MISSION
VALLEY
BANCORP

2007 Annual **Report**

Table of Contents

1
Corporate Profile / Financial Highlights

2
Message to Shareholders

4
Bancorp Directors

6
Financial Statements

10
Notes to Financial Statements

33
Independent Auditors' Report

34
Management & Officers

35
Investor Information

Who

Mission Valley Bank first opened its doors in 2001.

It was the shared vision of our investors and senior management team to create a strong business bank that was **more about the client – and less about the bank.** Our Board, Management Team and Staff share an unparalleled dedication to providing outstanding financial services and products delivered by creative bankers who truly love what they do.

We appreciate the importance of our role in the financial success of the businesses and individuals we assist. We understand that to truly impact our clients' success we must do so on a personal level, as a financial partner, invested in the individual success of both our clients and our communities. We believe that by focusing on true "Relationship Banking" we will earn the role as our client's financial partner thus aiding in the growth and success of our client, our bank and our community.

Mission Valley Bank (MVB) continues to be recognized for its growth and performance. In 2007, MVB was honored by the prestigious Findley Reports as a Premier Performing Bank (our fourth consecutive year). Additionally, Bauer Financial Inc., continues to rate Mission Valley Bank as a

We Are

Financial Highlights

Four Star Bank – Bauer's "Excellent Ranking," placing us on Bauer's "Recommended Bank & Thrift Report" and indicating that we are among the safest financial institutions in the country.

Our logo states "Your Success Is Our Mission." We see this as much more than a "marketing slogan." We see it as a promise – a promise to actively seek new and better ways to serve the financial needs of every client, every day. It is a promise to deliver personal service that exceeds expectations at every turn. And, as Relationship Bankers, we see it is a promise to sustain our dedication to excellence as MVB continues to grow in size and services.

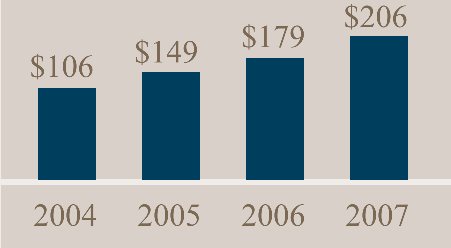
Mission Valley Bank provides a complete (and broad) range of financial products and services. However, what sets us apart from other banks is truly the service that the Bank provides to our clients. We provide quick, local decisions, and financial solutions tailored to meet specific, individual needs. The Bank prides itself on this extraordinary service and commitment to the communities we serve.

The Bank's business model has proven to be a successful one and as of December 31, 2007 we have grown to more than $205 million in total assets.

Today, the Bank has 60 employees and as a community bank, the staff devotes many hours to organizations focused on improving the greater San Fernando and Santa Clarita Valleys. This strong commitment by the Bank's employees allows the Bank to understand the constant changes taking place within the communities served. We strive to provide services and programs aimed at meeting those varied and unique needs.

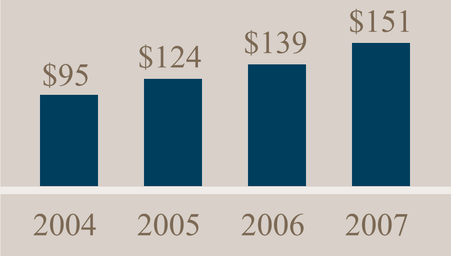
Furthermore, the Bank's clients know that local deposits are channeled back into their community through loans to local businesses, serving to promote jobs and improve the economic viability of our marketplace.

Total Assets
(IN MILLIONS)

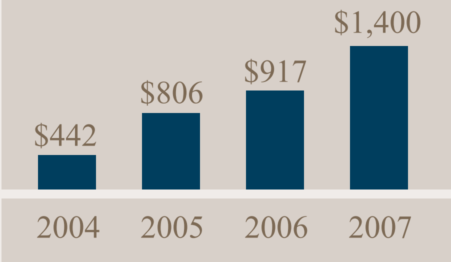


Net Loans
(IN MILLIONS)

Total Deposits
(IN MILLIONS)



Net Income
(IN THOUSANDS)



Message to Shareholders

Our clients and shareholders know Mission Valley Bank is a full service, community based, business bank dedicated to true "Relationship Banking."

By most accounts, 2007 was a difficult year for the financial services industry, and 2008 promises to bring with it even greater challenges. Signs of the impending sub-prime meltdown began to show as early as the first quarter of 2007. This came as the economy was reeling from a weakening dollar, rising oil prices, and deterioration in the housing markets. As a result, from September of 2007 through January of 2008, the Federal Reserve Bank has dropped the Federal Funds rate by 225 basis points. In spite of this action, short-term interest rates have remained arbitrarily high due to illiquidity in the financial markets, which has resulted in margin compression throughout the banking industry. Pressure on earnings, coupled with signs of the growing sub-prime crisis, has led to precipitous declines in the value of bank stocks across the board.

In spite of the extreme volatility in the economy and the financial services industry, Mission Valley Bancorp has continued on a path of steady, controlled growth. The company's subsidiary, Mission Valley Bank, grew loans by $27 million (or 19%) to $166 million during 2007. The Bank's deposits increased by $12 million (or 9%), ending the year at $151 million.

