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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-K**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

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

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

Commission file number **0-27464**

**BROADWAY FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4547287**  
(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)

Securities registered under Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$51,199,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:  
As of March 9, 2017, 18,664,821 shares of the Registrant's voting common stock and 8,756,396 shares of the Registrant's non-voting common stock were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for its 2017 annual meeting of stockholders, which will be filed no later than May 1, 2017, are incorporated by reference in Part III, Items 10 through 14 of this report.

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### **Forward-Looking Statements**

Certain statements herein, including without limitation, certain matters discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Form 10-K, are forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, 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 risks and uncertainties, including those identified below, 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-K. 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.

The following factors, among others, could cause future results to differ materially from historical results or from those anticipated by forward-looking statements included in this Form 10-K: (1) the level of demand for mortgage loans, which is affected by such external factors as general economic conditions, market interest rate levels, tax laws and the demographics of our lending markets; (2) the direction and magnitude of changes in interest rates and the relationship between market interest rates and the yield on our interest-earning assets and the cost of our interest-bearing liabilities; (3) the rate and amount of loan losses incurred and projected to be incurred by us, increases in the amounts of our nonperforming assets, the level of our loss reserves and management's judgments regarding the collectability of loans; (4) changes in the regulation of lending and deposit operations or other regulatory actions, whether industry wide or focused on our operations, including increases in capital requirements or directives to increase loan loss allowances or make other changes in our business operations; (5) legislative or regulatory changes, including those that may be implemented by the new Administration in Washington, D.C.; (6) actions undertaken by both current and potential new competitors; (7) the possibility of adverse trends in property values or economic trends in the residential and commercial real estate markets in which we compete; (8) the effect of changes in economic conditions; (9) the effect of geopolitical uncertainties; (10) an inability to obtain and retain sufficient operating cash at our holding company level; and (11) other risks and uncertainties detailed in this Form 10-K, including those described in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **PART I**

### **ITEM 1. BUSINESS**

#### **General**

Broadway Financial Corporation (the "Company") was incorporated under Delaware law in 1995 for the purpose of acquiring and holding all of the outstanding capital stock of Broadway Federal Savings and Loan Association ("Broadway Federal" or the "Bank") as part of the Bank's conversion from a federally chartered mutual savings association to a federally chartered stock savings bank. In connection with the conversion, the Bank's name was changed to Broadway Federal Bank, f.s.b. The conversion was completed, and the Bank became a wholly-owned subsidiary of the Company in January 1996.

The Company is currently regulated by the Board of Governors of the Federal Reserve System ("FRB"). The Bank is currently regulated by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured up to applicable limits by the FDIC. The Bank is also a member of the Federal Home Loan Bank ("FHLB") of San Francisco. See "Regulation" for further descriptions of the regulatory system to which the Company and the Bank are subject.

#### **Available Information**

Our internet website address is [www.broadwayfederalbank.com](http://www.broadwayfederalbank.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be obtained free of charge by sending a written request to Broadway Financial Corporation, 5055 Wilshire Boulevard, Suite 500, Los Angeles, California 90036 Attention: Alice Wong. The above reports are available on our website as soon as reasonably practicable after we file such material with, or furnish such material to, the Securities and Exchange Commission ("SEC").

#### **Business Overview**

We are headquartered in Los Angeles, California and our principal business is the operation of our wholly-owned subsidiary, Broadway Federal, which has two offices in Los Angeles and one in the nearby city of Inglewood, California. Broadway Federal's principal business consists of attracting deposits from the general public in the areas surrounding our branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in mortgage loans secured by (i) residential properties with five or more units ("multi-family"), (ii) commercial real estate and (iii) residential properties with one-to-four units ("single family"). In addition, we invest in securities issued by the federal government and federal agencies, residential mortgage-backed securities and other investments.

Our revenue is derived primarily from interest income on loans and investments. Our principal costs are interest expenses that we incur on deposits and borrowings, together with general and administrative expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly monetary trends and conditions, including changes in market interest rates and the differences in market interest rates for the interest bearing deposits and borrowings that are our principal funding sources and the interest yielding assets in which we invest, as well as government policies and actions of regulatory authorities.

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**Lending Activities**

**General**

Our loan portfolio is comprised primarily of mortgage loans which are secured by multi-family residential properties, single family residential properties and commercial real estate, including churches. The remainder of the loan portfolio consists of commercial business loans, construction loans and consumer loans. At December 31, 2016, our net loan portfolio totaled \$379.5 million, or 88% of total assets.

We emphasize the origination of adjustable-rate mortgage loans ("ARMs"), some of which are hybrid ARM loans (ARM loans having an initial fixed rate period, followed by an adjustable rate period, for our portfolio of loans held for investment. We originate these loans in order to maintain a high percentage of loans that are subject to more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2016, more than 99% of our mortgage loans had adjustable rate features. However, some of our adjustable rate loans behave like fixed rate loans because the loans may still be in their initial fixed-rate period or may be subject to interest rate floors. Loans in their initial fixed-rate period totaled \$293.6 million or 77% of our loan portfolio at December 31, 2016.

The types of loans that we originate are subject to federal laws and regulations. The interest rates that we charge on loans are affected by the demand for such loans, the supply of money available for lending purposes and the rates offered by competitors. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, including the FRB, and legislative tax policies.

The following table details the composition of our portfolio of loans held for investment by type, dollar amount and percentage of loan portfolio at the dates indicated.

	December 31,									
	2016		2015		2014		2013		2012	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
	(Dollars in thousands)									
Single family	\$ 104,807	27.42%	\$ 130,891	42.50%	\$ 39,792	14.03%	\$ 46,459	18.09%	\$ 57,733	21.95%
Multi-family	229,566	60.05%	118,616	38.52%	171,792	60.58%	113,218	44.09%	83,305	31.67%
Commercial real estate	8,914	2.33%	11,442	3.72%	16,722	5.90%	26,697	10.39%	41,124	15.63%
Church	37,826	9.90%	46,390	15.06%	54,599	19.26%	67,934	26.45%	76,225	28.98%
Construction	837	0.22%	343	0.11%	387	0.14%	424	0.17%	735	0.28%
Commercial	308	0.08%	270	0.09%	262	0.09%	2,067	0.80%	3,895	1.48%
Consumer	6	0.00%	4	0.00%	9	0.00%	38	0.01%	35	0.01%
Gross loans	<u>382,264</u>	<u>100.00%</u>	<u>307,956</u>	<u>100.00%</u>	<u>283,563</u>	<u>100.00%</u>	<u>256,837</u>	<u>100.00%</u>	<u>263,052</u>	<u>100.00%</u>
Plus:										
Premiums on loans purchased	510		709		228		272		-	
Deferred loan costs, net	1,297		349		1,333		901		557	
Less:										
Unamortized discounts	14		15		16		17		17	
Allowance for loan losses	<u>4,603</u>		<u>4,828</u>		<u>8,465</u>		<u>10,146</u>		<u>11,869</u>	
Total loans held for investment	<u>\$ 379,454</u>		<u>\$ 304,171</u>		<u>\$ 276,643</u>		<u>\$ 247,847</u>		<u>\$ 251,723</u>	

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### ***Multi-Family and Commercial Real Estate Lending***

Our primary lending emphasis has been on the origination of multi-family loans for apartment buildings with five or more units. Our multi-family loans amounted to \$229.6 million and \$118.6 million at December 31, 2016 and 2015, respectively. Multi-family loans represented 60% of our gross loan portfolio at December 31, 2016 compared to 39% of our gross loan portfolio at December 31, 2015. The vast majority of our multi-family loans amortize over 30 years. As of December 31, 2016, our single largest multi-family credit had an outstanding balance of \$4.6 million, was current, and was secured by a 29-unit apartment complex in Whittier, California. At December 31, 2016, the average balance of a loan in our multi-family portfolio was \$832 thousand.

Our commercial real estate loans amounted to \$8.9 million and \$11.4 million at December 31, 2016 and 2015, respectively. Commercial real estate loans represented 2% of our gross loan portfolio at December 31, 2016 compared to 4% of our gross loan portfolio at December 31, 2015. All of the commercial real estate loans outstanding at December 31, 2016 were ARMs. Most commercial real estate loans are originated with principal repayments on a 30 year amortization schedule, but are due in 15 years. As of December 31, 2016, our single largest commercial real estate credit had an outstanding principal balance of \$1.6 million, was current and was secured by a commercial building located in Van Nuys, California. At December 31, 2016, the average balance of a loan in our commercial real estate portfolio was \$388 thousand.

The interest rates on multi-family and commercial ARM loans are based on a variety of indices, including the 6-Month London InterBank Offered Rate Index ("6-Month LIBOR"), the 1-Year Constant Maturity Treasury Index ("1-Yr CMT"), the 12-Month Treasury Average Index ("12-MTA"), the 11th District Cost of Funds Index ("COFI"), and the Wall Street Journal Prime Rate ("Prime Rate"). We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

Loans secured by multi-family and commercial real properties are granted based on the income producing potential of the property and the financial strength of the borrower. The primary factors considered include, among other things, the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to required principal and interest payments, or debt service), and the ratio of the loan amount to the lower of the purchase price or the appraised value of the collateral.

We seek to mitigate the risks associated with multi-family and commercial real estate loans by applying appropriate underwriting requirements, which include limitations on loan-to-value ratios and debt service coverage ratios. Under our underwriting policies, loan-to-value ratios on our multi-family and commercial real estate loans usually do not exceed 75% of the lower of the purchase price or the appraised value of the underlying property. We also generally require minimum debt service coverage ratios of 115% for multi-family loans and 125% for commercial real estate loans. Properties securing multi-family and commercial real estate loans are appraised by management-approved independent appraisers. Title insurance is required on all loans.

Multi-family and commercial real estate loans are generally viewed as exposing the lender to a greater risk of loss than single family residential loans and typically involve higher loan principal amounts than loans secured by single family residential real estate. Because payments on loans secured by multi-family and commercial real properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or general economy. Adverse economic conditions in our primary lending market area could result in reduced cash flows on multi-family and commercial real estate loans, vacancies and reduced rental rates on such properties. We seek to reduce these risks by originating such loans on a selective basis and generally restrict such loans to our general market area. In 2008, we ceased out-of-state lending for all types of lending. As of December 31, 2016, our out-of-state loans totaled \$3.0 million and our single largest

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out-of-state credit had an outstanding principal balance of \$664 thousand, was current, and was secured by a church building located in Chandler, Arizona.

Our church loans totaled \$37.8 million and \$46.4 million at December 31, 2016 and 2015, respectively. Church loans represented 10% of our gross loan portfolio at December 31, 2016 compared to 15% of our gross loan portfolio at December 31, 2015. We ceased originating church loans in 2010. As of December 31, 2016, our single largest church loan had an outstanding balance of \$2.0 million, was current, and was secured by a church building in Hawthorne, California. At December 31, 2016, the average balance of a loan in our church loan portfolio was \$525 thousand.

### ***Single Family Mortgage Lending***

While we have been primarily a multi-family and commercial real estate lender, we also originate and purchase ARMs and fixed rate loans secured by single family residences, including investor-owned properties, with maturities of up to 30 years. Single family loans totaled \$104.8 million and \$130.9 million at December 31, 2016 and 2015, respectively. Of the single family residential mortgage loans that we had outstanding at December 31, 2016, more than 99% had adjustable rate features. During 2015, we purchased \$99.7 million principal amount of single-family loans, which were secured by properties primarily located in Northern California. Substantially all of the single family loans we originate are secured by properties located in Southern California, with most being in our primary market areas of Mid-City and South Los Angeles. Loan originations are generally obtained from our loan representatives or third party brokers, existing or past customers, and referrals from members of churches or other organizations in the local communities where we operate. Of the \$104.8 million of single family loans at December 31, 2016, \$13.3 million are secured by investor-owned properties.

The interest rates for our single family ARMs are indexed to COFI, 6-Month LIBOR, 12-MTA and 1-Yr. CMT. We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans. Some of our adjustable rate loans behave like fixed rate loans because the loans may still be in their initial fixed rate period or may be subject to interest rate floors.

We qualify our ARM borrowers based upon the fully indexed interest rate (LIBOR or other index plus an applicable margin, rounded to the nearest one-eighth of 1%) provided by the terms of the loan. However, we may discount the initial rate paid by the borrower to adjust for market and other competitive factors. The ARMs that we offer have a lifetime adjustment limit that is set at the time that the loan is approved. In addition, because of interest rate caps and floors, market rates may exceed or go below the respective maximum or minimum rates payable on our ARMs.

The mortgage loans that we originate generally include due-on-sale clauses, which provide us with the contractual right to declare the loan immediately due and payable in the event that the borrower transfers ownership of the property.

### ***Construction Lending***

Construction loans totaled \$837 thousand and \$343 thousand at December 31, 2016 and 2015, respectively, representing less than 1% of our gross loan portfolio. We provide loans for the construction of single family, multi-family and commercial real estate projects and for land development. We generally make construction and land loans at variable interest rates based upon the Prime Rate. Generally, we require a loan-to-value ratio not exceeding 75% to 80% on a purchase and a loan-to-cost ratio of 80% to 90% on a refinance of construction loans.

Construction loans involve risks that are different from those for completed project lending because we advance loan funds based upon the security and estimated value at completion of the project under construction. If the borrower defaults on the loan, we may have to advance additional funds to finance the project's completion before the project can be sold. Moreover, construction projects are affected by uncertainties inherent in estimating

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construction costs, potential delays in construction schedules, market demand and the accuracy of estimates of the value of the completed project considered in the loan approval process. In addition, construction projects can be risky as they transition to completion and lease-up. Tenants who may have been interested in leasing a unit or apartment may not be able to afford the space when the building is completed, or may fail to lease the space for other reasons such as more attractive terms offered by competing lessors, making it difficult for the building to generate enough cash flow for the owner to obtain permanent financing. One construction loan participation totaling \$1.4 million with \$837 thousand advanced was originated during 2016.

### ***Commercial Lending***

We originate non-real estate commercial loans that are secured by business assets, the franchise value of the business, if applicable, and individual assets such as deposit accounts, securities and automobiles. Most of these loans are originated with maturities of up to 5 years. Commercial loans amounted to \$308 thousand and \$270 thousand at December 31, 2016 and 2015, respectively. Commercial loans represented less than 1% of our gross loan portfolio at December 31, 2016 and 2015.

### ***Loan Originations, Purchases and Sales***

The following table summarizes loan originations, purchases, sales and principal repayments for the periods indicated:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In thousands)	
Gross loans (1):			
Beginning balance	\$ 307,956	\$ 302,856	\$ 256,837
Loans originated:			
Single family	-	1,921	-
Multi-family	136,794	110,525	95,495
Construction	837	-	-
Commercial	45	75	56
Total loans originated	<u>137,676</u>	<u>112,521</u>	<u>95,551</u>
Loans purchased:			
Single family	-	99,663	-
Total loans purchased	<u>-</u>	<u>99,663</u>	<u>-</u>
Less:			
Principal repayments	63,368	41,690	42,900
Sales of loans	-	164,103	3,291
Loan charge-offs	-	89	693
Transfer of loans to real estate owned	-	1,202	2,648
Ending balance (2)	<u>\$ 382,264</u>	<u>\$ 307,956</u>	<u>\$ 302,856</u>

(1) Amount is before deferred origination costs, purchase premiums and discounts.

