Mission Valley Bancorp

2009 Annual Report

Message to Shareholders

To say that 2009 was a tough year would seem to be, for most of us, quite an understatement. This long, drawn out recession that many have compared to the Great Depression, has impacted everyone in one way or another. Unfortunately, when we will actually pull out of this downturn remains the subject of much debate, though most expect it to continue through the majority of 2010. However, it appears certain that the effects will be long lasting, particularly within the financial services industry where we are facing significant regulatory changes and restructuring, the consequences and repercussions of which remain to be seen.

As a community bank, the challenges we have faced over the past year directly reflect those of our clients and our community. At Mission Valley we have worked hard to face these challenges 'head on' – striving to assist our clients through these difficult days and to do what is right for our shareholders and our community. In anticipation of the protracted economic downturn, Mission Valley Bank rolled out new products such as accounts receivable financing to assist clients with cash flow needs to continue their operations. Our Small Business Administration (SBA) program was also very active during the year generating $9.3 million in new loan production as was Accounts Receivable Financing having closed the year with more than $8.2 million in new loans. In addition, for the first time we can recall, depositors began seeking out local, community banks as a safe haven for their money as opposed to the large, money center banks who many believe were at the center of the financial crisis that caused this recession.

As a result of these efforts, in 2009 Mission Valley Bancorp's subsidiary Mission Valley Bank reported that total deposits increased more than $25 million to $205 million while total gross loans grew just under $10 million to $202 million at year end 2009. This growth in loans and deposits resulted in total assets climbing $25 million to $264 million at December 31, 2009. Total interest income improved $1.6 million over the previous year, while interest expense dropped by slightly more than $650,000. Non interest income improved by $500,000; however, non interest expenses rose by $1.4 million due in large part to increases in FDIC insurance premiums and costs associated with managing credit quality issues. Because of our ability to sustain these levels of production, Mission Valley Bancorp achieved Record Net Operating Income (before extraordinary income and expenses, taxes and the provision for potential loan losses) for 2009 of $3.1 million, representing a 70% increase over the $1.8 million achieved the previous year.

Unfortunately, as strong as our performance was – it was not enough to insulate us from the long range effects of this prolonged economic downturn or from its impact on our clients. As 2009 progressed we continued to increase our reserves to cover possible loan losses, setting aside nearly $5.4 million during the year. As a result, at year end 2009 Mission Valley's Loan Loss Reserve exceeded $6.5 million. In addition, the growing number of bank failures began to deplete the Federal Deposit Insurance Corporation (FDIC) fund, resulting in the FDIC charging special assessments and requiring a three year pre-payment of deposit insurance premium fees, all together totaling over $2.5 million during the year. As a result of these significant expenses, Mission Valley Bancorp reported a net loss of $667,000 for the year ended December 31, 2009.

While it is disappointing to report our first loss since we opened in 2001, we also know that taking such a conservative approach and increasing reserves for potential loan losses to these levels was the right thing to do – we have taken these measures to protect our Bank and our Shareholders. Both internal and external audit teams have performed exhaustive analyses of our existing loan portfolio, giving us confidence that the

majority of our problem loans are well collateralized, have seemingly short term issues and should be resolvable. Had we not made the decision to increase our Loan Loss Reserves to this level, Mission Valley would have experienced yet another record year of earnings, having easily exceeded the net income reported at year-end 2008 of $1.3 million.

In today's environment there is growing regulatory pressure on all financial institutions to maintain increased levels of capital and liquidity. While Mission Valley has always been ranked among "well capitalized" financial institutions, management deemed it prudent that additional steps be taken to insure that we continue to exceed expected levels. As such, Mission Valley Bancorp raised $4.58 million in new capital at year end 2009 via a private placement of Preferred Stock, all of which was subscribed to by our Directors and existing shareholders, demonstrating their confidence in the Company's ability to successfully navigate the current economic climate and work through its credit issues.

In turbulent times such as these the on-going support of our Board of Directors, Shareholders, Clients and Staff is invaluable with regard to our ability to define workable solutions that will not only carry our Bank and our clients through these tough times – but allow us all to continue on the path of steady and controlled growth for many years to come.

Despite the many challenges faced during the past year, we have also experienced great satisfaction. Satisfaction in working with our clients through these difficult days and helping them with creative financial solutions to assist with the growth – or sometimes the survival – of their businesses. Satisfaction in maintaining the financial and social integrity of our bank, and satisfaction in supporting our community through these turbulent times. Unfortunately, we have also witnessed (with great sadness) those situations when good clients (and the bank) have simply run out of options…through it all, we maintain confidence in the fact that our Bank remains well positioned to weather the storm – to shoulder our responsibilities as our clients' financial advisors – continuing to deliver the highest quality service while providing creative financial solutions to our clients and our community.

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

Sincerely,

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

Tamara Gurney
President & CEO
Mission Valley Bancorp
Mission Valley Bank

Board of Directors

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

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

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

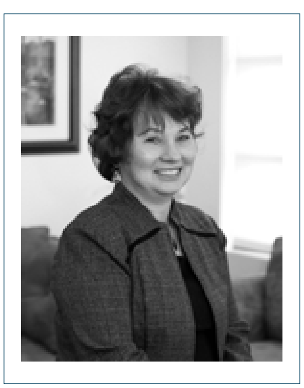
Darlynn Campbell Morgan
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney – The Morgan Law Group

Jerold B. Neuman
Director – Mission Valley Bancorp
Director – Mission Valley Bank
Attorney – Sheppard Mullin Richter & Hampton, LLC

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

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

The Patrick Visciglia Spirit Award



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

Each year, the entire staff of Mission Valley Bank is asked to nominate the one individual they feel is most deserving of this honor. **The 2009 recipient of the Patrick Visciglia Spirit Award is Linda Rousseau, Senior Vice President.** Linda, an Executive Officer of the Bank, is among the original 'founding team' of Mission Valley Bank. The overwhelming vote in her honor was due to not only her dedication to the growth and success of our Bank, but also in recognition of the unmatched level of commitment and caring she shares with clients and staff members alike.