As a result, the Company's Total Assets reached $206 million at year end 2007, up $27 million (15%) from the previous year. As loan demand continued to outpace deposit growth, the Bank had to fund off balance sheet using Federal Home Loan Bank advances, which increased (funding) costs. In spite of the increased cost to fund loans, the Company's net income after taxes was up 49% from $917,334 at year end 2006 to $1,365,789 at December 31, 2007.

We are proud of our accomplishments during such challenging times, particularly in light of the considerable expense the Bank undertook last year in building its infrastructure to continue to grow our franchise and build for the future. In the summer of 2007, the Bank's back office departments were relocated to a new facility in order to provide the space needed to handle planned future growth and to expand our Specialized Lending Division.

During the fourth quarter of 2007, our third branch office opened for business, located in the Centre Pointe area of the Santa Clarita Valley. This new branch is well positioned to handle the growing business base in this emerging commercial district. Over this same time period, we were also in the process of upgrading our entire technology infrastructure, including local and wide area networks, servers, computers, software applications, telecommunications, and security systems.

As technology is fast becoming the primary delivery channel for products and services, the Board of Directors and management of the Bank had determined it prudent to invest in new technology systems prior to entering 2007. Along with the investments made to enhance our technology platforms, the Company also committed to investing in its people through rigorous and ongoing training programs.

We place a high level of importance on our ability to attract and retain high-quality people who can develop customized financial solutions to meet our clients' needs, and who truly enjoy cultivating those relationships for the long term. As a result of these decisions, non-interest expense for the Company was up significantly for the year. However, we strongly believe that these actions will pay dividends in the future by allowing our Bank to grow efficiently and take advantage of opportunities in the future, regardless of economic conditions.

As we continue to focus on enhancing our service, our products, and our delivery systems, Mission Valley Bank achieved another milestone during 2007. The Bank was awarded "Preferred Lender" status by the U.S. Small Business Administration. This honor recognizes the skills of our Specialized Lending Division and allows us much greater flexibility in the various forms of financing we are able to provide to our growing client base.

Through this designation, as well as our certification as a Community Development Financial Institution (CDFI), Mission Valley Bank reaches out to underserved markets and communities, providing financing through all phases of the business cycle to businesses that might not otherwise qualify through traditional channels. Notwithstanding this commitment, the Bank's loan portfolio remains sound with only minimal signs of deterioration as a result of the current economic climate.

Financial stocks have been on the decline over the past year and the fallout from the sub-prime crisis has continued to negatively impact stock values. Community bank stocks have also been affected, in spite of the fact that most community banks like Mission Valley Bank have no direct exposure to the sub-prime issue. Mission Valley Bancorp's stock (MVLY) has seen a decline in value over the past few months as well. In spite of this decline, the current trading range is relatively strong as compared to book value and we believe still presents a good value. It is also important to note that the Company has declared four stock splits over the past five years (25%, 50%, 20% and 25%). As a result, the Company's stock price was adjusted accordingly for each split.

You will see from our financial results that Mission Valley Bancorp's performance for 2007 was strong, particularly as compared to the industry as a whole. Considering the significant financial investment made during the year to build our infrastructure for the future, our results are even more impressive.

Looking forward we see continued, controlled growth for our organization. Our business plan for 2008 is focused on growing our commercial client base and continuing to leverage the significant investments made in our people, our technology, and our delivery channels. We remain committed to true relationship banking—establishing financial partnerships with our clients by providing them with unparalleled service and creative solutions to their unique financial needs.

On behalf of everyone at Mission Valley Bancorp and Mission Valley Bank, please accept 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

Directors

From left to right, Mark Lefever, James Bagge, John Richardson, Earle S. Wasserman, Darlynn Campbell Morgan, Tamara G. Gurney, Marc J. Foulkrod, Jerold B. Neuman

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 – Allen, Matkins, Leck, Gamble & Mallory, LLC

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

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

Mark Lefever
Director – Mission Valley Bancorp
President – Avjet Corporation

The Patrick Visciglia Spirit Award

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

The 2007 recipient of the Patrick Visciglia Spirit Award is Carrie Burrell, Vice President and Marketing Manager. Mrs. Burrell was honored with this award in a vote cast by the entire staff of Mission Valley Bank.

Congratulations Carrie!

MISSION VALLEY BANCORP

Annual Report

Financial Statements

Consolidted Balance Sheet

DECEMBER 31, 2007 AND 2006

AS OF DECEMBER 31, 2007 AND 2006	2007	2006
ASSETS		
Cash and due from banks	$11,286,426	$8,486,542
Federal funds sold	755,000	755,000
Cash and cash equivalents	$12,041,426	$9,241,542
Interest-bearing deposits with banks	3,876,000	6,122,570
Securities available-for-sale	11,242,733	14,546,146
Common stock, substantially restricted	2,178,800	1,509,100
Loans, net	166,401,440	139,485,204
Premises and equipment, net	2,983,676	1,457,324
Deferred tax asset	148,074	428,755
Cash surrender value life insurance	4,805,721	4,616,473
Income tax receivable	302,855	-
Accrued interest receivable	929,793	764,830
Other assets	792,616	584,380
Total Assets	**$ 205,703,134**	**$178,756,324**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$54,761,929	$47,153,930
Interest-bearing demand	18,550,686	22,130,727
Savings	4,922,377	6,997,011
Time, under $100,000	20,888,014	8,232,132
Time, $100,000 and over	51,694,511	54,136,696
Total Deposits	**$150,817,517**	**$138,650,496**
Borrowings	35,065,000	21,890,000
Junior subordinated deferred interest debentures	6,186,000	6,186,000
Income taxes payable	-	79,010
Accrued interest payable and other liabilities	857,849	688,903
Total Liabilities	**$192,926,366**	**$167,494,409**
Commitments and contingencies (Note 11)	-	-
Stockholders' Equity		
Common stock - 10,000,000 shares authorized; no par value; 2,473,427 and 1,973,177 shares outstanding in 2007 and 2006, respectively.	$9,451,519	$9,426,519
Additional paid in capital	18,537	6,866
Retained earnings	3,365,232	1,999,443
Accumulated other comprehensive loss	(58,520)	(170,913)
Total Stockholders' Equity	**$12,776,768**	**$11,261,915**
Total Liabilities and Stockholders' Equity	**$205,703,134**	**$178,756,324**