(2) Includes loans receivable held for sale totaling \$19.3 million at December 31, 2014, exclusive of \$188 thousand in deferred origination costs. We did not have any loans receivable held for sale at December 31, 2016 and 2015.

Loan originations are derived from various sources including our loan personnel, local mortgage brokers, advertising and referrals from customers. For all loans that we originate, upon receipt of a loan application from a prospective borrower, a credit report is ordered and certain other information is verified by an independent credit agency and, if necessary, additional financial information is requested. An appraisal of the real estate intended to

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secure the proposed loan is required, which appraisal is performed by an independent licensed or certified appraiser designated and approved by us. The Board of Directors (the "Board") annually reviews our appraisal policy. Management reviews annually the qualifications and performance of independent appraisers that we use.

It is our policy to obtain title insurance on all real estate loans. Borrowers must also obtain hazard insurance naming Broadway Federal as a loss payee prior to loan closing. If the original loan amount exceeds 80% on a sale or refinance of a first trust deed loan, we may require private mortgage insurance and the borrower is required to make payments to a mortgage impound account from which we make disbursements to pay private mortgage insurance premiums, property taxes and hazard and flood insurance as required.

The Board has authorized the following loan approval limits: if the total of the borrower's existing loans and the loan under consideration is \$1,000,000 or less, the new loan may be approved by a Senior Underwriter plus a Loan Committee member, including the Chief Executive Officer or Chief Credit Officer; if the total of the borrower's existing loans and the loan under consideration is from \$1,000,001 to \$2,000,000, the new loan must be approved by a Senior Underwriter plus two Loan Committee members, including the Chief Executive Officer or Chief Credit Officer; if the total of the borrower's existing loans and the loan under consideration is from \$2,000,001 to \$6,000,000, the new loan must be approved by a Senior Underwriter, the Chief Executive Officer and Chief Credit Officer, plus a majority of the Board-appointed non-management Loan Committee members. In addition, it is our practice that all loans approved be reported to the Loan Committee no later than the month following their approval, and be ratified by the Board.

From time to time, we purchase loans originated by other institutions based upon our investment needs and market opportunities. The determination to purchase specific loans or pools of loans is subject to our underwriting policies, which consider, among other factors, the financial condition of the borrowers, the location of the underlying collateral properties and the appraised value of the collateral properties. We did not purchase any loans during the year ended December 31, 2016. During 2015, we purchased \$99.7 million principal amount of single family loans, which are being serviced by the seller.

We originate loans for investment and for sale. Loan sales are made from the loans receivable held-for-sale portfolio and from loans originated during the period that are designated as held for sale. We did not originate any loans for sale and we did not sell any loans during 2016 whereas during 2015, we originated \$57.7 million of loans for sale and sold \$164.1 million of multi-family loans in order to comply with regulatory loan concentration guidelines.

We receive monthly loan servicing fees on loans sold and serviced for others, primarily insured financial institutions. Generally, we collect these fees by retaining a portion of the loan collections in an amount equal to an agreed percentage of the monthly loan installments, plus late charges and certain other fees paid by the borrowers. Loan servicing activities include monthly loan payment collection, monitoring of insurance and tax payment status, responses to borrower information requests and dealing with loan delinquencies and defaults, including conducting loan foreclosures. At December 31, 2016 and 2015, we were servicing \$4.1 million and \$4.7 million, respectively, of loans for others. The servicing rights associated with sold loans are recorded as assets based upon their fair values. At December 31, 2016 and 2015, we had \$32 thousand and \$41 thousand, respectively, in mortgage servicing rights.

### ***Loan Maturity and Repricing***

The following table shows the contractual maturities of loans in our portfolio of loans held for investment at December 31, 2016, and does not reflect the effect of prepayments or scheduled principal amortization.

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	Single family	Multi-family	Commercial real estate	Church	Construction	Commercial	Consumer	Gross loans receivable
	(In thousands)							
Amounts Due:								
One year or less	\$ 23	\$ -	\$ 1,112	\$ -	\$ 837	\$ -	\$ 6	\$ 1,978
After one year:								
One year to five years	387	585	2,176	6,605	-	66	-	9,819
After five years	104,397	228,981	5,626	31,221	-	242	-	370,467
Total due after one year	104,784	229,566	7,802	37,826	-	308	-	380,286
<b>Total</b>	<b>\$ 104,807</b>	<b>\$ 229,566</b>	<b>\$ 8,914</b>	<b>\$ 37,826</b>	<b>\$ 837</b>	<b>\$ 308</b>	<b>\$ 6</b>	<b>\$ 382,264</b>

The following table presents the dollar amount of gross loans receivable at December 31, 2016 that are contractually due after December 31, 2017, and whether such loans have fixed interest rates or adjustable interest rates.

	Adjustable	Fixed	Total
	(Dollars in thousands)		
Single family	\$ 104,325	\$ 459	\$ 104,784
Multi-family	229,566	-	229,566
Commercial real estate	7,802	-	7,802
Church	37,826	-	37,826
Commercial	242	66	308
Total	\$ 379,761	\$ 525	\$ 380,286
% of total	99.86%	0.14%	100.00%

Some of our adjustable rate loans behave like fixed rate loans because the loans may still be in their initial fixed rate period or may be subject to interest rate floors. Loans in their initial fixed rate period totaled \$293.6 million or 77% of our loan portfolio at December 31, 2016. The average initial fixed rate period as of December 31, 2016 was 3.7 years.

### Asset Quality

#### General

The underlying credit quality of our loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral securing the loan, if any. A borrower's ability to pay typically is dependent, in the case of single family residential loans and consumer loans, primarily on employment and other sources of income, and in the case of multi-family and commercial real estate loans, on the cash flow generated by the property, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower's ability to make loan payments. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, property maintenance and collection or foreclosure delays.

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***Delinquencies***

We perform a weekly review of all delinquent loans and loan delinquency reports are made monthly to the Internal Asset Review Committee of the Board of Directors. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. The procedures we follow with respect to delinquencies vary depending on the type of loan, the type of property securing the loan, and the period of delinquency. In the case of residential mortgage loans, we generally send the borrower a written notice of non-payment promptly after the loan becomes past due. In the event payment is not received promptly thereafter, additional letters are sent and telephone calls are made. If the loan is still not brought current and it becomes necessary for us to take legal action, we generally commence foreclosure proceedings on all real property securing the loan. In the case of commercial real estate loans, we generally contact the borrower by telephone and send a written notice of intent to foreclose upon expiration of the applicable grace period. Decisions not to commence foreclosure upon expiration of the notice of intent to foreclose for commercial real estate loans are made on a case-by-case basis. We may consider loan workout arrangements with these types of borrowers in certain circumstances.

The following table shows our loan delinquencies by type and amount at the dates indicated.

	December 31, 2016				December 31, 2015				December 31, 2014			
	Loans delinquent		Loans delinquent		Loans delinquent		Loans delinquent		Loans delinquent		Loans delinquent	
	60-89 Days	90 days or more	60-89 Days	90 days or more	60-89 Days	90 days or more	60-89 Days	90 days or more	60-89 Days	90 days or more	60-89 Days	90 days or more
Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	
	(Dollars in thousands)											
Single family	1	\$ 64	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -
Church	-	-	-	-	-	-	1	456	1	180	2	987
Total	1	\$ 64	-	\$ -	-	\$ -	1	\$ 456	1	\$ 180	2	\$ 987
% of Gross Loans (1)		0.01%		0.00%		0.00%		0.15%		0.06%		0.33%

(1) Includes loans receivable held for sale at December 31, 2014.

***Non-Performing Assets***

Non-performing assets ("NPAs") include non-accrual loans and real estate owned through foreclosure or deed in lieu of foreclosure ("REO"). NPAs at December 31, 2016 decreased to \$2.9 million, or 0.69% of total assets, from \$4.6 million, or 1.14% of total assets, at December 31, 2015.

Non-accrual loans decreased by \$1.3 million to \$2.9 million at December 31, 2016, from \$4.2 million at December 31, 2015. These loans consist of delinquent loans that are 90 days or more past due and other loans, including troubled debt restructurings ("TDRs") that do not qualify for accrual status. As of December 31, 2016, all of our non-accrual loans were current in their payments, but were treated as non-accrual primarily because of deficiencies in non-payment matters related to the borrowers, such as lack of current financial information. The \$1.3 million decrease in non-accrual loans was primarily due to payoffs of \$1.3 million and repayments of \$406 thousand, which were partially offset by the placement of a church loan for \$463 thousand into non-accrual status.

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The following table provides information regarding our non-performing assets at the dates indicated.

	December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accrual loans:					
Single family	\$ -	\$ 302	\$ 736	\$ 1,441	\$ 8,145
Multi-family	-	779	1,618	2,985	4,268
Commercial real estate	-	259	1,174	1,391	7,090
Church	2,944	2,887	5,232	11,735	17,245
Construction	-	-	-	-	273
Commercial	-	-	102	150	69
Total non-accrual loans	<u>2,944</u>	<u>4,227</u>	<u>8,862</u>	<u>17,702</u>	<u>37,090</u>
Loans delinquent 90 days or more and still accruing	-	-	-	-	-
Real estate owned acquired through foreclosure	-	360	2,082	2,084	8,163
Total non-performing assets	<u>\$ 2,944</u>	<u>\$ 4,587</u>	<u>\$ 10,944</u>	<u>\$ 19,786</u>	<u>\$ 45,253</u>
Non-accrual loans as a percentage of gross loans, including loans receivable held for sale	0.77%	1.37%	2.93%	6.89%	13.13%
Non-performing assets as a percentage of total assets	0.69%	1.14%	3.12%	5.95%	12.11%

There were no accrual loans that were contractually past due by 90 days or more at December 31, 2016 or 2015. We had no commitments to lend additional funds to borrowers whose loans were on non-accrual status at December 31, 2016.

We discontinue accruing interest on loans when the loans become 90 days delinquent as to their payment due date (missed three payments). In addition, we reverse all previously accrued and uncollected interest for those loans through a charge to interest income. While loans are in non-accrual status, interest received on such loans is credited to principal, until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a TDR. Non-accrual loans modified in a TDR remain on non-accrual status until we determine that future collection of principal and interest is reasonably assured, which requires that the borrower demonstrate performance according to the restructured terms, generally for a period of at least six months. Loans modified in a TDR that are included in non-accrual loans totaled \$2.5 million at December 31, 2016 and \$3.8 million at December 31, 2015. Excluded from non-accrual loans are restructured loans that were not delinquent at the time of modification or loans that have complied with the terms of their restructured agreement for six months or such longer period as management deems appropriate for particular loans, and therefore have been returned to accruing status. Restructured accruing loans totaled \$9.0 million at December 31, 2016 and \$11.5 million at December 31, 2015.

During 2016, gross interest income that would have been recorded on non-accrual loans had they performed in accordance with their original terms, totaled \$439 thousand. Actual interest recognized on non-accrual loans and included in net income for the year 2016 was \$493 thousand, primarily reflecting interest recoveries on non-accrual loans that were paid off.

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We update our estimates of collateral value on loans when they become 90 days past due and to the extent the loans remain delinquent, every nine months thereafter. We obtain updated estimates of collateral value earlier than at 90 days past due for loans to borrowers who have filed for bankruptcy or for certain other loans when our Internal Asset Review Committee believes repayment of such loans may be dependent on the value of the underlying collateral. For single family loans, updated estimates of collateral value are obtained through appraisals and automated valuation models. For multi-family and commercial real estate properties, we estimate collateral value through appraisals or internal cash flow analyses when current financial information is available, coupled with, in most cases, an inspection of the property. Our policy is to make a charge against our allowance for loan losses, and correspondingly reduce the book value of a loan, to the extent that the collateral value of the property securing a loan is less than our recorded investment in the loan. See "Allowance for Loan Losses" for full discussion of the allowance for loan losses.

REO is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at fair value less estimated selling costs. Any excess of carrying value over fair value at the time of acquisition is charged to the allowance for loan losses. Thereafter, we charge non-interest expense for the property maintenance and protection expenses incurred as a result of owning the property. Any decreases in the property's estimated fair value after foreclosure are recorded in a separate allowance for losses on REO. We had no REO at December 31, 2016. At year-end 2015, we had one church building in REO, which was sold during the first quarter of 2016.

### *Classification of Assets*

Federal regulations and our internal policies require that we utilize an asset classification system as a means of monitoring and reporting problem and potential problem assets. We have incorporated asset classifications as a part of our credit monitoring system and thus classify potential problem assets as "Watch" and "Special Mention," and problem assets as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Watch" if the loan is current but temporarily presents higher than average risk and warrants greater than routine attention and monitoring. An asset is considered "Special Mention" if the loan is current but there are some potential weaknesses that deserve management's close attention. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified "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." Assets classified as "Loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but that are considered to possess some weaknesses, are designated "Special Mention."

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Our Internal Asset Review Department reviews and classifies our assets and independently reports the results of its reviews to the Internal Asset Review Committee of our Board of Directors monthly. The following table provides information regarding our criticized (Watch and Special Mention) and classified assets (Substandard) at the dates indicated.

	December 31, 2016		December 31, 2015	
	Number	Amount	Number	Amount
		(Dollars in thousands)		
Watch	3	\$ 2,417	3	\$ 776
Special Mention	3	1,165	13	4,340
Total criticized assets	6	3,582	16	5,116
Substandard	23	11,021	32	14,833
Total	29	\$ 14,603	48	\$ 19,949

Classified assets decreased \$3.8 million to \$11.0 million at December 31, 2016, from \$14.8 million at December 31, 2015, primarily due to \$3.5 million of repayments, \$360 thousand of REO sale and \$791 thousand of classification upgrades, which were partially offset by \$850 thousand of classification downgrades. Criticized assets decreased \$1.5 million to \$3.6 million at December 31, 2016, from \$5.1 million at December 31, 2015, due to \$3.0 million of repayments and \$915 thousand of classification upgrades, which were partially offset by \$2.4 million of classification downgrades.

### *Allowance for Loan Losses*

In originating loans, we recognize that losses may be experienced on loans and that the risk of loss may vary as a result of many factors, including the type of loan being made, the creditworthiness of the borrower, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. We are required to maintain an adequate allowance for loan losses ("ALLL") in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The ALLL represents our management's best estimate of probable incurred credit losses in our loan portfolio as of the date of the consolidated financial statements. Our ALLL is intended to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable, but not specifically identifiable. There can be no assurance, however, that actual losses incurred will not exceed the amount of management's estimates.

Our Internal Asset Review Department issues reports to the Board of Directors and continually reviews loan quality. This analysis includes a detailed review of the classification and categorization of problem loans, potential problem loans and loans to be charged off, an assessment of the overall quality and collectability of the portfolio, and concentration of credit risk. Management then evaluates the allowance, determines its appropriate level and the need for additional provisions, and presents its analysis to the Board of Directors which ultimately reviews management's recommendation and, if deemed appropriate, then approves such recommendation.