Congratulations Linda!

MISSION VALLEY BANCORP

Annual Report
Financial Statements

Consolidated Balance Sheet

DECEMBER 31, 2009 AND 2008

AS OF DECEMBER 31, 2009 AND 2008	2009	2008
ASSETS		
Cash and due from banks	$ 8,501,000	$ 9,308,000
Federal funds sold	17,135,000	3,195,000
Cash and cash equivalents	25,636,000	12,503,000
Interest-bearing deposits with banks	6,074,000	4,379,000
Securities available-for-sale	22,557,000	19,838,000
Common stock, substantially restricted	2,288,000	2,288,000
Loans, net	195,749,000	190,232,000
Premises and equipment, net	1,808,000	2,469,000
Deferred tax asset	1,672,000	275,000
Cash surrender value life insurance	5,192,000	5,000,000
Accrued interest receivable	872,000	963,000
Other assets	2,607,000	1,197,000
Total Assets	$ 264,455,000	$ 239,144,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 58,865,000	$ 58,314,000
Interest-bearing demand	39,649,000	29,396,000
Savings	8,454,000	7,137,000
Time, under $100,000	16,994,000	21,216,000
Time, $100,000 and over	80,757,000	63,914,000
Total Deposits	204,719,000	179,977,000
Borrowings	29,000,000	32,000,000
Junior subordinated deferred interest debentures	6,186,000	6,186,000
Income taxes payable	-	131,000
Accrued interest payable and other liabilities	1,176,000	1,333,000
Total Liabilities	$ 241,081,000	$ 219,627,000
Commitments and Contingencies (Note 13)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock - 10,000,000 shares authorized; 10,080 and 5,500 shares outstanding in 2009 and 2008, respectively:		
Series A, designated (Note 10)	5,500,000	5,500,000
Series B, designated (Note 10)	4,580,000	-
Common stock - 10,000,000 shares authorized; no par value; 2,503,633 and 2,495,758 shares outstanding in 2009 and 2008, respectively	9,572,000	9,542,000
Additional paid in capital	47,000	34,000
Retained earnings	3,442,000	4,394,000
Accumulated other comprehensive gain, net of tax	233,000	47,000
Total Stockholders' Equity	23,374,000	19,517,000
Total Liabilities and Stockholders' Equity	$ 264,455,000	$ 239,144,000

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

Consolidated Statements of Income

DECEMBER 31, 2009 AND 2008

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008	2009	2008
Interest Income		
Interest and fees on loans	$ 13,755,000	$ 12,429,000
Interest on Federal funds sold	25,000	112,000
Interest on securities	1,158,000	792,000
Total Interest Income	14,938,000	13,333,000
Interest Expense		
Deposits	2,772,000	3,267,000
Federal funds purchased	-	3,000
Other borrowed funds	1,051,000	1,234,000
Total Interest Expense	3,823,000	4,504,000
Net Interest Income	11,115,000	8,829,000
Provision for Loan Losses	5,375,000	1,077,000
Net Interest Income After Provision for Loan Losses	5,740,000	7,752,000
Noninterest Income		
Service charges and other income	2,366,000	2,174,000
Interest earned on life insurance	192,000	194,000
Net merchant income	187,000	60,000
Net realized gains (losses) on the sale of securities	56,000	(34,000)
Other income	779,000	691,000
Total Noninterest Income	3,580,000	3,085,000
Noninterest Expense		
Salaries and employee benefits	5,501,000	4,744,000
Occupancy	650,000	605,000
Furniture and equipment	1,153,000	1,215,000
Data processing	813,000	688,000
Advertising	219,000	378,000
Legal, professional, and consulting	835,000	540,000
Insurance	700,000	344,000
Other operating expenses	977,000	953,000
Share-based compensation expense	13,000	16,000
Total Noninterest Expense	10,861,000	9,483,000
(Loss) Income From Operations	(1,541,000)	1,354,000
Income Tax Benefit (Expense)	874,000	(293,000)
Net Income (Loss)	$ (667,000)	$ 1,061,000
NET INCOME (LOSS) PER SHARE - BASIC	$ (0.27)	$ 0.43
NET INCOME (LOSS) PER SHARE - DILUTED	$ (0.27)	$ 0.40

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

Consolidated Statements of Changes in Stockholders' Equity

DECEMBER 31, 2009 AND 2008

	Number of Common Shares Outstanding	Common Stock	Preferred Stock	Comprehensive Income	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Stockholders Equity
Balance, January 1, 2008	2,473,427	$ 9,451,000	$ -	$ -	$ 18,000	$ 3,365,000	$ (58,000)	$12,776,000
Proceeds from the exercise of stock options	22,331	91,000	-	-	-	-	-	91,000
Share-based compensation	-	-	-	-	16,000	-	-	16,000
Issuance of preferred stock	-	-	5,500,000	-	-	-	-	5,500,000
Adoption of EITF 06-4 Split Dollar Life Insurance	-	-	-	-	-	(27,000)	-	(27,000)
Dividends on preferred stock	-	-	-	-	-	(5,000)	-	(5,000)
Net Income	-	-	-	1,061,000	-	1,061,000	-	1,061,000
Change in unrealized gain on available-for-sale securities, net of taxes of $60,000	-	-	-	85,000	-	-	85,000	85,000
Realized loss on sale of available-for-sale securities, net of taxes $14,000	-	-	-	20,000	-	-	20,000	20,000
Total Comprehensive Income	-	-	-	$ 1,166,000	-	-	-	-
Balance, December 31, 2008	2,495,758	$ 9,542,000	$ 5,500,000	$ -	$ 34,000	$ 4,394,000	$ 47,000	$19,517,000
Proceeds from the exercise of stock options	7,875	30,000	-	-	-	-	-	30,000
Share-based compensation	-	-	-	-	13,000	-	-	13,000
Issuance of preferred stock	-	-	4,580,000	-	-	-	-	4,580,000
Dividends on preferred stock	-	-	-	-	-	(285,000)	-	(285,000)
Net loss	-	-	-	(667,000)	-	(667,000)	-	(667,000)
Change in unrealized gain on available-for-sale securities, net of taxes of $154,000	-	-	-	220,000	-	-	220,000	220,000
Realized gain on sale of available-for-sale securities, net of taxes $22,000	-	-	-	(34,000)	-	-	(34,000)	(34,000)
Total Comprehensive Loss	-	-	-	$ (481,000)	-	-	-	-
Balance, December 31, 2009	**2,503,633**	**$ 9,572,000**	**$10,080,000**		**$ 47,000**	**$ 3,442,000**	**$ 233,000**	**$23,374,000**

