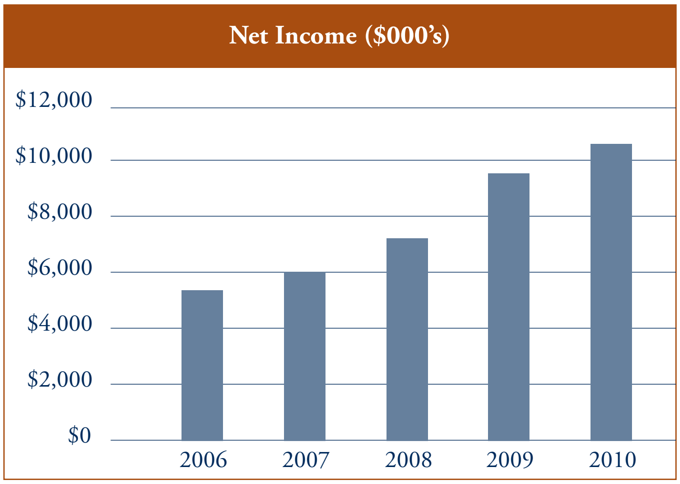
2010

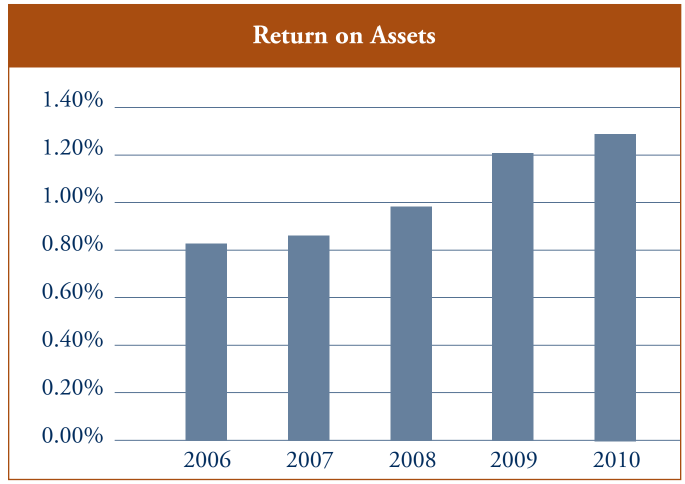
MALAGA
FINANCIAL CORPORATION

ANNUAL REPORT

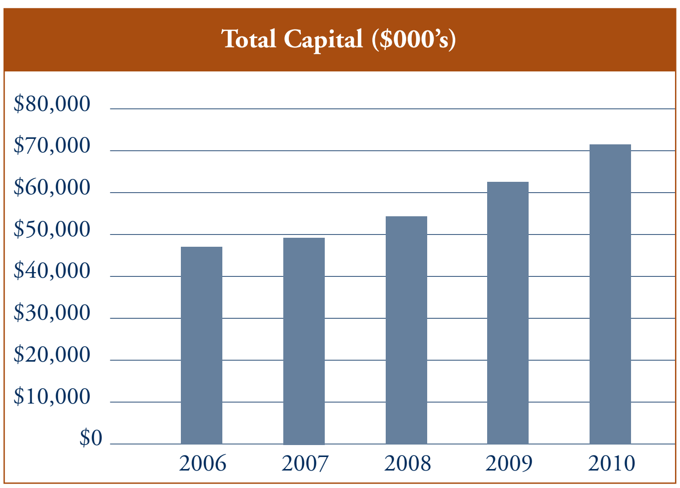
FINANCIAL STRENGTH

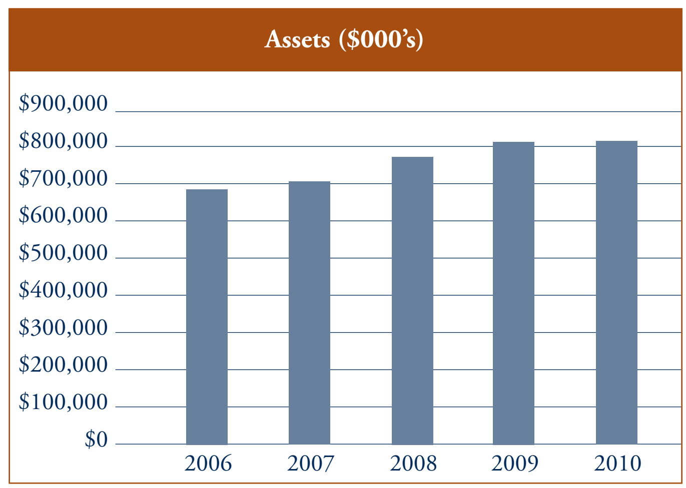
Fifth Consecutive Year of Record Earnings





Fifth Consecutive Year of Capital and Asset Growth





2010 ACCOMPLISHMENTS

Five consecutive years of record earnings.

Malaga Bank was recognized by SNL Financial, an information services company, as the #1 performing Thrift in the United States for the 12 month period ended March 31, 2010.*

Malaga Bank received the BauerFinancial Inc. Five Star rating for the 12th consecutive quarter.*

Second quarter 2010, 25% dividend increase.

Quarterly dividends for the 25th consecutive quarter.

*Malaga Bank is a wholly owned subsidiary of Malaga Financial Corporation whose common stock is traded under CUSIP#561046103 MLGF.

DEAR SHAREHOLDERS AND FRIENDS,

We are pleased to report our fifth consecutive year of record earnings for Malaga Financial Corporation and its subsidiary Malaga Bank. Net income for 2010 was $10.5 million, an increase of $1.0 million over 2009, and earnings per share increased from $1.65 per share in 2009 to $1.80 per share in 2010. Our record annual net income resulted in a return on average equity of 15.58% for the year.

Loan demand continues to be weak due to the recession. Despite this, we were able to achieve modest growth in our loan portfolio, which increased from $761 million at December 31, 2009 to $773 million at the end of 2010. However, we remain committed to prudent underwriting and have not relaxed our loan underwriting requirements in order to grow. As a result, once again at year end we had no delinquent loans or foreclosed real estate (REO).

Our branch offices continue to grow, as customers are attracted by our financial stability and legendary customer service. Deposits increased by 5% to $521 million at year end 2010.

Our capital levels continued to increase, with core capital and risk-based ratios at year end 2010 of 11.52% and 19.40% respectively, substantially exceeding the minimum "well-capitalized" requirements of 5% and 10% respectively. In the fourth-quarter, Malaga Financial paid a dividend for the 25th consecutive quarter, and our book value per share increased to $12.30 at year end.

Additionally, we are pleased to report that Malaga Bank was recognized by SNL Financial as the top-performing thrift in the United States for the 12-month period ending March 31, 2010. As a result of our financial strength, we are able to continue to support and partner with various community organizations, which will further improve the communities that we serve.

On behalf of Malaga Financial Corporation and Malaga Bank, we thank our board of directors, management and staff for their contribution and commitment to our continued success and we thank you, our shareholders, for your support, your business and your investment.

Randy C. Bowers
President and
Chief Executive Officer

Robert E. Kershaw
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and financial information is presented to aid in understanding results of operations and financial condition of Malaga Financial Corporation ("MFC") and its consolidated subsidiary, Malaga Bank FSB ("Malaga Bank"). In this discussion, references to the "Company" or "we" or "us" refer to MFC and Malaga Bank.