The ALLL is increased by provisions for loan losses which are charged to earnings and is decreased by recaptures of loan loss provision and charge-offs, net of recoveries. Provisions are recorded to increase the ALLL to the level deemed appropriate by management. The Bank utilizes an allowance methodology that considers a number of quantitative and qualitative factors, including the amount of non-performing loans, our loan loss experience, conditions in the real estate and housing markets, current economic conditions and trends, particularly levels of unemployment, and changes in the size of the loan portfolio.

The ALLL consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

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A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties are considered TDRs and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated to the loan so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. TDRs are separately identified for impairment and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less estimated selling costs. For TDRs that subsequently default, we determine the amount of any necessary additional charge-off based on internal analyses and appraisals of the underlying collateral securing these loans. At December 31, 2016, impaired loans totaled \$11.9 million and had an aggregate specific allowance allocation of \$656 thousand.

The general component of the ALLL covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Each month, we prepare an analysis which categorizes the entire loan portfolio by certain risk characteristics such as loan type (single family, multi-family, commercial real estate, construction, commercial and consumer) and loan classification (pass, watch, special mention, substandard and doubtful). With the use of a migration to loss analysis, we calculate our historical loss rate and assign estimated loss factors to the loan classification categories on the basis of our assessment of the potential risk inherent in each loan type. These factors are periodically reviewed for appropriateness giving consideration to our historical loss experience, levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In addition to loss experience and environmental factors, we use qualitative analyses to determine the adequacy of our ALLL. This analysis includes ratio analysis to evaluate the overall measurement of the ALLL and comparison of peer group reserve percentages. The qualitative review is used to reassess the overall determination of the ALLL and to ensure that directional changes in the ALLL and the provision for loan losses are supported by relevant internal and external data.

Based on our evaluation of the housing and real estate markets and overall economy, including the unemployment rate, the levels and composition of our loan delinquencies and non-performing loans, our loss history and the size and composition of our loan portfolio, we determined that an ALLL of \$4.6 million, or 1.20% of loans held for investment was appropriate at December 31, 2016, compared to \$4.8 million, or 1.56% of loans held for investment at December 31, 2015. Excluding purchased loans which had a carrying amount of \$82.2 million and an ALLL requirement of \$0 at December 31, 2016, the ratio of ALLL to loans held for investment was 1.53% and 2.31% at December 31, 2016 and 2015, respectively.

A federally chartered savings association's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OCC. The OCC, in conjunction with the other federal banking agencies, provides guidance for financial institutions on the responsibilities of management for the assessment and establishment of adequate valuation allowances, as well as guidance for banking agency examiners to use in determining the adequacy of valuation allowances. It is required that all institutions have effective systems and

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controls to identify, monitor and address asset quality problems, analyze all significant factors that affect the collectability of the portfolio in a reasonable manner and establish acceptable allowance evaluation processes that meet the objectives of the guidelines issued by federal regulatory agencies. While we believe that the ALLL has been established and maintained at adequate levels, future adjustments may be necessary if economic or other conditions differ materially from the conditions on which we based our estimates at December 31, 2016. In addition, there can be no assurance that the OCC or other regulators, as a result of reviewing our loan portfolio and/or allowance, will not require us to materially increase our ALLL, thereby affecting our financial condition and earnings.

The following table details our allocation of the ALLL to the various categories of loans held for investment and the percentage of loans in each category to total loans at the dates indicated.

	December 31,									
	2016		2015		2014		2013		2012	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Single family	\$ 367	27.42%	\$ 597	42.50%	\$ 1,174	14.03%	\$ 1,930	18.09%	\$ 2,060	21.95%
Multi-family	2,659	60.05%	1,658	38.52%	2,726	60.58%	1,726	44.09%	2,122	31.67%
Commercial real estate	215	2.33%	469	3.72%	496	5.90%	1,473	10.39%	2,685	15.63%
Church	1,337	9.90%	2,083	15.06%	4,047	19.26%	4,949	26.45%	4,818	28.98%
Construction	8	0.22%	3	0.11%	7	0.14%	7	0.17%	8	0.28%
Commercial	17	0.08%	18	0.09%	12	0.09%	55	0.80%	167	1.48%
Consumer	-	0.00%	-	0.00%	3	0.00%	6	0.01%	9	0.01%
Total allowance for loan losses	<u>\$ 4,603</u>	<u>100.00%</u>	<u>\$ 4,828</u>	<u>100.00%</u>	<u>\$ 8,465</u>	<u>100.00%</u>	<u>\$ 10,146</u>	<u>100.00%</u>	<u>\$ 11,869</u>	<u>100.00%</u>

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The following table shows the activity in our ALLL related to our loans held for investment for the years indicated.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(Dollars in thousands)				
Allowance balance at beginning of year	\$ 4,828	\$ 8,465	\$ 10,146	\$ 11,869	\$ 17,299
Charge-offs:					
Single family	-	(4)	(133)	(220)	(5,138)
Multi-family	-	-	-	(661)	(104)
Commercial real estate	-	-	(8)	(1,180)	(544)
Church	-	(85)	(533)	(770)	(1,354)
Commercial	-	-	(19)	-	-
Total charge-offs	<u>-</u>	<u>(89)</u>	<u>(693)</u>	<u>(2,831)</u>	<u>(7,140)</u>
Recoveries:					
Single family	47	129	2	300	25
Multi-family	-	-	-	-	1
Commercial real estate	248	-	-	116	60
Church	22	23	859	25	15
Commercial	8	-	1,083	253	412
Consumer	-	-	-	-	7
Total recoveries	<u>325</u>	<u>152</u>	<u>1,944</u>	<u>694</u>	<u>520</u>
Provision (recapture) charged to earnings	(550)	(3,700)	(2,932)	414	1,190
Allowance balance at end of year	<u>\$ 4,603</u>	<u>\$ 4,828</u>	<u>\$ 8,465</u>	<u>\$ 10,146</u>	<u>\$ 11,869</u>
Net charge-offs (recoveries) to average loans, excluding loans receivable held for sale	(0.10%)	(0.02%)	(0.46%)	0.84%	2.12%
ALLL as a percentage of gross loans, excluding loans receivable held for sale	1.20%	1.56%	2.99%	3.95%	4.51%
ALLL as a percentage of total non-accrual loans	156.35%	114.22%	95.52%	57.32%	32.00%
ALLL as a percentage of total non-performing assets	156.35%	105.25%	77.35%	51.28%	26.23%

## Investment Activities

The main objectives of our investment strategy are to provide a source of liquidity for deposit outflows, repayment of our borrowings and funding loan commitments, and to generate a favorable return on investments without incurring undue interest rate or credit risk. Subject to various restrictions, our investment policy generally permits investments in money market instruments such as Federal Funds Sold, certificates of deposit of insured banks and savings institutions, direct obligations of the U. S. Treasury, Federal Agency securities, government Agency-issued securities and mortgage-backed securities, mutual funds, municipal obligations, corporate bonds and marketable equity securities. Mortgage-backed securities consist principally of FNMA, FHLMC and GNMA securities backed by 30-year amortizing hybrid ARM loans, structured with fixed interest rates for periods of three to seven years, after which time the loans convert to one-year or six-month adjustable rate mortgage loans. At December 31, 2016, our securities portfolio, consisting primarily of residential mortgage-backed securities and one U.S federal agency bond, totaled \$13.2 million, or 3% of total assets.

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We classify investments as held-to-maturity or available-for-sale at the date of purchase based on our assessment of our internal liquidity requirements. Securities purchased to meet investment-related objectives such as liquidity management or mitigating interest rate risk and which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. Securities in the held-to-maturity category consist of securities purchased for long-term investment in order to enhance our ongoing stream of net interest income. Securities deemed held-to-maturity are classified as such because we have both the intent and ability to hold these securities to maturity. Held-to-maturity securities are reported at cost, adjusted for amortization of premium and accretion of discount. Available-for-sale securities are reported at fair value. We currently have no securities classified as held-to-maturity securities.

The table below presents the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2016. The table reflects stated final maturities and does not reflect scheduled principal payments or expected payoffs.

		At December 31, 2016									
		One Year or less		More than one year to five years		More than five years to ten years		More than ten years		Total	
		Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield
(Dollars in thousands)											
Available-for-sale:											
Residential mortgage-backed securities	\$	-	-%	\$ 410	4.37%	\$ 1,188	2.38%	\$ 9,616	2.69%	\$ 11,214	2.72%
U.S. Government and federal agency		-	-%	1,988	2.00%	-	-%	-	-%	1,988	2.00%
Total	\$	-	-%	2,398	2.41%	1,188	2.38%	9,616	2.69%	13,202	2.60%

At December 31, 2016, the mortgage-backed securities in our portfolio have an estimated remaining life of 4.5 years.

**Sources of Funds**

*General*

Deposits are our primary source of funds for supporting our lending and other investment activities and general business purposes. In addition to deposits, we obtain funds from the amortization and prepayment of loans and residential mortgage-backed securities, sales of loans and residential mortgage-backed securities, advances from the FHLB, and cash flows generated by operations.

*Deposits*

We offer a variety of deposit accounts featuring a range of interest rates and terms. Our deposits principally consist of savings accounts, checking accounts, NOW accounts, money market accounts, and fixed-term certificates of deposit. The maturities of term certificates generally range from one month to five years. We accept deposits from customers within our market area based primarily on posted rates, but from time to time we will negotiate the rate based on the amount of the deposit. We primarily rely on customer service and long-standing customer relationships to attract and retain deposits. We seek to maintain and increase our retail "core" deposit relationships, consisting of savings accounts, checking accounts and money market accounts; these deposit accounts tend to be a

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stable funding source and are available at a lower cost than term deposits. However, market interest rates, including rates offered by competing financial institutions, the availability of other investment alternatives, and general economic conditions significantly affect our ability to attract and retain deposits.

We also open deposit accounts for customers throughout the United States through the Internet and deposit listing services. Deposits from the Internet and deposit listing services totaled \$6.9 million and \$56.0 million, respectively, at December 31, 2016 compared to \$6.9 million and \$60.4 million, respectively, at December 31, 2015.

During 2016, we rejoined a deposit program called Certificate of Deposit Account Registry Service ("CDARS"). 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 December 31, 2016, we had approximately \$6.9 million in CDARS Reciprocal and \$21.7 million in CDARS One-Way Buy.

The following table details the maturity periods of our certificates of deposit in amounts of \$250 thousand or more at December 31, 2016.

	<b>December 31, 2016</b>	
	<b>Amount</b>	<b>Weighted average rate</b>
(Dollars in thousands)		
Certificates maturing:		
Less than three months	\$ 1,750	1.13%
Three to six months	11,086	1.15%
Six to twelve months	34,575	1.11%
Over twelve months	6,070	1.13%
Total	<u>\$ 53,481</u>	<u>1.12%</u>

The following table presents the distribution of our average deposits for the years indicated and the weighted average interest rates during the year for each category of deposits presented.

	<b>For the Year Ended December 31,</b>								
	<b>2016</b>			<b>2015</b>			<b>2014</b>		
	<b>Average balance</b>	<b>Percent of total</b>	<b>Weighted average rate</b>	<b>Average balance</b>	<b>Percent of total</b>	<b>Weighted average rate</b>	<b>Average balance</b>	<b>Percent of total</b>	<b>Weighted average rate</b>
(Dollars in thousands)									
Money market deposits	\$ 27,399	10.06%	0.58%	\$ 21,917	9.12%	0.50%	\$ 15,669	7.33%	0.38%
Passbook deposits	36,611	13.45%	0.32%	36,252	15.09%	0.32%	36,752	17.20%	0.32%
NOW and other demand deposits	29,959	11.00%	0.07%	28,813	11.99%	0.07%	30,684	14.36%	0.08%
Certificates of deposit	178,292	65.49%	1.06%	153,291	63.80%	1.09%	130,593	61.11%	1.16%
Total	<u>\$ 272,261</u>	<u>100.00%</u>	<u>0.80%</u>	<u>\$ 240,273</u>	<u>100.00%</u>	<u>0.79%</u>	<u>\$ 213,698</u>	<u>100.00%</u>	<u>0.81%</u>

***Borrowings***

We utilize short-term and long-term advances from the FHLB of San Francisco as an alternative to retail deposits as a funding source for asset growth. FHLB advances are generally secured by mortgage loans and mortgage-backed

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securities. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions fluctuates from time to time in accordance with the policies of the FHLB. At December 31, 2016, we had \$85.0 million in FHLB advances and had the ability to borrow up to an additional \$39.0 million based on available and pledged collateral.

The following table summarizes information concerning our FHLB advances at or for the periods indicated.

	<b>At or For the Year Ended</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(Dollars in thousands)</b>		
FHLB Advances:			
Average balance outstanding during the year	\$ 71,940	\$ 80,875	\$ 80,345
Maximum amount outstanding at any month-end during the year	\$ 85,000	\$ 84,500	\$ 86,000
Balance outstanding at end of year	\$ 85,000	\$ 72,000	\$ 86,000
Weighted average interest rate at end of year	1.94%	2.15%	2.31%
Average cost of advances during the year	2.13%	2.24%	2.44%
Weighted average maturity (in months)	13	24	23

On March 17, 2004, we 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 3.53% at December 31, 2016. On October 16, 2014, we made payments of \$900 thousand of principal on the 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, we 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.

### **Market Area and Competition**

Broadway Federal is a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. Our retail banking network includes full service banking offices, automated teller machines and Internet banking capabilities that are available using our website at [www.broadwayfederalbank.com](http://www.broadwayfederalbank.com). We have two banking offices in Los Angeles and one banking office located in the nearby City of Inglewood.

The Los Angeles metropolitan area is a highly competitive banking market for making loans and attracting deposits. Although our offices are primarily located in low-to-moderate income communities that have historically been under-served by other financial institutions, we face significant competition for deposits and loans in our immediate market areas, including direct competition from mortgage banking companies, commercial banks and savings and loan associations. Most of these financial institutions are significantly larger than we are and have greater financial resources, and many have a regional, statewide or national presence.

### **Personnel**

At December 31, 2016, we had 67 employees, which consisted of 62 full-time and 5 part-time employees. We believe that we have good relations with our employees and none are represented by a collective bargaining group.

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### **Regulation**

#### *General*

Our Bank, Broadway Federal Bank, f.s.b, is regulated by the OCC, as its primary federal regulator, and by the FDIC, as its deposit insurer. Also, the Bank is a member of the FHLB System and is subject to the regulations of the FRB concerning reserves required to be maintained against deposits, transactions with affiliates, Truth in Lending and other consumer protection requirements and certain other matters. Our savings and loan holding company, Broadway Financial Corporation, is regulated, examined and supervised by the FRB. The Company is also required to file certain reports and otherwise comply with the rules and regulations of the SEC under the federal securities laws.

The OCC regulates and examines most of our Bank's business activities, including, among other things, capital standards, general investment authority, deposit taking and borrowing authority, mergers and other business combination transactions, establishment of branch offices, and permitted subsidiary investments and activities. The OCC has primary enforcement responsibility over federal savings bank and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, including with respect to capital requirements. In addition, the FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular federal savings bank and, if action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. In certain cases, the OCC has the authority to refer matters relating to federal fair lending laws to the U.S. Department of Justice ("DOJ") or the U.S. Department of Housing and Urban Development ("HUD") if the OCC determines violations of the fair lending laws may have occurred.