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

Consolidated Statements of Cash Flow

DECEMBER 31, 2009 AND 2008

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008	2009	2008
Cash Flows from Investing Activities		
Net (loss) income	$ (667,000)	$ 1,061,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for loan losses	5,375,000	1,077,000
Depreciation and amortization	714,000	720,000
Share-based compensation	13,000	16,000
Net accretion of discount and amortization of premium	12,000	(5,000)
Net (gain) loss realized on the sale of securities	(56,000)	34,000
(Gain)/loss on disposal of premises and equipment	(2,000)	3,000
Federal Home Loan Bank dividends	-	(79,000)
Increase in cash surrender value life insurance, net of mortality costs	(192,000)	(194,000)
Increase in accrued interest receivable and other assets	(2,847,000)	(335,000)
(Decrease) increase in accrued interest payable and other liabilities	(157,000)	449,000
(Decrease) increase in taxes payable	(131,000)	131,000
Net Cash Flows Provided by Operating Activities	2,062,000	2,878,000
Cash Flows from Investing Activities		
Change in interest bearing deposits with banks, net	(1,695,000)	(503,000)
Sale of FHLB Stock	-	520,000
Purchases of investment securities available-for-sale	(12,214,000)	(18,139,000)
Proceeds from sale of investment securities available-for-sale	3,063,000	4,957,000
Maturities of investment securities available-for-sale	109,000	2,596,000
Paydowns of investment securities available-for-sale	6,684,000	2,141,000
Purchase of common stock, substantially restricted	-	(551,000)
Net increase in loans	(10,892,000)	(24,908,000)
Purchase of premises and equipment	(111,000)	(208,000)
Proceeds from the sale of premises and equipment	60,000	-
Net Cash Flows Used by Investing Activities	(14,996,000)	(34,095,000)
Cash Flows from Financing Activities		
Net increase in deposits	24,742,000	29,158,000
Decrease in borrowings, net of repayments	(3,000,000)	(3,066,000)
Proceeds from the exercise of stock options	30,000	91,000
Dividends paid on preferred stock	(285,000)	(5,000)
Proceeds from the issuance of preferred stock	4,580,000	5,500,000
Net Cash Flows Provided by Financing Activities	26,067,000	31,678,000
Net Increase in Cash and Cash Equivalents	13,133,000	461,000
Cash and Cash Equivalents, Beginning of Year	12,503,000	12,042,000
Cash and Cash Equivalents, End of Year	$ 25,636,000	$ 12,503,000
Supplemental Disclosures of Cash Flow Information		
Interest payments	$ 4,537,000	$ 4,516,000
Income taxes paid	$ 131,000	$ 161,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Mission Valley Bank (the Bank) was formed during 2001 and on May 24, 2005, the stockholders 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). This transaction was consummated on August 30, 2005, and was accounted for at historical cost.

Nature of Banking Activities
Mission Valley Bancorp is a bank holding company, which provides a full range of banking services to individual and corporate customers through its principal subsidiary, Mission Valley Bank. The Bank has three branches, located in Sun Valley, Valencia and Santa Clarita, California. The Company has been authorized by the Federal Reserve Bank of San Francisco to engage in lending activities separate from the Bank but to date has not done so. As a State chartered bank, the Bank is subject to regulation by the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC).

Consolidation and Basis of Presentation
The consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Mission Valley Bank. All significant intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior years' balances to conform to classifications used in 2009. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

In 2005, the Company issued $6,186,000 of junior subordinated deferrable interest debentures through Mission Valley Statutory Trust I. The Bank has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for consolidation of variable interest entities (VIEs), the activities of the Mission Valley Statutory Trust I were deconsolidated at December 31, 2005. As a result, the consolidated balance sheet includes $6,186,000 of long-term borrowings, reported as junior subordinated deferrable interest debentures. Also included in other assets on the consolidated balance sheet is $186,000 investment in Mission Valley Statutory Trust I. The overall effect on the Company's financial position and operating results of the deconsolidation is not material.

Subsequent Events
The Company has analyzed subsequent events for recognition and disclosure through February 23, 2010, which is the date the financial statements were available to be issued.

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

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

Concentration of Credit Risk
Assets and liabilities that subject the Company to concentrations of credit risk consist of interest-bearing deposits at other banks, investments, loans and deposits. Most of the Company's customers are located within Los Angeles County and the surrounding areas. As of December 31, 2009, there was no concentration of customer deposits.

The types of securities the Company invests in are discussed in Note 3 and the Company's primary lending products are discussed in Note 4.

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

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

Securities
The Bank is required to specifically identify its securities as "held-to-maturity", "available-for-sale", or "trading". The Bank did not invest in securities that were classified as trading or held-to-maturity during the years ended December 31, 2009 and 2008.

