

BROADWAY FINANCIAL CORP \DE\

Form 10-Q

November 14, 2018

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **000-27464**

**BROADWAY FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

95-4547287

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**5055 Wilshire Boulevard, Suite 500**  
**Los Angeles, California**  
(Address of principal executive offices)

**90036**  
(Zip Code)

**(323) 634-1700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated, a smaller reporting company, or an emerging growth company. See the definition of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/>            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 7, 2018, 18,662,402 shares of the Registrant's voting common stock and 8,756,396 shares of the Registrant's non-voting common stock were outstanding.



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(In thousands, except share and per share amounts)

|                                                                                                                                                                                                                                                                                                            | September 30, 2018<br>(Unaudited) | December 31, 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                                              |                                   |                   |
| Cash and due from banks                                                                                                                                                                                                                                                                                    | \$ 3,333                          | \$ 3,420          |
| Interest-bearing deposits in other banks                                                                                                                                                                                                                                                                   | 10,081                            | 18,799            |
| Cash and cash equivalents                                                                                                                                                                                                                                                                                  | 13,414                            | 22,219            |
| Securities available-for-sale, at fair value                                                                                                                                                                                                                                                               | 15,243                            | 17,494            |
| Loans receivable held for sale, at lower of cost or fair value                                                                                                                                                                                                                                             | 19,087                            | 22,370            |
| Loans receivable held for investment, net of allowance of \$3,183 and \$4,069                                                                                                                                                                                                                              | 355,272                           | 334,851           |
| Accrued interest receivable                                                                                                                                                                                                                                                                                | 1,241                             | 1,073             |
| Federal Home Loan Bank (FHLB) stock, at cost                                                                                                                                                                                                                                                               | 2,916                             | 2,916             |
| Office properties and equipment, net                                                                                                                                                                                                                                                                       | 2,296                             | 2,406             |
| Bank owned life insurance                                                                                                                                                                                                                                                                                  | 3,033                             | 2,994             |
| Deferred tax assets, net                                                                                                                                                                                                                                                                                   | 4,903                             | 5,110             |
| Investment in affordable housing limited partnership                                                                                                                                                                                                                                                       | 391                               | 537               |
| Real estate owned (REO)                                                                                                                                                                                                                                                                                    | 833                               | 878               |
| Other assets                                                                                                                                                                                                                                                                                               | 837                               | 856               |
| <b>Total assets</b>                                                                                                                                                                                                                                                                                        | <b>\$ 419,466</b>                 | <b>\$ 413,704</b> |
| <b>Liabilities and stockholders' equity</b>                                                                                                                                                                                                                                                                |                                   |                   |
| <b>Liabilities:</b>                                                                                                                                                                                                                                                                                        |                                   |                   |
| Deposits                                                                                                                                                                                                                                                                                                   | \$ 278,885                        | \$ 291,290        |
| FHLB advances                                                                                                                                                                                                                                                                                              | 82,000                            | 65,000            |
| Junior subordinated debentures                                                                                                                                                                                                                                                                             | 5,100                             | 5,100             |
| Advance payments by borrowers for taxes and insurance                                                                                                                                                                                                                                                      | 1,520                             | 1,071             |
| Accrued expenses and other liabilities                                                                                                                                                                                                                                                                     | 3,948                             | 3,512             |
| <b>Total liabilities</b>                                                                                                                                                                                                                                                                                   | <b>371,453</b>                    | <b>365,973</b>    |
| <b>Stockholders' Equity:</b>                                                                                                                                                                                                                                                                               |                                   |                   |
| Preferred stock, \$.01 par value, authorized 1,000,000 shares; none issued or outstanding                                                                                                                                                                                                                  | -                                 | -                 |
| Common stock, \$.01 par value, voting, authorized 50,000,000 shares at September 30, 2018 and December 31, 2017; issued 21,280,228 shares at September 30, 2018 and 21,312,649 shares at December 31, 2017; outstanding 18,662,402 shares at September 30, 2018 and 18,694,823 shares at December 31, 2017 | 213                               | 213               |
| Common stock, \$.01 par value, non-voting, authorized 25,000,000 shares at September 30, 2018 and December 31, 2017; issued and outstanding 8,756,396 shares at September 30, 2018 and December 31, 2017                                                                                                   | 87                                | 87                |
| Additional paid-in capital                                                                                                                                                                                                                                                                                 | 46,131                            | 46,117            |
| Retained earnings                                                                                                                                                                                                                                                                                          | 8,356                             | 7,816             |
| Unearned Employee Stock Ownership Plan (ESOP) shares                                                                                                                                                                                                                                                       | (1,043)                           | (1,095)           |
| Accumulated other comprehensive loss                                                                                                                                                                                                                                                                       | (405)                             | (81)              |
| Treasury stock-at cost, 2,617,826 shares at September 30, 2018 and December 31, 2017                                                                                                                                                                                                                       | (5,326)                           | (5,326)           |
| <b>Total stockholders' equity</b>                                                                                                                                                                                                                                                                          | <b>48,013</b>                     | <b>47,731</b>     |
| <b>Total liabilities and stockholders' equity</b>                                                                                                                                                                                                                                                          | <b>\$ 419,466</b>                 | <b>\$ 413,704</b> |

See accompanying notes to unaudited consolidated financial statements.



Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Consolidated Statements of Operations and Comprehensive Income (Loss)****(Unaudited)**

|                                                                                      | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                                      | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
|                                                                                      | <b>(In thousands, except per share)</b>     |             |                                            |             |
| <b>Interest income:</b>                                                              |                                             |             |                                            |             |
| Interest and fees on loans receivable                                                | \$ 3,690                                    | \$ 4,127    | \$ 10,614                                  | \$ 12,035   |
| Interest on mortgage-backed and other securities                                     | 100                                         | 69          | 313                                        | 217         |
| Other interest income                                                                | 113                                         | 148         | 368                                        | 365         |
| Total interest income                                                                | 3,903                                       | 4,344       | 11,295                                     | 12,617      |
| <b>Interest expense:</b>                                                             |                                             |             |                                            |             |
| Interest on deposits                                                                 | 821                                         | 611         | 2,137                                      | 1,782       |
| Interest on borrowings                                                               | 578                                         | 494         | 1,308                                      | 1,515       |
| Total interest expense                                                               | 1,399                                       | 1,105       | 3,445                                      | 3,297       |
| Net interest income                                                                  | 2,504                                       | 3,239       | 7,850                                      | 9,320       |
| Loan loss provision recapture                                                        | 1,000                                       | 300         | 1,000                                      | 950         |
| Net interest income after loan loss provision recapture                              | 3,504                                       | 3,539       | 8,850                                      | 10,270      |
| <b>Non-interest income:</b>                                                          |                                             |             |                                            |             |
| Service charges                                                                      | 110                                         | 117         | 336                                        | 338         |
| Gain on sale of loans                                                                | 9                                           | 160         | 20                                         | 383         |
| CDFI Grant                                                                           | 233                                         | -           | 233                                        | -           |
| Income from litigation settlement                                                    | -                                           | -           | -                                          | 1,183       |
| Other                                                                                | 28                                          | 28          | 92                                         | 82          |
| Total non-interest income                                                            | 380                                         | 305         | 681                                        | 1,986       |
| <b>Non-interest expense:</b>                                                         |                                             |             |                                            |             |
| Compensation and benefits                                                            | 1,721                                       | 1,878       | 5,377                                      | 5,193       |
| Occupancy expense                                                                    | 330                                         | 333         | 963                                        | 953         |
| Information services                                                                 | 191                                         | 202         | 611                                        | 610         |
| Professional services                                                                | 126                                         | 120         | 497                                        | 525         |
| Office services and supplies                                                         | 70                                          | 72          | 218                                        | 225         |
| REO expense                                                                          | 46                                          | 12          | 132                                        | 10          |
| Marketing expense                                                                    | 64                                          | 36          | 201                                        | 137         |
| Corporate insurance                                                                  | 35                                          | 50          | 113                                        | 143         |
| Amortization of investment in affordable housing limited partnership                 | 49                                          | 48          | 146                                        | 146         |
| Other                                                                                | 169                                         | 306         | 498                                        | 826         |
| Total non-interest expense                                                           | 2,801                                       | 3,057       | 8,756                                      | 8,768       |
| Income before income taxes                                                           | 1,083                                       | 787         | 775                                        | 3,488       |
| Income tax expense                                                                   | 332                                         | 284         | 235                                        | 1,220       |
| Net income                                                                           | \$ 751                                      | \$ 503      | \$ 540                                     | \$ 2,268    |
| <b>Other comprehensive (loss) gain, net of tax:</b>                                  |                                             |             |                                            |             |
| Unrealized (losses) gains on securities available-for-sale arising during the period | \$ (105)                                    | \$ -        | \$ (465)                                   | \$ 3        |
| Income tax (benefit) expense                                                         | (34)                                        | -           | (141)                                      | 1           |
| Other comprehensive loss, net of tax                                                 | (71)                                        | -           | (324)                                      | 2           |
| Comprehensive income                                                                 | \$ 680                                      | \$ 503      | \$ 216                                     | \$ 2,270    |
| Earnings per common share-basic                                                      | \$ 0.03                                     | \$ 0.02     | \$ 0.02                                    | \$ 0.09     |
| Earnings per common share-diluted                                                    | \$ 0.03                                     | \$ 0.02     | \$ 0.02                                    | \$ 0.08     |

*See accompanying notes to unaudited consolidated financial statements.*

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Consolidated Statements of Cash Flows****(Unaudited)**

|                                                                                      | <b>Nine Months Ended September 30,</b> |             |
|--------------------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                                      | <b>2018</b>                            | <b>2017</b> |
|                                                                                      | <b>(In thousands)</b>                  |             |
| <b>Cash flows from operating activities:</b>                                         |                                        |             |
| Net income                                                                           | \$ 540                                 | \$ 2,268    |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: |                                        |             |
| Loan provision recapture                                                             | (1,000)                                | (950)       |
| Provision for losses on REOs                                                         | 45                                     | -           |
| Depreciation                                                                         | 181                                    | 194         |
| Net amortization of deferred loan origination costs                                  | 323                                    | 216         |
| Net amortization of premiums on mortgage-backed securities                           | 26                                     | 23          |
| Amortization of investment in affordable housing limited partnership                 | 146                                    | 146         |
| Director compensation expense-common stock                                           | 45                                     | -           |
| Stock-based compensation expense                                                     | 62                                     | 240         |
| ESOP compensation expense                                                            | 67                                     | 79          |
| Earnings on bank owned life insurance                                                | (39)                                   | (41)        |
| Originations of loans receivable held for sale                                       | (20,288)                               | (94,972)    |
| Proceeds from sales of loans receivable held for sale                                | 6,614                                  | 81,853      |
| Repayments on loans receivable held for sale                                         | 106                                    | 318         |
| Gain on sale of loans receivable held for sale                                       | (20)                                   | (383)       |
| Change in assets and liabilities:                                                    |                                        |             |
| Net change in deferred taxes                                                         | 348                                    | 1,210       |
| Net change in accrued interest receivable                                            | (168)                                  | 65          |
| Net change in other assets                                                           | 19                                     | 110         |
| Net change in advance payments by borrowers for taxes and insurance                  | 449                                    | 709         |
| Net change in accrued expenses and other liabilities                                 | 436                                    | (222)       |
| Net cash used in operating activities                                                | (12,108)                               | (9,137)     |
| <b>Cash flows from investing activities:</b>                                         |                                        |             |
| Net change in loans receivable held for investment                                   | (2,873)                                | 49,371      |
| Principal payments on available-for-sale securities                                  | 1,760                                  | 1,708       |
| Purchase of FHLB stock                                                               | -                                      | (343)       |
| Additions to office properties and equipment                                         | (71)                                   | (177)       |
| Net cash provided by (used in) investing activities                                  | (1,184)                                | 50,559      |
| <b>Cash flows from financing activities:</b>                                         |                                        |             |
| Net change in deposits                                                               | (12,405)                               | 7,493       |
| Proceeds from FHLB advances                                                          | 34,500                                 | 29,500      |
| Repayments of FHLB advances                                                          | (17,500)                               | (28,500)    |
| Payment for tax withholding for vesting of restricted stock                          | (108)                                  | (0)         |
| Net cash provided by financing activities                                            | 4,487                                  | 8,493       |
| Net change in cash and cash equivalents                                              | (8,805)                                | 49,915      |
| Cash and cash equivalents at beginning of the period                                 | 22,219                                 | 18,430      |
| Cash and cash equivalents at end of the period                                       | \$ 13,414                              | \$ 68,345   |
| <b>Supplemental disclosures of cash flow information:</b>                            |                                        |             |
| Cash paid for interest                                                               | \$ 3,357                               | \$ 3,168    |