Changes in the applicable laws or regulations of the OCC, the FDIC, the FRB or other regulatory authorities could have a material adverse impact on the Bank and the Company, their operations, and the value of the Company's debt and equity securities. The Company and its stock are also subject to rules and regulations issued by The NASDAQ Stock Market, LLC ("NASDAQ"), the principal exchange on which the Company's common stock is traded. Changes in the rules and regulations published by NASDAQ, or failure of the Company to conform to NASDAQ's rules and regulations, could have an adverse impact on the Company and the value of the Company's equity securities.

The following paragraphs summarize certain of the laws and regulations that apply to the Company and the Bank. These descriptions of statutes and regulations and their possible effects do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that applies to us.

#### ***Dodd-Frank Wall Street Reform and Consumer Protection Act***

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises.

As a result of the Dodd-Frank Act, on July 21, 2011, the OTS, our former primary federal regulator, was merged into the OCC, which has taken over the regulation and supervision of all federal savings associations. The FRB acquired the OTS' authority over all savings and loan holding companies.

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. Under an existing FRB policy statement, bank holding companies with less than \$500 million in total consolidated assets were not subject to consolidated capital requirements. In guidance effective as of May 15, 2015,

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the FRB formally applied the policy statement to savings and loan holding companies, such as the Company, and raised the applicable asset threshold to \$1 billion. The Dodd-Frank Act requires savings and loan holding companies to serve as a source of financial strength for any subsidiary of the entity that is a depository institution by providing financial assistance in the event of the financial distress of the depository institution.

The Dodd-Frank Act also includes provisions changing the assessment base for federal deposit insurance from the amount of insured deposits to the amount of consolidated assets less tangible capital, and making permanent the \$250,000 limit for federal deposit insurance that had initially been established on a temporary basis in reaction to the economic downturn in 2008.

The Dodd-Frank Act also established the Bureau of Consumer Financial Protection ("CFPB"). The CFPB has authority to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to banks and savings institutions of all sizes, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB's supervisory authority does not generally extend to insured depository institutions having less than \$10 billion in assets.

The Dodd-Frank Act also includes other provisions that require or permit further rulemaking by the federal bank regulatory agencies, which may affect our future operations. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

### ***Capital Requirements***

In July 2013, the federal banking regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to, among other entities, depository institutions including Broadway Federal. As stated above, the Company is exempt from consolidated capital requirements as a small savings and loan holding company. The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the Basel III Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (calculated as CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (calculated as 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").

The Basel III Capital Rules also introduced a new "capital conservation buffer", composed entirely of CET1, in addition to these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on January 1 of each subsequent year, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

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When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4.0%.

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over the following three years (beginning at 40% on January 1, 2015 and at an additional 20% each year thereafter).

In addition, under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income items are not excluded automatically; however, non-advanced approaches banking organizations, including Broadway Federal, are able to make a one-time permanent election to continue to exclude these items. The Bank has made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their available-for-sale securities portfolio.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expands both the number of risk-weighting categories and the risk sensitivity of many categories. The risk weights assigned to a particular category of assets will depend on the nature of the assets, and range from 0% for U.S. government and agency securities to 600% for certain equity exposures. On balance, the new standards result in higher risk weights for a number of asset categories.

The Basel III Capital Rules also revise the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "Prompt Corrective Action."

Management believes that, as of December 31, 2016, the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect.

### ***Prompt Corrective Action***

The Federal Deposit Insurance Act, as amended ("FDIA"), requires the federal banking agencies to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. The OCC performs this function with respect to the Bank. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized."

Generally, a capital restoration plan must be filed with the OCC within 45 days after the date a depository institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion.

The Basel III Capital Rules contain revisions to the prompt corrective action framework. Under the prompt corrective action requirements, insured depository institutions are now required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new CET1 capital to risk weighted assets of 6.5%; (ii) a Tier 1 capital to risk weighted assets of 8% (increased from 6%); (iii) a total capital to risk weighted assets of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

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At December 31, 2016, 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 at December 31, 2016 and 2015 are presented below.

	Actual		Minimum Capital Requirements		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>December 31, 2016:</b>						
Tier 1 (Leverage)	\$ 43,954	10.60%	\$ 16,594	4.0%	\$ 20,742	5.0%
Common Equity Tier 1	\$ 43,954	15.36%	\$ 12,875	4.5%	\$ 18,597	6.5%
Tier 1	\$ 43,954	15.36%	\$ 17,166	6.0%	\$ 22,888	8.0%
Total Capital	\$ 47,544	16.62%	\$ 22,888	8.0%	\$ 28,610	10.0%
<b>December 31, 2015:</b>						
Tier 1 (Leverage)	\$ 46,028	11.56%	\$ 15,923	4.0%	\$ 19,903	5.0%
Common Equity Tier 1	\$ 46,028	19.45%	\$ 10,650	4.5%	\$ 15,383	6.5%
Tier 1	\$ 46,028	19.45%	\$ 14,200	6.0%	\$ 18,933	8.0%
Total Capital	\$ 49,010	20.71%	\$ 18,933	8.0%	\$ 23,667	10.0%

### Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks, including federal savings banks, up to prescribed statutory limits for each depositor. Pursuant to the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased to \$250,000 per depositor, per ownership category.

The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to the FDIC's Deposit Insurance Fund ("DIF"). The Bank's DIF assessment is calculated by multiplying its assessment rate by the assessment base, which is defined as the average consolidated total assets less the average tangible equity of the Bank. The initial base assessment rate is based on an institution's capital level, and capital adequacy, asset quality, management, earnings, liquidity and sensitivity ("CAMELS") ratings, certain financial measures to assess an institution's ability to withstand asset related stress and funding related stress, and in some cases, additional discretionary adjustments by the FDIC to reflect additional risk factors.

The FDIC's overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. The financial crisis that began in 2008 resulted in substantially higher levels of bank failures than had occurred in the immediately preceding years. These failures dramatically increased the resolution costs of the FDIC and substantially reduced the available amount of the DIF.

As required by the Dodd-Frank Act, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan increased the minimum designated DIF reserve ratio from 1.15% to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that in setting the assessments necessary to meet the new requirement, the FDIC is required to offset the effect of this provision on insured depository institutions with total consolidated assets of less than \$10 billion, so that more of the cost of raising the reserve ratio will be borne by institutions with more than \$10 billion in assets. With the increase of the DIF reserve ratio to 1.17% on June 30, 2016, the range of initial assessment rates has declined for all banks from five to 35 basis points on an annualized basis to three to 30 basis points on an annualized basis. In order to reach a DIF reserve ratio of 1.35%, insured depository institutions with \$10 billion or more in total assets are required to pay a quarterly surcharge equal to an annual rate of 4.5 basis points, in addition to regular assessments. In the event

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that the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall on large banks in the first quarter of 2019. The FDIC will provide assessment credits to insured depository institutions, like Broadway Federal, with total consolidated assets of less than \$10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors.

### ***Guidance on Commercial Real Estate Lending***

In October 2009, the federal banking agencies adopted a policy statement supporting workouts of commercial real estate ("CRE") loans, which is referred to as the CRE Policy Statement. The CRE Policy Statement provides guidance for examiners, and for financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The CRE Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The CRE Policy Statement states that financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of the financial condition of borrowers will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The CRE Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing an institution's risk-management practices for loan workout activities.

### ***Loans to One Borrower***

Federal savings banks generally are subject to the lending limits that are applicable to national banks. With certain limited exceptions, the maximum amount that a federal savings banks may lend to any borrower (including certain related persons or entities of such borrower) is an amount equal to 15% of the savings institution's unimpaired capital and unimpaired surplus, or \$7.3 million for Broadway Federal at December 31, 2016, plus an additional 10% for loans fully secured by readily marketable collateral. Real estate is not included within the definition of "readily marketable collateral" for this purpose. We are in compliance with the limits that are applicable to loans to any one borrower. At December 31, 2016, our largest aggregate amount of loans to one borrower totaled \$6.1 million. Both of the loans for the largest borrower were performing in accordance with their terms and the borrower had no affiliation with Broadway Federal.

### ***Community Reinvestment Act and Fair Lending***

The Community Reinvestment Act, as implemented by OCC regulations ("CRA"), requires each federal savings bank, as well as other lenders, to make efforts to meet the credit needs of the communities they serve, including low- and moderate-income neighborhoods. The CRA requires the OCC to assess an institution's performance in meeting the credit needs of its communities as part of its examination of the institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of a savings institution's CRA performance, the OCC assigns ratings of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank's "outstanding" rating was reaffirmed in its most recent CRA examination in 2016.

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The Bank is also subject to federal fair lending laws, including the Equal Credit Opportunity Act ("ECOA") and the Federal Housing Act ("FHA"), which prohibit discrimination in credit and residential real estate transactions on prohibited bases, including race, color, national origin, gender, and religion, among others. A lender may be liable under one or both of these acts in the event of overt discrimination, disparate treatment, or a disparate impact on a prohibited basis. The compliance of federal savings banks of the Bank's size with these acts is primarily supervised and enforced by the OCC. If the OCC determines that a lender has engaged in a pattern or practice of discrimination in violation of ECOA, the OCC refers the matter to the DOJ. Similarly, HUD is notified of violations of the FHA.

### ***Qualified Thrift Lender Test***

The Home Owners Loan Act ("HOLA") requires all federal savings banks to meet a Qualified Thrift Lender ("QTL") test. Under the QTL test, a federal savings bank is required to maintain at least 65% of its portfolio assets (total assets less (i) specified liquid assets up to 20% of total assets, (ii) intangibles, including goodwill, and (iii) the value of property used to conduct business) in certain "qualified thrift investments" on a monthly basis during at least 9 out of every 12 months. Qualified thrift investments include, in general, loans, securities and other investments that are related to housing, shares of stock issued by any Federal Home Loan Bank, loans for educational purposes, loans to small businesses, loans made through credit cards or credit card accounts and certain other permitted thrift investments. The failure of a federal savings bank to remain a QTL may result in required conversion of the institution to a bank charter, which would change the federal savings bank's permitted business activities in various respects, including operation under certain restrictions, such as limitations on new investments and activities, the imposition of restrictions on branching and the payment of dividends that apply to national banks. At December 31, 2016, the Bank was in compliance with the QTL test requirements.

### ***The USA Patriot Act, Bank Secrecy Act ("BSA"), and Anti-Money Laundering ("AML") Requirements***

The USA PATRIOT Act was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in the promulgation of several regulations that have a direct impact on savings associations. Financial institutions must have a number of programs in place to comply with this law, including: (i) a program to manage BSA/AML risk; (ii) a customer identification program designed to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorists or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Failure to comply with these requirements may result in regulatory action, including the issuance of cease and desist orders, impositions of civil money penalties and adverse changes in an institution's regulatory ratings, which could adversely affect its ability to obtain regulatory approvals for business combinations or other desired business objectives.

### ***Privacy Protection***

Broadway Federal is subject to OCC regulations implementing the privacy protection provisions of federal law. These regulations require Broadway Federal to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information," to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require Broadway Federal to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, Broadway Federal is required to provide its customers with the ability to "opt-out" of having Broadway Federal share their nonpublic personal information with unaffiliated third parties.

Broadway Federal is also subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set

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forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

### ***Cybersecurity***

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cybersecurity attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers.

### ***Savings and Loan Holding Company Regulation***

As a savings and loan holding company, we are subject to the supervision, regulation, and examination of the FRB. In addition, FRB has enforcement authority over the Company and our subsidiary Broadway Federal. Applicable statutes and regulations administered by FRB place certain restrictions on our activities and investments. Among other things, we are generally prohibited, either directly or indirectly, from acquiring more than 5% of the voting shares of any savings association or savings and loan holding company that is not a subsidiary of the Company.

The Change in Bank Control Act prohibits a person, acting directly or indirectly or in concert with one or more persons, from acquiring control of a savings and loan holding company unless the FRB has been given 60 days prior written notice of such proposed acquisition and within that time period the FRB has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which a disapproval may be issued. The term "control" is defined for this purpose to include ownership or control of, or holding with power to vote, 25% or more of any class of a savings and loan holding company's voting securities. Under a rebuttable presumption contained in the regulations of the FRB, ownership or control of, or holding with power to vote, 10% or more of any class of voting securities of a savings and loan holding company will be deemed control for purposes of the Change in Bank Control Act if the institution (i) has registered securities under Section 12 of the Exchange Act, or (ii) no person will own, control, or have the power to vote a greater percentage of that class of voting securities immediately after the transaction. In addition, any company acting directly or indirectly or in concert with one or more persons or through one or more subsidiaries would be required to obtain the approval of the FRB under the Home Owners' Loan Act before acquiring control of a savings and loan holding company. For this purpose, a company is deemed to have control of a savings and loan holding company if the company (i) owns, controls, holds with power to vote, or holds proxies representing, 25% or more of any class of voting shares of the savings and loan holding company, (ii) contributes more than 25% of the capital, (iii) controls in any manner the election of a majority of the holding company's directors, or (iv) directly or indirectly exercises a controlling influence over the management or policies of the savings bank or other company. The FRB may also determine, based on the relevant facts and circumstances, that a company has otherwise acquired control of a savings and loan holding company.

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### ***Restrictions on Dividends and Other Capital Distributions***

In general, the prompt corrective action regulations prohibit a federal savings bank from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, OCC regulations limit certain "capital distributions" by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and payments of cash to stockholders in mergers.

Under the OCC capital distribution regulations, a federal savings bank that is a subsidiary of a savings and loan holding company must notify the OCC at least 30 days prior to the declaration of any capital distribution by its federal savings bank subsidiary. The 30-day period provides the OCC an opportunity to object to the proposed dividend if it believes that the dividend would not be advisable.

An application to the OCC for approval to pay a dividend is required if: (i) the total of all capital distributions made during that calendar year (including the proposed distribution) exceeds the sum of the institution's year-to-date net income and its retained income for the preceding two years; (ii) the institution is not entitled under OCC regulations to "expedited treatment" (which is generally available to institutions the OCC regards as well run and adequately capitalized); (iii) the institution would not be at least "adequately capitalized" following the proposed capital distribution; or (iv) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OCC.

The Bank's ability to pay dividends to the Company is also subject to the restriction that the Bank is not permitted to pay dividends to the Company if its regulatory capital would be reduced below the amount required for the liquidation account established in connection with the conversion of the Bank from the mutual to the stock form of organization.

See Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" and Note 13 of the Notes to Consolidated Financial Statements for a further description of dividend and other capital distribution limitations to which the Company and the Bank are subject.

### **Tax Matters**

#### ***Federal Income Taxes***

We report our income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with certain exceptions, including particularly the Bank's tax reserve for bad debts. The Bank has qualified under provisions of the Internal Revenue Code (the "Code") that in the past allowed qualifying savings institutions to establish reserves for bad debts, and to make additions to such reserves, using certain preferential methodologies. See Note 10 of the Notes to Consolidated Financial Statements for a further description of tax matters applicable to our business.

#### ***California Taxes***

As a savings and loan holding company filing California franchise tax returns on a combined basis with its subsidiaries, the Company is subject to California franchise tax at the rate applicable to "financial corporations." The applicable statutory tax rate is 10.84%.