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

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

Federal Home Loan Bank (FHLB) and Pacific Coast Bankers' Bank Stock
The Bank, as a member of the Federal Home Loan Bank (FHLB) of San Francisco, is required to purchase FHLB stock in accordance with its advances, securities, and deposit agreement. The stock may be redeemed at par value, however only in connection with the Bank surrendering its FHLB membership. The Bank also invests in the stock of Pacific Coast Bankers' Bank (PCBB), in connection with its correspondent banking arrangement with PCBB. These investments are carried at cost as of December 31, 2009 and 2008, and are included as common stock, substantially restricted on the balance sheet.

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

Loans

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

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

The accrual of interest on loans is discontinued at the time a loan becomes ninety-days delinquent unless the credit is well secured and in process of collection. In some cases, loans can be placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

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

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

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

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

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

Advertising Costs
Advertising costs of $219,000 and $378,000 for the years ended December 31, 2009 and 2008, respectively, were expensed as incurred.

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

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

Share-Based Compensation
Since January 1, 2006, the Bank recorded compensation expense for its employees. Stock option and share purchase rights in accordance with the provisions of FASB ASC 718, Compensation – Stock Compensation. Under this method compensation expense is recognized using the fair value method for all stock option awards since 2006, as well as any existing awards that are modified, repurchased or canceled after January 1, 2006, and prior periods are not restated. In addition, the unvested portion of previously awarded options outstanding prior to 2005 will vest over the requisite service period based on the fair value of those options as calculated at the grant date and continue to be disclosed under the pro-forma disclosure included in Note 1. The fair value of each grant is estimated using the Black-Scholes option pricing model. For the years ended December 31, 2009 and 2008, the Bank recognized pre-tax stock-based compensation expense of $13,000 and $16,000, respectively.

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

Loss/Earnings Per Share
Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. As a result, the outstanding shares from the potential exercise of share-based compensation awards were not included in the calculation of loss per share for the year ended December 31, 2009.

Had compensation cost for the Bank's 2001 through 2004 stock option plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of ASC 718, Compensation – Stock Compensation for 2009 and 2008, respectively, the Bank's net income and income per share for 2009 and 2008 would have changed to the pro forma amounts indicated below:

	2009	2008
Net Income:		
As reported	$ (667,000)	$ 1,061,000
Stock-based compensation that would have been reported using the Fair Value Method	(6,000)	(49,000)
Pro Forma	$ (673,000)	$ 1,012,000
Per Share:		
Net Income - Basic		
As Reported	$ (0.27)	$ 0.43
Pro Forma	$ (0.27)	$ 0.41
Net Income - Diluted		
As Reported	$ (0.27)	$ 0.40
Pro Forma	$ (0.27)	$ 0.38

Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in stockholders' equity, such as gains and losses on available-for-sale securities, are reported with net income as comprehensive income and shown as a separate component of the equity section of the balance sheet. For the years ended December 31, 2009 and 2008, holding gains (losses) on available-for-sale securities were the only items of comprehensive income (loss) other than net income for the respective period.

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

New Accounting Pronouncements

Subsequent Events
In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (non-recognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for annual financial periods ended after June 15, 2009, with prospective application. The Bank adopted the guidance for the year ended December 31, 2009, by including the required disclosures in Note 1 to the financial statements.

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles
In June 2009, accounting standards were revised to establish the Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for annual periods ended after September 15, 2009, and as of the effective date, all existing accounting standard documents were superseded. Adoption of the Codification in 2009 did not have a material impact on the Bank’s financial statements.

Fair Value Measurements
In April 2009, accounting standards were amended to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability decreased significantly and also to provide guidance for determining whether a transaction is orderly. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank’s financial statements.

In February 2008, the FASB issued instructions that delayed the effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008. Adoption of the fair value measurement rules in 2009 for non-financial assets and non-financial liabilities subject to the delay did not have a material impact on Bank’s financial statements.

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

New Accounting Pronouncements, Continued

Other-Than-Temporary Impairment
In April 2009, accounting standards were amended to provide expanded guidance concerning the recognition and measurement of other-than-temporary impairments of debt securities classified as available-for-sale or held-to-maturity. The amendments require an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Expanded disclosures are also required concerning such impairments. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

NOTE 2 - FAIR VALUE DISCLOSURES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

The following provides a summary of the hierarchical levels, used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

NOTE 2 - FAIR VALUE DISCLOSURES, *continued*

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights (MSRs), asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Fair Value Measurements
The Company used the following methods and significant assumptions to estimate fair value:

- **Securities**
The fair value of securities available-for-sale are determined by obtaining quoted prices on nationally recognized exchanges or matrix pricing which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the security's relationship to other benchmark quoted securities.

- **Impaired Loans**
A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all nonaccrual loans for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as non-recurring Level 3. At December 31, 2009, substantially all of the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to Management.

NOTE 2 - FAIR VALUE DISCLOSURES, *continued*

The following tables provide a summary of the financial instruments the Company measures at fair value on a recurring basis as of December 31, 2009 and 2008:

December 31, 2009	Level 1	Level 2	Level 3	Assets at Fair Value
Securities available-for-sale	$ -	$ 18,592,000	$ -	$ 18,592,000
Municipal bonds	-	1,800,000	-	1,800,000
Mutual funds	2,165,000	-	-	2,165,000
Total Assets Measured on a Recurring Basis	$ 2,165,000	$ 20,392,000	$ -	$ 22,557,000

December 31, 2008	Level 1	Level 2	Level 3	Assets at Fair Value
Securities available-for-sale	$ -	$ 16,619,000	$ -	$ 16,619,000
Municipal bonds	-	1,711,000	-	1,711,000
Mutual funds	1,508,000	-	-	1,508,000
Total Assets Measured on a Recurring Basis	$ 1,508,000	$ 18,330,000	$ -	$ 19,838,000

The following tables provide a summary of the financial instruments the Company measures at fair value on a non-recurring basis as of December 31, 2009 and 2008:

December 31, 2009	Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
Impaired Loans	$ -	$ 15,835,000	$ -	$ 15,835,000

December 31, 2008	Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
Impaired Loans	$ -	$ 410,000	$ -	$ 410,000