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

Consolidated Statements of Income

DECEMBER 31, 2007 AND 2006

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006	2007	2006
Interest Income		
Interest and fees on loans	$12,268,212	$8,900,234
Interest on Federal funds sold	119,300	193,657
Interest on securities	800,161	950,397
Total Interest Income	**$13,187,673**	**$10,044,288**
Interest Expense		
Deposits	3,525,874	2,542,942
Federal funds purchased	45,348	11,410
Other borrowed funds	1,730,310	897,662
Total Interest Expense	5,301,532	3,452,014
Net interest income	7,886,141	6,592,274
Provision for Loan Losses	533,366	551,300
Net Interest Income After Provision for Loan Losses	**$7,352,775**	**$6,040,974**
Noninterest Income		
Service charges and other income	1,808,999	1,708,108
Interest earned on life insurance	189,248	167,094
Merchant discount income	419,610	333,527
Other income	637,572	225,014
Total Noninterest Income	**$3,055,429**	**$2,433,743**
Noninterest Expense		
Salaries and employee benefits	4,407,644	3,502,813
Occupancy	383,415	314,009
Furniture and equipment	859,213	636,198
Data processing	591,862	562,275
Advertising	305,872	223,561
Legal, professional, and consulting	467,717	425,485
Office supplies	115,132	76,568
Merchant discount expense	352,861	276,426
Bank security expense	133,982	109,186
Other operating expenses	717,502	789,472
Share-based compensation expense	11,671	6,866
Total Noninterest Expense	**$8,346,871**	**$6,922,859**
Income From Operations	$2,061,333	$1,551,858
Provision for Income Taxes	695,544	634,524
Net Income	1,365,789	917,334
NET INCOME PER SHARE - BASIC	0.60	0.49
NET INCOME PER SHARE - DILUTED	0.54	0.44

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

Consolidated Statements of Changes in Stockholders' Equity

DECEMBER 31, 2007 AND 2006

	Number Shares Outstanding	Amount	Comprehensive Income	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Gain	Total Stockholders Equity
Balance, January 1, 2006	$1,633,912	$9,364,519	$1,069,411	-	$1,082,109	$(226,418)	$10,220,210
Shares issued as a result of a 6:5 stock split	$327,355	-	-	-	-	-	-
Proceeds from the exercise of stock options	$11,910	$62,000	-	-	-	-	$62,000
Net income	-	-	$917,334	-	$917,334	-	$917,334
Share-based compensation	-	-	-	$6,866	-	-	$6,866
Unrealized gains on investment securities, net of taxes $28,772	-	-	$69,949	-	-	$69,949	$69,949
Realized Losses on Sale of Investment Securities, net of taxes $10,120	-	-	$(14,444)	-	-	$(14,444)	$(14,444)
Total Comprehensive Income			$2,042,250				
Balance, December 31, 2006	$1,973,177	$9,426,519		$6,866	$1,999,443	$(170,913)	$11,261,915
Shares issued as a result of a 5:4 stock split	$494,625	-	-	-	-	-	-
Proceeds from the exercise of stock options	$5,625	$25,000	-	-	-	-	$25,000
Net income	-	-	$1,365,789	-	$1,365,789	-	$1,365,789
Share-based compensation	-	-	-	$11,671	-	-	$11,671
Realized loss on sale available-for-sale securities, net of taxes of $78,310	-	-	$112,393	-	-	$112,393	$112,393
Total Comprehensive Income			$3,520,432				
Balance, December 31, 2007	**$2,473,427**	**$9,451,519**		**$18,537**	**$3,365,232**	**$(58,520)**	**$12,776,768**