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**ITEM 2. PROPERTIES**

We conduct our business through three branch offices and a corporate office. Our loan service operation is also conducted from one of our branch offices. Our administrative and corporate operations are conducted from our corporate facility located at 5055 Wilshire Boulevard, Suite 500, Los Angeles. There are no mortgages, material liens or encumbrances against any of our owned properties. We believe that all of the properties are adequately covered by insurance, and that our facilities are adequate to meet our present needs.

As of December 31, 2016, the net book value of our investment in premises, equipment and fixtures, excluding computer equipment, was \$2.3 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2016 was \$1.2 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately \$566 thousand during 2016.

<b>Location</b>	<b>Leased or Owned</b>	<b>Original Date Leased or Acquired</b>	<b>Date of Lease Expiration</b>
<b>Administrative/Loan Origination Center:</b> 5055 Wilshire Blvd, Suite 500 Los Angeles, CA	Leased	2013	April 2021
<b>Branch Offices:</b> 5055 Wilshire Blvd, Suite 100 Los Angeles, CA	Leased	2013	April 2021
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	-
4001 South Figueroa Street Los Angeles, CA	Owned	1996	-

**ITEM 3. LEGAL PROCEEDINGS**

In the ordinary course of business, we are defendants in various litigation matters from time to time. In our opinion, the disposition of any litigation and other legal and regulatory matters currently pending or threatened against us would not have a material adverse effect on our financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the Nasdaq Capital Market under the symbol "BYFC." The table below shows the high and low sale prices for our common stock during the periods indicated.

<b>2016</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
High	\$ 1.99	\$ 2.00	\$ 2.50	\$ 1.98
Low	\$ 1.35	\$ 1.79	\$ 1.42	\$ 1.42

<b>2015</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
High	\$ 1.63	\$ 1.65	\$ 2.08	\$ 1.60
Low	\$ 1.12	\$ 1.22	\$ 1.17	\$ 1.21

The closing sale price for our common stock on the Nasdaq Capital Market on March 10, 2017 was \$1.69 per share. As of March 10, 2016, we had 303 stockholders of record and 18,664,821 shares of voting common stock outstanding. At that date, we also had 8,756,396 shares of non-voting common stock outstanding. Our non-voting common stock is not listed for trading on the Nasdaq Capital Market, but is convertible into our voting common stock in connection with certain sale or other transfer transactions.

In general, we may pay dividends out of funds legally available for that purpose at such times as our Board of Directors determines that dividend payments are appropriate, after considering our net income, capital requirements, financial condition, alternate investment options, prevailing economic conditions, industry practices and other factors deemed to be relevant at the time. We suspended our prior policy of paying regular cash dividends in May 2010 in order to retain capital for reinvestment in the Company's business. In addition, pursuant to the Order issued to the Company in September 2010 (but terminated by the FRB in February 2016), the Company could not declare or pay dividends or make other capital distributions, which term included repurchases of stock, without receipt of prior written notice of non-objection to such capital distribution from the FRB.

Our financial ability to pay permitted dividends is primarily dependent upon receipt of dividends from Broadway Federal. Broadway Federal is subject to certain requirements which may limit its ability to pay dividends or make other capital distributions. See Item 1 "Business – Regulation" and Note 13 of the Notes to Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data" for an explanation of the impact of regulatory capital requirements on Broadway Federal's ability to pay dividends.

The following table provides information about our repurchases of shares during the fourth quarter of 2016.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>
December 1 - December 31, 2016	2,513,835	\$ 1.59
Total	2,513,835	\$ 1.59

On December 21, 2016, we repurchased 2,513,835 shares of our voting common stock, at a price of \$1.59 per share, from the U.S. Department of the Treasury (the "U.S. Treasury") and two other stockholders in a privately

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negotiated transaction for a total cost of \$4.0 million. We financed these purchases with a dividend of \$4.0 million received from the Bank, and the proceeds of \$1.2 million from a private placement of 737,861 shares of non-voting common stock. Concurrently with the Company's purchases, the Broadway Federal Bank, f.s.b., Employee Stock Ownership Plan Trust (the "ESOP") purchased 1,493,679 shares of the Company's voting common stock from the U.S. Treasury at the same price of \$1.59 per share. The ESOP's purchases were funded with a combination of cash on hand and the proceeds of a loan of \$1.2 million from the Company to the ESOP.

### **Equity Compensation Plan Information**

The following table provides information about the Company's common stock that may be issued under equity compensation plans as of December 31, 2016.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options</u> (a)	<u>Weighted average exercise price of outstanding options</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders:			
2008 Long Term Incentive Plan	540,625	\$ 2.18	1,338,892
Equity compensation plans not approved by security holders:			
None	-	-	-
Total	<u>540,625</u>	<u>\$ 2.18</u>	<u>1,338,892</u>

As of December 31, 2016, 120,483 shares of restricted stock had been issued under the 2008 Long Term Incentive Plan. Our Board of Directors intends to consider issuing equity incentives to certain key employees as a form of long-term compensation that will help align the interests of senior management with those of our stockholders. However, our ability to issue options and other form of equity incentives to our Chief Executive Officer was restricted pursuant to the terms of the agreements entered into in 2008 and 2009 pursuant to which the U.S. Treasury invested in the Company.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion 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 other factors that have affected our reported results of operations and financial condition or may affect our future results or financial condition. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

### **Overview**

Total assets increased by \$26.2 million to \$429.1 million at December 31, 2016 from \$402.9 million at December 31, 2015. During 2016, we increased our net loans receivable by \$75.3 million, which was funded with \$49.4 million in cash and cash equivalents, an increase of \$14.8 million in deposits, and an increase of \$13.0 million in FHLB advances, as we grew our multi-family residential loan portfolio to improve net interest income.

We recorded net income of \$3.5 million for the year ended December 31, 2016, compared to \$9.1 million for the year ended December 31, 2015. Results during 2016 included an income tax benefit of \$2.2 million and a loan loss provision recapture of \$550 thousand. Also, results for 2016 were impacted by non-recurring professional fees totaling \$369 thousand related to the repurchase of shares from the U.S. Treasury, described below. In contrast, net income for the year ended December 31, 2015 included an income tax benefit of \$4.6 million and loan loss provision recaptures of \$3.7 million. Furthermore, 2015 results also included \$1.8 million in gains on the sale of \$164.1 million in loans, which were sold to meet regulatory guidelines regarding loan concentration. There were no loan sales during 2016 and no gains on the sale of loans.

We became subject to the Basel III capital requirements effective January 1, 2015. The Basel III capital rules included a new ratio of Common Equity Tier 1 capital to risk-weighted assets and increased the minimum capital requirements. A new capital conservation buffer has also been established at levels above the regulatory minimum capital requirements. The final rules also revise the definition and calculation of Tier 1 capital, Total capital and risk-weighted assets. The implementation of the Basel III capital requirements is transitional and phases in through the end of 2018. See "Regulatory Capital" for additional information. We have been in compliance with the new capital rules at all times since they came into effect.

During 2016, we took steps to strengthen our stockholder base by reducing the ownership of the Company that is held by the U.S. Treasury, and attracting another high-quality institutional investor. During the fourth quarter of 2016, we repurchased 2,513,835 shares of our voting common stock from the U.S. Treasury and two other stockholders in a privately negotiated transaction for a total cost of \$4.0 million. The Bank's ESOP also purchased 1,493,679 voting shares from the U.S. Treasury for a cost of \$2.4 million, of which \$1.2 million was financed with a loan from the Company. Additionally, an institutional investor purchased 834,465 shares of our voting common stock from the U.S. Treasury for a cost of \$1.3 million. As a result of these transactions, the U.S. Treasury's stake in the Company was reduced by 46.35%, from 47.40% to 29.35% of the Company's voting shares, and from 34.89% to 19.94% of the Company's total shares (voting plus non-voting).

As part of these transactions, the institutional investor made an additional investment of \$1.2 million in the Company by purchasing 737,861 shares of our non-voting common stock.

The Company financed the \$3.8 million repurchase of shares from the U.S. Treasury and the \$1.2 million loan to ESOP with a dividend of \$4.0 million received from the Bank and proceeds of \$1.2 million from the sale of non-voting common stock.

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### **Comparison of Operating Results for the Years Ended December 31, 2016 and 2015**

#### ***General***

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from our loans and investments (interest-earning assets) and interest expense is incurred from deposits and borrowings (interest-bearing liabilities). Typically, our results of operations are also affected by our provision for (recapture of) loan losses, non-interest income generated from service charges and fees on loan and deposit accounts, gains or losses on the sale of loans, REO and securities, non-interest expenses and income taxes.

#### ***Net Income***

We recorded net income of \$3.5 million, or \$0.12 per diluted share for the year ended December 31, 2016, compared to net income of \$9.1 million, or \$0.31 per diluted share for the year ended December 31, 2015. The decrease of \$5.6 million in net income during 2016 compared to 2015 was primarily due to lower income tax benefit, lower loan loss provision recapture, and the absence of gain on sale of loans during 2016. The results for 2016 included an income tax benefit of \$2.2 million, which resulted from the reversal of the remaining valuation allowance on deferred tax assets, and loan loss provision recaptures of \$550 thousand. In contrast, 2015 results included an income tax benefit of \$4.6 million and loan loss provision recaptures of \$3.7 million. Additionally, 2015 results included \$1.8 million in gains on the sale of \$164.1 million in loans, which were sold to meet regulatory guidelines regarding loan concentration. There were no loan sales during 2016 and no gains on the sale of loans. Furthermore, results for 2016 were impacted by non-recurring professional fees totaling \$369 thousand related to the repurchase of shares from the U.S. Treasury.

#### ***Net Interest Income***

For the year ended December 31, 2016, net interest income before loan loss provision recapture totaled \$11.4 million, representing a slight increase of \$122 thousand, or 1%, from the \$11.3 million of net interest income before loan loss provision recapture reported for the year ended December 31, 2015. Net interest income increased for 2016 compared to 2015 due to an increase of \$49.6 million, or 17%, in the average balance of loans receivable, which increased to \$341.3 million for 2016 from \$291.7 million for 2015 and resulted in additional interest income of \$2.2 million. The increase in the average balance of loans receivable resulted from loan originations of \$137.7 million during 2016. Offsetting this increase was the impact of a decrease of 64 basis points in the average yield on loans to 4.24% for 2016, from 4.88% for 2015, which reduced loan interest income by \$2.0 million. The decline in the average yield on loans was primarily attributable to the competitive low-interest rate environment during 2016, which resulted in an average interest rate on new loans originated during 2016 that is 156 basis points lower than the average interest rate on loans that were paid off during the year.

Other interest income for the year ended December 31, 2016 totaled \$482 thousand, representing a decrease of \$92 thousand, or 16%, from \$574 thousand of other interest income for the same period in 2015. The decrease in other interest income was primarily due to a decrease of \$129 thousand in dividends on FHLB stock, primarily reflecting a lower special dividend received during 2016 and a lower average balance in the Bank's investment in FHLB stock during 2016. This decrease was partially offset by an increase of \$37 thousand in interest income on cash and cash equivalents, primarily reflecting a higher average interest rate on cash and cash equivalents during 2016.

Interest expense on deposits for the year ended December 31, 2016 totaled \$2.2 million, representing an increase of \$270 thousand, or 14%, from the \$1.9 million of interest expense on deposits for the same period in 2015. The increase in interest expense on deposits was primarily due to an increase of \$32.0 million in the average balance of

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deposits to \$272.3 million for 2016 from \$240.3 million for 2015. The increase in the average balance of deposits primarily reflected growth in money market and CD accounts.

Interest expense on borrowings for the year ended December 31, 2016 totaled \$1.7 million, representing a decrease of \$257 thousand, or 13%, from the \$2.0 million of interest expense on borrowings for the same period in 2015. The decrease in interest expense on borrowings was primarily due to a decrease of \$8.9 million in the average balance of FHLB advances, which decreased interest expense by \$193 thousand. Additionally, the average cost of FHLB advances decreased by 11 basis points and reduced interest expense by \$85 thousand during 2016. The decrease in interest expense on FHLB advances was partially offset by an increase of \$21 thousand in interest expense on Debentures, primarily due to increases in LIBOR rates.

## Analysis of Net Interest Income

Net interest income is the difference between income on interest-earning assets and the expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. The following table sets forth average balances, average yields and costs, and certain other information for the years indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred loan fees, deferred origination costs, and discounts and premiums that are amortized or accreted to interest income or expense. We do not accrue interest on loans that are on non-accrual status; however, the balance of these loans is included in the total average balance, which has the effect of reducing average loan yields.

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<i>(Dollars in Thousands)</i>	For the year ended December 31,					
	2016			2015		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
<b>Assets</b>						
Interest-earning assets:						
Interest-earning deposits	\$ 5,946	\$ 21	0.35%	\$ 3,005	\$ 9	0.30%
Federal Funds sold and other short-term investments	29,107	147	0.51%	49,895	122	0.24%
Securities	14,578	323	2.22%	15,554	351	2.26%
Loans receivable (1)	341,324	14,485 (2)	4.24%	291,743	14,230 (3)	4.88%
FHLB stock	2,573	314	12.20%	3,271	443	13.54%
Total interest-earning assets	393,528	\$ 15,290	3.89%	363,468	\$ 15,155	4.17%
Non-interest-earning assets	9,113			7,095		
Total assets	<u>\$ 402,641</u>			<u>\$ 370,563</u>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities:						
Money market deposits	\$ 27,399	\$ 158	0.58%	\$ 21,917	\$ 110	0.50%
Passbook deposits	36,611	117	0.32%	36,252	115	0.32%
NOW and other demand deposits	29,959	20	0.07%	28,813	21	0.07%
Certificate accounts	178,292	1,885	1.06%	153,291	1,664	1.09%
Total deposits	272,261	2,180	0.80%	240,273	1,910	0.79%
FHLB advances	71,940	1,530	2.13%	80,875	1,808	2.24%
Junior subordinated debentures	5,100	167	3.27%	5,100	146	2.86%
Total interest-bearing liabilities	349,301	\$ 3,877	1.11%	326,248	\$ 3,864	1.18%
Non-interest-bearing liabilities	6,405			4,692		
Stockholders' Equity	46,935			39,623		
Total liabilities and stockholders' equity	<u>\$ 402,641</u>			<u>\$ 370,563</u>		
Net interest rate spread (4)		<u>\$ 11,413</u>	2.78%		<u>\$ 11,291</u>	2.99%
Net interest rate margin (5)			2.90%			3.11%
Ratio of interest-earning assets to interest-bearing liabilities			112.66%			111.41%

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- (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) Includes non-accrual interest of \$493 thousand, reflecting interest recoveries on non-accrual loans that were paid off, and deferred cost amortization of \$290 thousand for the year ended December 31, 2016.
  - (3) Includes non-accrual interest of \$246 thousand, reflecting interest recoveries on non-accrual loans that were paid off, and deferred cost amortization of \$288 thousand for the year ended December 31, 2015.
  - (4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
  - (5) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.