OVERVIEW

MFC is the holding company for Malaga Bank, and the stock of Malaga Bank is MFC's primary asset. Malaga Bank is a full service community bank with headquarters located on the Palos Verdes Peninsula in Southern California. It is the largest independent bank headquartered in the South Bay area of Los Angeles.

We originate primarily adjustable rate multifamily (apartment) mortgage loans in Los Angeles and Orange counties and to a lesser extent single-family residential loans, consumer loans, construction loans, commercial mortgage loans and commercial loans. At December 31, 2010, multifamily mortgage loans represented 71% of our loan portfolio and loans represented 94% of our total assets.

In 2010, our market area for deposits continued to be concentrated in the areas immediately surrounding our four branch offices in Palos Verdes Estates, Rolling Hills Estates, Torrance and San Pedro, California.

RESULTS OF OPERATIONS

Our net income was $10.5 million in 2010 compared to net income of $9.5 million in the previous year, an increase of $1.0 million or 11%. Earnings per share for 2010 were $1.80 (basic) and $1.78 (fully diluted), compared to $1.65 (basic) and $1.64 (fully diluted) in 2009.

Our return on average assets (ROA) was 1.28% in 2010 compared to 1.20% in 2009. Our return on average equity (ROE) was 15.58% in 2010 compared to 16.17% in 2009.

The following table sets forth selected financial data for the past five years:

	2010	2009	2008	2007	2006
Total assets (000's)	$ 814,118	$ 810,850	$ 763,946	$ 703,972	$ 672,976
Stockholders' equity (000's)	$ 71,772	$ 62,998	$ 54,533	$ 48,633	$ 46,222
Net income (000's)	$ 10,494	$ 9,494	$ 7,076	$ 5,967	$ 5,213
Basic earnings per share	$ 1.80	$ 1.65	$ 1.24	$ 1.02	$ .90
Diluted earnings per share	$ 1.78	$ 1.64	$ 1.24	$ 1.01	$ .88
ROA	1.28%	1.20%	0.97%	0.86%	0.82%
ROE	15.58%	16.17%	13.94%	12.24%	11.67%

NET INTEREST INCOME

Net interest income is the primary component of our income. The chief determinants of net interest income are the dollar amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these assets and liabilities. The greater the excess of average interest-earning assets over average interest-bearing liabilities, the more beneficial the impact on net interest income.

Our net interest income increased by $1.3 million to $27.5 million in 2010 as a result of continued growth in interest-earning assets and an improvement in the interest rate spread. Average interest-earning assets (principally loans) increased $30 million (4%) from 2009. The interest rate spread (the difference between the weighted-average yield on average interest-earning assets and the weighted-average rate paid on average interest-bearing liabilities) increased from 3.24% in 2009 to 3.27% in 2010. This increase in spread was due in part to continued low market interest rates, which enabled us to reduce our cost of funds at a faster pace than the readjustments on our variable rate interest-earning assets. It was also due to replacing higher cost FHLB borrowings with lower cost deposits.

The following table sets forth the weighted-average balances, yields earned and rates paid with respect to the major components of our interest-earning assets and interest-bearing liabilities, and net interest income, for the periods indicated:

WEIGHTED-AVERAGE BALANCES AND RATES

	YEARS ENDED DECEMBER 31 (000's)			
	2010		2009	
Loans	$ 764,762	5.56 %	$ 749,285	5.69 %
Federal funds sold	17,246	0.23	713	0.27
Interest-bearing deposits in banks	4,511	1.22	6,051	2.69
FHLB Stock	15,038	0.35	15,681	0.21
Total interest-earning assets	801,557	5.32	771,730	5.55
Deposits	511,407	0.80	411,572	1.02
FHLB borrowings	212,803	4.67	297,518	4.00
Senior subordinated notes	9,883	9.25	175	9.25
Junior subordinated debentures	13,404	2.97	13,404	4.48
Total interest-bearing liabilities	747,497	2.05	722,669	2.31
Excess of interest-earning assets over interest-bearing liabilities	$ 54,060	3.27	$ 49,061	3.24

PROVISIONS FOR LOAN LOSSES

We recorded provisions for loan losses of $41,000 in 2010 versus $120,000 in 2009. The decrease in provision was attributable to lower net loan growth (loan originations less amortizations and payoffs) of $7 million in 2010 versus $35 million in 2009. One consumer loan totaling $12,000 was charged off in 2010 and we had no delinquent loans as of December 31, 2010. In 2009, we charged off one consumer loan totaling $9,000 and we had no delinquent loans as of December 31, 2009.

OTHER OPERATING INCOME

Other operating income increased $77,000 due primarily to higher fees from increased levels of transaction accounts.

OTHER OPERATING EXPENSES

The main components of other operating expenses or "overhead" are compensation, office rent and utilities, regulatory assessments and general and administrative expenses. Operating expenses decreased $245,000 or 2% from $10.5 million in 2009 to $10.2 million in 2010. This decrease was due primarily to a $471,000 decrease in FDIC insurance premiums offset by an increase in salaries and related benefits of $114,000 and an increase in depreciation and amortization of $73,000.

We employed 73 full-time equivalent employees at December 31, 2010, with an average of 5.0 years of service. The tenure and experience of our employees continue to be a major part of our successful and efficient operations.

Banks measure their ability to manage overhead through an efficiency ratio expressed as total overhead expenses as a percentage of net interest income and other operating income. Malaga Bank's efficiency ratios of 34.52% in 2010 and 38.03% in 2009 continued to be very favorable compared to the efficiency ratios of our peers, which averaged 72.51% in 2010 and 75.07% in 2009. Another measure of overhead efficiency is the percentage of overhead expense to average assets. Malaga Bank's ratio was 1.24% in 2010 versus 1.32% in 2009, which compared with a peer group average of 2.66% and 2.61% in 2010 and 2009, respectively. Malaga Bank had $11.2 million in average assets per employee at December 31, 2010 as compared to $11.3 million in average assets per employee at December 31, 2009.

FINANCIAL CONDITION

We continued to grow in 2010, as our total assets increased from $811 million at December 31, 2009 to $814 million at December 31, 2010.

LOAN PORTFOLIO

Total gross loans at December 31, 2010 were $773 million, up $12 million or 2% from the prior year-end. Our primary lending emphasis continued to be multifamily real estate loans, which comprised 71% of our portfolio at December 31, 2010. The weighted-average yield of the loan portfolio was 5.56% at December 31, 2010 and 5.69% at December 31, 2009.

LOAN LOSS RESERVES AND NON-PERFORMING ASSETS

Our allowance for loan losses, including reserves for losses on commitments for lines of credit and construction loans, totaled $2.9 million at December 31, 2010 and December 31, 2009. We had no non-performing loans at year-end 2010 and 2009. Our allowance for loan losses to total loans outstanding was 0.37% at December 31, 2010 and December 31, 2009.

Management's determination of the adequacy of the allowance for loan losses requires the use of judgment and estimates that may change in the future. Some factors considered by management in determining the adequacy of the allowance include: detailed reviews of individual loans; gross and net charge-offs in the current year; historical loss levels; past due and non-accruing loans; collateral values of properties securing loans; types of loans and risk profiles; and management's analysis of current economic conditions and the resulting impact on the loan portfolio. Changes in the factors used by management to determine the adequacy of the allowance, or the availability of new information, could cause the allowance for loan losses to be increased or decreased. In addition, bank regulatory agencies, as a part of their examination process, may require that additions be made to the allowance for loan losses based on their judgment and estimates.