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

Consolidated Statements of Cash Flow

DECEMBER 31, 2007 AND 2006

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Cash Flows from Operating Activities	2007	2006
Net income	**$1,365,789**	**$917,334**
Adjustments to reconcile net income to net cash		
provided by operating activities:	533,364	551,300
Provision for loan losses	466,080	409,935
Depreciation and amortization	11,671	6,866
Share-based compensation	(461)	17,019
Net accretion of discount and amortization of premium Gain realized	11,374	24,564
on the sale of securities	547	-
Loss on disposal of premises and equipment	(39,700)	
Federal Home Loan Bank stock dividends	(189,248)	(1,957,233)
Increase in cash surrender value life insurance, net of mortality costs	(474,124)	(840,110)
Increase in accrued interest receivable and other assets	168,944	256,866
Increase in accrued interest payable and other liabilities	(79,010)	-
Decrease in taxes payable		
Net Cash Flows Provided (Used) by Operating Activities	$1 ,775,228	**$(613,459)**
Cash Flows from Investing Activities		
Purchase of premises and equipment	(1,992,979)	(336,592)
Change in interest-bearing deposits with banks, net	2,246,570	966,059
Proceeds from sales, repayments and maturities of securities available-for-sale	3,483,644	4,070,690
Recoveries of previously charged off loans	(71,247)	(10,898)
Purchase of common stock, substantially restricted	(630,000)	(600,800)
Net increase in loans	(27,378,353)	(37,756,297)
Net Cash Flows Used by Investing Activities	**$(24,342,365)**	**$(33,667,838)**
Cash Flows from Financing Activities		
Net increase in deposits	12,167,021	15,025,678
Increase in borrowings, net of repayments	13,175,000	13,890,000
Proceeds from the exercise of stock options	25,000	62,000
Net Cash Flows Provided by Financing Activities	**$25,367,021**	**$28,977,678**
Net Increase (Decrease) in Cash and Cash Equivalents	2,799,884	(5,303,619)
Cash and Cash Equivalents, Beginning of Year	9,241,542	14,545,161
Cash and Cash Equivalents, End of Year	**$12,041,426**	**$9,241,542**
Supplemental Disclosures of Cash Flow Information Interest payments	5,183,010	4,689,097
Income taxes paid	**$774,554**	**$1,001,035**

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

Notes to Financial Statements

DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Nature of Banking Activities

Mission Valley Bancorp is a bank holding company, which provides a full range of banking services to individual and corporate customers through its principal subsidiary, Mission Valley Bank. The Bank has two branches, one branch located in Sun Valley, California, and one in Valencia, California, which opened in 2004. The Company has been authorized by the Federal Reserve Bank of San Francisco to engage in lending activities separate from the Bank but to date has not done so. As a State chartered bank, the Bank is subject to regulation by the California Department of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC").

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 2007. 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. Pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46R (FIN 46R), "Consolidation of Variable Interest Entities," issued December 2003, the activities of the Mission Valley Statutory Trust I were deconsolidated at December 31, 2005. As a result, the consolidated balance sheet includes $6,186,000 of long-term borrowings, reported as junior subordinated deferrable interest debentures. Also included in other assets on the consolidated balance sheet is $186,000 investment in Mission Valley Statutory Trust 1. The overall effect on the Company's financial position and operating results of the deconsolidation is not material.

Use of Estimates in Preparation of Financial Statements

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

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

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, 2007, there was no concentration of customer deposits.

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

Cash and Cash Equivalents

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

Certificates of Deposits

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

Securities

The Bank is required to specifically identify its securities as "held-to-maturity," "available-for-sale," or "trading." The Bank did not invest in securities that were classified as trading or held-to-maturity during the years ended December 31, 2007 and 2006.

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

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

Federal Home Loan Bank (FHLB) and Pacific Coast Bankers' Bank Stock

The Bank, as a member of the Federal Home Loan Bank 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, 2007 and 2006 and are included in common stock, substantially restricted on the balance sheet.

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

Loans

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

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

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

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

Allowance for Loan Losses

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

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

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

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 $305,872 and $223,561 for the years ended December 31, 2007 and 2006, 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

The Bank adopted SFAS No. 123(R) on January 1, 2006 using the "modified prospective method." Under this method compensation expense is recognized using the fair-value method for all stock option awards since 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 of SFAS No. 123. The fair value of each grant is estimated using the Black-Scholes option pricing model. During 2007, the Bank recognized pre-tax stock-based compensation expense of $11,671, as a result of adopting SFAS No. 123(R).

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

Share-Based Compensation, ***continued***

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

Had compensation cost for the Bank's 2001 through 2004 stock option plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS No. 123(R) and SFAS No. 123 for 2007 and 2006, respectively, the Bank's net income and income per share for 2007 and 2006 would have changed to the pro forma amounts indicated below:

Net Income:	2007	2006
As Reported	**$1,365,789**	**$917,334**
Stock-based compensation that would have been reported using the Fair Value Method of SFAS 123	(39,406)	(43,528)
Pro Forma	**$1,326,383**	**$873,806**

Per Share:	2007	2006
Net Income - Basic		
As Reported	$0.60	$0.49
Pro Forma	0.59	0.41
Net Income - Diluted		
As Reported	0.54	0.44
Pro Forma	0.52	0.36

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in stockholders' equity from non-owner sources, such as gains and losses on available-for-sale securities, are reported with net income as comprehensive income and shown as a separate component of the equity section of the balance sheet. For the years ended December 31, 2007 and 2006, holding gains (losses) on available-for-sale securities were the only items of comprehensive income (loss) other than net income for the respective period.

New Accounting Pronouncements

Statements of Financial Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which clarifies the accounting and disclosure for uncertainty in tax positions as defined. FIN No. 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We adopted FIN No. 48 effective January 1, 2007, and have determined that as of December 31, 2007 all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

In February 2006, the FASB issued Statement of Accounting Standards (SFAS) No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," by allowing fair value re-measurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacement of FASB Statement No. 125," by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. We adopted this statement effective January 1, 2007. It has not had, nor is it expected to have, a material impact on the Company's financial condition, results of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. We adopted this statement effective January 1, 2007. It has not had, nor is it expected to have, a material impact on the Company's financial condition, results of operations or cash flows.