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Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2016			Year ended December 31, 2015		
	Compared to			Compared to		
	Year ended December 31, 2015			Year ended December 31, 2014		
						Increase (Decrease) in Net
						Interest Income
	Due to	Due to	Total	Due to	Due to	Total
	Volume	Rate		Volume	Rate	
(In thousands)						
Interest-earning assets:						
Interest-earning deposits	\$ 10	\$ 2	\$ 12	\$ -	\$ (4)	\$ (4)
Federal funds sold and other short term investments	(66)	91	25	50	3	53
Securities	(22)	(6)	(28)	1	(20)	(19)
Loans receivable, net	2,240	(1,985)	255	829	(1,593)	(764)
FHLB stock	(88)	(41)	(129)	(42)	202	160
Total interest-earning assets	<u>2,074</u>	<u>(1,939)</u>	<u>135</u>	<u>838</u>	<u>(1,412)</u>	<u>(574)</u>
Interest-bearing liabilities:						
Money market deposits	30	18	48	28	22	50
Passbook deposits	1	1	2	(2)	(2)	(4)
NOW and other demand deposits	1	(2)	(1)	(2)	(3)	(5)
Certificate accounts	265	(44)	221	251	(108)	143
Total deposits	<u>297</u>	<u>(27)</u>	<u>270</u>	<u>275</u>	<u>(91)</u>	<u>184</u>
FHLB advances	(193)	(85)	(278)	13	(167)	(154)
Junior subordinated debentures	-	21	21	(20)	(14)	(34)
Total interest-bearing liabilities	<u>104</u>	<u>(91)</u>	<u>13</u>	<u>268</u>	<u>(272)</u>	<u>(4)</u>
Change in net interest income	<u>\$ 1,970</u>	<u>\$ (1,848)</u>	<u>\$ 122</u>	<u>\$ 570</u>	<u>\$ (1,140)</u>	<u>\$ (570)</u>

### Loan Loss Provision Recapture

For the year ended December 31, 2016, we recorded a loan loss provision recapture of \$550 thousand compared to \$3.7 million for the year ended December 31, 2015. The loan loss provision recapture during 2016 resulted from a decrease in ALLL requirements resulting from the continued improvement in the overall credit quality of our loan portfolio and from loan repayments, which was partially offset by an increase in the ALLL requirements on loans originated during 2016. The loan loss provision recapture during 2015 was primarily due to the continued improvement in our loan loss experience, as well as the improved asset quality in our loan portfolio as a result of reductions in our problem loans and in the balances of certain loan classes that we believe bear higher risk, such as church and commercial real estate loans. See "Allowance for Loan Losses" for additional information.

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### ***Non-Interest Income***

For the year ended December 31, 2016, non-interest income totaled \$1.0 million, compared to \$2.9 million for the same period in 2015. The decrease of \$1.9 million in non-interest income was primarily because there were no loan sales during 2016, whereas during 2015, we recorded a gain on sale of loans of \$1.8 million from the sale of \$164.1 million in loans during 2015. Additionally, the grant received from the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund in 2016 was lower by \$90 thousand than the amount received in 2015.

### ***Non-Interest Expense***

For the year ended December 31, 2016, non-interest expense totaled \$11.8 million, compared to \$13.4 million for the same period in 2015. The decrease of \$1.6 million in non-interest expense was primarily due to a decrease of \$1.1 million in compensation and benefits expense, as the fourth quarter of 2015 included a special accrual of \$1.2 million for a contribution to the Bank's ESOP. Additionally, FDIC assessments decreased by \$275 thousand and other expense, including OCC assessments, appraisal costs, foreclosed property costs and provisions for unfunded commitments, decreased by \$342 thousand in 2016. Information services expense also decreased by \$122 thousand, primarily reflecting lower core processing expense, resulting from a renegotiated contract, and lower item processing expense. Partially offsetting these decreases in non-interest expense was an increase of \$277 thousand in professional services expense for the year 2016 compared to the same period in 2015, primarily resulting from higher legal and consulting fees in connection with the repurchase of shares from the U.S. Treasury.

### ***Income Taxes***

We recorded an income tax benefit of \$2.2 million for the year ended December 31, 2016 compared to income tax benefit of \$4.6 million for the year ended December 31, 2015. The income tax benefits for 2016 and 2015 reflected the reversals of the valuation allowance on deferred tax assets based on an analysis of the potential for utilization of the net operating losses included in the deferred tax assets. A portion of the net operating loss carryforwards were used to offset current taxable income in 2016 and 2015. As of December 31, 2016, we had no valuation allowance on our deferred tax assets, which totaled \$6.9 million, and included federal and California net operating loss carryforwards of \$11.3 million and \$28.6 million, respectively. See Note 1 "Summary of Significant Accounting Policies" and Note 10 "Income Taxes" of the Notes to Consolidated Financial Statements for a further discussion of income taxes and a reconciliation of income tax at the federal statutory tax rate to actual tax expense (benefit).

Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize net operating loss carryforwards, tax credit carryovers and other income tax attributes when there is an ownership change. Generally, the rules provide that an ownership change is deemed to have occurred when the cumulative increase of each 5% or more stockholder and certain groups of stockholders treated as 5% or more stockholders, as determined under Section 382, exceeds 50% over a specified "testing" period, generally equal to three years. Section 382 applies rules regarding the treatment of new groups of stockholders treated as 5% stockholders due to issuances of stock and other equity transactions, which may cause a change of control to occur. The Company has performed an analysis of the potential impact of Section 382 and has determined that the Company did not undergo an ownership change during 2016 or 2015 and any potential limitations imposed under Section 382 do not currently apply.

### **Comparison of Financial Condition at December 31, 2016 and 2015**

#### ***Total Assets***

Total assets were \$429.1 million at December 31, 2016, which represented an increase of \$26.2 million, or 6%, from total assets of \$402.9 million at December 31, 2015. During 2016, we increased net loans receivable by \$75.3 million, which was funded with \$49.4 million in cash and cash equivalents, an increase of \$14.8 million in

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deposits, and an increase of \$13.0 million in FHLB advances, as we grew our multi-family residential loan portfolio to improve net interest income.

### ***Loans Receivable***

Our gross loan portfolio increased by \$75.1 million to \$384.1 million at December 31, 2016, from \$309.0 million at December 31, 2015. The increase in our loan portfolio during 2016 primarily consisted of an increase of \$111.8 million in our multi-family residential real estate loan portfolio, a decrease of \$26.3 million in our single family residential real estate loan portfolio, a decrease of \$8.5 million in our church loan portfolio, a decrease of \$2.5 million in our commercial real estate loan portfolio and an increase of \$484 thousand in our construction loan portfolio. At December 31, 2016, 60.3% of our loan portfolio consisted of multi-family loans, 27.4% consisted of single family residential loans, 9.7% consisted of church loans, and 2.6% consisted of commercial and other loans. In comparison, at December 31, 2015, 38.7% of the our loan portfolio consisted of multi-family loans, 42.6% consisted of single family residential loans, 14.8% consisted of church loans, and 3.9% consisted of commercial real estate loans.

For the year ended December 31, 2016, loans originated for investment totaled \$138.4 million, including origination costs of \$749 thousand, compared to loans originated for investment of \$55.3 million (excluding \$57.7 million of multi-family loans allocated to held for sale), including origination costs of \$416 thousand, for the year ended December 31, 2015. We did not purchase any loans during 2016, but purchased \$100.2 million, including purchase premiums of \$498 thousand, in single family loans in November of 2015. Loan repayments totaled \$63.4 million for the year ended December 31, 2016, compared to \$41.7 million for the year ended December 31, 2015. There were no loan sales during 2016, compared to \$164.1 million in sales during 2015.

There were loan charge-offs or loans transferred to REO during 2016. Gross loan charge-offs during 2015 totaled \$89 thousand and loans transferred to REO totaled \$1.2 million.

### ***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 incurred losses 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 decreased to \$4.6 million, or 1.20% of our gross loans receivable held for investment, at December 31, 2016, from \$4.8 million, or 1.56% of our gross loans receivable held for investment, at December 31, 2015, primarily reflecting loan loss provision recaptures of \$550 thousand, which were partially offset by recoveries of \$325 thousand. Our loan portfolio as of December 31, 2016 included \$82.3 million of loans that were purchased in November 2015, for which there was no assigned allowance for loan losses. We purchased these loans at fair value and we have not identified any deterioration of credit quality in these loans since purchase. The reduction in ALLL at December 31, 2016 compared to December 31, 2015, and the loan loss provision recaptures during 2016, reflect the results of our quarterly reviews 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.

Our loan delinquencies and non-performing loans ("NPLs") are at their lowest levels since December 2009. We had total delinquencies of \$1.4 million at December 31, 2016 and 2015. NPLs consist of delinquent loans that are

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90 days or more past due and other loans, including troubled debt restructurings that do not qualify for accrual status. At December 31, 2016, NPLs totaled \$2.9 million, compared to \$4.2 million at December 31, 2015. The decrease of \$1.3 million in NPLs was primarily due to payoffs of \$1.3 million and repayments of \$406 thousand, which were partially offset by the placement of a church loan for \$463 thousand into non-accrual status.

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 December 31, 2015, all of our NPLs were current in their payments. Also, in determining the ALLL, we consider the ratio of the ALLL to NPLs, which increased to 156.35% at December 31, 2016 from 114.22% at December 31, 2015.

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 2016 compared to \$89 thousand during 2015. 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 the loan, 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 47% of estimated fair value less estimated selling costs as of December 31, 2016.

Recoveries during the 2016 and 2015 totaled \$325 thousand and \$152 thousand, respectively. Recoveries during 2016 primarily resulted from the payoffs of five non-accrual loans which had been previously partially charged off.

Impaired loans at December 31, 2016 were \$11.9 million, compared to \$15.8 million at December 31, 2015. Specific reserves for impaired loans were \$656 thousand, or 5.51% of the aggregate impaired loan amount at December 31, 2016, compared to \$995 thousand, or 6.30%, at December 31, 2015. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) decreased to 1.06% at December 31, 2016, from 1.31% at December 31, 2015. The decrease in our coverage ratio reflects a decline in our historical charge-offs and the continued improvement in our asset credit quality.

We believe that the ALLL is adequate to cover probable incurred losses in the loan portfolio as of December 31, 2016, 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 increased by \$14.8 million to \$287.4 million at December 31, 2016 from \$272.6 million at December 31, 2015. Core deposits (NOW, demand, money market and passbook accounts) increased by \$9.8 million during 2016 and represented 35% and 33% of total deposits at December 31, 2016 and December 31, 2015, respectively. The increase in core deposits during 2016 was primarily due to a new VIP money market product. During 2016, CDs increased by \$5.0 million and represented 65% and 67% of total deposits at December 31, 2016 and December 31, 2015, respectively. The increase in CDs during 2016 was primarily due to an increase of \$28.6 million in CDARS accounts, which was partially offset by a decrease of \$19.2 million in retail CDs, of which \$10.0 million was from one ongoing deposit relationship, and \$4.4 million was from maturities of QwickRate CDs.

One customer relationship accounted for approximately 11% of our deposits at December 31, 2016. We expect to maintain this relationship with the customer for the foreseeable future.

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### ***Borrowings***

Total borrowings at December 31, 2016 consisted of advances to the Bank from the FHLB of \$85.0 million, and subordinated debentures issued by the Company of \$5.1 million, compared to advances from the FHLB of \$72.0 million and subordinated debentures of \$5.1 million at December 31, 2015. During 2016, the Bank borrowed \$13.0 million from the FHLB to fund loan growth.

The weighted average cost of FHLB advances decreased 21 basis points from 2.15% at December 31, 2015 to 1.94% at December 31, 2015 primarily due to maturities of \$7.0 million of FHLB advances with an average interest rate of 1.35% and new advances totaling \$20.0 million with an average interest rate of 0.94%.

### ***Stockholders' Equity***

Stockholders' equity was \$45.5 million, or 10.61% of the Company's total assets, at December 31, 2016, compared to \$46.2 million, or 11.46% of the Company's total assets, at December 31, 2015. During the fourth quarter of 2016, the Company repurchased 2,513,835 voting shares, at a price of \$1.59 per share, from the U.S. Treasury and two other stockholders in a privately negotiated transaction for a total cost of \$4.0 million, and made a loan of \$1.2 million to the Bank's ESOP. The Company financed these purchases with a dividend of \$4.0 million received from the Bank, and proceeds of \$1.2 million from a private placement of 737,861 shares of non-voting common stock. As a result of completing these transactions, the number of outstanding shares decreased to 27,421,217 shares at December 31, 2016, from 29,076,708 shares at December 31, 2015.

### **Capital Resources**

Our principal subsidiary, Broadway Federal, 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. As a "small bank holding company", we are not subject to consolidated capital requirements under the new Basel III capital rules. The current regulatory capital requirements and possible consequences of failure to maintain compliance are described in Part I, Item 1 "Business-Regulation" and in Note 13 of the Notes to Consolidated Financial Statements.

### **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 \$39.0 million at December 31, 2016.

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 December 31, 2016 consisted of \$18.4 million in cash and cash equivalents and \$12.6 million in securities available-for-sale that were not pledged, compared to \$67.8 million in cash and cash equivalents and \$13.4 million in securities available-for-sale that were not pledged at December 31, 2015. The high level of liquid assets as of December 31, 2015 primarily reflected cash from new deposits gathered near the end of the year. Currently, we believe that the Bank has sufficient liquidity to support growth over the foreseeable future.

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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, October 2014 and December 2016 and dividend received from the Bank in December 2016. 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 inflows from operating activities of \$930 thousand and \$14.2 million during the years ended December 31, 2016 and 2015, respectively. Net cash inflows from operating activities during 2016 were primarily attributable to interest payments received on loans and securities. The decrease during 2016 compared to 2015 was due to the fact that there was no loan sale activity during 2016.

The Company recorded consolidated net cash outflows from investing activities of \$74.1 million and \$7.9 million during the years ended December 31, 2016 and 2015, respectively. Net cash outflows from investing activities during 2016 were primarily attributable to originations of multi-family loans for the Bank's loan portfolio.

The Company recorded consolidated net cash inflows from financing activities of \$23.8 million and \$40.7 million during the years ended December 31, 2016 and 2015, respectively. Net cash inflows from financing activities during 2016 were primarily attributable to the increase in deposits, advances from the FHLB and proceeds from issuance of common stock. These inflows were partially offset by the repurchase of shares from the U.S. Treasury and loan to the Bank's ESOP.

### **Off-Balance-Sheet Arrangements and Contractual Obligations**

We are party to financial instruments with off-balance-sheet risk in the normal course of our business, primarily in order to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments and lease commitments as described below.

Lending commitments include commitments to originate loans and to fund lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate creditworthiness on a case-by-case basis. Our maximum exposure to credit risk is represented by the contractual amount of the instruments.

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In addition to our lending commitments, we have contractual obligations related to operating lease commitments. Operating lease commitments are obligations under various non-cancellable operating leases on buildings and land used for office space and banking purposes. The following table details our contractual obligations at December 31, 2016.