DEPOSITS

Our deposit strategy in 2010 continued to focus on attracting customer relationships at our branches. Total deposits increased by $27 million to $520.8 million at December 31, 2010. During the year non-interest bearing demand deposits increased $4.5 million to $40.5 million, lower cost money market and other accounts increased $16.7 million to $170.3 million and certificates of deposit increased $5.9 million to $310.0 million. The increase in non-interest bearing deposits is primarily due to expansion of our branch system and increased focus on lower cost deposits. At December 31, 2010, we had outstanding certificates of deposit from the State of California totaling $48 million bearing interest at a weighted-average rate of 0.16%. Our weighted-average cost of deposits was 0.80% at December 31, 2010 compared to 1.02% at December 31, 2009.

FHLB BORROWINGS

Another major source of funding for us is advances from the Federal Home Loan Bank of San Francisco ("FHLB"). As of December 31, 2010, we had FHLB advances totaling $192 million, all of which were fixed rate, as compared to $228 million at December 31, 2009. Our FHLB borrowings at December 31, 2010 had an average remaining maturity of 30 months and bore interest at a weighted-average rate of 4.68%. At that date, we had approximately $179 million of unused FHLB borrowing capacity.

SENIOR SUBORDINATED NOTES

In December 2009 and January 2010, MFC issued $10 million principal amount of 9.25% Senior Subordinated Notes at par. The Notes bear interest at a rate of 9.25% per annum, payable quarterly, and are due and payable on the earlier to occur of December 31, 2016 or upon a change of control. All Notes were issued to related parties of MFC. The Notes are subordinated to all borrowings (other than the outstanding junior subordinated debentures) and may not be prepaid prior to maturity. MFC contributed the proceeds from the sale of the Notes to Malaga Bank in order to increase the Bank's regulatory capital to provide a further cushion against any losses or reserves on the Bank's loan portfolio in this recessionary economy.

JUNIOR SUBORDINATED DEBENTURES

From time to time MFC has issued junior subordinated debentures related to issuance of trust-preferred securities by business trusts MFC has formed in order to generate regulatory capital. This capital has a relatively low cost as interest payments on the debentures are deductible for income tax purposes. At December 31, 2010, MFC had $13.4 million junior subordinated debentures outstanding bearing interest at a weighted-average rate of 2.58% per annum. These debentures mature commencing 2033.

STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL

Our stockholders' equity grew by $8.8 million or 14% to $71.8 million at December 31, 2010, from $63.0 million at December 31, 2009. The increase was due principally to net income of $10.5 million and proceeds from the exercise of stock options of $398,000, net of $2.2 million of dividends paid.

Malaga Bank continues to be "well capitalized" under applicable regulations with its regulatory capital ratios increasing over the previous year. The following table compares Malaga Bank's actual capital ratios at December 31, 2010 to those required by regulatory agencies for capital adequacy and well capitalized classification purposes:

	Malaga Bank	Minimum Capital Requirements	Well Capitalized Requirements
Tier 1 Leverage Capital Ratio	11.52%	4.00%	5.00%
Tier 1 Risk-Based Capital to Risk-Weighted Assets	18.83%	N/A	6.00%
Total Risk-Based Capital to Risk-Weighted Assets	19.40%	8.00%	10.00%

STOCKHOLDERS AND STOCK INFORMATION

At December 31, 2010, MFC had 138 stockholders of record. Many of our stockholders purchased stock in connection with the organization of Malaga Bank. Our Board of Directors owns approximately 60% of the total outstanding shares. MFC's common stock is traded over-the-counter under the symbol MLGF.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31 2010	DECEMBER 31 2009
ASSETS		
Cash and due from banks	**$ 9,281,941**	$ 8,018,848
Federal funds sold	**471,817**	10,393,888
Cash and cash equivalents	**9,753,758**	18,412,736
Interest-bearing deposits in banks	**12,256,000**	5,158,000
Loans receivable, net of allowance for loan loss of $2,842,798 (2010) and $2,813,644 (2009)	**766,260,007**	758,854,119
Accrued interest receivable	**2,962,111**	3,019,088
Building, office properties, and equipment—net	**6,061,030**	6,288,086
Investment in FHLB stock—at cost	**13,950,500**	15,696,600
Other assets	**2,874,374**	3,421,083
TOTAL	**$ 814,117,780**	$ 810,849,712

	2010	2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	**$ 40,521,788**	$ 36,003,390
Interest-bearing	**480,313,800**	457,765,593
Total deposits	**520,835,588**	493,768,983
FHLB borrowings	**192,000,000**	228,000,000
Senior subordinated notes	**10,000,000**	7,250,000
Junior subordinated debentures	**13,404,000**	13,404,000
Accrued interest payable	**290,651**	99,041
Other liabilities	**3,498,320**	3,033,232
Deferred tax liability	**2,317,121**	2,296,177
Total liabilities	**742,345,680**	747,851,433
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value—authorized, 20,000,000 shares; outstanding 5,836,466 shares (2010) and 5,799,212 shares (2009)	**5,836**	5,799
Additional paid-in capital	**14,187,723**	13,692,353
Retained earnings	**57,578,541**	49,300,127
Total stockholders' equity	**71,772,100**	62,998,279
TOTAL	**$ 814,117,780**	$ 810,849,712

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31	
	2010	**2009**
INTEREST INCOME:		
Interest on loans	**$ 42,686,872**	$ 42,660,130
Interest on other investments	**146,340**	197,732
Total interest income	**42,833,212**	42,857,862
INTEREST EXPENSE:		
Deposits	**4,103,619**	4,204,247
Borrowings	**9,944,249**	11,909,832
Senior subordinated notes	**914,179**	16,219
Junior subordinated debentures	**398,580**	600,932
Total interest expense	**15,360,627**	16,731,230
NET INTEREST INCOME	**27,472,585**	26,126,632
PROVISION FOR LOAN LOSSES	**41,300**	120,400
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**27,431,285**	26,006,232
OTHER OPERATING INCOME	**584,921**	508,469
OTHER OPERATING EXPENSE:		
Compensation	**5,393,257**	5,245,727
Office rent and utilities	**927,414**	960,125
Professional services	**158,580**	144,733
Data processing	**682,677**	675,686
Deposit insurance premiums	**696,095**	1,166,867
Depreciation and amortization	**456,081**	383,642
General and administrative	**1,900,024**	1,882,387
Total other operating expense	**10,214,128**	10,459,167
INCOME BEFORE INCOME TAX EXPENSE	**17,802,078**	16,055,534
INCOME TAX EXPENSE	**7,307,620**	6,561,855
NET INCOME	**$ 10,494,458**	$ 9,493,679
BASIC EARNINGS PER SHARE	**$ 1.80**	$ 1.65
DILUTED EARNINGS PER SHARE	**$ 1.78**	$ 1.64