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and fair values of investment securities available-for-sale in 2009 were:

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage and asset-backed securities	$ 18,233,000	$ 373,000	$ (14,000)	$ 18,592,000
Municipal bonds	1,751,000	49,000	-	1,800,000
Mutual funds	2,176,000	-	(11,000)	2,165,000
Total Available-for-Sale	$ 22,160,000	$ 422,000	$ (25,000)	$ 22,557,000

The amortized cost and fair values of investment securities available-for-sale in 2008 were:

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage and asset-backed securities	$ 16,405,000	$ 234,000	$ (19,000)	$ 16,620,000
Municipal bonds	1,753,000	-	(42,000)	1,711,000
Mutual funds	1,600,000	-	(93,000)	1,507,000
Total Available-for-Sale	$ 19,758,000	$ 234,000	$ (154,000)	$ 19,838,000

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2009, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The maturities are as follows:

December 31, 2009	Amortized Cost	Fair Value
Due in one year or less	$ 5,873,000	$ 5,955,000
Due after one year through five years	12,360,000	12,637,000
Due after ten years through fifteen years	1,751,000	1,799,000
Total	$ 19,984,000	$ 20,391,000

For the year ended December 31, 2009, net gain from sales of securities available-for-sale amounted to $56,000.

The Company has securities pledged of $12,002,000 and $11,245,000, respectively, to secure public deposits or for other purposes required or permitted by law at December 31, 2009 and 2008.

NOTE 3 - INVESTMENT SECURITIES, *continued*

At December 31, 2009 and 2008, the Bank had three and six securities, respectively, with unrealized gross losses. The table below shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009 and 2008:

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2009	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage and asset-backed securities	$ 1,917,000	$ (14,000)	$ -	$ -	$ 1,917,000	$ (14,000)
Mutual funds	790,000	(11,000)	-	-	790,000	(11,000)
Total	$ 2,707,000	$ (25,000)	$ -	$ -	$ 2,707,000	$ (25,000)

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2008	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage and asset-backed securities	$ 1,487,000	$ (18,000)	$ 325,000	$ (1,000)	$ 1,812,000	$ (19,000)
Municipal bonds	1,711,000	(42,000)	-	-	1,711,000	(42,000)
Mutual funds	-	-	1,507,000	(93,000)	1,507,000	(93,000)
Total	$ 3,198,000	$ (60,000)	$ 1,832,000	$ (94,000)	$ 5,030,000	$ (154,000)

NOTE 3 - INVESTMENT SECURITIES, *continued*

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

NOTE 4 - LOAN RECEIVABLES

The following is a summary of loan receivables:

	December 31,	
	2009	2008
Loans:		
Real estate	$ 114,618,000	$ 111,283,000
Commercial	42,279,000	53,934,000
Consumer	4,985,000	4,405,000
SBA Loans	12,463,000	8,502,000
Accounts Receivable loans	14,323,000	-
Leasing	6,192,000	9,018,000
Advanced Restaurant Finance (ARF)	7,533,000	5,615,000
Overdrafts	96,000	308,000
Gross loans	202,489,000	193,065,000
Less: Deferred loan fees, net of costs	(193,000)	(199,000)
Less: Allowance for loan losses	(6,547,000)	(2,634,000)
Net Loans	$ 195,749,000	$ 190,232,000

Loans are pledged as required for FHLB borrowings.

NOTE 5 - ALLOWANCE FOR POSSIBLE LOAN LOSSES AND RESERVES FOR UNFUNDED COMMITMENTS

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

	2009	
	Loans	Unfunded Commitments
Balance, as of the beginning of the year	$ 2,633,000	$ 75,000
Add: Provision for loan losses	5,375,000	7,000
Recovery	186,000	-
Less: Charge-offs	(1,647,000)	-
Balance, as of the end of the year	$ 6,547,000	$ 82,000

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

	2008	
	Loans	Unfunded Commitments
Balance, as of the beginning of the year	$ 2,090,000	$ 60,000
Add: Provision for loan losses	1,077,000	15,000
Recovery	17,000	-
Less: Charge-offs	(551,000)	-
Balance, as of the end of the year	$ 2,633,000	$ 75,000

At December 31, 2009 and 2008, the recorded investment in impaired loans of $11,252,000 and $244,000, respectively, had a related allowance for loan losses of approximately $3,579,000 and $244,000, respectively. At December 31, 2009 and 2008, the recorded investment in impaired loans of $4,583,000 and $166,000, had no related allowance for loan losses, respectively. The average balance of impaired loans amounted to approximately $417,000 and $394,000 for the years ended December 31, 2009 and 2008, respectively.

Non-accruing loans totaled approximately $7,664,000 and $298,000. Interest income that would have been recognized on nonaccrual loans if they had performed in accordance with the terms of the loans was $148,000 and $26,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

The following is a summary of the property and equipment:

	December 31,	
	2009	2008
Building improvements	$ 2,042,000	$ 2,042,000
Furniture and equipment	2,916,000	2,942,000
	4,958,000	4,984,000
Less: Accumulated depreciation and amortization	(3,150,000)	(2,515,000)
Total	$ 1,808,000	$ 2,469,000

NOTE 7 - CERTIFICATES OF DEPOSIT

Certificates of deposit at December 31, 2009, had scheduled maturities as follows:

Matures During	**Time Deposits** <$100,000	**Time Deposits** >$100,000
2010	$ 15,702,000	$ 60,675,000
2011	459,000	9,901,000
2012	556,000	1,928,000
2013	31,000	1,148,000
2014	246,000	7,105,000
Total	$ 16,994,000	$ 80,757,000

NOTE 8 - BORROWINGS

The Company has a line of credit available from the FHLB, which is secured by pledged loans. Borrowings may include overnight advances as well as loans with terms of up to 30 years. At December 31, 2009 and 2008, the Company had a fixed-rate borrowing of $29,000,000 and $32,000,000, respectively, maturing at various dates through 2012 with an average annual weighted rate of 1.71 and 1.97 percent, respectively.

