaired loans that were fully reserved with an allowance for loan loss for the years ended December 31, 2015 and December 31, 2014, respectively:

Impaired Loans
For the Year Ended December 31, 2015

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 260	$ 260	$ -	$ 790	$ 33
Commercial	333	333	-	511	31
SBA	381	381	-	552	39
With an allowance recorded:					
Real estate	$ 1,240	$ 1,240	$ 4	$ 1,670	$ 93
Commercial	542	542	18	795	47
SBA	818	818	1	1,203	36
Consumer	-	-	-	20	-
Accounts Receivable	-	-	-	-	-
Total:					
Real estate	$ 1,500	$ 1,500	$ 4	$ 2,460	$ 126
Commercial	875	875	18	1,306	78
SBA	1,199	1,199	1	1,755	75
Consumer	-	-	-	20	-
Accounts Receivable	-	-	-	-	-

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

Impaired Loans
For the Year Ended December 31, 2014

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 1,321	$ 1,321	$ -	$ 3,651	$ 30
Commercial	688	688	-	913	128
SBA	722	722	-	376	-
With an allowance recorded:					
Real estate	$ 2,100	$ 2,100	$ 63	$ 1,260	$ 160
Commercial	641	641	121	837	84
SBA	875	875	13	856	105
Consumer	40	40	2	57	4
Accounts Receivable	205	205	72	103	-
Total:					
Real estate	$ 3,421	$ 3,421	$ 63	$ 4,911	$ 190
Commercial	1,329	1,329	121	1,750	212
SBA	1,597	1,597	13	1,232	105
Consumer	40	40	2	57	4
Accounts Receivable	205	205	72	103	-

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.

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

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

As of December 31, 2015, there were 7 restructured loans in the amount of $913,000 with an $18,000 allocated allowance included within the impaired loan balance as of December 31, 2015.

As of December 31, 2014, there were 16 restructured loans in the amount of $3,181,000 with a $137,000 allocated allowance included within the impaired loan balance as of December 31, 2014.

There were no newly restructured loans that met the definition of a troubled debt restructuring during the year ended December 31, 2015. During the year ended December 31, 2014, there was one payment modification in the amount of $600,000 that met the definition of a troubled debt restructuring. There were no defaults within the first 12 months of restructure on loans classified as troubled debt restructurings during the years ended December 31, 2015 or 2014, and there are no commitments to lend additional amounts to loans classified as troubled debt restructurings at December 31, 2015.

Note 4 – Premises and Equipment

Premises and equipment as of December 31, 2015 and 2014 are summarized as follows:

(Dollars in thousands)	**2015**	**2014**
Building improvements	$ 1,348	$ 1,675
Furniture, fixtures, and equipment	2,498	2,757
	3,846	4,432
Less accumulated depreciation and amortization	(3,600)	(4,092)
	$ 246	$ 340

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 amounted to $137,000 and $160,000, respectively.

MISSION VALLEY BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Deposits

At December 31, 2015, the scheduled maturities of time deposits are as follows:

(Dollars in thousands)	**Time Deposits under $250,000**	**Time Deposits $250,000 and Over**
Matures during year ending December 31,		
2016	$ 13,801	$ 22,865
2017	1,835	4,409
2018	999	-
2019	44	253
2020	313	-
	$ 16,992	$ 27,527

Note 6 – Borrowings

The Company has a line of credit available from the FHLB, which is secured by pledged loans. Borrowings may include overnight advances as well as loans with terms of up to 30 years. There were no outstanding borrowings at December 31, 2015 and December 31, 2014, respectively. The Company had $87,286,000 and $75,618,000 of borrowing capacity from the FHLB at December 31, 2015 and 2014, respectively, based upon loans and securities available to be pledged. The Company had $6,188,000 and $4,812,000 of borrowing capacity from the Federal Reserve Bank of San Francisco (FRB) as of December 31, 2015 and 2014, respectively, based upon loans available to be pledged.