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

New Accounting Pronouncements, ***continued***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157). SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provide a single definition of fair value, together with a framework for measuring it, and require additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Other than our investments which are currently classified as available-for-sale and are thus reported at fair value in accordance with SFAS No. 115, we do not anticipate that fair value accounting will be applied to any balance sheet item upon adoption of SFAS No. 159 and SFAS No. 157 on January 1, 2008, in which case there would be no impact on our financial condition, results of operations or cash flows.

In September 2006, the SFASB issued SSFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, No. 88, No. 106, and No. 132R) (SFAS No. 158), requires an employer to: (a) Recognize in its statement of financial position an asset for a plan's over funded status or a liability for a plan's under funded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization. The requirement by SFAS No. 158 to recognize the funded status of a benefit plan and the disclosure requirements of SFAS No. 158 are effective as of the end of the fiscal year ending after December 15, 2006 for entities with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not expect the adoption of SFAS No. 158 to have a material effect on the financial position of the Company.

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

New Accounting Pronouncements, ***continued***

In February 2007, the SFASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits the measurement of many financial instruments and certain other balance sheet items at fair value, in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Upon adoption, balance sheet items designated for fair value accounting are marked to market through equity, and the fair value option may also be selectively applied to items acquired after the adoption date. Unrealized gains and losses on all items so designated are reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), and is applied only to entire instruments and not to portions thereof. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Other than our investments which are currently classified as available-for-sale and are thus reported at fair value in accordance with SFAS No. 115, we do not anticipate that fair value accounting will be applied to any balance sheet item upon adoption of SFAS No. 159 and SFAS No. 157 on January 1, 2008, in which case there would be no impact on our financial condition, results of operations or cash flows.

Emerging Issues Task Force Issues (EITF)

In September 2006, the EITF reached a final consensus on the subject titled Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Arrangements." EITF No. 06-4 requires the recognition of a liability and related compensation expense for the endorsement split dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Pursuant to the final consensus, if an employer has promised to pay a death benefit directly from the company to a participant (or designated beneficiary), then a liability for the present value of the death benefit must be accrued over the participant's required service period. However, if the employer has agreed to maintain a split-dollar arrangement and share some portion of the death benefits of the underlying insurance policy, then the postretirement cost of insurance, rather than the death benefit, should be accrued. Since most of the Company's agreements involving postretirement death benefits are split-dollar arrangements associated with an underlying insurance policy, we anticipate that our accrual requirement will, for the most part, be limited to the postretirement cost of insurance. The new guidance will be effective for fiscal years beginning after December 15, 2007. Transition to the new guidance requires a cumulative-effect adjustment to retained earnings at the beginning of the year of implementation, to reflect the change in accounting principle. The Company does not expect the adoption of EITF No. 06-4 to have a material effect on the financial position of the Company.

EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements." EITF No. 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF No. 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." The Bank expects to adopt EITF No. 06-4 effective as of January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings. The amount of the adjustment is not expected to be significant.

Notes to Financial Statements

DECEMBER 31, 2007 AND 2006

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair values of investment securities held to maturity at December 31, 2007 and 2006 were:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage and asset-backed securities	$5,630,300	$254	$(41,068)	$5,589,486
U.S. Government Agencies	3,111,357	-	(5,535)	3,105,822
Corporate bonds	1,000,599	-	(4,449)	996,150
Mutual funds	1,600,000	-	(48,725)	1,551,275
Total Available-For-Sale	**$11,342,256**	**$254**	**$(99,777)**	**$11,242,733**

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

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2007, 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, 2007	Amortized Cost	Fair Value
Due in one year or less	$4,062,852	$4,052,605
Due after one year through five years	1,405,814	1,395,895
Due after five years through ten years	1,951,944	1,944,762
Due after fifteen years	2,321,646	2,298,196
No stated maturity	1,600,000	1,551,275
Total	**$11,342,256**	**$11,242,733**

For the year ended December 31, 2007, proceeds from sales of securities available-for-sale amounted to $11,374.

The Company has securities pledged to secure public deposits or for other purposes required or permitted by law at December 31, 2007 and 2006.

NOTE 2 - INVESTMENT SECURITIES, *continued*

Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
2007						
Mortgage and asset-backed securities	-	-	$4,585,046	$(41,068)	$4,585,046	$(41,068)
U.S. Government Agencies	-	-	3,105,822	(5,535)	3,105,822	(5,535)
Corporate bonds	-	-	996,150	(4,449)	996,150	(4,449)
Mutual funds	-	-	1,551,275	(48,725)	1,551,275	(48,725)
Total	**-**	**-**	**$10,238,293**	**$(99,777)**	**$10,238,293**	**$(99,777)**
2006						
Mortgage and asset-backed securities	$1,280,220	$(14,517)	$6,707,887	$(130,649)	$7,988,107	$(145,166)
U.S. Government Agencies	997,500	(2,382)	3,036,118	(65,434)	4,033,618	(67,816)
Corporate bonds	-	-	978,640	(23,466)	978,640	(23,466)
Mutual Funds	-	-	1,545,781	(54,219)	1,545,781	(54,219)
Total	**$2,277,720**	**$(16,899)**	**$12,268,426**	**$(273,768)**	**$14,546,146**	**$(290,667)**