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|                            |   |    |
|----------------------------|---|----|
| Cash paid for income taxes | - | 20 |
|----------------------------|---|----|

## **Supplemental disclosures of cash flow information:**

|                                                                                     |    |   |    |       |
|-------------------------------------------------------------------------------------|----|---|----|-------|
| Transfers of loans receivable held for investment to REO                            | \$ | - | \$ | 958   |
| Transfers of loans receivable held for investment to loans receivable held for sale |    | - |    | 9,337 |

## **Supplemental disclosures of non-cash investing and financing:**

|                                                                                     |    |        |    |   |
|-------------------------------------------------------------------------------------|----|--------|----|---|
| Transfers of loans receivable held for sale to loans receivable held for investment | \$ | 16,871 | \$ | - |
| Common stock issued to directors for compensation                                   |    | 45     |    | - |
| Common stock exchanged for payment of tax withholding                               |    | 108    |    | - |

*See accompanying notes to unaudited consolidated financial statements.*

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Consolidated Statements of Changes in Stockholders' Equity****Nine-Month Period Ended September 30, 2018****(Unaudited)**

|                                                             | <b>Common<br/>Stock<br/>Voting</b> | <b>Common<br/>Stock<br/>Non-<br/>Voting</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b><br>(In thousands) | <b>Retained<br/>Earnings<br/>(Substantially<br/>Restricted)</b> | <b>Unearned<br/>ESOP<br/>Shares</b> | <b>Treasury<br/>Stock</b> | <b>Total<br/>Stockholders<br/>Equity</b> |
|-------------------------------------------------------------|------------------------------------|---------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------|---------------------------|------------------------------------------|
| <b>Balance at December 31, 2017</b>                         | <b>\$ 213</b>                      | <b>\$ 87</b>                                | <b>\$ 46,117</b>                          | <b>\$ (81)</b>                                                              | <b>\$ 7,816</b>                                                 | <b>\$ (1,095)</b>                   | <b>\$ (5,326)</b>         | <b>\$ 47,731</b>                         |
| Net loss for the three months ended March 31, 2018          | -                                  | -                                           | -                                         | -                                                                           | (84)                                                            | -                                   | -                         | (84)                                     |
| Release of unearned ESOP shares                             | -                                  | -                                           | 8                                         | -                                                                           | -                                                               | 17                                  | -                         | 25                                       |
| Restricted stock                                            | -                                  | -                                           | -                                         | -                                                                           | -                                                               | -                                   | -                         | -                                        |
| Compensation expense                                        | -                                  | -                                           | 26                                        | -                                                                           | -                                                               | -                                   | -                         | 26                                       |
| Stock awarded to directors                                  | -                                  | -                                           | 45                                        | -                                                                           | -                                                               | -                                   | -                         | 45                                       |
| Stock option compensation expense                           | -                                  | -                                           | 10                                        | -                                                                           | -                                                               | -                                   | -                         | 10                                       |
| Cancellation of shares issued to CEO                        | -                                  | -                                           | (108)                                     | -                                                                           | -                                                               | -                                   | -                         | (108)                                    |
| Unrealized gain on securities available for sale net of tax | -                                  | -                                           | -                                         | (200)                                                                       | -                                                               | -                                   | -                         | (200)                                    |
| <b>Balance at March 31, 2018</b>                            | <b>213</b>                         | <b>87</b>                                   | <b>46,098</b>                             | <b>(281)</b>                                                                | <b>7,732</b>                                                    | <b>(1,078)</b>                      | <b>(5,326)</b>            | <b>47,445</b>                            |
| Net loss for the three months ended June 30, 2018           | -                                  | -                                           | -                                         | -                                                                           | (127)                                                           | -                                   | -                         | (127)                                    |
| Release of unearned ESOP shares                             | -                                  | -                                           | 5                                         | -                                                                           | -                                                               | 18                                  | -                         | 23                                       |
| Restricted stock                                            | -                                  | -                                           | -                                         | -                                                                           | -                                                               | -                                   | -                         | -                                        |
| Compensation expense                                        | -                                  | -                                           | 3                                         | -                                                                           | -                                                               | -                                   | -                         | 3                                        |
| Stock awarded to directors                                  | -                                  | -                                           | 10                                        | -                                                                           | -                                                               | -                                   | -                         | 10                                       |
| Unrealized gain on securities available for sale net of tax | -                                  | -                                           | -                                         | (53)                                                                        | -                                                               | -                                   | -                         | (53)                                     |
| <b>Balance at June 30, 2018</b>                             | <b>213</b>                         | <b>87</b>                                   | <b>46,116</b>                             | <b>(334)</b>                                                                | <b>7,605</b>                                                    | <b>(1,060)</b>                      | <b>(5,326)</b>            | <b>47,301</b>                            |
| Net loss for the three months ended June 30, 2018           | -                                  | -                                           | -                                         | -                                                                           | 751                                                             | -                                   | -                         | 751                                      |
| Release of unearned ESOP shares                             | -                                  | -                                           | 2                                         | -                                                                           | -                                                               | 17                                  | -                         | 19                                       |
| Restricted stock                                            | -                                  | -                                           | -                                         | -                                                                           | -                                                               | -                                   | -                         | -                                        |
| Compensation expense                                        | -                                  | -                                           | 3                                         | -                                                                           | -                                                               | -                                   | -                         | 3                                        |
| Stock awarded to directors                                  | -                                  | -                                           | 10                                        | -                                                                           | -                                                               | -                                   | -                         | 10                                       |
| Unrealized gain on securities available for sale net of tax | -                                  | -                                           | -                                         | (71)                                                                        | -                                                               | -                                   | -                         | (71)                                     |
| <b>Balance at September 30, 2018</b>                        | <b>\$ 213</b>                      | <b>\$ 87</b>                                | <b>\$ 46,131</b>                          | <b>\$ (405)</b>                                                             | <b>\$ 8,356</b>                                                 | <b>\$ (1,043)</b>                   | <b>\$ (5,326)</b>         | <b>\$ 48,013</b>                         |

*See accompanying notes to unaudited consolidated financial statements.*

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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2018**

**NOTE (1) Basis of Financial Statement Presentation**

The accompanying unaudited consolidated financial statements include Broadway Financial Corporation (the "Company") and its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the "Bank"). Also included in the unaudited consolidated financial statements is Broadway Service Corporation, a wholly owned subsidiary of the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. On January 1, 2018, the Company adopted ASU No. 2014-09 and all subsequent ASUs that modified Topic 606. The adoption did not have a material impact on the measurement or recognition of revenue; as such, a modified retrospective cumulative effect adjustment to beginning retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. The Company's revenue streams that are within the scope of Topic 606 are primarily services charges on deposit accounts, which consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges

on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 (i) amends existing guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These amendments are effective for public business entities for fiscal years

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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Notes to Unaudited Consolidated Financial Statements (continued)**

beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard did not have a material impact on the Company's consolidated financial statements. In accordance with this standard, the Company measured the fair value of its financial assets and financial liabilities as of September 30, 2018 using an exit price notion (see Note 7 Fair Value).

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on the classification of certain cash receipts and payments on the consolidated statement of cash flows in order to reduce diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, where the guidance should be applied using a retrospective transition method to each period presented. Early adoption is permitted. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update (ASU) 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), which allows an entity to elect a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. The amount of that reclassification should include the effect of changes of tax rate on the deferred tax amount, any related valuation allowance and other income tax effects on the items in AOCI. The standard requires an entity to state if an election to reclassify the tax effect to retained earnings is made along with the description of other income tax effects that are reclassified from AOCI. The guidance is effective for public business entities for annual periods beginning on or after December 15, 2018 and interim periods within those annual periods with early adoption permitted. The Company early adopted this amendment and has elected to reclassify \$66 thousand from AOCI to retained earnings at December 31, 2017.

Recent Accounting Pronouncements Yet to Be Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability in the accounting for lease transactions. Under ASU 2016-02, lessees will be required to recognize all leases longer than twelve months on the Consolidated Statements of Financial Condition as lease assets and lease liabilities and make quantitative and qualitative disclosures regarding key information about leasing arrangements. Under the new guidance, lessor accounting is largely unchanged. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 will be effective for us on January 1, 2019 and will require transition using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Based on leases outstanding at September 30, 2018, the Company does not expect the standard to have a material impact on the Company's Consolidated Statements of Income or Cash Flows, but does anticipate recording a liability of approximately \$1.0 million as of March 31, 2019 for the remaining obligation under its lease agreements and a corresponding right-of-use asset in the Consolidated Statements of Financial Condition, which will have a minor impact on the Bank's regulatory capital ratios.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For public business entities that meet the definition of an SEC filer, the standard will be

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. All entities may early adopt for fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years. For debt securities with other-than-temporary impairment, the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company has begun its implementation efforts by identifying key interpretive issues, assessing its processes and identifying the system requirements against the new guidance to determine what modifications may be required. While the Company is still evaluating the overall impact on the new standard on its consolidated financial statements, the Company expects the adoption will result in an increase to the allowance for loan losses balance.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU was issued to improve the effectiveness of disclosures surrounding fair value measurements. The ASU removes numerous disclosures from Topic 820 including; transfers between level 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation process for level 3 fair value measurements. The ASU also modified and added disclosure requirements in regards to changes in unrealized gains and losses included in other comprehensive income, as well as the range and weighted average of unobservable inputs for level 3 fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The guidance is not expected to have a significant impact on the Company's consolidated financial statements.

**NOTE (2) Earnings Per Share of Common Stock**

Basic earnings per share of common stock is computed pursuant to the two-class method by dividing net income available to common stockholders less dividends paid on participating securities (unvested shares of restricted common stock) and any undistributed earnings attributable to participating securities by the weighted average common shares outstanding during the period. The weighted average common shares outstanding includes the weighted average number of shares of common stock outstanding less the weighted average number of unvested shares of restricted common stock. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per share of common stock includes the dilutive effect of unvested stock awards and additional potential common shares issuable under stock options.

The following table shows how the Company computed basic and diluted earnings per share of common stock for the periods indicated:

|                                                          | For the three months<br>ended September 30, |      | For the nine months<br>ended September 30, |      |    |     |    |       |
|----------------------------------------------------------|---------------------------------------------|------|--------------------------------------------|------|----|-----|----|-------|
|                                                          | 2018                                        | 2017 | 2018                                       | 2017 |    |     |    |       |
|                                                          | (Dollars in thousands, except per share)    |      |                                            |      |    |     |    |       |
| Net income                                               | \$                                          | 751  | \$                                         | 503  | \$ | 540 | \$ | 2,268 |
| Less net income attributable to participating securities |                                             | (3)  |                                            | (1)  |    | (2) |    | (5)   |

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|                                                                                  |    |            |    |            |    |            |    |            |
|----------------------------------------------------------------------------------|----|------------|----|------------|----|------------|----|------------|
| Income available to common stockholders                                          | \$ | 748        | \$ | 502        | \$ | 538        | \$ | 2,263      |
| Weighted average common shares outstanding for basic earnings per common share   |    | 26,752,542 |    | 26,702,564 |    | 26,752,347 |    | 26,662,344 |
| Add: dilutive effects of assumed exercises of stock options                      |    | -          |    | 79,898     |    | 42,912     |    | 3,748      |
| Add: dilutive effects of unvested restricted stock awards                        |    | 4,267      |    | 42,345     |    | 8,474      |    | 56,552     |
| Weighted average common shares outstanding for diluted earnings per common share |    | 26,756,809 |    | 26,824,807 |    | 26,803,733 |    | 26,722,644 |
| Earnings per common share - basic                                                | \$ | 0.03       | \$ | 0.02       | \$ | 0.02       | \$ | 0.09       |
| Earnings per common share - diluted                                              | \$ | 0.03       | \$ | 0.02       | \$ | 0.02       | \$ | 0.08       |

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

An unvested restricted stock award of 8,474 shares and stock options for 537,500 shares of common stock for the three and nine months ended September 30, 2018 and stock options for 90,625 shares of common stock for the three and nine months ended September 30, 2017 were not considered in computing diluted earnings per common share because they were anti-dilutive.