The Company has an unsecured revolving line of credit with PCBB providing for federal fund purchases up to $8,200,000, $8,000,000 with Zions Bank and up to $5,000,000 with Union Bank. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2015 and 2014, the Company did not have an outstanding balance against these lines of credits.

Note 7 – Junior Subordinated Deferrable Interest Debentures

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

Note 7 – Junior Subordinated Deferrable Interest Debentures (continued)

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 beared interest at 5.97% through September 15, 2010 and variable rate equal to LIBOR plus 1.50% from September 15, 2010 through maturity. Interest payments are due on a quarterly basis. The interest is deferrable, at the Company's option for a period of up to twenty consecutive quarterly periods, but in any event not beyond September 16, 2035.

Note 8 – Income Taxes

The provision for income taxes for years ended December 31, 2015 and 2014 consisted of the following:

(Dollars in thousands)	2015	2014
Current		
Federal	$ 1,274	$ 900
State	382	344
	1,656	1,244
Deferred		
Federal	290	(165)
State	91	(35)
	381	(200)
	$ 2,037	$ 1,044

A reconciliation of the Company's effective tax rate with the statutory Federal income tax rate for years ended December 31, 2015 and 2014 is as follows:

(Dollars in thousands)	2015		2014	
Statutory Federal income tax rate	$ 1,761	34.0 %	$ 944	34.0 %
State franchise tax, net of federal benefit	371	7.2	199	7.0
Tax exempt interest	(13)	(0.3)	(15)	(1.0)
BOLI	(80)	(1.5)	(79)	(3.0)
Other	(2)	0.0	(5)	0.0
	$ 2,037	39.4 %	$ 1,044	37.0 %

Change in deferred taxes of $8,000 and $185,000 related to unrealized gains and losses on investment securities available-for-sale during 2015 and 2014, respectively, were allocated to other comprehensive income (loss).

Note 8 – Income Taxes (continued)

The following is a summary of the components of the net deferred tax asset at December 31, 2015 and 2014:

(Dollars in thousands)	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 383	$ 800
State tax	130	117
Unrealized loss on investment securities	42	34
Non-accrual interest	30	28
Deferred compensation	568	480
Other, net	110	75
Total deferred tax assets	1,263	1,534
Deferred tax liabilities:		
Certain prepaid assets	(495)	(386)
Depreciation and amortization	(99)	(104)
Other, net	-	-
Total deferred tax liabilities	(594)	(490)
Net deferred tax asset	$ 669	$ 1,044

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, 2015 and 2014, respectively.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company recognizes interest and penalties related to income tax matters in other operating expenses in the statements of operations. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months. There were no interest and penalties accrued for the years ended December 31, 2015 and 2014. The Company files income tax returns in the U.S. federal jurisdiction and in California. The Company is no longer subject to U.S. federal tax authority examination for years before 2009 and California state tax authority examinations for years before 2010.

Note 9 – Employee Benefit Plans

The Company has established a 401(k) Plan for the benefit of eligible employees, whereby each employee being at least twenty-one years of age may become a participant at specified intervals. Employees may contribute up to 50% of their annual compensation to the 401(k) Plan each year subject to certain limits based on federal tax laws. The Company may elect to make some level of matching contributions to the Plan at the discretion of the Board of Directors. Matching contributions of $104,000 and $122,000 were made for the years ended December 31, 2015 and 2014, respectively.

The Company sponsors a supplemental executive retirement plan ("SERP") which is a nonqualified unfunded pension plan covering a select group of senior executives. The plan provides a retirement benefit payable in the form of a life annuity to the participants, which is based on a specified dollar amount as stated in the agreements. The accrued postretirement benefit balance was $1,380,000 and $1,166,000 at December 31, 2015 and 2014, 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 $214,000 and $198,000 for the years ended December 31, 2015 and 2014, respectively.