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

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

Notes to Financial Statements

DECEMBER 31, 2007 AND 2006

NOTE 3 - LOAN RECEIVABLES

The following is a summary of loan receivables:

December 31,	2007	2006
Loans:		
Real estate	$90,080,721	$78,980,503
Commercial	53,905,257	45,203,679
Consumer	2,182,090	1,723,588
SBA Loans	4,524,852	1,947,067
Leasing	10,965,639	11,415,727
Advanced Restaurant Finance (ARF)	3,642,858	1,779,052
Overdrafts	3,446,731	592,688
Gross loans	168,748,148	141,642,304
Less: Deferred loan fees, net of costs	(256,405)	(387,364)
Less: Allowance for loan losses	(2,090,303)	(1,769,736)
Net Loans	**$166,401,440**	**$139,485,204**

NOTE 4 - ALLOWANCE FOR POSSIBLE LOAN LOSSES

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

2007	Loans	Unfunded Commitments
Balance, as of the beginning of the year	$ 1,769,736	$55,630
Add: Provision for loan losses	533,366	4 ,350
Transfers	-	-
Recovery	71,247	-
Less: Charge-offs	(284,046)	-
Balance, as of the end of the year	**$2,090,303**	**$59,980**

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

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

At December 31, 2007 and 2006, the Bank had loans specifically classified as impaired amounting to approximately $298,767 and $78,999, respectively, all of which are on a nonaccrual basis. The average balance of impaired loans amounted to approximately $277,615 and $80,000 for the years ended December 31, 2007 and 2006, respectively. There was no allowance for loan losses related to impaired loans at December 31, 2007 and 2006, respectively.

Interest income that would have been recognized on nonaccrual loans if they had performed in accordance with the terms of the loans was $13,813 and $5,565 for the years ended December 31, 2007 and 2006, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of the property and equipment:

	2007	2006
Building improvements	$2,034,653	$978,339
Furniture and equipment	2,741,888	1,778,264
Construction in progress	22,824	69,398
	$4,799,365	**$2,826,001**
Less: Accumulated depreciation and amortization	(1,815,689)	(1,368,677)
Total	**$2,983,676**	**$1,457,324**

NOTE 6 - CERTIFICATES OF DEPOSIT

Certificates of deposit at December 31, 2007, had scheduled maturities as follows:

	Time Deposits	Time Deposits
Matures During	<$100,000	>$100,000
2008	$19,922,059	$44,123,366
2009	446,893	600,456
2010	378,922	5,901,096
2011	29,053	1,069,593
2012	111,087	
	$20,888,014	**$51,694,511**

NOTE 7 - BORROWINGS

The Company has a line of credit available from the FHLB, which is secured by pledged loans. Borrowings may include overnight advances as well as loans with terms of up to 30 years. At December 31, 2007, the Company's had a fixed-rate borrowing of $34,300,000 maturing at various dates through 2009 with an average annual rate of 4.53 percent.

The Company had $13,670,296 of unused borrowing capacity from FHLB at December 31, 2007 based upon loans and securities available to be pledged.

The Company has an unsecured revolving line of credit with PCBB providing for Federal fund purchases up to $7,500,000. Borrowings are payable on demand and interest on outstanding borrowings accrues at rates negotiated at the time of the borrowing. As of December 31, 2007 the Company had $765,000 outstanding against the line at an annual interest rate of 4.59 percent.

NOTE 8 - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Mission Valley Statutory Trust I (the "Trust") was formed by the Company for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trust is not consolidated and the fixed rate junior subordinated deferrable interest debentures held by the Trust, issued and guaranteed by the Company, are reflected in the Company's consolidated balance sheet in accordance with the provisions of FIN 46.

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

NOTE 9 - INCOME TAXES

For Federal and State income tax reporting purposes, the Bank is included in the consolidated Federal and combined State income tax returns of its parent company, Mission Valley Bancorp. The provisions for income taxes for the year ended December 31, consisted of the following:

December 31	2007	2006
Current:		
Federal	$374,062	$645,720
State	119,552	185,040
	$493,614	$830,760

December 31	2007	2006
Deferred:		
Federal	$148,742	$(151,283)
State	53,188	(44,953)
	$201,930	$(196,236)
The provision for income taxes	**$695,544**	**$634,524**

NOTE 9 - INCOME TAXES, *continued*

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, 2007 and 2006.

	2007	2006
Federal tax rate	34.0%	34.0%
State taxes, net of Federal tax benefits	5.1%	7.2%
Other	-5.4%	-0.5%
Net tax rate	**33.7%**	**40.7%**

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

	2007	2006
Allowance for credit losses	$824,254	$684,251
Depreciation and amortization	(35,127)	(76,436)
Current State taxes	45,199	67,923
Certain prepaid assets	(195,661)	(141,144)
Unrealized loss on investment securities	41,004	119,755
Accruals for income and expense	(67,579)	(101,369)
BEA Award	(203,189)	-
Other, net	(260,827)	(124,225)
Net deferred tax asset	**$148,074**	**$428,755**

NOTE 10 - REGULATORY CAPITAL

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

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

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

NOTE 10 - REGULATORY CAPITAL, *continued*

To be categorized as adequately capitalized, the Company must maintain minimum total risk-based, Tier 1 riskbased, and Tier 1 leverage ratios as set forth in the table below. Management believes, as of December 31, 2007 and 2006, that the Company met all the capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the FDIC categorized the Company as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain a minimum total risk based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's category.