**NOTE (3) Securities**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios as of the periods indicated and the corresponding amounts of unrealized gains and losses which are recognized in accumulated other comprehensive income (loss):

|                                           | Amortized Cost |    | Gross<br>Unrealized<br>Gains |    | Gross<br>Unrealized<br>Losses |    | Fair Value |
|-------------------------------------------|----------------|----|------------------------------|----|-------------------------------|----|------------|
|                                           |                |    | (In thousands)               |    |                               |    |            |
| <b>September 30, 2018:</b>                |                |    |                              |    |                               |    |            |
| Federal agency mortgage-backed securities | \$ 10,158      | \$ | 94                           | \$ | (260)                         | \$ | 9,992      |
| Federal agency debt                       | 5,427          |    | -                            |    | (176)                         |    | 5,251      |
| Total available-for-sale securities       | \$ 15,585      | \$ | 94                           | \$ | (436)                         | \$ | 15,243     |
| <b>December 31, 2017:</b>                 |                |    |                              |    |                               |    |            |
| Federal agency mortgage-backed securities | \$ 11,877      | \$ | 168                          | \$ | (37)                          | \$ | 12,008     |
| Federal agency debt                       | 5,495          |    | 2                            |    | (11)                          |    | 5,486      |
| Total available-for-sale securities       | \$ 17,372      | \$ | 170                          | \$ | (48)                          | \$ | 17,494     |

At September 30, 2018, the Bank had three federal agency securities with amortized cost of \$5.4 million and estimated fair value of \$5.3 million and an estimated remaining life of 3.9 years. The Bank also had 24 federal agency mortgage-backed securities with an amortized cost of \$10.2 million, an estimated fair value of \$10.0 million and an estimated average remaining life of 4.7 years. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Securities with unrealized losses at September 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

|                            | Less than 12 months     |                               | 12 months or more       |                               | Total                      |                               |
|----------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|----------------------------|-------------------------------|
|                            | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses |
|                            |                         |                               | (In thousands)          |                               |                            |                               |
| <b>September 30, 2018:</b> |                         |                               |                         |                               |                            |                               |
|                            | \$ 6,078                | \$ (185)                      | \$ 1,621                | \$ (76)                       | \$ 7,699                   | \$ (261)                      |

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Federal agency mortgage-backed securities

|                            |    |        |    |       |    |       |    |      |    |        |    |       |
|----------------------------|----|--------|----|-------|----|-------|----|------|----|--------|----|-------|
| Federal agency debt        |    | 5,252  |    | (175) |    | -     |    | -    |    | 5,252  |    | (175) |
| Total temporarily impaired | \$ | 11,330 | \$ | (360) | \$ | 1,621 | \$ | (76) | \$ | 12,951 | \$ | (436) |

**December 31, 2017:**

Federal agency mortgage-backed securities

|                            |    |       |    |      |    |     |    |      |    |       |    |      |
|----------------------------|----|-------|----|------|----|-----|----|------|----|-------|----|------|
| Federal agency debt        | \$ | 4,130 | \$ | (20) | \$ | 812 | \$ | (17) | \$ | 4,942 | \$ | (37) |
| Total temporarily impaired | \$ | 7,640 | \$ | (31) | \$ | 812 | \$ | (17) | \$ | 8,452 | \$ | (48) |

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

Securities in unrealized loss positions are analyzed as part of our ongoing assessment of other-than-temporary impairment. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. All of the Bank's securities were issued by the federal government or its agencies. The unrealized losses on our available-for-sale securities at September 30, 2018 were primarily caused by movements in market interest rates subsequent to the purchase of such securities. We do not consider these unrealized losses to be other than temporary impairment.

There were no securities pledged to secure public deposits at September 30, 2018. Securities pledged to secure public deposits had a carrying amount of \$526 thousand at December 31, 2017. At September 30, 2018 and December 31, 2017, there were no holdings of securities by any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

There were no sales of securities during the three and nine months ended September 30, 2018 and 2017.

**NOTE (4) Loans Receivable Held for Sale**

Loans receivable held for sale at September 30, 2018 and December 31, 2017 totaled \$19.1 million and \$22.4 million, respectively, and consisted of multi-family loans. The Bank transferred \$16.9 million of multi-family loans from the held-for-sale portfolio to the held-for-investment portfolio during the first quarter of 2018. Loan originated for sale were \$20.3 million during the three months and nine months ended September 30, 2018. Sales of multi-family loans during the three months and nine months ended September 30, 2018 totaled \$2.3 million and \$6.6 million, respectively. Loan repayments totaled \$24 thousand and \$106 thousand during the three and nine months ended September 30, 2018, respectively.

**NOTE (5) Loans Receivable Held for Investment**

Loans receivable held for investment were as follows as of the periods indicated:

|                        | September 30, 2018 | December 31, 2017 |
|------------------------|--------------------|-------------------|
|                        | (In thousands)     |                   |
| Real estate:           |                    |                   |
| Single family          | \$ 96,863          | \$ 111,085        |
| Multi-family           | 222,982            | 187,455           |
| Commercial real estate | 5,972              | 6,089             |
| Church                 | 29,138             | 30,848            |
| Construction           | 2,050              | 1,678             |

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|                                                                |            |            |
|----------------------------------------------------------------|------------|------------|
| Commercial other                                               | 200        | 192        |
| Consumer                                                       | 9          | 7          |
| Gross loans receivable before deferred loan costs and premiums | 357,214    | 337,354    |
| Unamortized net deferred loan costs and premiums               | 1,241      | 1,566      |
| Gross loans receivable                                         | 358,455    | 338,920    |
| Allowance for loan losses                                      | (3,183)    | (4,069)    |
| Loans receivable, net                                          | \$ 355,272 | \$ 334,851 |

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

The following tables present the activity in the allowance for loan losses by loan type for the periods indicated:

**Three Months Ended September 30, 2018**

|                                                | <b>Single<br/>family</b> | <b>Multi-<br/>family</b> | <b>Real Estate<br/>Commercial<br/>real estate</b> | <b>Church</b>         | <b>Construction</b> | <b>Commercial<br/>- other</b> | <b>Consumer</b> | <b>Total</b> |
|------------------------------------------------|--------------------------|--------------------------|---------------------------------------------------|-----------------------|---------------------|-------------------------------|-----------------|--------------|
|                                                |                          |                          |                                                   | <b>(In thousands)</b> |                     |                               |                 |              |
| Beginning balance                              | \$ 517                   | \$ 2,656                 | \$ 61                                             | \$ 925                | \$ 18               | \$ 6                          | \$ -            | \$ 4,183     |
| Provision for<br>(recapture of) loan<br>losses | (120)                    | (791)                    | (6)                                               | (87)                  | 3                   | (1)                           | 2               | (1,000)      |
| Recoveries                                     | -                        | -                        | -                                                 | -                     | -                   | -                             | -               | -            |
| Loans charged off                              | -                        | -                        | -                                                 | -                     | -                   | -                             | -               | -            |
| Ending balance                                 | \$ 397                   | \$ 1,865                 | \$ 55                                             | \$ 838                | \$ 21               | \$ 5                          | \$ 2            | \$ 3,183     |

**Three Months Ended September 30, 2017**

|                                                | <b>Single<br/>family</b> | <b>Multi-<br/>family</b> | <b>Real Estate<br/>Commercial<br/>real estate</b> | <b>Church</b>         | <b>Construction</b> | <b>Commercial<br/>- other</b> | <b>Consumer</b> | <b>Total</b> |
|------------------------------------------------|--------------------------|--------------------------|---------------------------------------------------|-----------------------|---------------------|-------------------------------|-----------------|--------------|
|                                                |                          |                          |                                                   | <b>(In thousands)</b> |                     |                               |                 |              |
| Beginning balance                              | \$ 320                   | \$ 2,719                 | \$ 77                                             | \$ 1,104              | \$ 9                | \$ 17                         | \$ -            | \$ 4,246     |
| Provision for<br>(recapture of) loan<br>losses | 219                      | (297)                    | (4)                                               | (214)                 | 5                   | (9)                           | -               | (300)        |
| Recoveries                                     | -                        | -                        | -                                                 | 267                   | -                   | -                             | -               | 267          |
| Loans charged off                              | -                        | -                        | -                                                 | -                     | -                   | -                             | -               | -            |
| Ending balance                                 | \$ 539                   | \$ 2,422                 | \$ 73                                             | \$ 1,157              | \$ 14               | \$ 8                          | \$ -            | \$ 4,213     |

**Nine Months Ended September 30, 2018**

|                                                | <b>Single<br/>family</b> | <b>Multi-<br/>family</b> | <b>Real Estate<br/>Commercial<br/>real estate</b> | <b>Church</b>         | <b>Construction</b> | <b>Commercial<br/>- other</b> | <b>Consumer</b> | <b>Total</b> |
|------------------------------------------------|--------------------------|--------------------------|---------------------------------------------------|-----------------------|---------------------|-------------------------------|-----------------|--------------|
|                                                |                          |                          |                                                   | <b>(In thousands)</b> |                     |                               |                 |              |
| Beginning balance                              | \$ 594                   | \$ 2,300                 | \$ 71                                             | \$ 1,081              | \$ 17               | \$ 6                          | \$ -            | \$ 4,069     |
| Provision for<br>(recapture of) loan<br>losses | (197)                    | (435)                    | (16)                                              | (357)                 | 4                   | (1)                           | 2               | (1,000)      |
| Recoveries                                     | -                        | -                        | -                                                 | 114                   | -                   | -                             | -               | 114          |
| Loans charged off                              | -                        | -                        | -                                                 | -                     | -                   | -                             | -               | -            |
| Ending balance                                 | \$ 397                   | \$ 1,865                 | \$ 55                                             | \$ 838                | \$ 21               | \$ 5                          | \$ 2            | \$ 3,183     |

**Nine Months Ended September 30, 2017**

|                   | <b>Single<br/>family</b> | <b>Multi-<br/>family</b> | <b>Real Estate<br/>Commercial<br/>real estate</b> | <b>Church</b>         | <b>Construction</b> | <b>Commercial<br/>- other</b> | <b>Consumer</b> | <b>Total</b> |
|-------------------|--------------------------|--------------------------|---------------------------------------------------|-----------------------|---------------------|-------------------------------|-----------------|--------------|
|                   |                          |                          |                                                   | <b>(In thousands)</b> |                     |                               |                 |              |
| Beginning balance | \$ 367                   | \$ 2,659                 | \$ 215                                            | \$ 1,337              | \$ 8                | \$ 17                         | \$ -            | \$ 4,603     |

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|                                                |        |          |       |          |       |      |      |          |
|------------------------------------------------|--------|----------|-------|----------|-------|------|------|----------|
| Provision for<br>(recapture of) loan<br>losses | 142    | (237)    | (142) | (710)    | 6     | (9)  | -    | (950)    |
| Recoveries                                     | 30     | -        | -     | 530      | -     | -    | -    | 560      |
| Loans charged off                              | -      | -        | -     | -        | -     | -    | -    | -        |
| Ending balance                                 | \$ 539 | \$ 2,422 | \$ 73 | \$ 1,157 | \$ 14 | \$ 8 | \$ - | \$ 4,213 |

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

The following tables present the balance in the allowance for loan losses and the recorded investment (unpaid contractual principal balance less charge-offs, less interest applied to principal, plus unamortized deferred costs and premiums) by loan type and based on impairment method as of and for the periods indicated:

**September 30, 2018**

|                                                 | Single<br>family | Multi-<br>family | Real Estate<br>Commercial<br>real estate | Church    | Construction | Commercial<br>- other | Consumer | Total      |
|-------------------------------------------------|------------------|------------------|------------------------------------------|-----------|--------------|-----------------------|----------|------------|
|                                                 | (In thousands)   |                  |                                          |           |              |                       |          |            |
| <b>Allowance for loan losses:</b>               |                  |                  |                                          |           |              |                       |          |            |
| Ending allowance balance attributable to loans: |                  |                  |                                          |           |              |                       |          |            |
| Individually evaluated for impairment           | \$ 55            | \$ -             | \$ -                                     | \$ 365    | \$ -         | \$ 4                  | \$ -     | \$ 424     |
| Collectively evaluated for impairment           | 342              | 1,865            | 55                                       | 473       | 21           | 1                     | 2        | 2,759      |
| Total ending allowance balance                  | \$ 397           | \$ 1,865         | \$ 55                                    | \$ 838    | \$ 21        | \$ 5                  | \$ 2     | \$ 3,183   |
| <b>Loans:</b>                                   |                  |                  |                                          |           |              |                       |          |            |
| Loans individually evaluated for impairment     | \$ 614           | \$ 326           | \$ -                                     | \$ 7,421  | \$ -         | \$ 64                 | \$ -     | \$ 8,425   |
| Loans collectively evaluated for impairment     | 96,621           | 224,078          | 5,972                                    | 21,166    | 2,048        | 136                   | 9        | 350,030    |
| Total ending loans balance                      | \$ 97,235        | \$ 224,404       | \$ 5,972                                 | \$ 28,587 | \$ 2,048     | \$ 200                | \$ 9     | \$ 358,455 |