Note 10 – Stock Option Plan

The Company has a stock option and restricted stock grant plan (the "Plan") whereby officers, directors and key employees may be granted both nonqualified and incentive stock options and restricted stock awards. Directors and other individuals who are not officers or employees may only be granted nonqualified stock options under the Plan. Stock options expire no later than ten years from the date of the grant and generally vest over five years. Restricted stock awards generally vest over two years. The Plan provides for accelerated vesting if there is a change of control, as defined in the plan. When options are exercised, the Company intends to issue new stock rather than purchase stock from existing shareholders. At December 31, 2015 there were 38,500 unvested restricted stock awards with 173,365 shares available for future issuance. At December 31, 2014 there were 145,000 unvested restricted stock awards with 169,800 shares available for future issuance. There were 0 and 38,500 shares of restricted stock awards granted during 2015 and 2014, respectively. No stock options were granted during 2015 and 2014. During the year ended December 31, 2015, 40,000 restricted stock awards were issued at a price of $4.10 per share, and 49,500 restricted stock awards were issued at a price of $5.50 per share. No restricted stock awards were issued during the year ended December 31, 2014.

Estimated pretax compensation expense related to these options for years 2016 through 2017 is $52,500 and $8,750. Future expense related to stock option awards would be impacted by new awards and/or modifications, repurchases and fulfillment of performance conditions.

Note 10 – Stock Option Plan (continued)

A summary of the Company's stock option plan activity for the years ended December 31, 2015 and 2014 is as follows:

	2015		2014	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
(Dollars in thousands)				
Outstanding at beginning of year	9,195	$ 11.39	63,195	$ 5.45
Exercised	-	-	-	-
Expired or forfeited	(6,065)	11.28	(54,000)	4.44
Outstanding at end of year	3,130	$ 11.60	9,195	$ 11.39
Options exercisable	3,130	$ 11.60	9,195	$ 11.39
Weighted average remaining contractual life of options outstanding	0.4 years		0.9 years	

There were no options exercised in 2015 or 2014. The aggregate intrinsic value of options exercisable plus options expected to vest in future years is $0 based on a stock price of $9.00 per share for the year ended December 31, 2015.

Note 11 – Commitments and Contingencies

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the statements of financial condition. To mitigate this risk posed by these off-balance sheet exposures, the Bank has established an off-balance sheet reserve totaling $96,000 and $84,000 as of December 31, 2015 and 2014, respectively, 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.

Note 11 – Commitments and Contingencies (continued)

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

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

A summary of the contractual or notional amounts of the Company's significant off-balance sheet financial instruments as of December 31, 2015 and 2014 is as follows:

	2015	**2014**
(Dollars in thousands)		
Commitments to extend credit	$ 29,249	$ 27,259
Standby letters of credit	5,233	7,822
	$ 34,482	$ 35,081

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

Lease commitments – The Company currently leases its administrative offices and the Sun Valley branch facility from a shareholder of the Company. The Company leases office locations and equipment which have been classified as noncancelable operating leases. These lease agreements call for various monthly payments expiring at dates through the year 2018. Rental expense for the years ended December 31, 2015 and 2014 amounted to $425,000 and $492,000, respectively.

Note 11 – Commitments and Contingencies (continued)

The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2015:

Year Ending December 31,	
(Dollars in thousands)	
2016	$ 388
2017	349
2018	108
Thereafter	-
	$ 845

Note 12 – Transactions with Related Parties

In the ordinary course of business, the Company enters into transactions with certain directors, officers and shareholders and certain affiliates of the Company.

As part of its normal banking activities, the Company has extended credit to and received deposits from certain members of its Board of Directors, major shareholders, officers as well as entities with which these individuals are associated. These related parties had deposits and loans at the Company totaling approximately $43,316,000 and $3,584,000 respectively, at December 31, 2015 and $32,921,000 and $3,626,000 respectively, at December 31, 2014. Management believes these transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral requirements, as comparable loans and deposits with other customers, and the loans did not involve more than normal credit risk or present other unfavorable features. Each loan has been approved by the Board of Directors.