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

			Amount of Capital Required			
As of December 31, 2007	Actual Capital		To Be Adequately Capitalized		To Be Well Capitalized	
Total capital to risk-weighted assets	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Mission Valley Bancorp	$20,955,768	10.98%	$15,272,324	8.00%	$19,090,405	10.00%
Mission Valley Bank	$20,133,000	10.57%	$15,244,800	8.00%	$19,056,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	$18,805,768	9.85%	$7,636,162	4.00%	$11,454,243	60.00%
Mission Valley Bank	$17,983,000	9.44%	$7,297,041	4.00%	$11,433,600	60.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	$18,805,768	10.25%	$7,336,565	4.00%	$9,170,706	5.00%
Mission Valley Bank	$17,983,000	9.86%	$7,297,041	4.00%	$9,121,302	5.00%
As of December 31, 2006						
Total capital to risk-weighted assets						
Mission Valley Bancorp	$18,886,000	11.25%	$13,432,000	8.00%	$16,789,000	10.00%
Mission Valley Bank	$18,312,000	10.93%	$13,404,000	8.00%	$16,755,000	10.00%
Tier 1 capital to risk-weighted assets						
Mission Valley Bancorp	$17,061,000	10.16%	$6,716,000	4.00%	$10,074,000	6.00%
Mission Valley Bank	$16,487,000	9.84%	$6,702,000	4.00%	$10,530,000	6.00%
Tier 1 capital to average assets						
Mission Valley Bancorp	$17,061,000	10.34%	$6,596,000	4.00%	$8,245,000	5.00%
Mission Valley Bank	$16,487,000	10.25%	$6,896,000	4.00%	$8,621,000	5.00%

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company currently leases its administrative offices and the Sun Valley branch facility from a stockholder of the Company. $121,908 was paid to this stockholder in both of the years ended December 31, 2007 and 2006, respectively. The Company leases its facilities under non-cancelable operating leases expiring in 2008 through 2015. Rent expense for the years ended December 31, 2007 and 2006 was $281,831 and $198,814, respectively.

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

Year Ending	
2008	$511,895
2009	$511,895
2010	$511,895
2011	$511,895
2012	$402,869
Thereafter	$1,231,399
	$3,681,848

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, 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

Unfunded commitments under revolving and non-revolving lines of credit	$19,988,000
Unfunded commitments under letters of credit	$377,000

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.

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

NOTE 12 - RELATED PARTY TRANSACTIONS

The Company grants loans to and accepts deposits from directors, officers, and employees as well as to entities with which these individuals are associated. Management believes these transactions were made in the ordinary course of business under substantially the same terms and conditions, including interest rates and collateral requirements, as comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. Loan balances outstanding at December 31, 2007 and 2006 were approximately $1,477,519 and $1,202,000, respectively. During 2007 and 2006, new loans made to such related parties amounted to approximately $471,075 and $44,000, respectively; and payments amounted to approximately $195,657 and $1,633,000, respectively. Deposits from related parties held by the Company at December 31, 2007 and 2006 were $29,001,505 and $12,401,000, respectively.

NOTE 13 - STOCK OPTION PLAN

The Company has an Employee Stock Option Plan (hereinafter the “Plan”). The Plan provides for options to purchase 281,250 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Company recognized stock-based compensation cost of $11,671 in 2007. The Company also recognized income tax benefits related to stock based compensation of $5,084 in 2007.

NOTE 13 - 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:

	2007	2006
Vesting period	5 years	5 years
Risk-free interest rate	3.10	4.61
Dividend yield rate	0%	0%
Price volatility	25.40%	26.10%
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, 2007 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	382,970	$4.52		
Granted	14,500	10.80		
Exercised	(5,625)	4.44		
Forfeited or Expired	(3,600)	5.56		
Outstanding at End of Year	388,245	$4.60	4.60 Years	$2,524,816
Options Exercisable	326,985	3.80	4.09 Years	2,309,167

The total intrinsic value of options exercised during the year ended December 31, 2007 was $36,113. As of December 31, 2007, there was $151,234 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 4.60 years.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2007 and 2006:

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

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

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

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

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

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

Deposits - The fair values of demand deposits, savings deposits, and money market accounts were the amounts payable on demand at December 31, 2007 and 2006. The fair value of time deposits was based on the discounted value of contractual cash flows. The discount rate was estimated utilizing the rates currently offered for deposits of similar remaining maturities.

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, *continued*

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$12,041,426	$12,041,426	$9,241,542	$9,241,542
Interest-bearing deposits in other banks	3,876,000	3,872,000	6,122,570	6,072,000
Common stock, substantially restricted	2,178,000	2,178,000	1,509,100	1,509,100
Investment securities, available-for-sale	11,242,733	11,242,733	14,546,146	14,546,144
Loans, net	166,401,440	169,121,000	139,485,204	136,762,264
Accrued interest receivable	929,793	929,793	764,830	764,830
Liabilities				
Deposits	150,817,517	142,662,000	138,650,496	128,268,000
Borrowings	35,065,000	34,998,000	21,890,000	21,755,000
Accrued interest payable	238,490	238,490	150,354	150,354

	2007		2006	
	Notional Amount	Cost to Cede	Notional Amount	Cost to Cede
Off-balance Sheet Instruments:				
Commitment to extend credit and standby letter of credit	$20,365,000	$203,650	$23,026,994	$230,270

NOTE 15 - PARENT COMPANY INFORMATION

The following financial information presents the condensed balance sheet of the Company on a parent-only basis as of December 31, 2007 and 2006, and the related statements of income and cash flows for the year then ended.