	<u>Less than one year</u>	<u>More than one year to three years</u>	<u>More than three years to five years</u>	<u>More than five years</u>	<u>Total</u>
	(Dollars in thousands)				
Certificates of deposit	\$ 160,332	\$ 23,173	\$ 2,577	\$ 264	\$ 186,346
FHLB advances	49,500	35,500	-	-	85,000
Subordinated debentures	-	765	2,040	2,295	5,100
Commitments to originate loans	3,808	-	-	-	3,808
Commitments to fund unused lines of credit	516	-	-	258	774
Operating lease obligations	458	966	661	-	2,085
Total contractual obligations	<u>\$ 214,614</u>	<u>\$ 60,404</u>	<u>\$ 5,278</u>	<u>\$ 2,817</u>	<u>\$ 283,113</u>

### **Impact of Inflation and Changing Prices**

Our consolidated financial statements, including accompanying notes, have been prepared in accordance with GAAP which require the measurement of financial position and operating results primarily in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

### **Critical Accounting Policies**

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. This discussion highlights those accounting policies that management considers critical. All accounting policies are important, however, and therefore you are encouraged to review each of the policies included in Note 1 "Summary of Significant Accounting Principles" of the Notes to Consolidated Financial Statements beginning at page F-8 to gain a better understanding of how our financial performance is measured and reported. Management has identified the Company's critical accounting policies as follows:

#### ***Allowance for Loan Losses***

The determination of the allowance for loan losses is considered critical due to the high degree of judgment involved, the subjectivity of the underlying assumptions used, and the potential for changes in the economic environment that could result in material changes in the amount of the allowance for loan losses considered necessary. The allowance is evaluated on a regular basis by management and the Board of Directors and is based on a periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and feedback from regulatory examinations. See Item 1, "Business – Asset Quality – Allowance for Loan Losses" for a full discussion of the allowance for loan losses.

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### ***Real Estate Owned ("REO")***

REO consists of property acquired through foreclosure or deed in lieu of foreclosure and is recorded at the fair value, less estimated costs to sell, at the time of acquisition. The excess, if any, of the loan balance over the fair value of the property at the time of transfer from loans to REO is charged to the allowance for loan losses. Subsequent to the transfer to REO, if the fair value of the property less estimated selling costs declines to an amount less than the carrying value of the property, the deficiency is charged to income as a provision expense and a valuation allowance is established. Operating costs after acquisition are expensed as incurred. Due to changing market conditions, there are inherent uncertainties in the assumptions made with respect to the estimated fair value of REO. Therefore, the amount ultimately realized may differ from the amounts reflected in the accompanying consolidated financial statements.

### ***Income Taxes***

Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, forecasts of future income and available tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that as of December 31, 2016, no valuation allowance was required on its deferred tax assets, which totaled \$6.9 million. The Company recorded a valuation allowance of \$2.5 million and reported \$4.6 million in net deferred tax assets as of December 31, 2015. See Note 10 "Income Taxes" of the Notes to Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data."

### ***Fair Value Measurements***

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.

Fair values are estimated using relevant market information and other assumptions, as more fully disclosed in Note 4 of the Notes to Consolidated Financial Statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures*

As of December 31, 2016, an evaluation was performed under the supervision of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

*Management's annual report on internal control over financial reporting*

The management of Broadway Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework*, published by the 1992 Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and which is effected by the Company's Board of Directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting. Based on this evaluation, management determined that the Company's system of internal control over financial reporting was effective as of December 31, 2016.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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***Changes in internal control over financial reporting***

There were no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation of internal control over financial reporting that occurred during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Wayne-Kent A. Bradshaw

Wayne-Kent A. Bradshaw  
*Chief Executive Officer*  
(Principal Executive Officer)

Los Angeles, CA  
March 27, 2017

/s/ Brenda J. Battey

Brenda J. Battey  
*Chief Financial Officer*  
(Principal Financial Officer and Principal  
Accounting Officer)

Los Angeles, CA  
March 27, 2017

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement, under the captions "Election of Directors", "Executive Officers", "Code of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance", to be filed with the Securities and Exchange Commission in connection with the Company's 2017 Annual Meeting of Stockholders (the "Company's Proxy Statement").

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Executive Compensation" and "Director Compensation".

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management".

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Certain Relationships and Related Transactions" and "Election of Directors".

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Ratification of the Appointment of the Independent Registered Public Accounting Firm".

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**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. See Index to Consolidated Financial Statements.

2. Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes included under Item 8, "Financial Statements and Supplementary Data."

(b) List of Exhibits

<b><u>Exhibit Number*</u></b>	
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)
10.1	Broadway Federal Bank Employee Stock Ownership Plan (Exhibit 10.1 to Form 10-K filed by the Registrant on March 28, 2016)
10.2	Amended and Restated Broadway Financial Corporation 2008 Long Term Incentive Plan (Exhibit 10.3 to Form 10-Q filed by Registrant on August 12, 2016)
10.3	Amended Form of Stock Option Agreement for stock options granted pursuant to Amended and Restated Broadway Financial Corporation 2008 Long-Term Incentive Plan (Exhibit 10.1 to Form 10-Q filed by Registrant on August 12, 2016)
10.4	Award Agreement, dated March 30, 2016, for restricted stock granted to Wayne-Kent A. Bradshaw pursuant to Broadway Financial Corporation 2008 Long-Term Incentive Plan (Exhibit 10.2 to Form 10-Q filed by Registrant on August 12, 2016)
10.5	Deferred Compensation Plan (Exhibit 10.14 to Registration Statement on Form S-1 filed by Registrant on November 20, 2013)
10.6	Salary Continuation Agreement between Broadway Federal Bank and former Chief Executive Officer Paul C. Hudson (Exhibit 10.15 to Registration Statement on Form S-1 filed by Registrant on November 20, 2013)
10.7	Securities Purchase Agreement, dated as of December 21, 2016, entered into among United States Treasury Department, Registrant, First Republic Bank and Broadway Federal Bank, f.s.b., Employee Stock Ownership Plan
10.8	Stock Purchase Agreement, dated as of December 21, 2016, entered into between First Republic Bank and Registrant
10.9	Exchange Agreement, dated as December 21, 2016, entered into between CJA Private Financial Restructuring Master Fund I L.P. and Registrant
10.10	Stock Purchase Agreement, dated as of December 21, 2016, entered into between Bank of Hope and Registrant
10.11	Stock Purchase and Exchange Agreement, dated as of December 21, 2016, entered into between National Community Investment Fund and Registrant
10.12	ESOP Loan Agreement and ESOP Pledge Agreement, each dated as of December 19, 2016, entered into between Registrant and Nicholas L. Saakvitne, as trustee for the Broadway Federal Bank, f.s.b., Employee Stock Ownership Plan Trust, and related Promissory Note, dated as of December 19, 2016
21.1	List of Subsidiaries (Exhibit 21.1 to Registration Statement on Form S-1 filed by Registrant on November 20, 2013)

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<u>Exhibit Number*</u>	
23.1	Consent of Moss Adams LLP
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
99.4	Certification of Chief Executive Officer pursuant to Interim Final Rule – TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30
99.5	Certification of Chief Financial Officer pursuant to Interim Final Rule – TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30)
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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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Index to Consolidated Financial Statements**

**Years ended December 31, 2016 and 2015**

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
<u>Consolidated Statements of Financial Condition</u>	<u>F-2</u>
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Broadway Financial Corporation

We have audited the accompanying consolidated statements of financial condition of Broadway Financial Corporation and Subsidiary (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadway Financial Corporation and Subsidiary as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

San Francisco, California  
March 27, 2017

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Financial Condition**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(In thousands, except share and per share)	
<b>Assets</b>		
Cash and due from banks	\$ 1,516	\$ 2,580
Interest-bearing deposits in other banks	16,914	65,259
Cash and cash equivalents	18,430	67,839
Securities available-for-sale, at fair value	13,202	14,140
Loans receivable held for investment, net of allowance of \$4,603 and \$4,828	379,454	304,171
Accrued interest receivable	1,178	1,077
Federal Home Loan Bank (FHLB) stock	2,573	2,573
Office properties and equipment, net	2,479	2,570
Real estate owned (REO)	-	360
Bank owned life insurance	2,940	2,882
Investment in affordable housing limited partnership	732	925
Deferred tax assets, net	6,907	4,594
Other assets	1,188	1,781
<b>Total assets</b>	<b>\$ 429,083</b>	<b>\$ 402,912</b>
 <b>Liabilities and stockholders' equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 287,427	\$ 272,614
FHLB advances	85,000	72,000
Junior subordinated debentures	5,100	5,100
Advance payments by borrowers for taxes and insurance	828	663
Accrued expenses and other liabilities	5,202	6,372
<b>Total liabilities</b>	<b>383,557</b>	<b>356,749</b>
 Commitments and Contingencies (Notes 5 and 14)		
<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 December 31, 2016 and December 31, 2015; issued 21,282,647 shares at December 31, 2016 and 21,509,179 shares at December 31, 2015; outstanding 18,664,821 shares at December 31, 2016 and 21,405,188 shares at December 31, 2015	212	215
Common stock, \$.01 par value, non-voting, authorized 25,000,000 shares at December 31, 2016 and December 31, 2015; issued and outstanding 8,756,396 shares at December 31, 2016 and 7,671,520 shares at December 31, 2015	87	77
Additional paid-in capital	45,819	44,669
Retained earnings	6,013	2,533
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,176)	-
Accumulated other comprehensive income (loss)	(103)	(2)
Treasury stock-at cost, 2,617,826 shares at December 31, 2016 and 103,991 shares at December 31, 2015	(5,326)	(1,329)
<b>Total stockholders' equity</b>	<b>45,526</b>	<b>46,163</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 429,083</b>	<b>\$ 402,912</b>

See accompanying notes to consolidated financial statements.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Income and Comprehensive Income**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands, except per share)</b>	
<b>Interest Income:</b>		
Interest and fees on loans receivable	\$ 14,485	\$ 14,230
Interest on mortgage-backed securities and other securities	323	351
Other interest income	482	574
Total interest income	<u>15,290</u>	<u>15,155</u>
<b>Interest Expense:</b>		
Interest on deposits	2,180	1,910
Interest on borrowings	1,697	1,954
Total interest expense	<u>3,877</u>	<u>3,864</u>
Net interest income before loan loss provision recapture	11,413	11,291
Loan loss provision recapture	550	3,700
Net interest income after loan loss provision recapture	<u>11,963</u>	<u>14,991</u>
<b>Non-Interest Income:</b>		
Service charges	489	453
Net gain on sales of loans	-	1,751
CDFI grant	265	355
Other	290	349
Total non-interest income	<u>1,044</u>	<u>2,908</u>
<b>Non-Interest Expense:</b>		
Compensation and benefits	7,025	8,105
Occupancy expense	1,196	1,208
Information services	758	880
Professional services	1,154	877
FDIC assessments	154	429
Office services and supplies	289	299
Corporate insurance	234	319
Other	942	1,284
Total non-interest expense	<u>11,752</u>	<u>13,401</u>
Income before income taxes	1,255	4,498
Income tax benefit	2,225	4,574
Net income	<u>\$ 3,480</u>	<u>\$ 9,072</u>
Other comprehensive loss, net of tax:		
Unrealized losses on securities available-for-sale arising during the period	\$ (178)	\$ (167)
Income tax	77	-
Other comprehensive loss, net of tax	<u>(101)</u>	<u>(167)</u>
Comprehensive income	<u>\$ 3,379</u>	<u>\$ 8,905</u>
Earnings per common share – basic	<u>\$ 0.12</u>	<u>\$ 0.31</u>
Earnings per common share – diluted	<u>\$ 0.12</u>	<u>\$ 0.31</u>

See accompanying notes to consolidated financial statements.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Changes in Stockholders' Equity  
(In thousands, except share and per share)**

	<u>Common Shares Issued</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Unearned ESOP shares</u>	<u>Accumulated Other Comprehensive Income, Net</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
<b>Balance at</b>								
<b>December 31, 2014</b>	<b>29,180,699</b>	<b>\$ 292</b>	<b>\$ 44,669</b>	<b>\$ (6,539)</b>	<b>\$ -</b>	<b>\$ 165</b>	<b>\$ (1,329)</b>	<b>\$ 37,258</b>
Net income	-	-	-	9,072	-	-	-	9,072
Change in unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(167)	-	(167)
<b>Balance at</b>								
<b>December 31, 2015</b>	<b>29,180,699</b>	<b>292</b>	<b>44,669</b>	<b>2,533</b>	<b>-</b>	<b>(2)</b>	<b>(1,329)</b>	<b>46,163</b>
Net income	-	-	-	3,480	-	-	-	3,480
Common stock issued	737,861	7	1,118	-	-	-	-	1,125
Restricted stock award	120,483	-	-	-	-	-	-	-
Treasury stock acquired	-	-	-	-	-	-	(3,997)	(3,997)
Unearned ESOP shares	-	-	-	-	(1,176)	-	-	(1,176)
Change in unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(101)	-	(101)
Stock-based compensation expense	-	-	32	-	-	-	-	32
<b>Balance at</b>								
<b>December 31, 2016</b>	<b><u>30,039,043</u></b>	<b><u>\$ 299</u></b>	<b><u>\$ 45,819</u></b>	<b><u>\$ 6,013</u></b>	<b><u>\$ (1,176)</u></b>	<b><u>\$ (103)</u></b>	<b><u>\$ (5,326)</u></b>	<b><u>\$ 45,526</u></b>

*See accompanying notes to consolidated financial statements.*

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**

	<b>Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,480	\$ 9,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision recaptures	(550)	(3,700)
Depreciation	251	238
Net amortization of deferred loan origination costs	301	294
Net amortization of premiums on mortgage-backed securities	52	51
Amortization of investment in affordable housing limited partnership	193	192
Stock-based compensation expense	32	-
Earnings on bank owned life insurance	(58)	(61)
Originations of for-sale loans receivable	-	(57,655)
Proceeds from for-sale loans receivable	-	68,592
Net gains on sales of loans	-	(1,751)
Net (gains) losses on sales of REOs	(22)	45
Deferred income tax benefit	(2,236)	(4,594)
Net change in accrued interest receivable	(101)	139
Net change in other assets	593	906
Net change in advance payments by borrowers for taxes and insurance	165	(418)
Net change in accrued expenses and other liabilities	(1,170)	2,815
Net cash provided by operating activities	<u>930</u>	<u>14,165</u>
<b>Cash flows from investing activities:</b>		
Net change in loans receivable held for investment	(75,034)	(15,329)
Purchase of loans receivable held for investment	-	(100,161)
Proceeds from sales of loans receivable transferred to held for sale	-	98,840
Principal repayments on loans receivable transferred to held for sale	-	1,621
Purchase of available-for-sale securities	(2,505)	-
Prepayments and principal payments on available-for-sale securities	3,213	2,717
Proceeds from sales of REO	382	2,879
Redemption of FHLB stock	-	1,869
Purchase of FHLB stock	-	(188)
Additions to office properties and equipment	(160)	(111)
Net cash used in investing activities	<u>(74,104)</u>	<u>(7,863)</u>
<b>Cash flows from financing activities:</b>		
Net change in deposits	14,813	54,747
Proceeds from FHLB advances	20,000	21,000
Repayments on FHLB advances	(7,000)	(35,000)
Proceeds from issuance of common stock, net of issuance costs	1,125	-
Repurchase of common stock	(3,997)	-
Loan to ESOP	(1,176)	-
Net cash provided by financing activities	<u>23,765</u>	<u>40,747</u>
Net change in cash and cash equivalents	(49,409)	47,049
Cash and cash equivalents at beginning of the year	67,839	20,790
Cash and cash equivalents at end of the year	<u>\$ 18,430</u>	<u>\$ 67,839</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 3,774	\$ 3,881
Cash paid for income taxes	11	27
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Transfers of loans receivable held for investment to REO	\$ -	\$ 1,202
Transfers of loans receivable held for investment to loans receivable held for sale	-	90,166

*See accompanying notes to consolidated financial statements.*

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**December 31, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies**

Nature of Operations and Principles of Consolidation

Broadway Financial Corporation (the "Company") is a Delaware corporation primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the "Bank"). The Bank's business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential and commercial real estate located in Southern California. At December 31, 2016, the Bank operated two retail-banking offices in Los Angeles, California and one in the nearby city of Inglewood, California. The Bank is subject to significant competition from other financial institutions, and is also subject to regulation by certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Broadway Federal Bank, f.s.b.. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ from these estimates. The allowance and provision for loan losses, specific reserves for impaired loans, fair value of real estate owned, deferred tax asset valuation allowance, and fair values of investment securities and other financial instruments are particularly subject to change.