**December 31, 2017**

|                                                 | Single<br>family | Multi-<br>family | Real Estate<br>Commercial<br>real estate | Church    | Construction | Commercial<br>- other | Consumer | Total      |
|-------------------------------------------------|------------------|------------------|------------------------------------------|-----------|--------------|-----------------------|----------|------------|
|                                                 | (In thousands)   |                  |                                          |           |              |                       |          |            |
| <b>Allowance for loan losses:</b>               |                  |                  |                                          |           |              |                       |          |            |
| Ending allowance balance attributable to loans: |                  |                  |                                          |           |              |                       |          |            |
| Individually evaluated for impairment           | \$ 100           | \$ 1             | \$ -                                     | \$ 479    | \$ -         | \$ 5                  | \$ -     | \$ 585     |
| Collectively evaluated for impairment           | 494              | 2,299            | 71                                       | 602       | 17           | 1                     | -        | 3,484      |
| Total ending allowance balance                  | \$ 594           | \$ 2,300         | \$ 71                                    | \$ 1,081  | \$ 17        | \$ 6                  | \$ -     | \$ 4,069   |
| <b>Loans:</b>                                   |                  |                  |                                          |           |              |                       |          |            |
| Loans individually evaluated for impairment     | \$ 627           | \$ 333           | \$ -                                     | \$ 8,280  | \$ -         | \$ 65                 | \$ -     | \$ 9,305   |
| Loans collectively evaluated for impairment     | 110,897          | 188,585          | 6,096                                    | 22,232    | 1,671        | 127                   | 7        | 329,615    |
| Total ending loans balance                      | \$ 111,524       | \$ 188,918       | \$ 6,096                                 | \$ 30,512 | \$ 1,671     | \$ 192                | \$ 7     | \$ 338,920 |

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

The following table presents information related to loans individually evaluated for impairment by loan type as of the periods indicated:

|                                            | September 30, 2018             |                        |                                              | December 31, 2017              |                        |                                              |
|--------------------------------------------|--------------------------------|------------------------|----------------------------------------------|--------------------------------|------------------------|----------------------------------------------|
|                                            | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated |
|                                            | (In thousands)                 |                        |                                              |                                |                        |                                              |
| <b>With no related allowance recorded:</b> |                                |                        |                                              |                                |                        |                                              |
| Multi-family                               | \$ 326                         | \$ 326                 | \$ -                                         | \$ -                           | \$ -                   | \$ -                                         |
| Church                                     | 4,697                          | 2,872                  | -                                            | 5,140                          | 3,291                  | -                                            |
| <b>With an allowance recorded:</b>         |                                |                        |                                              |                                |                        |                                              |
| Single family                              | 614                            | 614                    | 55                                           | 627                            | 627                    | 100                                          |
| Multi-family                               | -                              | -                      | -                                            | 333                            | 333                    | 1                                            |
| Church                                     | 4,549                          | 4,549                  | 365                                          | 5,028                          | 4,989                  | 479                                          |
| Commercial - other                         | 64                             | 64                     | 4                                            | 65                             | 65                     | 5                                            |
| Total                                      | \$ 10,250                      | \$ 8,425               | \$ 424                                       | \$ 11,193                      | \$ 9,305               | \$ 585                                       |

The recorded investment in loans excludes accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

The following tables present the monthly average of loans individually evaluated for impairment by loan type and the related interest income for the periods indicated.

|                        | Three Months Ended September 30, 2018 |                                                | Three Months Ended September 30, 2017 |                                                |
|------------------------|---------------------------------------|------------------------------------------------|---------------------------------------|------------------------------------------------|
|                        | Average<br>Recorded<br>Investment     | Cash Basis<br>Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment     | Cash Basis<br>Interest<br>Income<br>Recognized |
|                        | (In thousands)                        |                                                |                                       |                                                |
| Single family          | \$ 616                                | \$ 8                                           | \$ 634                                | \$ 7                                           |
| Multi-family           | 327                                   | 5                                              | 631                                   | 5                                              |
| Commercial real estate | -                                     | -                                              | -                                     | -                                              |
| Church                 | 7,486                                 | 119                                            | 9,038                                 | 256                                            |
| Commercial other       | 64                                    | 1                                              | 65                                    | 2                                              |
| Total                  | \$ 8,493                              | \$ 133                                         | \$ 10,368                             | \$ 270                                         |

|  | Nine Months Ended September 30, 2018 |                                                | Nine Months Ended September 30, 2017 |                                                |
|--|--------------------------------------|------------------------------------------------|--------------------------------------|------------------------------------------------|
|  | Average<br>Recorded<br>Investment    | Cash Basis<br>Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment    | Cash Basis<br>Interest<br>Income<br>Recognized |

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|                        | (In thousands) |        |           |        |
|------------------------|----------------|--------|-----------|--------|
| Single family          | \$ 620         | \$ 23  | \$ 638    | \$ 21  |
| Multi-family           | 330            | 17     | 636       | 28     |
| Commercial real estate | -              | -      | 397       | 104    |
| Church                 | 7,746          | 404    | 9,674     | 592    |
| Commercial -other      | 64             | 3      | 65        | 4      |
| Total                  | \$ 8,760       | \$ 447 | \$ 11,410 | \$ 749 |

Cash-basis interest income recognized represents cash received for interest payments on accruing impaired loans and interest recoveries on non-accrual loans that were paid off. Interest payments collected on non-accrual loans are characterized as payments of principal rather than payments of the outstanding accrued interest on the loans until the remaining principal on the non-accrual loans is considered to be fully collectible or paid off. When a loan is returned to accrual status, the interest payments that were previously applied to principal are deferred and amortized over the

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remaining life of the loan.

The following tables present the aging of the recorded investment in past due loans by loan type as of the periods indicated:

|                                              | September 30, 2018        |                           |                                        |                                     | Current    | Total      |
|----------------------------------------------|---------------------------|---------------------------|----------------------------------------|-------------------------------------|------------|------------|
|                                              | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>than<br>90 Days<br>Past Due | Total<br>Past Due<br>(In thousands) |            |            |
| <b>Loans receivable held for investment:</b> |                           |                           |                                        |                                     |            |            |
| Single family                                | \$ 39                     | \$ -                      | \$ -                                   | \$ 39                               | \$ 97,196  | \$ 97,235  |
| Multi-family                                 | -                         | -                         | -                                      | -                                   | 224,404    | 224,404    |
| Commercial real estate                       | -                         | -                         | -                                      | -                                   | 5,972      | 5,972      |
| Church                                       | -                         | -                         | -                                      | -                                   | 28,587     | 28,587     |
| Construction                                 | -                         | -                         | -                                      | -                                   | 2,048      | 2,048      |
| Commercial - other                           | -                         | -                         | -                                      | -                                   | 200        | 200        |
| Consumer                                     | -                         | -                         | -                                      | -                                   | 9          | 9          |
| Total                                        | \$ 39                     | \$ -                      | \$ -                                   | \$ 39                               | \$ 358,416 | \$ 358,455 |

|                                              | December 31, 2017         |                           |                                        |                                     | Current    | Total      |
|----------------------------------------------|---------------------------|---------------------------|----------------------------------------|-------------------------------------|------------|------------|
|                                              | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>than<br>90 Days<br>Past Due | Total<br>Past Due<br>(In thousands) |            |            |
| <b>Loans receivable held for investment:</b> |                           |                           |                                        |                                     |            |            |
| Single family                                | \$ -                      | \$ 50                     | \$ -                                   | \$ 50                               | \$ 111,474 | \$ 111,524 |
| Multi-family                                 | -                         | -                         | -                                      | -                                   | 188,918    | 188,918    |
| Commercial real estate                       | -                         | -                         | -                                      | -                                   | 6,096      | 6,096      |
| Church                                       | 341                       | -                         | -                                      | 341                                 | 30,171     | 30,512     |
| Construction                                 | -                         | -                         | -                                      | -                                   | 1,671      | 1,671      |
| Commercial - other                           | -                         | -                         | -                                      | -                                   | 192        | 192        |
| Consumer                                     | -                         | -                         | -                                      | -                                   | 7          | 7          |
| Total                                        | \$ 341                    | \$ 50                     | \$ -                                   | \$ 391                              | \$ 338,529 | \$ 338,920 |

The following table presents the recorded investment in non-accrual loans by loan type as of the periods indicated:

|                                              | September 30, 2018 | December 31, 2017 |
|----------------------------------------------|--------------------|-------------------|
|                                              | (In thousands)     |                   |
| <b>Loans receivable held for investment:</b> |                    |                   |
| Church                                       | 1,187              | 1,766             |

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|                         |    |       |    |       |
|-------------------------|----|-------|----|-------|
| Total non-accrual loans | \$ | 1,187 | \$ | 1,766 |
|-------------------------|----|-------|----|-------|

The above non-accrual loans were not delinquent, but did not qualify for accrual status as of the periods indicated. There were no loans 90 days or more delinquent that were accruing interest as of September 30, 2018 or December 31, 2017.

## **Troubled Debt Restructurings**

At September 30, 2018, loans classified as troubled debt restructurings ( TDRs ) totaled \$8.1 million, of which \$856 thousand were included in non-accrual loans and \$7.2 million were on accrual status. At December 31, 2017, loans classified as TDRs totaled \$8.9 million, of which \$1.4 million were included in non-accrual loans and \$7.5 million were on accrual status. The Company has allocated \$420 thousand and \$585 thousand of specific reserves for accruing TDRs as of September 30, 2018 and December 31, 2017, respectively. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a

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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Notes to Unaudited Consolidated Financial Statements (continued)**

satisfactory period of time and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments, as modified. A well-documented credit analysis that supports a return to accrual status based on the borrower's financial condition and prospects for repayment under the revised terms is also required. As of September 30, 2018 and December 31, 2017, the Company had no commitment to lend additional amounts to customers with outstanding loans that are classified as TDRs. No loans were modified during the three or nine months ended September 30, 2018 and 2017.

**Credit Quality Indicators**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For single family residential, consumer and other smaller balance homogenous loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere herein. The Company analyzes all other loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

§ **Watch.** Loans classified as watch exhibit weaknesses that could threaten the current net worth and paying capacity of the obligors. Watch graded loans are generally performing and are not more than 59 days past due. A watch rating is used when a material deficiency exists but correction is anticipated within an acceptable time frame.

§ **Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

§ **Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

§ **Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

§ **Loss.** Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Pass rated loans are generally well protected by the current net worth and paying capacity of the obligor and/or by the value of the underlying collateral. Pass rated loans are not more than 59 days past due and are generally performing in accordance with the loan terms. Based on the most recent analysis performed, the risk categories of loans by loan type as of the periods indicated were as follows:

|                        | September 30, 2018 |          |                 |             |          |      |  |
|------------------------|--------------------|----------|-----------------|-------------|----------|------|--|
|                        | Pass               | Watch    | Special Mention | Substandard | Doubtful | Loss |  |
|                        | (In thousands)     |          |                 |             |          |      |  |
| Single family          | \$ 97,186          | \$ -     | \$ 39           | \$ 10       | \$ -     | \$ - |  |
| Multi-family           | 223,455            | -        | -               | 949         | -        | -    |  |
| Commercial real estate | 5,972              | -        | -               | -           | -        | -    |  |
| Church                 | 22,397             | 1,300    | -               | 4,890       | -        | -    |  |
| Construction           | 2,048              | -        | -               | -           | -        | -    |  |
| Commercial - other     | 136                | -        | -               | 64          | -        | -    |  |
| Consumer               | 9                  | -        | -               | -           | -        | -    |  |
| Total                  | \$ 351,203         | \$ 1,300 | \$ 39           | \$ 5,913    | \$ -     | \$ - |  |

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|                        | December 31, 2017 |        |                 |             |          |      |
|------------------------|-------------------|--------|-----------------|-------------|----------|------|
|                        | Pass              | Watch  | Special Mention | Substandard | Doubtful | Loss |
|                        | (In thousands)    |        |                 |             |          |      |
| Single family          | \$ 111,513        | \$ -   | \$ -            | \$ 11       | \$ -     | \$ - |
| Multi-family           | 187,946           | -      | -               | 972         | -        | -    |
| Commercial real estate | 5,974             | 122    | -               | -           | -        | -    |
| Church                 | 24,474            | 691    | -               | 5,347       | -        | -    |
| Construction           | 1,671             | -      | -               | -           | -        | -    |
| Commercial - other     | 127               | -      | -               | 65          | -        | -    |
| Consumer               | 7                 | -      | -               | -           | -        | -    |
| Total                  | \$ 331,712        | \$ 813 | \$ -            | \$ 6,395    | \$ -     | \$ - |

**NOTE (6) Junior Subordinated Debentures**

On March 17, 2004, the Company issued \$6.0 million of Floating Rate Junior Subordinated Debentures (the Debentures) in a private placement to a trust that was capitalized to purchase subordinated debt and preferred stock of multiple community banks. Interest on the Debentures is payable quarterly at a rate per annum equal to the 3-Month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 4.88% at September 30, 2018. On October 16, 2014, the Company made payments of \$900 thousand of principal on Debentures, executed a Supplemental Indenture for the Debentures that extended the maturity of the Debentures to March 17, 2024, and modified the payment terms of the remaining \$5.1 million principal amount thereof. The modified terms of the Debentures require quarterly payments of interest only through March 2019 at the original rate of 3-Month LIBOR plus 2.54%. Starting in June 2019, the Company will be required to make quarterly payments of equal amounts of principal, plus interest, until the Debentures are fully amortized on March 17, 2024. The Debentures may be called for redemption at any time by the Company.