	2007	2006
ASSETS		
Cash and due from banks	$68,942	$138,237
Federal funds sold	755,000	755,000
Cash and cash equivalents	823,942	893,237
Investment in bank	17,954,079	16,369,352
Accrued interest receivable and other assets	198,939	200,930
Total Assets	$18,976,960	$17,463,519
LIABILITIES		
Junior subordinated deferrable interest debentures	6,186,000	6,186,000
Accrued interest payable and other liabilities	14,192	15,604
Total Liabilities	$6,200,192	$6,201,604
STOCKHOLDERS' EQUITY		
Common stock	9,451,519	9,426,519
Retained earnings	3,372,088	1,999,443
Additional paid in capital	11,681	6,866
Accumulated other comprehensive loss	(58,520)	(170,913)
Total Stockholders' Equity	$12,776,768	$11,261,915
Total Liabilities and Stockholders' Equity	$18,976,960	$17,463,519
STATEMENTS OF INCOME		
Interest Income	49,092	52,524
Interest Expense	369,428	369,428
NET INTEREST INCOME (LOSS)	$(320,336)	$(316,904)
NON-INTEREST INCOME		
Income from subsidiary	1,805,654	1,350,621
Total Non-interest Income	$1,805,654	$1,350,621
NON-INTEREST EXPENSE		
Salaries and employee benefits	58,721	63,441
Occupancy	4,694	4,694
Furniture and equipment	3,000	3,000
Legal, professional, and consulting	35,099	37,307
Share based compensation	11,671	6,866
Other operating	6,344	1,075
Total Non-interest Expense	$119,529	$116,383
NET INCOME	**$1,365,789**	**$917,334**

Notes to Financial Statements

DECEMBER 31, 2007 AND 2006

NOTE 15 - PARENT COMPANY INFORMATION, *Continued*

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Net income	$1,365,789	$917,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	11,671	6,866
Other	579	(66,541)
Net Cash Flows Provided by Operating Activities	$1,378,039	$857,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Investment in Subsidiary	(1,805,654)	(2,015,403)
Net Cash Flows Used by Investing Activities	$(1,805,654)	$(2,015,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends from Holding Company	358,320	62,000
Net Cash Flows Provided by Financing Activities	$358,320	$62,000
Net Decrease in Cash and Cash Equivalents	(69,295)	(1,095,744)
Cash and Cash Equivalents, Beginning of Year	893,237	1,988,981
Cash and Cash Equivalents, End of Year	$823,942	$893,237

Independent Auditors' Report

DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, and the related consolidated statements of 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, 2007 and 2006, 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
March 28, 2008

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

Administration:

Vanessa Acosta
Vice President / Cash Management Manager

Cindy Albers
Vice President / Compliance Manager

Traci Bunker
Vice President / Information Systems

Carrie Burrell
Vice President / Marketing Manager

Jane Chen
Chief Financial Officer

Carlos Jones
Vice President / Loan Analyst

Sandra Kay
Vice President / Loan Servicing Manager

Sandy Konish
Vice President / Operations Administration

Frankie Powell
Senior Vice President, Human Resources Manager

Specialized Lending Division:

Vladimir Victorio
Senior Vice President, Manager

Cynthia Brown
Vice President / Loan Operations

Sun Valley Office:

Jahun Smith
Vice President / Branch Manager

Carol Dignard
Vice President / Assistant Branch Manager

Lola Forbis
Vice President / Relationship Manager

Julian Sandoval
Vice President / Business Banking

Valencia Office:

Greg Wells
Vice President / Manager

Jeff Bennett
Vice President / Operations Manager

Greg Spencer
Vice President / Business Banking

Centre Pointe Office:

Marti Heinbaugh
Vice President / Manager

Pat McMillian
Vice President / Operations Manager

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, 2007 there were approximately 250 shareholders of record and 2,473,427 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

McAdams Wright Ragen, Inc.
Joey Warmenhoven
Senior Vice President, Community Bank Specialist
(866) 662-0351
(503) 922-4888

Hoefer & Arnett
Dave Bonaccorso
(415) 538-5723
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
1745 Gardena Avenue
Glendale, CA 91204

Summary of Banking Services

"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 Accounts
Commercial Real Estate Acquisition
SBA Financing
Construction Loans
Business Financing
Personal Financing
Lines of Credit
Equipment Financing
Apartment Financing
On-Site Teller/ Remote Deposit Programs
Leasing
Home Equity Loans
Letters of Credit
Cash Management Solutions
Merchant Bankcard Services
Payroll Services
Online Banking
Savings Products
Retirement Products
Credit—Debit & ATM Cards
Overdraft Protection
Online Bill Payment
Time Deposits
Notary Services
Courier Services
Safe Deposit Services

www.MissionValleyBank.com

MISSION VALLEY BANCORP

Sun Valley Office
9116 Sunland Boulevard
Sun Valley, CA 91352
(818) 394-2300

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

Valencia Office
25060 West Avenue Stanford
Valencia, CA 91355
(661) 775-4100

www.MissionValleyBank.com