Note 13 – Fair Value of Financial Instruments

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

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

Note 13 – Fair Value of Financial Instruments (continued)

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

The following methods and assumptions were used to estimate the fair values of significant financial instruments which are not measured at fair value in the consolidated financial statements at December 31, 2015 and 2014.

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

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

Investment securities, held-to-maturity – For securities held-to-maturity, the fair value is determined by quoted market prices, where available, or on observable market inputs appropriate for the type of security.

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

Loans held for sale – Fair value is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights.

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

Restricted equity securities – The carrying value of FHLB and PCBB stock approximates fair value based on the redemption provisions of the respective stock.

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

Note 13 – Fair Value of Financial Instruments (continued)

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

Borrowings and Subordinated debentures – The fair values of other borrowed money and subordinated debentures are determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Off-balance sheet financial instruments – The fair value of commitments to extend credit is based upon the difference between the interest rate at which we are committed to make the loans and the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for the estimated volume of loan commitments actually expected to close. The fair value of commitments to extend credit and standby letters of credit were not significant at either December 31, 2015 or 2014, as these instruments predominantly have adjustable terms and are of a short-term nature.

Note 13 – 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, 2015 and 2014. All financial assets and financial liabilities for which the carrying amount equals fair value are considered by the Company to be Level 1 measurements in the fair value hierarchy.

	2015				
			Fair Value Measurements Using		
(Dollars in thousands)	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 52,925	$ 52,925	$ 52,925	$ -	$ -
Interest bearing deposit in other banks	7,849	7,837	-	-	7,837
Investment securities, held-to-maturity	3,996	4,006	-	4,006	-
Loans, net	192,051	199,855	-	-	199,855
Loans, held for sale	8,184	8,645	-	8,645	-
Bank owned life insurance	6,356	6,356	6,356	-	-
Restricted equity securities	1,655	1,655	1,655	-	-
Accrued interest receivable	599	599	599	-	-
Financial Liabilities					
Deposits	$ 245,261	$ 235,757	$ -	$ -	$ 235,757
Subordinated debentures	6,186	5,635	-	-	5,635
Accrued interest payable	10	10	10	-	-

	2014				
			Fair Value Measurements Using		
(Dollars in thousands)	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 34,254	$ 34,254	$ 34,254	$ -	$ -
Interest bearing deposit in other banks	10,829	10,815	-	-	10,815
Investment securities, held-to-maturity	4,341	4,397	-	4,397	-
Loans, net	183,816	188,385	-	-	188,385
Loans, held for sale	3,233	3,441	-	3,441	-
Bank owned life insurance	6,161	6,161	6,161	-	-
Restricted equity securities	1,579	1,579	1,579	-	-
Accrued interest receivable	609	609	609	-	-
Financial Liabilities					
Deposits	$ 224,339	$ 216,699	$ -	$ -	$ 216,699
Subordinated debentures	6,186	5,445	-	-	5,445
Accrued interest payable	18	18	18	-	-

Note 13 – Fair Value of Financial Instruments (continued)

Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Securities available for sale – The table below presents the balance of 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.

Impaired loans and other real estate owned – The loan balance shown in the table below 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. All of these loans are collateral-dependent loans and the Company measures such impaired loans based on the fair value of their collateral. 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. We generally use 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, 2015.