The Company had $26,785,000 and $13,103,000 of unused borrowing capacity from FHLB at December 31, 2009 and 2008, respectively, based upon loans and securities available to be pledged.

The Company has an unsecured revolving line of credit with PCBB providing for federal fund purchases up to $7,500,000, and up to $5,000,000 with Union Bank of California. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2009 and 2008, the Company did not have an outstanding balance against these lines of credit.

NOTE 9 - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

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

On September 16, 2005, the Trust issued $6,000,000 fixed rate Capital Trust Pass-Through Securities (TRUPS) with a liquidation value of $1,000 per security for gross proceeds of $6,000,000. The entire proceeds of the issuance were invested by the Trust in $6,186,000 of junior subordinated deferrable interest debentures issued by the Company with identical maturity, repricing, and payment terms as the TRUPS. These junior subordinated deferrable interest debentures represent the sole assets of the Trust. The junior subordinated deferrable interest debentures issued by the Trust mature on December 15, 2035, and bear interest at 5.972 percent on March 15, June 15, September 15, and December 15 of each year. The interest is deferrable, at the Company's option, for a period of up to twenty consecutive quarterly periods, but in any event not beyond September 16, 2035. The debentures are redeemable, in whole or in part, at the Company's option on any March 15, June 15, September 15, and December 15, on or after December 15, 2010.

NOTE 10 – TROUBLED ASSETS RELIEF PROGRAM (TARP) CAPITAL PURCHASE PROGRAM

On December 23, 2009, the Company in connection with TARP, entered into a Purchase Agreement with the United States Department of the Treasury (the Treasury), pursuant to which the Company agreed to issue and sell 5,500 shares of the Bank's Preferred Stock as Fixed Rate Non-cumulative Perpetual Preferred Stock, (internally designated "Series A Preferred Stock") for an aggregate purchase price of $5,500,000 in cash. The redemption of Series A Preferred Stock will be $5,500,000.

The Series A Preferred Stock will qualify as Tier 1 capital and pay non-cumulative dividends at a rate of five percent (5%) per annum for the first five years, and nine percent (9%) per annum thereafter. Series A stock may be redeemed by the Bank after three years. Prior to the end of three years, Series A stock may be redeemed only with the proceeds from the sale of qualifying equity securities of the Bank. For as long as any Preferred Stock is outstanding and held by the Treasury, no dividends may be declared on common shares.

In the Purchase Agreement, the Bank agreed that, until such time as the Treasury ceases to own any debt or equity securities of the Bank acquired pursuant to the Purchase Agreement, the Bank will take all necessary actions to ensure that its benefit plans, with respect to its senior executive officers, comply with Section 111(b) of the Emergency Economic Stabilization Act of 2009 (the EESA). As implemented by any guidance or regulation under the EESA that has been issued and is in effect as of the date of the issuance of the Preferred Stock, and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing.

NOTE 11 - INCOME TAXES

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

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

	2009	2008
Current:		
Federal	$ 507,000	$ 361,000
State	146,000	133,000
	653,000	494,000
Deferred:		
Federal	(1,124,000)	(148,000)
State	(403,000)	(53,000)
	(1,527,000)	(201,000)
(Benefit) Provision for income taxes	$ (874,000)	$ 293,000

The following summarizes the differences between the provision for income taxes for financial statement purposes and the Federal statutory rate of 34 percent for the years ended December 31, 2009 and 2008.

	2009	2008
Federal tax rate	34.0	34.0
State taxes, net of Federal tax benefits	11.0	4.0
Other	12.0	(17.0)
Net Tax Rate	57.0	21.0

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

	2009	2008
Allowance for credit losses	$ 2,462,000	$ 1,001,000
Depreciation and amortization	238,000	55,000
Current State taxes	50,000	44,000
Certain prepaid assets	(88,000)	(98,000)
Unrealized loss on investment securities	(163,000)	(33,000)
Accruals for income and expense	-	(34,000)
Bank Enterprise Award (BEA)	(772,000)	(484,000)
Other, net	(55,000)	(176,000)
Net Deferred Tax Asset	$ 1,672,000	$ 275,000

NOTE 12 - REGULATORY CAPITAL

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

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

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

To be categorized as adequately capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. Management believes, as of December 31, 2009 and 2008, that the Company met all the capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the FDIC categorized the Company as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain a minimum total risk based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's category.

NOTE 12 - REGULATORY CAPITAL, *continued*

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

	Actual Capital		Amount of Capital Required: To Be Adequately Capitalized		Amount of Capital Required: To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital to risk-weighted assets						
Mission Valley Bancorp	$ 32,030,000	14.09%	$ 18,189,000	8.00%	$ 22,736,000	10.00%
Mission Valley Bank	$ 30,932,000	13.74%	$ 18,006,000	8.00%	$ 22,508,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	$ 29,141,000	12.82%	$ 9,094,000	4.00%	$ 13,642,000	6.00%
Mission Valley Bank	$ 28,071,000	12.47%	$ 9,003,000	4.00%	$ 13,505,000	6.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	$ 29,141,000	11.20%	$ 10,405,000	4.00%	$ 13,007,000	5.00%
Mission Valley Bank	$ 28,071,000	10.56%	$ 10,637,000	4.00%	$ 13,297,000	5.00%
As of December 31, 2008						
Total capital to risk-weighted assets						
Mission Valley Bancorp	$ 28,117,000	12.99%	$ 17,319,000	8.00%	$ 21,648,000	10.00%
Mission Valley Bank	$ 26,893,000	12.45%	$ 17,287,000	8.00%	$ 21,609,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	$ 25,416,000	11.74%	$ 8,659,000	4.00%	$ 12,989,000	6.00%
Mission Valley Bank	$ 24,192,000	11.20%	$ 8,644,000	4.00%	$ 12,965,600	6.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	$ 25,416,000	12.48%	$ 8,143,000	4.00%	$ 10,179,000	5.00%
Mission Valley Bank	$ 24,192,000	10.33%	$ 9,364,000	4.00%	$ 11,704,000	5.00%

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Company currently leases its administrative offices and the Sun Valley branch facility from a stockholder of the Company. The Company leases all of its facilities under non-cancelable operating leases expiring in 2009 through 2015. Rent expense for the years ended December 31, 2009 and 2008, was $498,000 and $451,000, respectively.