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Common Stock					
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Total Stockholders' Equity
BALANCE—January 1, 2009	5,733,712	$ 5,734	$ 12,876,333	$ 41,650,923		$ 54,532,990
Net income				9,493,679	$ 9,493,679	9,493,679
Cash dividends				(1,844,475)		(1,844,475)
Stock options exercised	65,500	65	728,652			728,717
Stock options compensation expense			61,668			61,668
Tax benefit from exercise of stock options			25,700			25,700
Total comprehensive income					9,493,679	
BALANCE—December 31, 2009	5,799,212	5,799	13,692,353	49,300,127		62,998,279
Net income				10,494,458	10,494,458	10,494,458
Cash dividends				(2,216,044)		(2,216,044)
Stock options exercised	37,254	37	398,002			398,039
Stock options compensation expense			61,668			61,668
Tax benefit from exercise of stock options			35,700			35,700
Total comprehensive income					$ 10,494,458	
BALANCE—December 31, 2010	5,836,466	$ 5,836	$ 14,187,723	$ 57,578,541		$ 71,772,100

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 10,494,458**	$ 9,493,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees—net of costs	**398,891**	187,805
Provision for loan losses	**41,300**	120,400
Tax benefit related to exercise of stock options	**(35,700)**	(25,700)
Depreciation and amortization	**456,081**	383,642
Deferred income taxes	**20,944**	33,249
Stock option compensation expense	**61,668**	61,668
Net decrease (increase) in accrued interest receivable and other assets	**603,686**	(2,209,201)
Net increase in accrued interest payable and other liabilities	**564,824**	276,975
Net cash provided by operating activities	**12,606,152**	8,322,517
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in interest-bearing deposits in banks	**(7,098,000)**	634,000
Net increase in loans receivable	**(7,846,079)**	(35,396,255)
Purchase of FHLB stock	-	(268,400)
Redemption of FHLB stock	**1,746,100**	-
Purchase of premises and equipment	**(229,025)**	(2,260,393)
Net cash used in investing activities	**(13,427,004)**	(37,291,048)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	**27,066,605**	125,102,370
Proceeds from FHLB borrowings	**8,000,000**	-
Repayment of FHLB borrowings	**(44,000,000)**	(94,206,210)
Proceeds from issuance of senior subordinated notes	**2,750,000**	7,250,000
Dividends paid	**(2,088,470)**	(1,836,411)
Proceeds from exercise of stock options	**398,039**	728,717
Tax effect related to exercise of stock options	**35,700**	25,700
Net cash (used in) provided by financing activities	**(7,838,126)**	37,064,166
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,658,978)**	8,095,635
CASH AND CASH EQUIVALENTS—Beginning of year	**18,412,736**	10,317,101
CASH AND CASH EQUIVALENTS—End of year	**$ 9,753,758**	$ 18,412,736
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the year for:		
Interest	**$ 15,169,017**	$ 16,843,524
Income taxes	**$ 7,083,000**	$ 6,639,000
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Dividend payable	**$ 609,328**	$ 481,754

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Presentation— The consolidated financial statements include the accounts of Malaga Financial Corporation ("MFC") and its wholly owned subsidiary, Malaga Bank FSB (the "Bank") (collectively, the "Company"). MFC was formed in 2002 to operate as a holding company for the Bank. In 2003, MFC and the Bank completed a holding company reorganization in which MFC acquired all of the outstanding capital stock of the Bank and the shareholders of the Bank became shareholders of MFC. All intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations—The Company's primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money. The Company's customers consist of individuals and small-to-midsize businesses located primarily in the Palos Verdes Peninsula and adjoining areas of Los Angeles and Orange Counties. The Company operates through five locations, four branches and one loan center, including its headquarters located in the city of Palos Verdes Estates.

Use of Estimates in the Preparation of Consolidated Financial Statements—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates of the allowance for loan losses.

Cash and Cash Equivalents— Cash and cash equivalents include cash and due from banks and overnight federal funds sold, all of which have original maturities of less than 90 days at the time of purchase. The Company is required to maintain reserve balances with the Federal Reserve Bank under the Federal Reserve Act. The reserve balance was approximately $3,680,000 and $2,234,000 at December 31, 2010 and 2009, respectively.

Interest-Bearing Deposits in Banks—Interest-bearing deposits in banks mature within one year and are carried at cost.

Investment Securities—Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, unless there is other-than-temporary impairment on the securities. Credit related declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses, and there were no such other-than-temporary impairments in 2010 or 2009. The Company did not own any investment securities as of December 31, 2010 or 2009.

Investment in the stock of the Federal Home Loan Bank ("FHLB") is not subject to classification in the aforementioned categories as it is not a readily marketable security and it is carried at cost.

Loans Receivable—Loans receivable are stated at unpaid principal balances, plus premiums on purchased loans, less the allowance for loan losses and unamortized deferred loan origination fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the loan yield using the interest method. Premiums on loans are amortized to interest income using the interest method over the remaining period to contractual maturity. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in the process of collection. Loans are 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 are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans. Other loan fees and charges, representing service costs for prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded as income when collected.

The Company's lending is concentrated in surrounding areas of Los Angeles and Orange Counties, and substantially, all of the Company's loans have adjustable interest rates.

Allowance for Loan Losses—Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of underlying collateral, and current economic conditions. Although management believes that the level of the allowance as of December 31, 2010, is adequate to absorb known and inherent risks in the loan portfolio, no assurances can be given that adverse future economic conditions will not lead to higher amounts of problem loans, provisions for credit losses, or charge-offs.

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. Impaired loans are measured based on the present value of expected future cash flows discounted at the loans' effective interest rates or the fair value of the collateral if the loans are collateral dependent. If the fair value of an impaired loan is less than the carrying value, a specific reserve is included in the allowance for loan losses. Impairment is measured on a loan-by-loan basis for multi-family, construction, and commercial loans. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

Building, Office Properties, and Equipment—Building, leasehold improvements, office properties, and equipment are carried at cost, less accumulated depreciation and amortization. The cost of the building is depreciated using the straight-line method over 39 years. Office properties and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (three to seven years). The cost of leasehold improvements is being amortized using the straight-line method over the terms of the related leases or the estimated lives of the improvements, whichever is shorter.

Real Estate Owned—Real estate acquired through foreclosure is stated at the lower of cost or fair value, less estimated selling costs. Any subsequent holding costs and gains or losses on disposition of real estate owned are recorded in current operations. Substantial capital improvements are recorded as additions to cost of the real estate. Reductions in fair value identified subsequent to foreclosure are recognized in an allowance for losses on real estate owned. The Company did not have any real estate owned as of December 31, 2010 or 2009.

Impairment of Long-Lived Assets—Long-lived assets are reviewed at least annually for impairment. When impairment is indicated, the amount of impairment is the excess of the asset's net book value over its fair value. Furthermore, long-lived assets to be disposed of are reported at the lower of historical cost or fair value, less cost to sell.

Federal Home Loan Bank ("FHLB") Stock—The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and both cash and stock dividends are reported as income. An impairment analysis of FHLB stock is performed annually or when events or circumstances indicate possibility of impairment.

Income Taxes—The Company utilizes the liability method in accounting for income taxes. Deferred tax assets or liabilities shown on the balance sheets reflect the tax effects of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates for deferred tax assets and liabilities is recognized in income in the period that includes the enacted date.

Earnings Per Share ("EPS")—Basic earnings per share are determined by dividing net income by the average number of shares of common stock outstanding, while diluted earnings per share are determined by dividing net income by the average number of shares of common stock outstanding, adjusted for the dilutive effect of common stock equivalents.