Note 13 – 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, 2015 and 2014 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, 2015			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Recurring items:				
Agency securities	$ 979	$ -	$ 979	$ -
Mortgage backed securities	10,307	-	10,307	-
Corporate bonds	-	-	-	-
Municipal investments	527	-	527	-
Mutual funds	795	795	-	-
	$ 12,608	$ 795	$ 11,813	$ -
Nonrecurring items:				
Impaired loans	$ 3,574	$ -	$ -	$ 3,574

	December 31, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Recurring items:				
Agency securities	$ 2,167	$ -	$ 2,167	$ -
Mortgage backed securities	11,522	-	11,522	-
Corporate bonds	1,019	-	1,019	-
Municipal investments	549	-	549	-
Mutual funds	799	799	-	-
	$ 16,056	$ 799	$ 15,257	$ -
Nonrecurring items:				
Impaired loans	$ 5,047	$ -	$ -	$ 5,047

Note 14 – Regulatory Matters

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013 that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") as well as requirements contemplated by the Dodd-Frank Act.

Note 14 – Regulatory Matters (continued)

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

Under the new capital rules, the Bank is required to meet certain minimum capital requirements that differed from prior capital requirements. The rules implement a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income ("AOCI"), except to the extent that the Bank exercises a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Bank exercised its option to exclude certain components of AOCI as required in its March 31, 2015 FDIC Call Report. The Bank is also required to establish a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The Prompt Corrective Action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. The requirements for the Bank to be considered well-capitalized under the rules will be a 5.0% leverage ratio, a 6.5% common equity Tier 1capital ratio, an 8.0% Tier 1 capital ratio, and a 10.0% total capital ratio.

The rules modified the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The Bank is in compliance with the new capital rules effective January 1, 2015. The conservation buffer will be phased-in beginning in 2016, and will take full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods.

Note 14 – Regulatory Matters (continued)

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum risk-based capital ratios for common equity tier 1 capital, total capital, Tier I capital, and Tier I leverage ratios. As of December 31, 2015 and 2014, management believes that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework. To be categorized as well-capitalized, the Bank must maintain minimum risk-based capital ratios for common equity tier 1 capital, total capital, Tier I capital, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company and Bank's actual capital amounts and ratios computed in accordance with bank regulatory requirements as of December 31, 2015 and 2014 are as follows (amounts are in thousands of dollars).

Mission Valley Bancorp	Actual		Amount of Capital Required: Minimum Capital Requirement		Amount of Capital Required: Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Capital Ratio	$ 43,238	19.00%	$ 18,182	8.00%	$ 22,728	10.00%
Tier 1 Capital Ratio	40,387	17.80%	13,637	6.00%	18,182	8.00%
Tier 1 Leverage Ratio	40,387	13.90%	11,652	4.00%	14,565	5.00%
Common Equity Tier 1 Capital Ratio	24,051	10.60%	10,228	4.50%	14,773	6.50%
As of December 31, 2014						
Total Capital Ratio	$ 39,495	18.46%	$ 17,118	8.00%	$ 21,398	10.00%
Tier 1 Capital Ratio	36,802	17.20%	8,559	4.00%	10,699	6.00%
Tier 1 Leverage ratio	36,802	13.86%	10,624	4.00%	13,280	5.00%

Note 14 – Regulatory Matters (continued)

Mission Valley Bank	Actual		Amount of Capital Required: Minimum Capital Requirement		Amount of Capital Required: Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Capital Ratio	$ 42,025	18.51%	$ 18,166	8.00%	$ 22,707	10.00%
Tier 1 Capital Ratio	39,176	17.25%	13,624	6.00%	18,166	8.00%
Tier 1 Leverage Ratio	39,176	13.46%	11,645	4.00%	17,467	5.00%
Common Equity Tier 1 Capital Ratio	39,176	17.25%	10,218	4.50%	14,760	6.50%
As of December 31, 2014						
Total Capital Ratio	$ 38,787	18.20%	$ 17,050	8.00%	$ 21,313	10.00%
Tier 1 Capital Ratio	36,104	16.94%	8,525	4.00%	10,657	6.00%
Tier 1 Leverage ratio	36,104	13.61%	10,608	4.00%	13,261	5.00%

The difference in Common Equity Tier 1 Capital Ratio between Mission Valley Bancorp and Mission Valley Bank is due to the TRUPS securities disclosed in Note 7.

