



PUBLIC DISCLOSURE

February 12, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Malaga Bank F.S.B.
Charter Number 708089

2514 Via Tejon
Palos Verdes Estates, CA 90274

Office of the Comptroller of the Currency

Santa Ana Field Office
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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and business strategy.
- A majority of the bank's lending activity is within its delineated assessment area.
- The overall geographic distribution of mortgage loans reflects excellent dispersion throughout the assessment area compared to area demographics.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs in its assessment area.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family

households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Malaga Bank, F.S.B (MB or bank) is a full-service community bank headquartered in Palos Verdes Estates, California. It is a wholly-owned subsidiary of Malaga Financial Corporation, a thrift holding company incorporated in November 2002. The bank has five branches located in the South Bay area of Southern California: Palos Verdes Estates, Rolling Hills Estates, Torrance (2), and San Pedro. All branches are located in upper-income census tracts. MB also has a loan production office at the Torrance Skypark location.

MB offers traditional banking services at its branch locations. Multi-family real estate loans continue to be a primary focus, although emphasis on loans secured by 1-4 units has increased in recent years. Business and consumer loans are offered in order to provide a full array of products. All branches are open for business Monday through Thursday from 9:00 AM to 5:00 PM, Friday from 9:00 AM to 6:00 PM, and Saturday 9:00 AM to 1:30 PM, except the Torrance Skypark branch, which does not have Saturday hours. Automated teller machines (ATMs) and safe deposit boxes are offered at all branches, except the Torrance Skypark office.

The bank serves one designated assessment area (AA), the Los Angeles County portion of the Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area (MSA). The banking environment is highly competitive in the AA. MB ranks 35th out of 108 institutions with 0.20 percent deposit market share. Major competitors include Bank of America, Wells Fargo, JPMorgan Chase, and MUFG Union Bank.

The MB Report of Condition and Income reported total assets of \$1,033 million, total loans of \$953 million, total deposits of \$773 million, and total equity capital of \$134 million as of September 30, 2017. Total loans represented over 92 percent of total assets. The following chart summarizes the loan portfolio by major loan type.

Malaga Bank F.S.B. Loan Portfolio by Major Product Type September 30, 2017		
Loan Type	\$ (000's)	Percent
Multifamily Residential RE	770,892	80.9
1-4 Family Residential RE	136,776	14.4
Commercial RE	40,504	4.2
Construction	3,220	0.3
Commercial-Industrial	1,494	0.2
Consumer	247	0.0
Total	\$953,133	100%

There are no financial or legal factors that impede the bank's ability to meet the credit needs of the community. MB received a "Satisfactory" rating under the "Intermediate Small Bank" rating criteria at the last CRA examination, dated May 5, 2015.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This examination evaluates the CRA performance of MB. We used Intermediate Small Bank (ISB) CRA procedures. We performed a full-scope examination of the Los Angeles AA. This process included an evaluation of CRA activities under the Lending Test criteria, as well as an evaluation of lending, investments, and services under the Community Development (CD) Test. For the bank's Lending Test, we evaluated the bank's loans reported under HMDA from January 1, 2015 through December 31, 2016. Our analysis included HMDA reportable loans because they represent the majority of the bank's lending activity. For the CD test, we considered all qualifying CD activities from January 2015 through December 31, 2017.

Data Integrity

We performed a data integrity examination of the HMDA loan information indicated above by reviewing the bank's internal testing of the data. The internal testing of the HMDA registers was of sufficient scope and quality for us to place reliance on its results. Loans, investments, and services submitted by management for CD consideration were reviewed to ensure that they met the regulatory definition for CD. Those items that did not meet the definition were not considered in our evaluation process.

Selection of Areas for Full-Scope Review

We completed a full-scope review of the bank's single AA of Los Angeles County. Refer to the table in Appendix A for more information.

Ratings

The bank's overall rating is based on a full-scope review of performance in its single AA.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

The following sections of this evaluation present the data that support our conclusions under the Lending Test and the CD Test, respectively.

LENDING TEST

MB's performance under the Lending Test is rated Satisfactory. Each of the areas considered in the Lending Test is described below.

Loan-to-Deposit Ratio

MB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and local economic conditions, and meets the standard for satisfactory performance. The ratio is calculated on a bank-wide basis. We evaluated the bank's quarterly average LTD ratio for the 11 quarters since the prior CRA examination through September 2017. During this period, the bank's LTD ratio averaged 118 percent. This ratio ranged from a quarterly low of 114 percent to a quarterly high of 123 percent during this period. The bank's LTD ratio reasonably compares with other banks of similar asset size, strategy, or product offerings in the AA. The average LTD ratio for peer banks was 112 percent over the same period, and the ratio ranged from 98 percent to 124 percent.