**NOTE (7) Fair Value**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

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

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

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The fair value of impaired loans that are collateral dependent is generally based upon the fair value of the collateral, which is obtained from recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets acquired through or by transfer in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated every nine months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Assets Measured on a Recurring Basis**

Assets measured at fair value on a recurring basis are summarized below:

|                               |                     | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Fair Value Measurement                                    |                                                    |           |
|-------------------------------|---------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------|
|                               |                     |                                                                               | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total     |
|                               |                     |                                                                               | (In thousands)                                            |                                                    |           |
| At September 30, 2018:        |                     |                                                                               |                                                           |                                                    |           |
| Securities available-for-sale | federal agency      | \$ -                                                                          | \$ 9,992                                                  | \$ -                                               | \$ 9,992  |
| mortgage-backed               |                     |                                                                               |                                                           |                                                    |           |
| Securities available-for-sale | federal agency debt | 1,972                                                                         | 3,279                                                     | -                                                  | 5,251     |
| At December 31, 2017:         |                     |                                                                               |                                                           |                                                    |           |
| Securities available-for-sale | federal agency      | \$ -                                                                          | \$ 12,008                                                 | \$ -                                               | \$ 12,008 |
| mortgage-backed               |                     |                                                                               |                                                           |                                                    |           |
| Securities available-for-sale | federal agency debt | 1,976                                                                         | 3,510                                                     | -                                                  | 5,486     |

There were no transfers between Level 1, Level 2, or Level 3 during the three and nine months ended September 30, 2018 and 2017.

**Assets Measured on a Non-Recurring Basis**

Assets are considered to be reflected at fair value on a non-recurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the statement of financial condition. Generally, a non-recurring valuation is the result of the application of other accounting pronouncements that require assets to be assessed for impairment or recorded at the lower of cost or fair value.

The following table provides information regarding the carrying values of our assets measured at fair value on a non-recurring basis as of the periods indicated. The fair value measurement for all of these assets falls within Level 3 of the

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fair value hierarchy.

|                                                    | September 30, 2018 | December 31, 2017 |
|----------------------------------------------------|--------------------|-------------------|
|                                                    | (In thousands)     |                   |
| Impaired loans carried at fair value of collateral | \$ 631             | \$ 742            |
| Real estate owned                                  | 833                | 878               |

The following table provides information regarding losses recognized on assets measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2018 and 2017.

|                                                    | Three Months Ended<br>September 30, |    |                | Nine Months Ended<br>September 30, |    |      |
|----------------------------------------------------|-------------------------------------|----|----------------|------------------------------------|----|------|
|                                                    | 2018                                |    | 2017           | 2018                               |    | 2017 |
|                                                    |                                     |    | (In thousands) |                                    |    |      |
| Impaired loans carried at fair value of collateral | \$                                  | -  | \$             | -                                  | \$ | -    |
| Real estate owned church                           |                                     | 45 |                | 45                                 |    | -    |
| Total                                              | \$                                  | 45 | \$             | 45                                 | \$ | -    |

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2018 and December 31, 2017:

|                            | Valuation<br>Technique(s) | Unobservable Input(s)                                   | Range      | Weighted<br>Average |
|----------------------------|---------------------------|---------------------------------------------------------|------------|---------------------|
| <b>September 30, 2018:</b> |                           |                                                         |            |                     |
| Impaired loans             | Third Party Appraisals    | Adjustment for differences between the comparable sales | -3% to -1% | -2.67%              |
| Real estate owned church   | Third Party Appraisals    | Adjustment for differences between the comparable sales | -11%       | -10.85%             |
| <b>December 31, 2017:</b>  |                           |                                                         |            |                     |
| Impaired loans             | Third Party Appraisals    | Adjustment for differences between the comparable sales | -16% to 7% | -4%                 |
| Real estate owned church   | Third Party Appraisals    | Adjustment for differences between the comparable sales | -6%        | -6%                 |

**Fair Values of Financial Instruments**

The following tables present the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments not recorded at fair value on a recurring basis as of September 30, 2018 and December 31, 2017. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and due from banks, interest-bearing deposits in other banks, and accrued interest receivable/payable, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)****Fair Value Measurements at September 30, 2018**

|                                      | <b>Carrying<br/>Value</b> | <b>Level 1</b> | <b>Level 2<br/>(In thousands)</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------------|---------------------------|----------------|-----------------------------------|----------------|--------------|
| <i>Financial Assets:</i>             |                           |                |                                   |                |              |
| Loans receivable held for sale       | \$ 19,087                 | \$ -           | \$ 19,217                         | \$ -           | \$ 19,217    |
| Loans receivable held for investment | 358,455                   | -              | -                                 | 352,475        | 352,475      |
| <i>Financial Liabilities:</i>        |                           |                |                                   |                |              |
| Time Deposits                        | \$ 168,556                | \$ -           | \$ 167,453                        | \$ -           | \$ 167,453   |
| Federal Home Loan Bank advances      | 82,000                    | -              | 81,370                            | -              | 81,370       |
| Junior subordinated debentures       | 5,100                     | -              | -                                 | 4,503          | 4,503        |

**Fair Value Measurements at December 31, 2017**

|                                      | <b>Carrying<br/>Value</b> | <b>Level 1</b> | <b>Level 2<br/>(In thousands)</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------------|---------------------------|----------------|-----------------------------------|----------------|--------------|
| <i>Financial Assets:</i>             |                           |                |                                   |                |              |
| Loans receivable held for sale       | \$ 22,370                 | \$ -           | \$ 22,626                         | \$ -           | \$ 22,626    |
| Loans receivable held for investment | 334,851                   | -              | -                                 | 333,231        | 333,231      |
| <i>Financial Liabilities:</i>        |                           |                |                                   |                |              |
| Time Deposits                        | \$ 150,789                | \$ -           | \$ 150,240                        | \$ -           | \$ 150,240   |
| Federal Home Loan Bank advances      | 65,000                    | -              | 64,887                            | -              | 64,887       |
| Junior subordinated debentures       | 5,100                     | -              | -                                 | 4,503          | 4,503        |

In accordance with the prospective adoption of ASU No. 2016-01, the fair value of certain financial assets and liabilities, including loans, time deposits, and junior subordinated debentures, as of September 30, 2018 was measured using an exit price notion. Although the exit price notion represents the value that would be received to sell an asset or paid to transfer a liability, the actual price received for a sale of assets or paid to transfer liabilities could be different from exit price disclosed.

**NOTE (8) Stock-based Compensation**

The Company issues stock-based compensation awards to its directors and employees under the 2008 Long-Term Incentive Plan ( 2008 LTIP ). The 2008 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards for up to 2,000,000 shares of common stock. As of September 30, 2018, there were 1,293,109 shares available for future awards under the 2008 LTIP.

No stock options were granted during the three and nine months ended September 30, 2018 and 2017.

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The following table summarizes stock option activity during the nine months ended September 30, 2018 and 2017:

|                                    | Nine Months Ended<br>September 30, 2018 |                                          |      | Nine Months Ended<br>September 30, 2017 |                                          |      |
|------------------------------------|-----------------------------------------|------------------------------------------|------|-----------------------------------------|------------------------------------------|------|
|                                    | Number<br>Outstanding                   | Weighted<br>Average<br>Exercise<br>Price |      | Number<br>Outstanding                   | Weighted<br>Average<br>Exercise<br>Price |      |
| Outstanding at beginning of period | 537,500                                 | \$                                       | 2.19 | 540,625                                 | \$                                       | 2.18 |
| Granted during period              | -                                       |                                          | -    | -                                       |                                          | -    |
| Exercised during period            | -                                       |                                          | -    | -                                       |                                          | -    |
| Forfeited or expired during period | -                                       |                                          | -    | -                                       |                                          | -    |
| Outstanding at end of period       | 537,500                                 | \$                                       | 2.19 | 540,625                                 | \$                                       | 2.18 |
| Exercisable at end of period       | 267,500                                 | \$                                       | 2.71 | 180,625                                 | \$                                       | 3.29 |

The Company recorded \$10 thousand of stock-based compensation expense related to stock options during the three

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months ended September 30, in each of 2018 and 2017, and \$29 thousand during the nine months ended September 30, 2018 and 2017. As of September 30, 2018, unrecognized compensation cost related to non-vested stock options granted under the plan was \$94 thousand. The cost is expected to be recognized over a period of 2.40 years.

Options outstanding and exercisable at September 30, 2018 were as follows:

| Grant Date        | Number Outstanding | Outstanding                                 |                                 |      | Aggregate Intrinsic Value | Exercisable        |                                 |                           |
|-------------------|--------------------|---------------------------------------------|---------------------------------|------|---------------------------|--------------------|---------------------------------|---------------------------|
|                   |                    | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |      |                           | Number Outstanding | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| January 21, 2009  | 7,500              | 0.30 years                                  | \$ 4.00                         |      |                           | 7,500              | \$ 4.00                         |                           |
| March 18, 2009    | 75,000             | 0.46 years                                  | \$ 4.98                         |      |                           | 75,000             | \$ 4.98                         |                           |
| January 21, 2010  | 5,000              | 1.30 years                                  | \$ 6.00                         |      |                           | 5,000              | \$ 6.00                         |                           |
| February 24, 2016 | 450,000            | 7.40 years                                  | 1.62                            |      |                           | 180,000            | 1.62                            |                           |
|                   | 537,500            | 6.28 years                                  | \$ 2.19                         | \$ - |                           | 267,500            | \$ 2.71                         | \$ -                      |

In March 2016, the Company awarded 120,483 shares of restricted stock to its Chief Executive Officer ( CEO ) under the 2008 LTIP. A restricted stock award is valued at the closing price of the Company's stock on the date of such award. Subject to certain performance restrictions, 100,000 shares of restricted stock shall vest over a two-year period and the remaining 20,483 shares shall vest over a three-year period. Stock-based compensation expense is recognized over the vesting period. The Company recorded \$3 thousand and \$26 thousand of stock-based compensation expense related to this award during the three months ended September 30, 2018 and 2017, respectively, and \$33 thousand and \$79 thousand during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, unrecognized compensation cost related to non-vested restricted stock award was \$6 thousand, which is expected to be recognized over a period of 6 months.

In March 2018, the Company awarded 18,906 shares of common stock to its directors under the 2008 LTIP, all of which are fully vested. The Company recorded \$45 thousand of compensation expense based on the fair value of the stock, which was determined using the average of the high and the low price of the stock on the date of the award. In April 2017, the Company's directors were awarded 30,002 shares of common stock, which were fully vested, and the Company recorded \$53 thousand of compensation expense related to such award.

In February 2018, the Company awarded 97,195 of cash-settled restricted stock units ( RSUs ) to its CEO under the 2008 LTIP. The Company also awarded 129,270 of cash-settled RSU to its CEO in April 2017. All RSUs vest at the end of two years from the date of the grant and are subject to forfeiture until vested. Each RSU entitles the CEO to receive cash equal to the fair market value of one share of common stock on the applicable payout date. Compensation expense is determined based on the fair value of the award and is re-measured at each reporting period. During the third quarter of 2018, the Company reversed \$37 thousand of stock-based compensation expense due to decreasing stock price. For the same period in 2017, the Company recorded \$40 thousand of stock-based compensation expense related to these awards. For the nine months ended September 30, 2018 and 2017, the Company recorded \$27 thousand and \$62 thousand expense related to these awards,

respectively.