Note 15 – U.S. Treasury Capital Purchase Program, Community Development Capital Initiative Program and Mandatory Convertible Cumulative Preferred Stock

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

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

As a result, 5,500 shares of Series A, 5% fixed rate, non-voting, non-cumulative perpetual preferred shares were exchanged for 5,500 shares of Series C, 2% fixed rate, non-voting, noncumulative perpetual preferred shares. This was a noncash transaction in 2010.

Note 15 – U.S. Treasury Capital Purchase Program, Community Development Capital Initiative Program and Mandatory Convertible Cumulative Preferred Stock (continued)

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

Series C and D have a dividend rate of 2% per annum for eight years escalating to 9% for an additional five years. Series C and D have quarterly dividend payments payable on each February 15, May 15, August 15 and November 15. During 2015 and 2014, the Company declared and paid dividends on Series C and D in the cumulative amount of $207,000.

On December 31, 2009, the Company issued and sold 458,000 shares of 6% mandatory convertible cumulative preferred stock, Series B, for an aggregate price of $4,580,000. These preferred shares qualify as Tier 1 capital. Series B dividend payments are payable semiannually at the rate of 6% per annum on each of June 15 and December 15. During 2015 and 2014, the Company declared and paid dividends on Series B in the cumulative amount of $0 and $275,000, respectively.

The Series B Preferred Shares converted on December 15, 2014 into shares of Common Shares at the conversion rate equal to the quotient of the sum of $10 plus any unpaid dividends on the Preferred Shares after issuance divided by the higher of (i) 100% of the book value per Common Share as of the calendar quarter-end immediately prior to the conversion date (adjusted for any stock splits, stock dividends and certain other events after such quarter-end and prior to the conversion date) or (ii) the market value of a Common Share as of the calendar quarter end immediately prior to the conversion (adjusted for any stock splits, stock dividends and certain other events after such quarter-end and prior to the conversion ate), up to a maximum of 1.1 times book value referenced in (i). 175,000 Preferred Series B Shares were redeemed for cash at a cost basis of $9.50 prior to conversion. At the time of conversion the book value per common share of $6.52 was higher than the market value of $6.00 common stock as of the calendar quarter end immediately prior to the conversion. As a result, 434,132 Common Shares were issued upon conversion of the Series B Preferred Shares. The conversion of Preferred B Shares for Common Shares are restricted and contain a restrictive legend as to the transferability, unless an applicable securities law exemption applies as determined by the Company, in its sole discretion with advice of counsel.

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

Note 16 – Parent Company Only Information

(Dollars in thousands)	2015	2014
ASSETS		
Cash and cash equivalents	$ 502	$ 98
Investment in bank subsidiary	39,116	36,327
Other assets	901	790
TOTAL ASSETS	$ 40,519	$ 37,215
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Junior subordinated deferred interest debentures	$ 6,186	$ 6,186
Accrued interest payable and other liabilities	6	5
Total liabilities	6,192	6,191
Shareholders' Equity		
Preferred stock	10,336	10,336
Common stock	12,747	12,747
Additional paid in capital	812	279
Retained earnings	10,492	7,711
Accumulated other comprehensive loss	(60)	(49)
Total shareholders' equity	34,327	31,024
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 40,519	$ 37,215

Note 16 – Parent Company Only Information (continued)

(Dollars in thousands)	2015	2014
INTEREST		
Interest income	$ 3	$ 3
Interest expense	113	109
Net interest expense	(110)	(106)
Equity in undistributed earnings of subsidiary	3,300	1,868
NON-INTEREST EXPENSES		
Salaries, wages and employee benefits	97	86
Occupancy and equipment expenses	6	7
Legal, professional, and consulting	30	25
Other operating expenses	22	5
Total non-interest expenses	155	123
NET INCOME BEFORE BENEFIT FOR INCOME TAXES	3,035	1,639
Benefit for income taxes	109	94
NET INCOME	$ 3,144	$ 1,733