Dividends—The Company paid dividends of $0.38 and $0.32 per share of common stock in 2010 and 2009, respectively.

Stock-Based Compensation—The Company issued stock-based compensation to certain employees, officers, and directors. The Company accounts for stock-based compensation under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") 718-10, *Share-Based Payment*, for stock-based compensation. ASC 718-10 allows for two alternative transition methods. The Company follows the modified prospective method, which requires application of the new statement to new awards and to awards modified, repurchased, or cancelled after the required effective date. Accordingly, prior-period amounts have not been restated. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006, are recognized as the requisite services are rendered on or after January 1, 2006. The compensation cost of that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original ASC 718-10.

Recent Accounting Pronouncements—In January 2010, FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 will require reporting entities to make new disclosures about (a) amounts and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements, (b) input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3, and (c) information on purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measures. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measures, which are effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 effective for reporting periods after December 15, 2009, did not have a material impact on the consolidated financial statements.

In April 2010, FASB issued ASU 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset*, which is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. Under the amendments, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The adoption of this standard did not have a material impact on the consolidated financial statements.

In July 2010, FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to improve disclosures about the credit quality of financing receivables and the allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Required disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010, while required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of this standard did not have a material impact on the consolidated financial statements.

2. LOANS RECEIVABLE

Loans receivable at December 31, 2010 and 2009, are summarized as follows:

Description	2010	2009
Residential mortgage loans–multi-family	**$ 543,545,351**	$ 558,856,332
Residential mortgage loans–single family	**163,747,573**	139,337,847
Commercial loans	**51,010,994**	50,288,747
Construction loans	**8,928,000**	6,547,500
Business banking loans	**5,369,054**	5,853,606
Consumer loans	**608,175**	582,602
	773,209,147	761,466,634
Less (plus):		
Allowance for loan losses–general	**2,842,798**	2,813,644
Construction loans in process	**6,954,041**	2,410,540
Deferred loan costs–net of fees	**(2,847,699)**	(2,611,669)
	6,949,140	2,612,515
Total	**$ 766,260,007**	$ 758,854,119

As of December 31, 2010 and 2009, loans with adjustable rates of interest (including loans with an initial fixed rate for 1 to 10 years that subsequently convert to adjustable rate) totaled $768.5 million and $756.0 million, respectively, and loans with fixed rates of interest were $4.7 million and $5.5 million, respectively. Adjustable-rate loans are generally indexed to the FHLB's Eleventh District Cost of Funds Index, 12-Month Constant Maturity Index, London Interbank Offered Rate ("LIBOR"), or prime rate and are subject to limitations on the timing and extent of adjustment. Most adjustable rate loans adjust within six months of changes in the index.

At December 31, 2010 and 2009, real estate loans aggregating $628.5 million and $624.8 million, respectively, were pledged as collateral against FHLB borrowings and real estate loans totaling $73.4 million and $74.0 million, respectively, were pledged to secure deposits held by the state of California. In addition, home equity lines of credit totaling $16.6 million were pledged as collateral to the Federal Reserve Bank discount window at December 31, 2010.

Activity in the allowance for loan losses and unfunded loan commitments for the years ended December 31, 2010 and 2009, is summarized as follows:

	2010	2009
Allowance for loan losses:		
Balance–beginning of year	**$ 2,813,644**	$ 2,741,485
Provision for loan losses	**41,300**	120,400
Charge-offs, net of recoveries	**(12,146)**	(9,241)
Transfer to unfunded loan commitments	**0**	(39,000)
Balance–end of year	**$ 2,842,798**	$ 2,813,644
Allowance for unfunded loan commitments:		
Balance–beginning of year	**$ 99,800**	$ 60,800
Provision for unfunded loan commitments	**0**	39,000
Balance–end of year	**$ 99,800**	$ 99,800

The following table is a breakdown of the allowance for loan losses at December 31, 2010, by loan type:

	Multi-Family	Single Family	Commercial	Construction	Business Banking	Consumer	Total
Balance – beginning of year	$ 2,102,615	$ 554,487	$ 57,647	$ 80,181	$ 7,477	$ 11,237	**$ 2,813,644**
Total charge-offs	-	-	-	-	-	(12,146)	**(12,146)**
Total recoveries	-	-	-	-	-	-	-
Provision for loan losses	47,000	28,262	460	(42,200)	2,371	5,407	**41,300**
Total	$ 2,149,615	$ 582,749	$ 58,107	$ 37,981	$ 9,848	$ 4,498	**$ 2,842,798**

Loans with classification of pass, special mention, substandard, and doubtful for the years ended December 31, 2010 and 2009, are summarized as follows:

	December 31, 2010				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential mortgage loans – multi-family	$ 542,678,889	$ -	$ 866,462	$ -	**$ 543,545,351**
Residential mortgage loans – single family	162,092,279	1,655,294	-	-	**163,747,573**
Commercial loans	46,749,600	488,872	3,772,522	-	**51,010,994**
Construction loans	8,928,000	-	-	-	**8,928,000**
Business banking loans	5,369,054	-	-	-	**5,369,054**
Consumer loans	608,175	-	-	-	**608,175**
Total	$ 766,425,997	$ 2,144,166	$ 4,638,984	$ -	**$ 773,209,147**

	December 31, 2009				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential mortgage loans – multi-family	$ 558,478,961	$ -	$ 377,371	$ -	**$ 558,856,332**
Residential mortgage loans – single family	138,635,297	702,550	-	-	**139,337,847**
Commercial loans	46,514,254	-	3,774,493	-	**50,288,747**
Construction loans	6,547,500	-	-	-	**6,547,500**
Business banking loans	5,655,211	198,395	-	-	**5,853,606**
Consumer loans	582,602	-	-	-	**582,602**
Total	$ 756,413,825	$ 900,945	$ 4,151,864	$ -	**$ 761,466,634**

The allowance for unfunded loan commitments is primarily related to undisbursed funds on construction loans and lines of credit. The Company evaluates credit risk associated with the loan portfolio at the same time it evaluates credit risk associated with the unfunded loan commitments. However, the allowances necessary for the commitments are reported separately in other liabilities in the accompanying consolidated balance sheets and not as part of the allowance for loan losses as presented above.

There were two loans in the amount of $3 million (of which $1.8 million was a troubled debt restructuring) considered to be impaired but accruing interest with no specific reserves at December 31, 2010 and 2009. The average recorded investment in impaired loans during the years ended December 31, 2010 and 2009, was $3 million and $247,522, respectively. Interest income of $176,686 and $14,759 was recognized on impaired loans during the years ended December 31, 2010 and 2009, respectively, all of which was received in cash.

The Bank is subject to numerous lending-related regulations and may not make real estate loans to one borrower in excess of 15% of its unimpaired capital and surplus, except for loans not to exceed $500,000. This 15% limitation resulted in a dollar limitation of approximately $14.5 million and $12.7 million at December 31, 2010 and 2009, respectively.

In the ordinary course of business, the Company has granted loans to certain executive officers and directors and the companies with which they are associated. In management's opinion, such loans and commitments to lend were made under terms and prevailing interest rates that are consistent with the Company's normal lending policies. Interest income from loans to executive officers and directors was $308,829 and $545,388 in 2010 and 2009, respectively.