**NOTE (9) ESOP Plan**

Employees participate in an Employee Stock Option Plan ( ESOP ) after attaining certain age and service requirements. In December 2016, the ESOP purchased 1,493,679 shares of the Company's common stock at \$1.59 per share, for a total cost of \$2.4 million, of which \$1.2 million was funded with a loan from the Company. The loan will be repaid from the Bank's annual discretionary contributions to the ESOP, net of dividends paid, over a period of 20 years. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY****Notes to Unaudited Consolidated Financial Statements (continued)**

participants. When loan payments are made, shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. Any dividends on allocated shares increase participant accounts. Any dividends on unallocated shares will be used to repay the loan. Participants will receive shares for their vested balance at the end of their employment. Compensation expense related to the ESOP was \$19 thousand and \$31 thousand for the three months ended September 30, 2018 and 2017, respectively, and \$67 thousand and \$79 thousand for the nine months ended September 30, 2018 and 2017, respectively.

Shares held by the ESOP were as follows:

|                               | <b>September 30, 2018</b>     | <b>December 31, 2017</b> |
|-------------------------------|-------------------------------|--------------------------|
|                               | <b>(Dollars in thousands)</b> |                          |
| Allocated to participants     | 1,108,382                     | 1,108,382                |
| Committed to be released      | 43,009                        | 10,752                   |
| Suspense shares               | 656,613                       | 688,870                  |
| Total ESOP shares             | 1,808,004                     | 1,808,004                |
| Fair value of unearned shares | \$ 926                        | \$ 1,626                 |

The Company received ESOP loan payments of \$84 thousand and \$79 thousand during September of 2018 and 2017, respectively. Shares released for allocation to participants were 43,009 in 2018 and 40,126 in 2017. The outstanding balance of unearned shares was \$1.0 million and \$1.1 million at September 30, 2018 and December 31, 2017, respectively, which is shown as Unearned ESOP shares in the equity section of the consolidated statements of financial condition.

**NOTE (10) Regulatory Matters**

The Bank's capital requirements are administered by the Office of the Comptroller of the Currency ( OCC ) and involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OCC. Failure to meet capital requirements can result in regulatory action.

The federal banking regulators approved final capital rules ( Basel III Capital Rules ) in July 2013 implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules prescribe a standardized approach for calculating risk-weighted assets and revised the definition and calculation of Tier 1 capital and Total capital, and include a new Common Equity Tier 1 capital ( CET1 ) measure. Under the Basel III Capital Rules, the currently effective minimum capital ratios are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets (known as the leverage ratio ).

A capital conservation buffer is also required to be maintained above the regulatory minimum capital requirements. This capital conservation buffer is being phased in on a schedule that began on January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until it reaches its final level of 2.5% on January 1, 2019.

The Basel III Capital rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository

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institutions are now required to meet the following increased capital level requirements in order to qualify as well capitalized : (i) a CET1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). At September 30, 2018 and December 31, 2017, the Bank's level of capital exceeded all regulatory capital requirements and its regulatory capital ratios were above the minimum levels required to be considered well capitalized for regulatory purposes. Actual and required capital amounts and ratios as of the periods indicated are presented below.

|                      |        |        |        |                                 |        |      | Minimum Required To<br>Be Well Capitalized<br>Under Prompt<br>Corrective Action<br>Provisions |        |       |
|----------------------|--------|--------|--------|---------------------------------|--------|------|-----------------------------------------------------------------------------------------------|--------|-------|
|                      | Actual |        |        | Minimum Capital<br>Requirements |        |      |                                                                                               |        |       |
|                      | Amount | Ratio  |        | Amount                          | Ratio  |      | Amount                                                                                        | Ratio  |       |
|                      |        |        |        | (Dollars in thousands)          |        |      |                                                                                               |        |       |
| September 30, 2018:  |        |        |        |                                 |        |      |                                                                                               |        |       |
| Tier 1 (Leverage)    | \$     | 48,891 | 11.83% | \$                              | 16,538 | 4.0% | \$                                                                                            | 20,672 | 5.0%  |
| Common Equity Tier 1 | \$     | 48,891 | 18.14% | \$                              | 18,605 | 4.5% | \$                                                                                            | 17,518 | 6.5%  |
| Tier 1               | \$     | 48,891 | 18.14% | \$                              | 24,807 | 6.0% | \$                                                                                            | 21,561 | 8.0%  |
| Total Capital        | \$     | 52,123 | 19.34% | \$                              | 33,076 | 8.0% | \$                                                                                            | 26,951 | 10.0% |
| December 31, 2017:   |        |        |        |                                 |        |      |                                                                                               |        |       |
| Tier 1 (Leverage)    | \$     | 47,838 | 11.39% | \$                              | 16,798 | 4.0% | \$                                                                                            | 20,997 | 5.0%  |
| Common Equity Tier 1 | \$     | 47,838 | 18.63% | \$                              | 11,557 | 4.5% | \$                                                                                            | 16,693 | 6.5%  |
| Tier 1               | \$     | 47,838 | 18.63% | \$                              | 15,409 | 6.0% | \$                                                                                            | 20,545 | 8.0%  |
| Total Capital        | \$     | 51,059 | 19.88% | \$                              | 20,545 | 8.0% | \$                                                                                            | 25,681 | 10.0% |

Effective as of May 15, 2015, the Federal Reserve Board ( FRB ) adopted a final rule that exempts bank holding companies and savings and loan holding companies with less than \$1 billion in consolidated assets, such as the Company, from FRB's consolidated regulatory capital requirements.

**NOTE (11) Income Taxes**

The Company and its subsidiary are subject to U.S. federal and state income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluated both positive and negative evidence, including the existence of cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. Based on this analysis, the Company determined that as of September 30, 2018, no valuation allowance was required on its deferred tax assets, which totaled \$4.9 million. As of December 31, 2017, the Company recorded no valuation allowance on its deferred tax assets of \$5.1 million.

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**NOTE (12) Concentration of Credit Risk**

The Bank has a significant concentration of deposits with a long-time customer that accounted for approximately 11% of its deposits as of September 30, 2018. The Bank expects to maintain this relationship with the customer.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I Item 1, Financial Statements, of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2017. Certain statements herein are forward-looking statements within the meaning of Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act) and Section 27A of the U.S. Securities Act of 1933, as amended, that reflect our current views with respect to future events and financial performance. Forward-looking statements typically include the words anticipate, believe, estimate, expect, project, plan, forecast, intend, and other similar expressions. These forward-looking statements are subject to uncertainties, which could cause actual future results to differ materially from historical results or from those anticipated or implied by such statements. Readers should not place undue reliance on these forward-looking statements, which speak only as of their dates or, if no date is provided, then as of the date of this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

**Critical Accounting Policies and Estimates**

Our significant accounting policies, which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations, are described in the Notes to Consolidated Financial Statements and in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to our critical accounting policies.

**Overview**

Total assets increased by \$5.8 million during the nine months ended September 30, 2018, primarily reflecting an increase of \$20.4 million in loans receivable held for investment, offset by decreases of \$8.8 million in cash and cash equivalents, \$3.3 million in loans held for sale, and \$2.3 million in securities available for sale. Total borrowings increased by \$17.0 million and total deposits decreased by \$12.4 million.

We recorded net income of \$751 thousand and \$540 thousand for the three and nine months ended September 30, 2018, respectively, compared to \$503 thousand and \$2.3 million for the three and nine months ended September 30, 2017, respectively.

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The increase in net income during the three months ended September 30, 2018 compared to the third quarter of 2017 primarily resulted from an increase of \$700 thousand in loan loss provision recaptures, a \$233 thousand grant from the U.S. Department of the Treasury's Community Development Financial institution (CDFI) Fund, and a decrease of \$256 thousand in non-interest expense, offset by decreases of \$735 thousand in net interest income and a decrease of \$151 thousand in gain on sale of loans.

The decrease in net income during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to a decrease of \$1.5 million in net interest income and a decrease in non-interest income primarily due to a \$1.2 million insurance litigation settlement received during 2017, and a decrease of \$363 thousand in gain on sale of loans. These decreases were offset by the \$233 thousand CDFI grant, and a \$50 thousand increase in loan loss provision recapture.

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**Results of Operations**

*Net Interest Income*

Net interest income for the third quarter of 2018 totaled \$2.5 million, compared to \$3.2 million for the third quarter of 2017. The \$735 thousand decrease in net interest income primarily resulted from lower interest income on loans and higher interest expense on deposits and borrowings. The net interest margin for the third quarter decreased to 2.46% from 3.03% for the same period in 2017.

Interest income on loans decreased by \$437 thousand to \$3.7 million for the third quarter of 2018, from \$4.1 million for the third quarter of 2017. Lower interest income on loans for the third quarter of 2018 resulted from a decrease of \$6.7 million in the average balance of loans receivable, which decreased interest income by \$71 thousand. In addition, the average yield on loans during the third quarter of 2018 decreased by 39 basis points compared to the third quarter of 2017, which reduced interest income by \$366 thousand. The decrease in the average yield on loans primarily resulted from the payoffs of loans with higher rates than those originated over the last year.

Interest expense on deposits increased by \$210 thousand to \$821 thousand for the third quarter of 2018, from \$611 thousand for the third quarter of 2017. Higher interest expense on deposits for the third quarter of 2018 primarily resulted from an increase of 36 basis points in the average cost of deposits, which increased interest expense by \$271 thousand. This increase was partially offset by a \$61 thousand decrease in interest expense due to a \$17.2 million decrease in the average balance of deposits.

Interest expense on borrowings increased by \$84 thousand to \$578 thousand for the third quarter of 2018, from \$494 thousand for the third quarter of 2017. Higher interest expense on borrowings for the third quarter of 2018 primarily resulted from an increase of 38 basis points in the average cost of FHLB advances, which increased interest expense by \$84 thousand, offset in part by a decrease of \$2.6 million in the average balance of FHLB advances, which decreased interest expense by \$12 thousand. Additionally, the interest rate on the Company's junior subordinated debentures, which is tied to 3-month LIBOR, increased by 94 basis points during the third quarter of 2018 compared to the third quarter of 2017, resulting in additional interest expense of \$12 thousand.

For the nine months ended September 30, 2018, net interest income decreased by \$1.5 million to \$7.8 million from \$9.3 million for the same period a year ago. Average interest-earning assets decreased by \$32.9 million to \$399.7 million for the nine months ended September 30, 2018 from \$432.6 million for the same period in 2017. The net interest margin decreased by 25 basis points to 2.62% for the nine months ended September 30, 2018 from 2.87% for the same period in 2017.

Interest income on loans decreased by \$1.4 million to \$10.6 million for the nine months ended September 30, 2018, from \$12.0 million for the same period a year ago. Lower interest income on loans for the nine months ended September 30, 2018 resulted from a decrease of \$27.4 million in the average balance of loans receivable, which decreased interest income by \$816 thousand. In addition, the average yield on loans during the nine months ended September 30, 2018 decreased by 22 basis points compared to the same period a year ago, which reduced interest income by \$605 thousand. The decrease in the average yield on loans primarily resulted from the payoffs of loans with higher rates than those originated over the last year.

Interest expense on deposits increased by \$355 thousand to \$2.1 million for the nine months ended September 30, 2018, from \$1.8 million for the same period a year ago. Higher interest expense on deposits for the nine months ended September 30, 2018 primarily resulted from an increase of 20 basis points in the average cost of deposits, which increased interest expense by \$523 thousand. This increase was partially offset by a \$168 thousand decrease in interest expense due to a \$12.4 million decrease in the average balance of deposits.

Interest expense on borrowings decreased by \$207 thousand to \$1.3 million for the nine months ended September 30, 2018, from \$1.5 million for the same period a year ago. Lower interest expense on borrowings for the nine months ended September 30, 2018 primarily resulted from a decrease of \$20.8 million in the average balance of FHLB advances, which decreased interest expense by \$315 thousand, offset in part by an increase of 10 basis points in the average cost of FHLB

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advances, which increased interest expense by \$70 thousand. Additionally, the interest rate on the Company's junior subordinated debentures, which is tied to 3-month LIBOR, increased by 94 basis points during the nine months ended September 30, 2018 compared to the same period a year ago, resulting in additional interest expense of \$38 thousand.