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

Year Ending	Amount
2010	$ 512,000
2011	512,000
2012	403,000
2013	392,000
2014	272,000
Thereafter	653,000
Total	$ 2,744,000

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

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

At December 31, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2009	2008
Unfunded commitments under revolving and non-revolving lines of credit	$ 28,554,000	$ 28,846,000
Unfunded commitments under letters of credit	$ 713,000	$ 490,000

NOTE 13 - 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.

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

NOTE 14 - RELATED PARTY TRANSACTIONS

The Company grants loans to and accepts deposits from directors, officers, and employees as well as to entities with which these individuals are associated. Management believes these transactions were made in the ordinary course of business under substantially the same terms and conditions, including interest rates and collateral requirements, as comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. Loan balances outstanding at December 31, 2009 and 2008, were approximately $998,000 and $1,979,000, respectively. During 2009 and 2008, new loans made to such related parties amounted to approximately $151,000 and $1,143,000, respectively; and payments amounted to approximately $1,127,000 and $641,000, respectively. Deposits from related parties held by the Company at December 31, 2009 and 2008, were $35,992,000 and $13,377,000, respectively.

NOTE 15 - STOCK OPTION PLAN

The Company has an Employee Stock Option Plan (hereinafter the Plan). The Plan provides for options to purchase 547,027 shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Company recognized stock-based compensation costs of $13,000 and $16,000 for the years ended December 31, 2009 and 2008, respectively. The Company also recognized income tax benefits related to stock based compensation of $3,000 for the years ended December 31, 2009 and 2008.

NOTE 15 - STOCK OPTION PLAN, *continued*

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

	2009	2008
Vesting period	5 years	5 years
Risk-free interest rate	3.58	3.58
Dividend yield rate	0%	0%
Price volatility	25.40%	25.40%
Weighted average expected life of options	5 years	5 years

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

A summary of the status of the Company’s stock option plan as of December 31, 2009, and changes during the year ending thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in Thousands)
Outstanding at Beginning of Year	367,490	$ 3.77	-	$ -
Exercised	(7,875)	3.81	-	-
Forfeited or Expired	(6,565)	11.00	-	-
Outstanding at End of Year	353,050	$ 3.63	3.0 Years	$ 353,000
Options Exercisable	314,804	$ 3.94	2.0 Years	$ 442,000

NOTE 15 - STOCK OPTION PLAN, *continued*

A summary of the status of the Company's stock option plan as of December 31, 2008, and changes during the year ending thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in Thousands)
Outstanding at Beginning of Year	388,245	$ 4.60	-	$ -
Granted	8,500	6.60	-	-
Exercised	(22,331)	3.56	-	-
Forfeited or Expired	(6,924)	4.00	-	-
Outstanding at End of Year	367,490	$ 3.77	5.0 Years	$ 586,000
Options Exercisable	323,855	$ 3.28	4.0 Years	$ 1,303,000

The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008, was $36,000 and $96,000, respectively. As of December 31, 2009 and 2008, there was $46,000 and $108,000, respectively, of total unrecognized compensation costs related to the outstanding stock options that will be recognized over a weighted average period of 3.0 years.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS, *continued*

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2009 and 2008:

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

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

Investment securities available-for-sale - Investment securities available-for-sale are reported at their fair values based on quoted market prices, pricing models, discounted cash flows or other similar techniques.

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

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

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

Deposits - The fair values of demand deposits, savings deposits, and money market accounts were the amounts payable on demand at December 31, 2009 and 2008. The fair value of time deposits was based on the discounted value of contractual cash flows. The discount rate was estimated utilizing the rates currently offered for deposits of similar remaining maturities.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS, *continued*

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 25,636,000	$ 25,636,000	$ 12,503,000	$ 12,503,000
Interest bearing deposits in other banks	6,074,000	6,085,000	4,379,000	4,390,000
Common stock, substantially restricted	2,288,000	2,288,000	2,288,000	2,288,000
Investment securities, available-for-sale	22,557,000	22,557,000	19,838,000	19,838,000
Loans, net	195,749,000	196,643,000	190,232,000	193,218,000
Accrued interest receivable	872,000	872,000	963,000	963,000
Liabilities				
Deposits	$ 204,719,000	$ 204,719,000	$ 179,977,000	$ 175,376,000
Borrowings	29,000,000	29,146,000	32,000,000	32,255,000
Accrued interest payable	193,000	193,000	227,000	227,000
Subordinated debentures	6,186,000	6,186,000	6,186,000	6,186,000

	2009		2008	
	Notional Amount	Cost to Cede	Notional Amount	Cost to Cede
Off-balance Sheet Instruments:				
Commitment to extend credit and standby letter of credit	$ 29,267,000	$ 292,670	$ 29,336,000	$ 293,360

NOTE 17 - PARENT COMPANY INFORMATION

The following financial information presents the condensed balance sheet of the Company on a parent-only basis as of December 31, 2009 and 2008, and the related statements of income and cash flows for the years then ended.