Lending in Assessment Area

MB originated a majority of its loans within its delineated AA and meets the standard for satisfactory performance. This proportion of lending inside versus outside the bank's AA is calculated on a bank-wide basis. The bank originated approximately 80 percent of the number of mortgage loans and approximately 77 percent of the dollar amount of mortgage loans within the AA during our evaluation period. See Table 1 for details.

Table 1 - Lending in the Defined Assessment Area Los Angeles County January 2015 through December 2016										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$(000's)
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Mortgage Loans	172	80.4	42	19.6	214	184,022	77.2	54,482	22.8	238,504

Source: Data reported under HMDA from January 2015 through December 2016.

Lending to Borrowers of Different Incomes

A substantial majority of MB's loan originations during the evaluation period were HMDA-reportable loans for multi-family housing. The bank is not required to report income information on multifamily housing loans or for entities other than individuals or families for HMDA data purpose. Therefore, we are unable to determine if these loans were made to low- and moderate-income borrowers. Hence, the income distribution analysis would not be meaningful and was not included in our conclusions. See Table 2 for details.

Table 2 - Distribution of Home Mortgage Loans By Borrower Income Level Los Angeles County			
Borrower Income Level	Review Period 2015-2016		Peer Aggregate 2016
	% of Families	% Number of Bank Loans	%
Low	24.05	0.00	1.44
Moderate	16.43	0.00	4.96
Middle	17.64	0.00	13.38
Upper	41.88	5.23	64.41

Source: Data reported under HMDA between January 1, 2015, and December 31, 2016; U.S. Census Data. Income not available for 15.81 percent of the peer aggregate data. No income information was available for 94.77 percent of HMDA loans.

Geographic Distribution of Loans

The overall geographic distribution of mortgage loans reflects excellent dispersion throughout the AA compared to area demographics and exceeds the standard for satisfactory performance. MB's mortgage lending in low-income census tracts significantly exceeds the demographic data for the AA. The bank's mortgage lending in moderate-income census tracts meets the demographic data for the AA. See Table 3 for details.

Table 3 - Geographic Distribution of Home Mortgage Loans Los Angeles County			
Census Tract Designation	Review Period 2015-2016		Peer Aggregate 2016
	% of Owner Occupied Units	% Number of Bank Loans	%
Low	2.13	4.07	2.39
Moderate	16.61	18.60	16.37
Middle	28.64	30.23	28.02
Upper	52.61	47.09	53.21

Source: Data reported under HMDA between January 1, 2015, and December 31, 2016; U.S. Census data. Census tracts are not income-designated tracts for 0.01 percent of aggregate data.

Responses to Complaints

MB has not received any complaints about its performance under the Community Reinvestment Act during this evaluation period.

COMMUNITY DEVELOPMENT TEST

MB's performance under the CD Test is "Satisfactory." The bank's performance demonstrates adequate responsiveness to the CD lending, investment, and service needs in its AA.

Number and Amount of Community Development Loans

The bank's record of CD lending is excellent. Our sampling found MB originated 15 CD loans totaling over \$8.5 million. These loans provided 128 units of affordable housing to LMI families in the bank's AA. Affordable housing continues to be an identified and significant need within the bank's AA.

Number and Amount of Qualified Investments

The bank's record of qualified investments and donations is satisfactory. The bank has three qualifying CD investments totaling \$735,000 in various minority-owned institutions. MB also made qualified CD donations of over \$36,000 to various organizations that provide services to LMI persons. These organizations provide a broad range of essential human services and economic development activities to LMI residents to help them achieve self-sufficiency through education, employment, and housing opportunities.

Extent to Which the Bank Provides Community Development Services

MB employees contributed 836 hours of qualified CD services to a variety of nonprofit organizations that provide community services to LMI residents in the AA.

None of the bank's branches are located in low- or moderate-income geographies; however, the bank provides products and services that are considered responsive to LMI individuals. MB offers two types of low-cost personal checking accounts (no-fee checking and student checking) with a \$100 minimum balance to open, no monthly maintenance fee, no required minimum balance, unlimited check writing, and unlimited debit card usage.