The following tables set forth average balances, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred loan fees, and discounts and premiums that are amortized or accreted to interest income or expense. We do not accrue interest on loans on non-accrual status; however, the balance of these loans is included in the total average balance of loans receivable, which has the effect of reducing average loan yields.

|                                                                     | September 30, 2018 |          |                           | For the three months ended<br>September 30, 2017 |          |                           |
|---------------------------------------------------------------------|--------------------|----------|---------------------------|--------------------------------------------------|----------|---------------------------|
|                                                                     | Average<br>Balance | Interest | Average<br>Yield/<br>Cost | Average<br>Balance                               | Interest | Average<br>Yield/<br>Cost |
| <i>(Dollars in Thousands)</i>                                       |                    |          |                           |                                                  |          |                           |
| <b>Assets</b>                                                       |                    |          |                           |                                                  |          |                           |
| Interest-earning assets:                                            |                    |          |                           |                                                  |          |                           |
| Interest-earning deposits                                           | \$ 11,765          | \$ 62    | 2.11%                     | \$ 29,576                                        | \$ 97    | 1.31%                     |
| Securities                                                          | 15,716             | 100      | 2.55%                     | 11,801                                           | 69       | 2.34%                     |
| Loans receivable (1)                                                | 377,185            | 3,690    | 3.91%                     | 383,919                                          | 4,127    | 4.30%                     |
| FHLB stock                                                          | 2,916              | 51       | 7.00%                     | 2,916                                            | 51       | 7.00%                     |
| Total interest-earning assets                                       | 407,582            | \$ 3,903 | 3.83%                     | 428,212                                          | \$ 4,344 | 4.06%                     |
| Non-interest-earning assets                                         | 10,100             |          |                           | 10,431                                           |          |                           |
| Total assets                                                        | \$ 417,682         |          |                           | \$ 438,643                                       |          |                           |
| <b>Liabilities and Stockholders' Equity</b>                         |                    |          |                           |                                                  |          |                           |
| Interest-bearing liabilities:                                       |                    |          |                           |                                                  |          |                           |
| Money market deposits                                               | \$ 33,404          | \$ 76    | 0.91%                     | \$ 37,515                                        | \$ 67    | 0.71%                     |
| Passbook deposits                                                   | 43,050             | 49       | 0.46%                     | 38,593                                           | 31       | 0.32%                     |
| NOW and other demand deposits                                       | 34,019             | 9        | 0.11%                     | 32,924                                           | 7        | 0.09%                     |
| Certificate accounts                                                | 161,357            | 687      | 1.70%                     | 180,001                                          | 506      | 1.12%                     |
| Total deposits                                                      | 271,830            | 821      | 1.21%                     | 289,033                                          | 611      | 0.85%                     |
| FHLB advances                                                       | 88,581             | 516      | 2.33%                     | 91,141                                           | 444      | 1.95%                     |
| Junior subordinated debentures                                      | 5,100              | 62       | 4.86%                     | 5,100                                            | 50       | 3.92%                     |
| Total interest-bearing liabilities                                  | 365,511            | \$ 1,399 | 1.53%                     | 385,274                                          | \$ 1,105 | 1.15%                     |
| Non-interest-bearing liabilities                                    | 4,816              |          |                           | 5,746                                            |          |                           |
| Stockholders' Equity                                                | 47,355             |          |                           | 47,623                                           |          |                           |
| Total liabilities and stockholders' equity                          | \$ 417,682         |          |                           | \$ 438,643                                       |          |                           |
| Net interest rate spread (2)                                        |                    | \$ 2,504 | 2.30%                     |                                                  | \$ 3,239 | 2.91%                     |
| Net interest rate margin (3)                                        |                    |          | 2.46%                     |                                                  |          | 3.03%                     |
| Ratio of interest-earning assets to<br>interest-bearing liabilities |                    |          | 111.51%                   |                                                  |          | 111.14%                   |

(1) Amount is net of deferred loan fees, loan discounts and loans in process, and includes deferred origination costs, loan premiums and loans receivable held for sale.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

- (3) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.

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## For the nine months ended

September 30, 2018

September 30, 2017

| <i>(Dollars in Thousands)</i>                                    | Average<br>Balance | Interest  | Average<br>Yield/<br>Cost | Average<br>Balance | Interest  | Average<br>Yield/<br>Cost |
|------------------------------------------------------------------|--------------------|-----------|---------------------------|--------------------|-----------|---------------------------|
| <b>Assets</b>                                                    |                    |           |                           |                    |           |                           |
| Interest-earning assets:                                         |                    |           |                           |                    |           |                           |
| Interest-earning deposits                                        | \$ 15,960          | \$ 215    | 1.80%                     | \$ 25,647          | \$ 218    | 1.13%                     |
| Securities                                                       | 16,396             | 313       | 2.55%                     | 12,368             | 217       | 2.34%                     |
| Loans receivable (1)                                             | 364,413            | 10,614    | 3.88%                     | 391,809            | 12,035    | 4.10%                     |
| FHLB stock                                                       | 2,916              | 153       | 7.00%                     | 2,809              | 147       | 6.98%                     |
| Total interest-earning assets                                    | 399,685            | \$ 11,295 | 3.77%                     | 432,633            | \$ 12,617 | 3.89%                     |
| Non-interest-earning assets                                      | 10,117             |           |                           | 10,718             |           |                           |
| Total assets                                                     | \$ 409,802         |           |                           | \$ 443,351         |           |                           |
| <b>Liabilities and Stockholders Equity</b>                       |                    |           |                           |                    |           |                           |
| Interest-bearing liabilities:                                    |                    |           |                           |                    |           |                           |
| Money market deposits                                            | \$ 39,820          | \$ 250    | 0.84%                     | \$ 34,126          | \$ 170    | 0.66%                     |
| Passbook deposits                                                | 40,928             | 114       | 0.37%                     | 39,385             | 94        | 0.32%                     |
| NOW and other demand deposits                                    | 35,564             | 26        | 0.10%                     | 32,018             | 14        | 0.06%                     |
| Certificate accounts                                             | 162,599            | 1,747     | 1.43%                     | 185,785            | 1,504     | 1.08%                     |
| Total deposits                                                   | 278,911            | 2,137     | 1.02%                     | 291,314            | 1,782     | 0.82%                     |
| FHLB advances                                                    | 73,669             | 1,129     | 2.04%                     | 94,423             | 1,372     | 1.94%                     |
| Junior subordinated debentures                                   | 5,100              | 179       | 4.68%                     | 5,100              | 143       | 3.74%                     |
| Total interest-bearing liabilities                               | 357,680            | \$ 3,445  | 1.28%                     | 390,837            | \$ 3,297  | 1.12%                     |
| Non-interest-bearing liabilities                                 | 4,630              |           |                           | 5,681              |           |                           |
| Stockholders Equity                                              | 47,492             |           |                           | 46,833             |           |                           |
| Total liabilities and stockholders equity                        | \$ 409,802         |           |                           | \$ 443,351         |           |                           |
| Net interest rate spread (2)                                     |                    | \$ 7,850  | 2.48%                     |                    | \$ 9,320  | 2.77%                     |
| Net interest rate margin (3)                                     |                    |           | 2.62%                     |                    |           | 2.87%                     |
| Ratio of interest-earning assets to interest-bearing liabilities |                    |           | 111.74%                   |                    |           | 110.69%                   |

(1) Amount is net of deferred loan fees, loan discounts and loans in process, and includes deferred origination costs, loan premiums and loans receivable held for sale.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.

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*Loan loss provision recapture*

We recorded a loan loss provision recapture of \$1.0 million for the third quarter of 2018 compared to \$300 thousand loan loss provision recapture recorded for the third quarter of 2017. The loan loss provision recapture during the third quarter of 2018 was primarily due to changes in qualitative and quantitative factors based on continued improvement in the overall quality of our loan portfolio. See Allowance for Loan Losses (ALLL) below for additional information.

On a year-to-date basis, we recorded a loan loss provision recapture of \$1.0 million during the nine months ended September 30, 2018 compared to \$950 thousand for the nine months ended September 30, 2017.

*Non-interest Income*

Non-interest income for the third quarter of 2018 totaled \$380 thousand, compared to \$305 thousand for the third quarter of 2017. The increase of \$75 thousand in non-interest income primarily reflected the CDFI Grant of \$233 thousand, offset by a \$151 thousand decrease in gain on sale of loans during the third quarter of 2018 compared to the third quarter of 2017.

For the nine months ended September 30, 2018, non-interest income totaled \$681 thousand, compared to \$2.0 million for the same period a year ago. The decrease of \$1.3 million in non-interest income was primarily due to a gain of \$1.2 million from an insurance litigation settlement recorded in the nine months ended September 30, 2017 and a decrease of \$363 thousand in gain on the sale of loans during the nine months ended September 30, 2018 compared to the same period of 2017. These increases were partially offset by the grant of \$233 thousand from the CDFI Fund during the nine months ended September 30, 2018.

*Non-interest Expense*

Non-interest expense for the third quarter of 2018 totaled \$2.8 million, compared to \$3.1 million for the third quarter of 2017. The decrease of \$256 thousand in non-interest expense during the third quarter of 2018 was primarily due to a decrease of \$157 thousand in compensation and benefits expense, primarily reflecting lower staffing levels and lower stock-related salary costs compared to the third quarter of last year. Additionally, other expense decreased by \$137 thousand during the third quarter of 2018 compared to the third quarter of 2017 primarily due to a decrease of \$73 thousand in the reserve for off-balance sheet commitments, a decrease of \$75 thousand in expenses associated with the sale of a portion of the U.S. Treasury's holdings in the Company's stock during 2017, and a decrease in corporate insurance costs of \$15 thousand, offset by an increase of \$34 thousand in REO expense.

Stock-related salary costs decreased due to a drop in the Company's stock price, which lowered accruals for the stock awards granted to the CEO under the Company's Long Term Incentive Plan. Off-balance sheet commitments decreased due to a decrease in the Bank's approved but unfunded commitments compared to the prior year and a decrease in the reserve rate for unfunded commitments.

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For the nine months ended September 30, 2018, non-interest expense totaled \$8.8 million, which is comparable to the same period one year ago. Although comparable, the components of non-interest expense changed. Compensation and benefits increased by \$184 thousand, REO expense increased by \$122 thousand, and marketing costs increased by \$64 thousand. These increases were primarily offset by a decrease of \$30 thousand in corporate insurance expense, a decrease of \$28 thousand in professional services, primarily legal fees, a decrease of \$36 thousand in the reserve for off balance sheet commitments, a decrease of \$28 thousand in FDIC insurance premiums, a decrease of \$29 thousand in other miscellaneous loan expenses, primarily appraisal fees, and a decrease of \$214 thousand in prior year costs associated with sales of the U.S. Treasury's holdings in the Company's shares.

### *Income Taxes*

Income tax expense or benefit is computed by applying the statutory federal income tax rate of 21% and the California income tax rate of 10.84% to taxable income. The Company recorded income tax expense of \$332 thousand and \$235 thousand for the three months and nine months ended September 30, 2018, respectively, compared to income tax expense

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of \$284 thousand and \$1.2 million for the three months and nine months ended September 30, 2017, respectively. The Company's effective income tax rates were 30.7% and 30.3% for the three months and nine months ended September 30, 2018, respectively, compared to income tax expenses of 36.1% and 35.0% of our taxable income for the comparable periods in 2017. The Company's effective tax rate decreased in 2018 due to the Tax Cuts and Jobs Act signed into law on December 22, 2017. This legislation reduced the federal corporate tax rate to 21% from 35%. The Company had no valuation allowance on its deferred tax asset, which totaled \$4.9 million and \$5.1 million at September 30, 2018 and December 31, 2017, respectively.

**Financial Condition**

*Total Assets*

Total assets increased by \$5.8 million to \$419.5 million at September 30, 2018 from \$413.7 million at December 31, 2017. The growth in assets included an increase of \$20.4 million in net loans receivable held for investments, offset by a decrease of \$8.8 million in cash and cash equivalents, a decrease of \$3.3 million in loans receivable held for sale, a decrease of \$2.3 million in securities available-for-sale and a decrease of \$207 thousand in deferred tax assets.

*Loans Receivable Held for Sale*

Loans receivable held for sale decreased by \$3.3 million to \$19.1 million as of September 30, 2018 from \$22.4 million as of December 31, 2017 and consisted of multi-family residential ( MFR ) loans that are expected to be sold during the fourth quarter of 2018. During the nine months ended September 30, 2018, we transferred \$16.9 million of loans originated for sale to our held for investment portfolio. No loans were originated for sale during the first half of 2018 as we placed 100% of loans originated into our held-for-investment portfolio. However, during the third quarter of 2018, we were very close to the loan concentration guidelines established by our primary regulator, and \$20.2 million of \$21.0 million of loans originated during the third quarter were designated as loans originated for sale. Loans sold during the nine months ended September 30, 2018 totaled \$6.5 million, and repayments of loans held for sale totaled \$106 thousand during the nine months ended September 30, 2018.