A summary of related-party loan activity for the years ended December 31, 2010 and 2009, is as follows:

	2010	**2009**
Beginning balance	**$ 5,381,919**	$ 8,227,012
Credit granted–including renewals	**687,213**	731,325
Repayments	**(65,087)**	(3,576,418)
Ending balance	**$ 6,004,045**	$ 5,381,919

3. BUILDING, OFFICE PROPERTIES, AND EQUIPMENT

Building, office properties, and equipment at December 31, 2010 and 2009, are summarized as follows:

Description	2010	2009
Land	**$ 1,275,364**	$ 1,275,364
Building	**3,563,561**	3,562,029
Leasehold improvements	**1,745,124**	1,735,802
Equipment	**1,700,113**	1,551,953
Furniture and fixtures	**639,871**	625,076
Construction in progress	-	44,400
	8,924,033	8,794,624
Accumulated depreciation and amortization	**(2,863,003)**	(2,506,538)
Total	**$ 6,061,030**	$ 6,288,086

Depreciation and amortization expense for the years ended December 31, 2010 and 2009, was $456,081 and $383,642, respectively.

4. COMMITMENTS AND CONTINGENCIES

Off-Balance-Sheet Financial Instruments—The Company is a party to financial instruments with off-balance-sheet risk, in the normal course of business, to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. The Company's maximum exposure to credit loss under standby letters of credit, financial guarantees, and commitments to extend credit is represented by the contractual 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.

The Company requires collateral to support financial instruments when it is deemed necessary. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but generally includes real estate or deposits held in the Company.

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. Some of the commitments are expected to expire without being drawn upon; the total commitment amounts do not necessarily represent future cash requirements. The Company had commitments to originate loans of $9.4 million and $3.2 million, undisbursed funds for construction loans of $7.0 million and $2.4 million, and undrawn lines of credit previously granted of approximately $32.9 million and $30.8 million at December 31, 2010 and 2009, respectively.

From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims and other obligations customarily indemnified in the ordinary course of the Company's business. The terms of such obligations vary, and generally, a maximum obligation is not explicitly stated. Therefore, the overall maximum amount of the obligations cannot be reasonably estimated. The most significant of these contracts relate to certain agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities arising out of their performance of services for the Company. Historically, the Company has not been subject to indemnification claims and no liabilities have been recorded for these obligations on the balance sheet as of December 31, 2010 and 2009.

Collateralized standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Management does not anticipate any material losses as a result of these transactions. Loan commitments collateralized by standby letters of credit and financial guarantees written were $23,400 and $22,400 at December 31, 2010 and 2009, respectively.

Leases—The Company leases office premises under operating leases that expire at various dates through September 24, 2022. Rental expense was $608,837 and $639,178 for the years ended December 31, 2010 and 2009, respectively. The projected minimum rental payments under the terms of the leases at December 31, 2010, are as follows:

Years Ending December 31	
2011	$ 599,376
2012	599,376
2013	599,376
2014	401,866
2015	228,510
Thereafter	1,153,521
Total	$ 3,582,025

5. DEPOSITS

Deposit balances and the weighted-average interest rates for each category of deposits at December 31, 2010 and 2009, are summarized as follows:

	2010		2009	
	Interest Rate	Amount	Interest Rate	Amount
Demand deposits	**0.00%**	**$ 40,521,788**	0.00%	$ 36,003,390
NOW accounts	**0.19**	**47,180,731**	0.21	42,785,000
Passbooks	**0.27**	**21,724,047**	0.26	17,658,274
Money market accounts	**0.56**	**101,432,796**	0.81	93,219,204
Certificates of deposit–non jumbo	**0.92**	**90,286,463**	1.19	84,946,473
Certificates of deposit–jumbo	**1.02**	**219,689,763**	0.96	219,156,642
Total	**0.73%**	**$ 520,835,588**	0.82%	$ 493,768,983

Jumbo certificates of deposit are certificates of deposit with balances of $100,000 or more.

Certificates of deposit maturities at December 31, 2010, are summarized as follows:

Years Ending December 31	
2011	$ 260,832,543
2012	35,525,793
2013	8,585,026
2014	197,276
2015	4,835,588
Total	$ 309,976,226

As of December 31, 2010 and 2009, the Company had certificates of deposit from the State of California Treasurer's Office of $48.0 million.

6. FHLB BORROWINGS

A primary alternate funding source for the Company is a credit line with the FHLB of San Francisco of up to 50% of the Company's total assets. Interest is payable monthly at a weighted-average rate of 4.68% as of December 31, 2010. The FHLB borrowings are collateralized by real estate loans (see Note 2) and the capital stock of the FHLB owned by the Company.

Maturities of FHLB borrowings at December 31, 2010, are summarized as follows:

Years Ending December 31	
2011	$ 62,000,000
2012	32,000,000
2013	38,000,000
2014	14,000,000
2015	23,000,000
Thereafter	23,000,000
Total	$ 192,000,000

7. SENIOR SUBORDINATED NOTES

In December 2009 and January 2010, in order to obtain funds to increase the regulatory capital of the Bank, MFC issued $10,000,000 of 9.25% Senior Subordinated Notes, the proceeds of which were contributed to the Bank as capital. The Notes are due on the earlier to occur of December 31, 2016, or upon a change of control, are subordinated to all borrowings of MFC (other than the outstanding junior subordinated debentures) and may not be prepaid prior to maturity. All notes were issued to directors and an executive officer of MFC.

8. JUNIOR SUBORDINATED DEBENTURES

MFC has from time to time issued junior subordinated debentures related to concurrent issuances of trust-preferred securities by business trusts formed by MFC in order to generate regulatory capital for the Bank. This capital has a relatively low cost as interest payments on the debentures are deductible for income tax purposes.

In June 2003, MFC issued $5,155,000 of junior subordinated debentures to PVP Statutory Trust I. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $155,000 and trust-preferred securities in a private placement for $5,000,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in June 2033, have been redeemable at par at MFC's option since June 2008, and require quarterly distributions/interest payments at a fixed rate of 5.67% per annum through June 2008 and thereafter at a variable rate that adjusts quarterly at the three-month LIBOR rate, plus 3.10%. The interest rate on the debentures was 3.40% per annum at December 31, 2010.

In January 2005, MFC issued $2,578,000 of junior subordinated debentures to PVP Statutory Trust II. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $78,000 and trust-preferred securities in a private placement for $2,500,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in March 2035, have been redeemable at par at MFC's option since March 2010, and require quarterly distributions/interest payments at a rate that adjusts quarterly at the three-month LIBOR rate, plus 1.77%. The interest rate on the debentures was 2.07% per annum at December 31, 2010.

In January 2005, MFC issued $5,671,000 of junior subordinated debentures to PVP Statutory Trust III. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $171,000 and trust-preferred securities in a private placement for $5,500,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in March 2035, have been redeemable at par at MFC's option since March 2010, and require quarterly distributions/interest payments at a fixed rate of 5.67% through March 2010 and, thereafter, at a variable rate that adjusts quarterly at the three-month LIBOR rate, plus 1.77%. The interest rate on the debentures was 2.07% per annum at December 31, 2010.

MFC's investment in the common trust securities of the trusts is included in "other assets" on its balance sheets. MFC has unconditionally guaranteed distributions on, and payments on liquidation and redemption of, all of these trust-preferred securities.