Note 16 – Parent Company Only Information (continued)

(Dollars in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 3,144	$ 1,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(3,300)	(1,868)
Other	423	(105)
Net cash provided by (used in) operating activities	267	(240)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends from Bank subsidiary	500	2,263
Redemption of Preferred B shares	-	(1,662)
Dividends on common stock	(156)	-
Dividends paid on preferred securities	(207)	(482)
Net cash provided by financing activities	137	119
Change in Cash and Cash Equivalents	404	(121)
Cash and cash equivalents, beginning of year	98	219
Cash and cash equivalents, end of year	$ 502	$ 98
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 113	$ 109

Note 17 – Subsequent Events

The Company recognizes in the consolidated financial statements the effect of all subsequent events (transactions or events that occur after the balance sheet date but before the consolidated financial statements are issued) that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Company has evaluated subsequent events through March 14, 2016, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that required disclosure in the consolidated financial statements.

Board of Directors

Marc Foulkrod
Director of Mission Valley Bancorp & Bank
Mr. Foulkrod is the Chairman and CEO of Avjet Corporation.

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 an investment professional who provides financial advisory and community bank consulting.

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

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

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

The Patrick Visciglia Spirit Award

Mission Valley Bank's Spirit Award was established in memoriam of one of our original founders & 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 2015 recipient of the Patrick Visciglia Spirit Award was Janet Shinkle – Vice President and Relationship Manager*.**

Janet was also recognized as one of the San Fernando Valley's "2015 Most Trusted Advisors" by the San Fernando Valley Business Journal. Janet was Mission Valley's fifth consecutive Banker to be honored by the Business Journal as a "Most Trusted Advisor".

Senior Management

Tamara Gurney
President
Chief Executive Officer

Diane Auten
Executive Vice President
Chief Financial Officer

Marianne Cederlind
Executive Vice President
Chief Business Banking Officer

Linda Rousseau
Executive Vice President
Chief Administrative Officer

Robert Scott
Executive Vice President
Chief Credit Officer

Administration Officers

Cindy Albers
Vice President, CRCM
Compliance Manager

Carrie Burrell
Vice President, CFMP
Marketing Manager

Sandy Konish
Vice President
Product, Application & Core Specialist

Diane McAuley
Vice President
Credit Administration

Sally Reichhardt
Assistant Vice President
Deposit Operations Manager

Michael Snow
Vice President
Credit Administrator

Frank Wong
Vice President
Controller

Sun Valley Office

Jahun Smith
Vice President
Branch Manager

Lola Forbis
Vice President
Relationship Manager

Carlos Guillen
Vice President
Operations Manager

Steve Templar
Vice President
Relationship Manager

Santa Clarita Valley

Roy Fisher
Vice President
Regional Manager

Janet Shinkle
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, 2015 there were approximately 208 shareholders of record and 3,154,865 shares of common stock as well as 10,336 shares of preferred stock issued and outstanding.

Stock Information:
D. A. Davidson & Co.
Troy K. Norlander, Managing Director
Michael Natzic, Senior Vice President
909 584-4500 / 800 288-2811

Stock Transfer Agent:
Shareholders with inquiries regarding accounts, lost stock certificates or changes of address, may contact Linda Rousseau, Corporate Secretary of Mission Valley Bancorp at (818) 394-2331 during regular business hours or Computershare at (800) 962-4284 or (303) 262-0600 between 9:00 a.m. and 5:00 p.m. (MST).

Written correspondence may be sent to:

Computershare
Post Office Box 30170
College Station, Texas 77842-3170

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BELIEF • SOUNDNESS
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ACCOUNTABILITY
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CREATIVITY • CONFIDENCE
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ETHICS • DEVELOPMENT
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2015 FINANCIAL STATEMENTS

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