*Loans Receivable Held for Investment*

Loans receivable held for investment, net of the allowance for loan losses, totaled \$355.3 million at September 30, 2018, compared to \$334.9 million at December 31, 2017. During the nine months ended September 30, 2018, the Bank originated for portfolio \$57.5 million in loans, compared to \$4.7 million originated for its portfolio during the nine months ended September 30, 2017. In addition, \$16.9 million in loans receivable held for sale were transferred to loans receivable held for investment during the nine months ended September 30, 2018. Loan repayments during the nine months ended September 30, 2018 totaled \$54.8 million, compared to \$54.1 million during the nine months ended September 30, 2017.

*Allowance for Loan Losses*

We record a provision for loan losses as a charge to earnings when necessary in order to maintain the ALLL at a level sufficient, in management's judgment, to absorb probable losses inherent in the loan portfolio. At least quarterly, we conduct an assessment of the overall quality of the loan portfolio and general economic trends in the local market. The determination of the appropriate level for the allowance is based on that review, considering such factors as historical loss experience for each type of loan, the size and composition of our loan portfolio, the levels and composition of our loan delinquencies, non-performing loans and net loan charge-offs, the value of underlying collateral on problem loans, regulatory policies, general economic conditions, and other factors related to the collectability of loans in the portfolio.

Our ALLL was \$3.2 million as of September 30, 2018, which amounted to 0.89% of our gross loans receivable held for investment at September 30, 2018. This compares to \$4.1 million, or 1.20% of our gross loans receivable held for investment, at December 31, 2017. Recoveries of \$114 thousand were recorded during the nine months ended September 30, 2018. The levels of ALLL at September 30, 2018 and December 31, 2017 reflect the results of our quarterly review of the adequacy of the ALLL. We continue to maintain our ALLL at a level that we believe is appropriate, given the significant reduction in delinquencies and non-performing loans, the continued improvement in our asset credit quality metrics and the high quality of our loan originations.

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The Bank reviewed and revised the qualitative risk factors associated with the various types of loans in its loans held for investment portfolio as of September 30, 2018, particularly in the pass category for the multi-family and single family loan portfolios. The Bank has had no loss history at all for multi-family loans over the last five years and only one single family loan delinquency of less than \$50 thousand. The management of the multi-family portfolio has been stable

As of September 30, 2018, the Bank had one \$39 thousand delinquent loan, compared to \$391 thousand at December 31, 2017. Non-performing loans ( NPLs ) consist of delinquent loans that are 90 days or more past due and other loans, including troubled debt restructurings that do not qualify for accrual status. At September 30, 2018, there were no non-performing loans due to delinquency, but the Bank had \$1.2 million in NPLs for reasons other than payment history. In comparison, NPLs totaled \$1.8 million at December 31, 2017. The decrease in NPLs was primarily due to one loan for \$185 thousand that was upgraded to accrual status during the second quarter of 2018 and loan repayments of \$394 thousand received during the nine months ended September 30, 2018.

In connection with our review of the adequacy of our ALLL, we track the amount and percentage of our NPLs that are paying currently, but nonetheless must be classified as NPL for reasons unrelated to payments, such as lack of current financial information and an insufficient period of satisfactory performance. As of September 30, 2018, 100% of our NPLs were current in their payments compared to \$1.4 million, or 81%, of our NPLs were current in their payments at December 31, 2017. Also, in determining the ALLL, we consider the ratio of the ALLL to NPLs, which was 268.16% at September 30, 2018, compared to 230.41% at December 31, 2017.

When reviewing the adequacy of the ALLL, we also consider the impact of charge-offs, including the changes and trends in loan charge-offs. There were no loan charge-offs during the nine months ended September 30, 2018 or 2017. In determining charge-offs, we update our estimates of collateral values on NPLs by obtaining new appraisals at least every nine months. If the estimated fair value of the loan collateral less estimated selling costs is less than the recorded investment in collateral-dependent loans, a charge-off for the difference is recorded to reduce the loan to its estimated fair value, less estimated selling costs. Therefore, certain losses inherent in our total NPLs are recognized periodically through charge-offs. The impact of updating these estimates of collateral value and recognizing any required charge-offs is to increase charge-offs and reduce the ALLL required on these loans. Due to prior charge-offs and increases in collateral values, the average recorded investment in NPLs was only 30% of estimated fair value less estimated selling costs as of September 30, 2018.

Recoveries during the nine months ended September 30, 2018 and 2017 totaled \$114 thousand and \$560 thousand, respectively. The recovery during 2018 primarily resulted from the payoff of one church loan that had been previously partially charged off.

Impaired loans at September 30, 2018 were \$8.4 million, compared to \$9.3 million at December 31, 2017. The decrease of \$880 thousand in impaired loans was primarily due to the payoff of one loan for \$266 thousand and loan repayments of \$614 thousand. Specific reserves for impaired loans were \$424 thousand, or 5.04% of the aggregate impaired loan amount at September 30, 2018, compared to \$585 thousand, or 6.29%, at December 31, 2017. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) was 0.79% at September 30, 2018, compared to 1.06% at December 31, 2017.

We believe that the ALLL is adequate to cover probable incurred losses in the loan portfolio as of September 30, 2018, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the OCC and the FDIC periodically review the ALLL as an integral part of their examination process. These agencies may require an increase in the ALLL based on their judgments of the information available to them at the time of their examinations.

*Deposits*

Deposits decreased by \$12.4 million to \$278.9 million at September 30, 2018 from \$291.3 million at December 31, 2017. Liquid deposits (NOW, demand, money market and passbook accounts) decreased by \$30.2 million during the nine months ended September 30, 2018 and represented 40% and 48% of total deposits at September 30, 2018 and December

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31, 2017, respectively. The decrease in liquid deposits largely resulted from the transfer of a \$25.0 million money market account to the Certificate of Deposit Account Registry Service (CDARS) for deposit insurance purposes.

During the nine months ended September 30, 2018, certificates of deposit ( CDs ) increased by \$17.8 million and represented 60% and 52% of total deposits at September 30, 2018 and December 31, 2017, respectively. The increase in CDs during the nine months ended September 30, 2018 included the transfer of \$25.0 million to CDARS from money market accounts described above; however, due to higher rates requested for CDARS accounts compared to other funding sources, we allowed \$16.9 million of other CDARS deposits to mature without renewal. Overall, CDARS accounts increased by only \$8.1 million during the nine months ended September 30, 2018. In addition, retail CDs decreased by \$3.4 million during the nine months ended September 30, 2018, brokered CDs increased by \$9.9 million, and accounts acquired through a deposit listing service increased by \$3.2 million.

CDARS is a deposit placement service that allows us to place our customers' funds in FDIC-insured certificates of deposit at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network ( CDARS Reciprocal ). We may also accept deposits from other institutions when we have no reciprocal deposit ( CDARS One-Way Buy ). At September 30, 2018, we had approximately \$32.4 million in CDARS Reciprocal and \$27.0 million in CDARS One-Way Buy, compared to \$9.5 million in CDARS Reciprocal and \$43.3 million in CDARS One-Way Buy at December 31, 2017.

One customer relationship accounted for approximately 11% of our deposits at September 30, 2018. We expect to maintain this relationship with the customer for the foreseeable future.

*Borrowings*

During the nine months ended September 30, 2018, we increased our borrowings from the FHLB to \$82.0 million at September 30, 2018 from \$65.0 million at December 31, 2017. The weighted average interest rate on FHLB advances increased to 2.34% at September 30, 2018, from 1.86% at December 31, 2017 primarily due to new advances totaling \$10.0 million with an average interest rate of 2.98%, the renewal of one \$17.5 million advance for a three year term at a rate 1.44% higher than the expiring one, and \$7 million in overnight borrowings at a rate of 2.33%.

Subordinated debentures issued by the Company remained unchanged at \$5.1 million at September 30, 2018 and December 31, 2017. The interest rate paid on subordinated debentures increased to 4.88% at September 30, 2018 from 4.15% at December 31, 2017, due to increases in 3-month LIBOR.

*Stockholders' Equity*

Stockholders' equity was \$48.0 million, or 11.45% of the Company's total assets, at September 30, 2018, compared to \$47.7 million, or 11.54% of the Company's total assets, at December 31, 2017. The Company's book value was \$1.75 per share as of September 30, 2018, compared to \$1.74 per share as of December 31, 2017.

## **Liquidity**

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet our obligations on a timely and cost-effective basis. The Bank's sources of funds include deposits, advances from the FHLB, other borrowings, proceeds from the sale of loans, REO, and investment securities, and payments of principal and interest on loans and investment securities. The Bank is currently approved by the FHLB to borrow up to 30% of total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. This approved limit and collateral requirement would have permitted the Bank to borrow an additional \$41.0 million at September 30, 2018. In addition, the Bank has an \$11.0 million line of credit with another financial institution.

The Bank's primary uses of funds include withdrawals of and interest payments on deposits, originations of loans, purchases of investment securities, and the payment of operating expenses. Also, when the Bank has more funds than required for reserve requirements or short-term liquidity needs, the Bank sells federal funds to the Federal Reserve Bank or other financial institutions. The Bank's liquid assets at September 30, 2018 consisted of \$3.3 million in cash and due

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from banks, \$10.1 million in interest-bearing deposits in other banks, and \$15.2 million in securities available-for-sale that were not pledged, compared to \$3.4 million in cash and due from banks, \$18.8 million in interest-bearing deposits in other banks, and \$17.0 million in securities available-for-sale that were not pledged at December 31, 2017.

The Company's liquidity, separate from the Bank, is based primarily on the proceeds from financing transactions, such as the private placements completed in August 2013 and October 2014 and dividends received from the Bank. The Bank is currently under no prohibition to pay dividends, but is subject to restrictions as to the amount of the dividends based on normal regulatory guidelines.

The Company recorded consolidated net cash outflows from operating activities of \$12.1 million and \$9.1 million during the nine months ended September 30, 2018 and 2017, respectively. Net cash outflows from operating activities during the nine months ended September 30, 2018 were primarily attributable to originations of loans receivable held for sale.

The Company recorded consolidated net cash outflows from investing activities of \$1.2 million during the nine months ended September 30, 2018, compared to consolidated net cash inflows from investing activities of \$50.6 million during the nine months ended September 30, 2017. Net cash outflows from investing activities during the nine months ended September 30, 2018 were primarily due to originations of loans held for investment (net of payoffs). In comparison, net cash inflows from investing activities during the nine months ended September 30, 2017 were primarily due to net payoffs of loans receivable held for investment. The Bank primarily originated loans for sale during 2017.

The Company recorded consolidated net cash inflows from financing activities of \$4.5 million and \$8.5 million during the nine months ended September 30, 2018 and 2017, respectively. Net cash inflows from financing activities during the nine months ended September 30, 2018 were primarily attributable to an increase in advances from the FHLB of \$17 million, offset by a net decrease in deposits of \$12.4 million.

### **Capital Resources and Regulatory Capital**

Our principal subsidiary, Broadway Federal Bank, must comply with capital standards established by the OCC in the conduct of its business. Failure to comply with such capital requirements may result in significant limitations on its business or other sanctions. The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and certain non-bank financial companies that are no less than those to which insured depository institutions have been previously subject. The current regulatory capital requirements are described in Note 10 of the Notes to Consolidated Financial Statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision of the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) as of September 30, 2018. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018. There were no significant changes during the quarter ended September 30, 2018 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 1A. RISK FACTORS

Not Applicable

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

**Exhibit**

**Number\***

- 3.1 Certificate of Incorporation of Registrant and amendments thereto (Exhibit 3.1 to Form 10-Q filed by Registrant on November 13, 2014)
- 3.2 Bylaws of Registrant (Exhibit 3.2 to Form 10-K filed by Registrant on March 28, 2016)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Exhibits followed by a parenthetical reference are incorporated by reference herein from the document filed by the Registrant with the SEC described therein. Except as otherwise indicated, the SEC File No. for each incorporated document is 000-27464.

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 14, 2018

By: /s/ Wayne-Kent A. Bradshaw  
Wayne-Kent A. Bradshaw  
Chief Executive Officer

Date: November 14, 2018

By: /s/ Brenda J. Battey  
Brenda J. Battey  
Chief Financial Officer