9. INCOME TAXES

A summary of income tax expense (benefit) for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Current:		
State	**$ 1,840,566**	$ 1,680,725
Federal	**5,446,110**	4,847,881
Total Current	**7,286,676**	6,528,606
Deferred:		
State	**3,355**	(7,843)
Federal	**17,589**	41,092
Total Deferred	**20,944**	33,249
Total	**$ 7,307,620**	$ 6,561,855

The components of the net deferred tax (liability) asset at December 31, 2010 and 2009 are as follows:

	2010	2009
FEDERAL		
Deferred tax liabilities:		
Loan fees/costs	**$ (2,069,192)**	$ (2,001,278)
FHLB dividends	**(1,348,334)**	(1,309,810)
Depreciation	**(193,064)**	(165,227)
Other	**(49,724)**	(41,661)
Gross deferred tax liability	**(3,660,314)**	(3,517,976)
Deferred tax assets:		
California franchise tax	**884,963**	804,191
Bad debt and loan loss deduction	**1,029,909**	990,571
Other	**116,219**	111,579
Gross deferred tax asset	**2,031,091**	1,906,341
Net deferred tax liability	**$ (1,629,223)**	$ (1,611,635)

	2010	2009
STATE		
Deferred tax liabilities:		
Loan fees/costs	**$ (640,858)**	$ (638,055)
FHLB dividends	**(417,597)**	(417,597)
Other	**(15,401)**	(13,282)
Gross deferred tax liability	**(1,073,856)**	(1,068,934)
Deferred tax assets:		
Depreciation	**30,985**	35,790
Bad debt and loan loss deduction	**318,978**	315,817
Other	**35,995**	32,785
Gross deferred tax asset	**385,958**	384,392
Net deferred tax liability	**$ (687,898)**	$ (684,542)

A reconciliation of total income tax expense for 2010 and 2009 to the expected tax expense computed by applying the statutory corporate income tax rate to pretax income is as follows for the years ended December 31:

	2010		2009	
	Amount	**Percent**	**Amount**	**Percent**
Tax expense at statutory rates	**$ 6,230,728**	**35%**	$ 5,619,437	35%
State franchise tax– net of federal benefit	**1,198,549**	**7**	1,087,373	7
Other	**(121,657)**	**(1)**	(144,955)	(1)
Total	**$ 7,307,620**	**41%**	$ 6,561,855	41%

Effective January 1, 2009, the Company adopted the authoritative guidance for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes* (formerly, ("FASB") Interpretation No. 48), as amended by ASU 2009-06, *Implementation Guidance on Accounting for Uncertainty in Taxes and Disclosures Amendments for Nonpublic Entities*. This guidance requires the Company to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability. The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company has determined the major tax jurisdictions as where the Company is organized and where the Company makes investments as U.S. federal and state; however, no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years. The Company files income tax returns in the U.S. federal jurisdiction and in California. The Company is no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal filings and 2005 for its California filings. The Company is additionally not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months. As a result, no income tax liability or expense has been recorded in the accompanying financial statements relating to uncertain tax positions. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

10. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items that are calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2010 and 2009, the Bank met all applicable regulatory capital requirements.

As of December 31, 2010 and 2009, the most recent notification from the Office of Thrift Supervision categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below.

There are no conditions or events since that notification which management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		Applicable Federal Regulatory Requirements To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2010:						
Total capital to risk-weighted assets:	$ 96,502,370	19.40%	$ 39,786,466	8.00%	$ 49,733,083	10.00%
Core capital to adjusted tangible assets:	93,659,572	11.52	32,530,408	4.00	40,663,010	5.00
Tangible capital to adjusted tangible assets:	93,659,572	11.52	12,198,903	1.50	N/A	N/A
Tier 1 capital to risk-weighted assets:	93,659,572	18.83	N/A	N/A	29,839,850	6.00
As of December 31, 2009:						
Total capital to risk-weighted assets:	$ 84,620,814	17.04%	$ 39,720,886	8.00%	$ 49,651,107	10.00%
Core capital to adjusted tangible assets:	81,807,170	10.10	32,399,160	4.00	40,498,950	5.00
Tangible capital to adjusted tangible assets:	81,807,170	10.10	12,149,685	1.50	N/A	N/A
Tier 1 capital to risk-weighted assets:	81,807,170	16.48	N/A	N/A	29,790,664	6.00

11. STOCK OPTION PLANS

MFC has two stock option plans, the 2003 Stock Option Plan (the "2003 Plan") and the 2007 Director Stock Option Plan (the "2007 Director Plan"). The 2003 Plan authorizes MFC to issue to officers, directors, employees, and consultants of the Company up to 348,115 shares of the common stock upon exercise of options. The exercise price of the options granted under the 2003 Plan may not be less than the fair market value of the common stock on the date of grant and the term of any option may not exceed 10 years.

Under the 2007 Director Plan, MFC may issue up to 300,000 shares of common stock pursuant to automatic grants to each director on January 1 of each year of an option to purchase 9,200 shares of common stock. The exercise price of each option granted under the 2007 Director Plan is the fair market value of the common stock on the date the option is granted. Each option granted under the 2007 Director Plan vests one year from the date the option was granted and expires five years from the date of grant, subject to earlier termination if the optionee ceases to be a director.

Pursuant to the adoption of ASC Topic 718, *Stock Compensation*, stock-based compensation expense was $61,668 for 2010 and 2009, which decreased the year's income before taxes by such amount and its effect on basic and diluted earnings per share was negligible. Cash provided by operating activities decreased by $35,700 and $25,700 for 2010 and 2009, respectively, and cash provided by financing activities increased by identical amounts for both 2010 and 2009 related to excess tax benefits from stock-based arrangements.

The following table presents the status of shares subject to options and exercise price amounts during the year ended December 31, 2010:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Term	Aggregate Intrinsic Value
Outstanding—beginning of year	258,148	$ 10.27		
Granted	74,200	13.71		
Exercised	(37,254)	10.68		
Canceled	(176)	4.00		
Outstanding—end of year	294,918	$ 11.08	2.75 years	$ 1,242,414
Vested and expected to vest—year-end	221,018	$ 10.21	1.84 years	$ 1,114,350
Exercisable—year-end	221,018	$ 10.21	1.84 years	$ 1,114,350

The following table presents the status of all optioned shares and exercise price amounts during the year ended December 31, 2009:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Term	Aggregate Intrinsic Value
Outstanding—beginning of year	279,599	$ 10.48		
Granted	55,200	10.10		
Exercised (1)	(65,504)	11.12		
Canceled	(11,147)	9.64		
Outstanding—end of year	258,148	$ 10.27	2.69 years	$ 674,324
Vested and expected to vest—year-end	202,948	$ 10.31	2.34 years	$ 522,524
Exercisable—year-end	202,948	$ 10.31	2.34 years	$ 522,524

(1) Includes fractional options aggregating to four options that were settled in cash and no shares were issued.

Information pertaining to options outstanding at December 31, 2010, is as follows:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$5.10 – $7.62	36,138	1.5	$ 6.69	36,138	$ 6.69
$9.70 – $15.96	258,780	2.9	11.70	184,880	10.90
Total	294,918	2.8	$ 11.08	221,018	$ 10.21

The following table presents certain information regarding options for the years ended December 31, 2010 and 2009:

	2010	2009
Weighted-average fair value of stock options granted during the year	$ 1.53	$ 1.12
Total intrinsic value of options exercised	170,087	113,011
Total fair value of shares vested	56,151	61,668

As of December 31, 2010 and 2009, total unrecognized compensation costs related to options that have been granted prior to the end of 2010 was $3,000 and $0, respectively.