	2009	2008
ASSETS		
Cash and due from banks	$ 171,000	$ 220,000
Federal funds sold	895,000	1,005,000
Cash and cash equivalents	1,066,000	1,225,000
Investment in bank	28,304,000	24,293,000
Accrued interest receivable and other assets	235,000	206,000
Total Assets	$ 29,605,000	$ 25,724,000
LIABILITIES		
Junior subordinated deferrable interest debentures	$ 6,186,000	$ 6,186,000
Accrued interest payable and other liabilities	45,000	21,000
Total Liabilities	6,231,000	6,207,000
STOCKHOLDERS' EQUITY		
Preferred stock	$ 10,080,000	$ 5,500,000
Common stock	9,572,000	9,542,000
Retained earnings	3,442,000	4,394,000
Additional paid in capital	47,000	34,000
Accumulated other comprehensive loss	233,000	47,000
Total Stockholders' Equity	23,374,000	19,517,000
Total Liabilities and Stockholders' Equity	$ 29,605,000	$ 25,724,000
STATEMENTS OF OPERACTIONS/INCOME		
Interest Income	$ 15,000	$ 26,000
Interest Expense	369,000	369,000
Net Intrest Loss	(354,000)	(343,000)
NON-INTEREST INCOME (LOSS)		
Income (loss) from subsidiary	(142,000)	1,533,000
Total Noninterest Income (Loss)	(142,000)	1,533,000
NON-INTEREST EXPENSE		
Salaries and employee benefits	62,000	61,000
Occupancy	4,000	4,000
Furniture and equipment	3,000	3,000
Legal, professional, and consulting	64,000	41,000
Share based compensation	13,000	16,000
Other operating	25,000	4,000
Total Noninterest Expense	171,000	129,000
Net Income (Loss)	**$ (667,000)**	**$ 1,061,000**

NOTE 17 - PARENT COMPANY INFORMATION, *Continued*

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (667,000)	$ 1,061,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share-based compensation	13,000	16,000
Other	10,000	(1,000)
Net Cash Flows (Used in) Provided by Operating Activities	(644,000)	1,076,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash infusion to subsidiary	(4,580,000)	(5,000,000)
Decrease (increase) in investment in subsidiary	142,000	(1,533,000)
Net Cash Flows Used by Investing Activities	(4,438,000)	(6,533,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock	4,580,000	5,500,000
Dividends paid on trust preferred securities	343,000	358,000
Net Cash Flows Provided by Financing Activities	4,923,000	5,858,000
Net (Decrease) Increase in Cash and Cash Equivalents	(159,000)	401,000
Cash and Cash Equivalents, Beginning of Year	1,225,000	824,000
Cash and Cash Equivalents, End of Year	$ 1,066,000	$ 1,225,000
Proceeds from the exercise of stock options	$ 30,000	$ 91,000
Dividends paid on preferred stock	$ (285,000)	$ (5,000)

Independent Auditors' Report

DECEMBER 31, 2009 AND 2008

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

We have audited the accompanying consolidated balance sheets of Mission Valley Bancorp and Subsidiary (the Company), as of December 31, 2009 and 2008, and the related consolidated statements of operations/income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Valley Bancorp and Subsidiary, as of December 31, 2009 and 2008, and the results of its operations, changes in its stockholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
February 23, 2010

Investor Information

Common Stock:

Effective September 1, 2005, Mission Valley Bancorp's stock began trading on the Bulletin Board in the over-the-counter market with our new symbol "MVLY." As of December 31, 2009 there were approximately 250 shareholders of record and 2,503,633 shares of common stock issued and outstanding.

Stock Information:

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

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

Hoefer & Arnett
John Cavender
(415) 538-5725
FAX (415) 398-4875

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

Computershare
350 Indiana Street, Suite 350
Golden, CO 80401

Management & Officers

Executive Officers:

Tamara G. Gurney
President & CEO

Marianne L. Cederlind
Senior Vice President

Jim Hackbarth
Senior Vice President
Chief Credit Officer

Linda Rousseau
Senior Vice President

Sun Valley Office:

Jahun Smith
Vice President / Branch Manager

Janet Carnes
Vice President / Relationship Manager

Carol Dignard
Vice President / Assistant Branch Manager

Lola Forbis
Vice President / Relationship Manager

Soledad Gamez
Vice President / Operations Manager

Santa Clarita Valley Region:

Marti Heinbaugh
Vice President / Regional Manager

Jeff Bennett
Vice President / Operations Manager

Art Lugo
Vice President / Relationship Manager

Administrative Officers:

Vanessa Acosta
Vice President / Cash Management Manager

Cindy Albers
Vice President / Compliance Manager

Diane Auten
Senior Vice President / Chief Financial Officer

Elia Blankenship
Vice President / Service Manager

Cynthia Brown
Vice President / Loan Operations

Carrie Burrell
Vice President / Marketing Manager

Raul Carrion
Vice President / Information Technology Manager

Diana Cervantes
Vice President / Training Officer

Carlos Jones
Vice President / Underwriter

Sandra Kay
Vice President / Loan Servicing Manager

Sandy Konish
Vice President / Operations Administration

Andrew Kim
Vice President / Credit Administrator

Frankie Powell
Senior Vice President / Human Resources Manager

Linda Rodriguez
Vice President / Senior Underwriter

Specialized Lending Division:

Vladimir Victorio
Senior Vice President / Manager

Janet Shinkle
Vice President / Accounts Receivable Manager

"Your Success is Our Mission"

At Mission Valley Bank, we've developed a comprehensive selection of convenient and dependable financial products, tools, and services designed to meet the banking needs of each of our clients.

Complete Business & Personal Banking Services, including…

- Business & Personal Checking
- Business & Personal Savings
- Commercial Real Estate Acquisition
- SBA Financing
- Business Financing
- Personal Financing
- Lines of Credit
- Accounts Receivable Lending
- Equipment Financing
- Apartment Financing
- Remote Deposit
- Home Equity Loans
- Letters of Credit
- Cash Management Solutions
- Merchant BankCard Service
- Payroll Services
- Online Banking
- Retirement Products
- Credit – Debit & ATM Cards
- Overdraft Protection
- Online Bill Payment
- Time Deposits
- Notary Services
- International Services
- Courier Services
- Safe Deposit Services

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