Responsiveness to Community Development Needs

The bank's CD loans, investments, and services, as a whole, demonstrate adequate responsiveness to the CD needs of its AA, in particular when considering the bank's capacity, performance context, and the competition for CD opportunities in the AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): 1/1/15 to 12/31/16 Investment and Service Tests and CD Loans: 1/1/15 to 12/31/17	
Financial Institution	Products Reviewed	
Malaga Bank, F.S.B (MB) Palos Verdes Estates, California	Residential Real Estate Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Los Angeles County portion of the Los Angeles-Long Beach-Anaheim, CA MSA	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

MB has designated the Los Angeles County portion of the Los Angeles-Long Beach-Anaheim MSA as its AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

In conjunction with this CRA examination, examiners contacted a nonprofit organization in the Los Angeles AA to determine primary needs in the AA. This organization provides food and groceries for low- and moderate-income households and homeless individuals. The contact stated that there is an ongoing need for affordable housing and food for in-need families. The contact also stated that there are numerous opportunities for bank involvement, including financial education.

Los Angeles County Assessment Area

Demographic Information for Full Scope Area: Los Angeles AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2,346	8.99	28.64	26.77	34.02	1.58
Population by Geography	9,818,605	8.01	29.43	28.26	33.92	0.39
Owner-Occupied Housing by Geography	1,552,091	2.13	16.61	28.64	52.61	0.01
Business by Geography	683,317	6.40	18.12	25.27	48.94	1.27
Farms by Geography	6,616	3.19	16.40	26.74	53.02	0.65
Family Distribution by Income Level	2,170,227	24.05	16.43	17.64	41.88	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	878,478	13.64	41.84	26.84	17.67	0.01
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		61,622 62,400 14%	Median Housing Value Unemployment Rate (2010 US Census)		526,439 4.39%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

Based on the 2010 U.S. Census data the AA includes 2,346 census tracts. Nine percent of the census tracts are low-income, 29 percent are moderate-income, 27 percent are middle-income, 34 percent are upper-income, and one percent of the census tracts have not been assigned an income classification. MB helps meet community credit needs in the Los Angeles AA through its five offices.

Los Angeles County is located in southern California and covers over 4,000 square miles. It is the most populous county in the country with a population of 9.8 million based on the 2010 U.S. Census. It has an extensive transportation network, including seaports and airports, freeway systems, mass transit systems, rail systems, and cross-country railroads. The neighboring counties include Orange to the southeast, Kern to

the north, San Bernardino to the east, and Ventura to the northwest. There are 88 incorporated cities in Los Angeles County and many unincorporated areas. The northern half of the county is lesser populated in inland areas; however, the southern half of the county is heavily urbanized.

The banking environment in the AA is highly competitive. The June 30, 2016 FDIC Deposit Market Share Report indicates that 108 institutions with 1,782 offices compete for deposits in Los Angeles County. The major competing institutions include Bank of America, N.A., Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., MUFG Union Bank, N.A., CIT Bank, N.A., City National Bank, and Citibank, N.A. These banks collectively hold over 72 percent of the deposit market share. MB ranks 35th and holds a market share of 0.20 percent. The banks that compete for deposits in the AA also compete for loans. In addition, there are numerous other institutions in the AA that do not collect deposits but compete for loans, making it more difficult for banks to compete for loans than deposits.

Los Angeles County has a diverse economic base. Historically, the leading industry clusters were tourism and hospitality, professional and business services, entertainment (motion picture and TV production), wholesale distribution, and health services and biomedical. More recently, the Los Angeles County economy has been largely technology driven, specifically the bio-medical, digital information technology, and environmental technology sectors, all of which build on the vibrant technical research capabilities in the county. The county is also the largest manufacturing center in the United States, and the seaports and airports support international trade. The Port of Los Angeles/Long Beach and the Los Angeles International Airport are two of the busiest transportation networks in the nation. The largest employers are the County of Los Angeles, Los Angeles Unified School District, City of Los Angeles, Kaiser Permanente; University of California Los Angeles; Northrop Grumman Corporation; University of Southern California; Target Corporation; Kroger Corporation; and Bank of America Corporation.

The 2010 Census median housing value was \$526,439. According to CoreLogic, the median home price in September 2017 was \$575,000 for Los Angeles County. The 2010 weighted average of the MSA median family income was \$61,622. The 2016 HUD-updated MSA median family income is \$62,400 for the Los Angeles AA. Approximately 14 percent of the households are living below the poverty level. The California Employment Development Department reported that the unemployment rate in Los Angeles County was 4.8 percent in September 2017. This compares with an unadjusted unemployment rate of 4.7 percent for California and 4.1 percent for the nation.