

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

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|--|---|---|--|
| 1 Issuer's name MALAGA FINANCIAL CORPORATION | 2 Issuer's employer identification number (EIN) xxxxx3309 | | |
| 3 Name of contact for additional information JASNA PENICH | 4 Telephone No. of contact 310-375-9000 EXT 2013 | 5 Email address of contact JPENICH@MALAGABANK.COM | |
| 6 Number and street (or P.O. box if mail is not delivered to street address) of contact 2514 VIA TEJON | 7 City, town, or post office, state, and ZIP code of contact PALOS VERDES ESTATES, CA 90274 | | |
| 8 Date of action DECEMBER 29, 2017 | 9 Classification and description 5% STOCK DIVIDEND | | |
| 10 CUSIP number 561046 | 11 Serial Number(s) N/A | 12 Ticker symbol MLGF | 13 Account number(s) N/A |

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶
 On November 16, 2017, Company announced a 5% stock dividend. The dividend was payable on December 29, 2017 to shareholders of record as of December 15, 2017. Cash in lieu was paid on fractional shares based on the stock's market value at close of business on December 15, 2017.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶
 Each shareholder received a 5% increase in the number of shares that they held on December 15, 2017. Company had 6,218,349 shares of record on December 15, 2017. Therefore, as a result of this 5% stock dividend an additional 310,782 shares were issued on December 29, 2017 with the remaining 135.45 fractional shares paid in cash.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶
 On December 28, 2017 the market value of the Company's common stock was \$29.58 per share prior to the stock dividend. The change in basis to the individual shareholder as a result of this stock dividend would be calculated by taking the adjusted basis of the old stock (that is of the stock on which the dividend was distributed) and allocating it between the old and new stock on the date of distribution. This organizational action would result in a decreased per share basis and an increase in the number of shares held by each taxpayer.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►
Internal Revenue Code sections 302 and 307

Horizontal lines for listing applicable Internal Revenue Code sections and subsections.

18 Can any resulting loss be recognized? ►
No resulting loss is recognized on the date of distribution to each shareholder.

Horizontal lines for providing information regarding resulting loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ►
The 5% stock dividend was issued to shareholders of record on December 15, 2017 and payable on December 29, 2017.

Horizontal lines for providing any other necessary information for the adjustment.

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| Sign Here | Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge. | | | | |
| | Signature ► | <i>Jasna Penich</i> | Date ► | | |
| Paid Preparer Use Only | Print your name ► | JASNA PENICH | Title ► | EVP/CFO | |
| | Print/Type preparer's name | Preparer's signature | Date | Check <input type="checkbox"/> if self-employed | PTIN |
| | Firm's name ► | | | | Firm's EIN ► |
| | Firm's address ► | | | | Phone no. |