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

	2010	2009
Expected term (1)	1.5 years	1 year
Expected volatility (2)	25.22%	31.60%
Expected dividend yield (3)	2.42	3.17
Risk-free interest rate (4)	0.42	0.49

(1) The expected term is the vesting period of the option.
(2) The expected volatility was based on historical volatility for a period equal to the stock option's expected term.
(3) The expected dividend yield is based on the Company's prevailing dividend rate at the time of grant.
(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option's expected term.

12. EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation for the years ended December 31:

	2010			2009		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Income available to common stockholders	$ 10,494,458	5,815,139	$ 1.80	$ 9,493,679	5,750,763	$ 1.65
Effect of Dilutive Securities						
Options–common stock equivalents		65,484	(0.02)		50,941	(0.01)
Diluted EPS						
Income available to common stockholders, plus assumed conversion	$ 10,494,458	5,880,623	$ 1.78	$ 9,493,679	5,801,704	$ 1.64

13. ESTIMATED FAIR VALUE INFORMATION

The Company adopted ASC Topic 820, *Fair Value Measurements and Disclosure*, (formerly FASB Statement No. 157, *Fair Value Measurements*) effective January 1, 2008. ASC Topic 820 provides a framework for measuring fair value under GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and nonrecurring basis. For the Company, this does not include any financial assets or liabilities.

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various methods, including market and income approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means

Level 3: Significant unobservable inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

At December 31, 2010, there were no financial assets or liabilities measured or reported at fair value.

Financial assets and liabilities recorded at carrying value have estimated fair value amounts determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts at December 31:

	2010		**2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and cash equivalents	$ 9,754,000	$ 9,754,000	$ 18,413,000	$ 18,413,000
Interest-bearing deposits in banks	12,256,000	12,256,000	5,158,000	5,158,000
Loans receivable	766,260,000	776,700,000	758,854,000	763,873,000
Accrued interest receivable	2,962,000	2,962,000	3,019,000	3,019,000
Investment in FHLB stock	13,951,000	13,951,000	15,697,000	15,697,000
Liabilities:				
Deposits	520,836,000	522,062,000	493,769,000	494,546,000
FHLB borrowings	192,000,000	203,499,000	228,000,000	240,170,000
Senior subordinated notes	10,000,000	10,254,000	7,250,000	7,250,000
Junior subordinated debentures	13,404,000	13,404,000	13,404,000	13,404,000
Accrued interest payable	291,000	291,000	99,000	99,000

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below.

For cash and cash equivalents and accrued interest receivable and payable, the carrying amounts are considered to be their estimated fair value.

For interest-bearing deposits in banks, carrying amounts are considered to be estimated fair value due to the short-term nature of the deposits.

For FHLB stock, the carrying amount equals fair value, as the stock may be sold back to the FHLB at the carrying value.

The fair value of performing variable- and fixed-rate loans was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be made to borrowers with similar credit risk characteristics over the same remaining maturities, reduced by net deferred loan origination fees, and the allocable portion of the allowance for loan losses. The estimated current rate for discounting purposes was not adjusted for any change in borrowers' credit risk since the origination of such loans. Rather, the allocable portion of the allowance for loan losses is considered to provide for such changes in estimated fair value. The fair value of nonaccrual loans has been estimated at their carrying amount because it is not practicable to reasonably assess the credit risk adjustment that would be applied in the marketplace for such loans. The fair value of commitments, which include standby letters of credit, is not material to the financial statements as a whole.

The fair value of senior subordinated notes is estimated by discounting the cash flows through maturity based on the prevailing rates offered on the six-year treasury bond, plus the market spread on comparable subordinated notes.

The fair value of junior subordinated debentures is estimated by discounting the cash flows through maturity based on prevailing rates offered on the five-year Treasury bond, plus the current market spread.

The fair value of passbook, NOW, and money market deposit accounts is considered to be equivalent to their withdrawable amount. The fair value of certificates of deposit and FHLB borrowings is estimated using the rates currently offered for deposits and borrowings of similar remaining maturities.

The fair value estimates presented are based on pertinent information available to management as of December 31, 2010 and 2009. Such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 27, 2011, the date the consolidated financial statements were issued.

In November 2010, the Board of Directors of MFC adopted a stock repurchase program pursuant to which MFC may from time to time repurchase shares of common stock at current market prices upon demand from shareholders. The maximum amount MFC may spend to repurchase shares may not exceed the lesser of $960,000 or the total proceeds from the exercise of stock options after adoption of the program ($789,000 as of April 27, 2011). The Board of Directors may suspend or terminate the program at any time. As of December 31, 2010, no shares were repurchased. As of April 27, 2011, MFC had repurchased 11,859 shares for $209,481 under the program.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Malaga Financial Corporation
Palos Verdes Estates, California

We have audited the accompanying consolidated balance sheets of Malaga Financial Corporation and subsidiary (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 27, 2011

BOARD OF DIRECTORS AND OFFICERS

BOARD OF DIRECTORS*

Robert E. Kershaw
Chairman of the Board

Steven P. L. Sheng
Corporate Secretary

Raymond L. Craemer, M.D.

Jerry A. Donahue

Leo K. C. Lee

Richard A. Oas, M.D.

CORPORATE ADMINISTRATION

Randy C. Bowers*
President and Chief Executive Officer

Jasna Penich*
Executive Vice President and
Chief Financial Officer

Susanne M. Chandler*
Senior Vice President and
Chief Risk Officer

Mel Hashimoto
Vice President and Controller

Gayle CdeBaca
Assistant Vice President and
Facilities Manager

RETAIL BANKING OPERATIONS

Aaron Aalcides
Senior Vice President
Branch Banking Executive

Connie Begovich
Assistant Vice President
Deposit Compliance / BSA Officer

Carmela Carroll
Assistant Vice President
Retail Banking Manager

Jocelyn Papadakis
Assistant Vice President
Project Manager / Security Officer

Rose Mary Callahan
Assistant Vice President
Retail Banking Manager

LENDING OPERATIONS

Mark Bustamante
Senior Vice President and
Income Property Loan Officer

Russ Ciezata
Vice President and
Home Loan Specialist

Kenneth A. Johnson
Vice President and
Income Property Loan Officer

Dennis Mezzo
Vice President
Residential Loan Production

John Turner
Vice President and
Business Banking Manager

Nina Brister
Assistant Vice President
Loan Service Manager

Cathy Jaramillo
Assistant Vice President and
Assistant Loan Operations Manager

*Directors or Officers of MFC and Malaga Bank.

MALAGA BANK CORPORATE OFFICE AND RETAIL LOCATIONS

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SAN PEDRO OFFICE

1460 West 25th Street, San Pedro, CA 90732
T 310-732-1100
F 310-831-7610

TORRANCE OFFICE

25700 Crenshaw Blvd., Torrance, CA 90505
T 310-784-2000
F 310-784-0326

LOAN CENTER

23670 Hawthorne Blvd., Suite 101, Torrance, CA 90505
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F 310-544-0819

Call any Branch Office TOLL-FREE 888-8-MALAGA
Call the Loan Center TOLL-FREE 888-3-MALAGA
malagabank.com

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