Cash Flows

Cash and cash equivalents include cash on hand, cash items in the process of collection, and amounts due from correspondent banks, the Federal Reserve Bank and interest-bearing deposits in other banks with initial terms of ninety days or less. The Company may be required to maintain reserve and clearing balances with the Federal Reserve Bank under the Federal Reserve Act. The reserve and clearing requirement balance was \$0 at December 31, 2016. Net cash flows are reported for customer loan and deposit transactions, deferred income taxes and other assets and liabilities.

Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. 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 the intent and ability of management to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Loans Receivable Held for Sale

The Bank originates loans for investment but may, from time-to-time, decide to sell certain loans in order to manage loan concentrations. When a decision is made to sell a loan(s), such loan(s) is transferred from held-for-investment portfolio to held-for-sale portfolio at the lower of cost or fair value, as determined by outstanding commitments from investors. If a reduction in value is required at time of the transfer, a charge-off is recorded against the allowance for loan losses ("ALLL"). Any subsequent decline in value of the loan(s) is recorded as a valuation allowance with a corresponding charge to non-interest expense.

Loans receivable held for sale are generally sold with servicing rights released. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. When loans receivable held for sale are sold, existing deferred loan fees or costs are an adjustment of the gain or loss on sale.

Loans Receivable Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of allowance for loan losses, deferred loan fees and costs and unamortized premiums and discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, premiums and discounts are deferred, and recognized in income using the level-yield method without anticipating prepayments.

Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

contractual obligations to be similarly affected by changes in economic conditions. The Company's lending activities are predominantly in real estate loans that are secured by properties located in Southern California and many of the borrowers reside in Southern California. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy and real estate market in the Southern California area.

The Company has a significant concentration of deposits with a long-time customer that accounted for approximately 11% of its deposits as of December 31, 2016. The Company expects to maintain this relationship with the customer for the near term.

Loans Purchased

The Bank purchases or participates in loans originated by other institutions from time to time. Subject to regulatory restrictions applicable to savings institutions, the Bank's current loan policies allow all loan types to be purchased. The determination to purchase specific loans or pools of loans is based upon the Bank's investment needs and market opportunities and is subject to the Bank's underwriting policies, which require consideration of the financial condition of the borrower and the appraised value of the property, among other factors.

Purchased loans are initially recorded at fair value with no allowance for loan losses, as an element of credit loss is inherent in the fair value. Premiums or discounts incurred upon the purchase of loans are recognized in income using the interest method over the estimated life of the loans, adjusted for prepayments. No loans were purchased during 2016.

In December 2015, the Company purchased \$99.7 million of single family loans at a premium. For these purchased loans, the Company did not incur any provisions for loan losses during the years ended December 31, 2016, and 2015. The Company determined that it was probable at acquisition that all contractually required payments would be collected. The Company may recognize provisions for loan losses in the future should there be deterioration in these loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent cash recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, could be charged off. In addition, the OCC and FDIC periodically review the allowance for loan losses as an integral part of their examination process. These agencies may require an increase in the allowance for loan losses based on their judgments of the information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDR") and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, either a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or alternatively a charge-off is taken to record the loan at the fair value of the collateral, less estimated selling costs, if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of any necessary additional charge-off based on internal analyses and appraisals of the underlying collateral securing these loans.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment with the use of a loss migration analysis and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with information about other current economic factors based on the risks present for each portfolio segment. These current economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified: one-to-four units ("single family"), five or more units ("multi-family"), commercial real estate, church, construction, commercial loans, and consumer loans. The risks in our various portfolio segments are as follows:

*Single Family* – Subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact on borrowers' ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

*Multi-Family* – Subject to adverse various market conditions that cause a decrease in market value or lease rates; change in personal funding sources for tenants; oversupply of units in a specific region; a shift in population; reputational risks.

*Commercial Real Estate* – Subject to adverse conditions in the local economy which may lead to reduced cash flows due to vacancies and reduced rental rates; decreases in the value of underlying collateral.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

*Church* – Subject to adverse economic and employment conditions leading to reduced cash flows from members' donations and offerings; the stability, quality and popularity of church leadership.

*Construction* – Subject to adverse conditions in the local economy which may lead to reduced demand for new commercial, multi-family or single family buildings or reduced lease or sale opportunities once the building is complete.

*Commercial* – Subject to industry and economic conditions including decreases in product demand.

*Consumer* – Subject to adverse employment conditions in the local economy, which may lead to higher default rates.

Real Estate Owned

Assets acquired through, or instead of, loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through a provision that is charged to non-interest expense. Operating costs after acquisition are expensed as incurred.

Office Properties and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term or the estimated useful life of the asset, whichever is shorter.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income when declared.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on a former key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Investment in Affordable Housing Limited Partnership

The Bank owns a less than 5% interest in an affordable housing limited partnership. The investment is recorded using the cost method and is being amortized over the life of the related tax credits. The tax credits are being recognized in income tax expense in the consolidated financial statements to the extent they are utilized on the

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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Company's income tax returns. The investment is reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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 the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest related to income tax matters in interest expense and penalties related to tax matters in income tax expense.

Retirement Plans

Employee 401(k) expense is the amount of matching contributions made by the Company. Deferred compensation plan expense allocates the benefits over years of service. The Bank makes discretionary cash contributions to participant ESOP accounts up to 25% of eligible compensation.

Earnings Per Common Share

Basic earnings per common share 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 common share includes the dilutive effect of additional potential common shares issuable under stock options.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that any such matters existed as of the balance sheet date that will have a material effect on the consolidated financial statements.

Fair Value Measurements

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.

Fair values are estimated using relevant market information and other assumptions, as more fully disclosed in Note 4. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

The Company operates as a single segment. The operating information used by management to assess performance and make operating decisions about the Company is the consolidated financial data presented in these financial statements. For the years ended 2016 and 2015, the Company had one active operating subsidiary, Broadway Federal Bank, f.s.b. The Company has determined that banking is its one reportable business segment.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year consolidated net income or stockholders' equity.

Adoption of New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 replaced existing revenue recognition guidance for contracts to provide goods or services to customers. The new guidance clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount,

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company's revenue is mainly comprised of net interest income from financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. The Company continues to evaluate the impact of ASU 2014-09 on our noninterest income and on our presentation and disclosures. The Company's implementation efforts include the identification of revenue within the scope of ASU 2014-09 and the review is on-going.

In January 2016, the FASB issued ASU 2016-1, "Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-1 (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued are permitted as of the beginning of the fiscal year of adoption. Adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases, as defined) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements. The Company expects a gross-up of its Consolidated Statements of Condition as a result of recognizing lease liabilities and right of use assets. The Company does not expect a material impact to its recognition of operating lease expense on its Consolidated Statements of Income and Comprehensive Income.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The areas for simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. Adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses over the life of the related financial assets. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. While the Company is still evaluating the impact on its consolidated financial statements, the Company expects that ASU 2016-13 may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses will increase to provide for expected credit losses over the remaining expected life of the loan portfolio, and will consider expected future changes in macroeconomic conditions; and 2) an allowance may be established for estimated credit losses on available-for-sale debt securities. The amount of increase will be impacted by the portfolio composition and quality, as well as the economic conditions and forecasts as of the adoption date. The Company has begun its implementation efforts by identifying key interpretive issues, and assessing its processes and identifying the system requirements against the new guidance to determine what modifications may be required.

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. Early adoption is permitted. Adoption of this standard is not expected to 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 is not expected to have a material impact on the Company's consolidated financial statements.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Note 2 – Securities**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios at December 31, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In thousands)			
<b>December 31, 2016:</b>				
Residential				
mortgage-backed	\$ 11,022	\$ 192	\$ -	\$ 11,214
U.S. Government and federal agency	<u>1,960</u>	<u>28</u>	<u>-</u>	<u>1,988</u>
Total				
available-for-sale securities	<u>\$ 12,982</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 13,202</u>
<b>December 31, 2015:</b>				
Residential				
mortgage-backed	\$ 11,796	\$ 371	\$ -	\$ 12,167
U.S. Government and federal agency	<u>1,946</u>	<u>27</u>	<u>-</u>	<u>1,973</u>
Total				
available-for-sale securities	<u>\$ 13,742</u>	<u>\$ 398</u>	<u>\$ -</u>	<u>\$ 14,140</u>

At December 31, 2016, the Bank had one U.S. Government and federal agency security with an amortized cost of \$2.0 million, an estimated fair value of \$2.0 million and a contractual maturity of October 2, 2019. At December 31, 2016, the Bank had 24 residential mortgage-backed securities with an amortized cost of \$11.0 million, an estimated fair value of \$11.2 million and an estimated average remaining life of 4.5 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.

At December 31, 2016 and 2015, securities pledged to secure public deposits had a carrying amount of \$629 thousand and \$719 thousand, respectively. At December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Note 3 – Loans Receivable Held for Investment**

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(In thousands)	
Real estate:		
Single family	\$ 104,807 (1)	\$ 130,891 (2)
Multi-family	229,566	118,616
Commercial real estate	8,914	11,442
Church	37,826	46,390
Construction	837	343
Commercial – other	308	270
Consumer	<u>6</u>	<u>4</u>
Gross loans receivable before deferred loan costs and premiums	382,264	307,956
Unamortized net deferred loan costs and premiums	<u>1,793</u>	<u>1,043</u>
Gross loans receivable	384,057	308,999
Allowance for loan losses	<u>(4,603)</u>	<u>(4,828)</u>
Loans receivable, net	<u>\$ 379,454</u>	<u>\$ 304,171</u>

—

(1) Includes \$81.9 million and \$99.5 million of non-impaired purchased loans at December 31, 2016 and 2015, respectively, with no allowance for loan losses.

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

	For the year ended December 31, 2016							
	Real Estate							
	Single family	Multi-family	Commercial real estate	Church	Construction	Commercial – other	Consumer	Total
	(In thousands)							
Beginning balance	\$ 597	\$ 1,658	\$ 469	\$ 2,083	\$ 3	\$ 18	\$ -	\$ 4,828
Provision for (recapture of) loan losses	(277)	1,001	(502)	(768)	5	(9)	-	(550)
Recoveries	47	-	248	22	-	8	-	325
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	<u>\$ 367</u>	<u>\$ 2,659</u>	<u>\$ 215</u>	<u>\$ 1,337</u>	<u>\$ 8</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 4,603</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

	For the year ended December 31, 2015							Total
	Real Estate					Commercial - other	Consumer	
	Single family	Multi- family	Commercial real estate	Church	Construction			
	(In thousands)							
Beginning balance	\$ 1,174	\$ 2,726	\$ 496	\$ 4,047	\$ 7	\$ 12	\$ 3	\$ 8,465
Provision for (recapture of) loan losses	(702)	(1,068)	(27)	(1,902)	(4)	6	(3)	(3,700)
Recoveries	129	-	-	23	-	-	-	152
Loans charged off	(4)	-	-	(85)	-	-	-	(89)
Ending balance	<u>\$ 597</u>	<u>\$ 1,658</u>	<u>\$ 469</u>	<u>\$ 2,083</u>	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 4,828</u>

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:

	December 31, 2016							Total
	Real Estate					Commercial - other	Consumer	
	Single family	Multi- family	Commercial real estate	Church	Construction			
	(In thousands)							
<b>Allowance for loan losses:</b>								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 125	\$ -	\$ -	\$ 516	\$ -	\$ 15	\$ -	\$ 656
Collectively evaluated for impairment	242	2,659	215	821	8	2	-	3,947
Total ending allowance balance	<u>\$ 367</u>	<u>\$ 2,659</u>	<u>\$ 215</u>	<u>\$ 1,337</u>	<u>\$ 8</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 4,603</u>
<b>Loans:</b>								
Loans individually evaluated for impairment	\$ 644	\$ 642	\$ -	\$ 10,545	\$ -	\$ 66	\$ -	\$ 11,897
Loans collectively evaluated for impairment	104,688	230,798	8,921	26,678	827	242	6	372,160
Total ending loans balance	<u>\$ 105,332</u>	<u>\$ 231,440</u>	<u>\$ 8,921</u>	<u>\$ 37,223</u>	<u>\$ 827</u>	<u>\$ 308</u>	<u>\$ 6</u>	<u>\$ 384,057</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

	December 31, 2015							Total
	Real Estate					Commercial - other	Consumer	
	Single family	Multi- family	Commercial real estate	Church	Construction			
	(In thousands)							
<b>Allowance for loan losses:</b>								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 134	\$ 1	\$ 88	\$ 756	\$ -	\$ 16	\$ -	\$ 995
Collectively evaluated for impairment	463	1,657	381	1,327	3	2	-	3,833
Total ending allowance balance	<u>\$ 597</u>	<u>\$ 1,658</u>	<u>\$ 469</u>	<u>\$ 2,083</u>	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 4,828</u>
<b>Loans:</b>								
Loans individually evaluated for impairment	\$ 963	\$ 1,440	\$ 1,924	\$ 11,390	\$ -	\$ 67	\$ -	\$ 15,784
Loans collectively evaluated for impairment	130,632	118,186	9,488	34,359	343	203	4	293,215
Total ending loans balance	<u>\$ 131,595</u>	<u>\$ 119,626</u>	<u>\$ 11,412</u>	<u>\$ 45,749</u>	<u>\$ 343</u>	<u>\$ 270</u>	<u>\$ 4</u>	<u>\$ 308,999</u>

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

	December 31, 2016			December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
			for Loan Losses Allocated			for Loan Losses Allocated
	(In thousands)					
<b>With no related allowance recorded:</b>						
Single family	\$ -	\$ -	\$ -	\$ 877	\$ 302	\$ -
Multi-family	642	642	-	912	779	-
Commercial real estate	-	-	-	636	259	-
Church	5,946	3,589	-	5,615	3,542	-
<b>With an allowance recorded:</b>						
Single family	644	644	125	662	661	134
Multi-family	-	-	-	661	661	1
Commercial real estate	-	-	-	1,702	1,665	88
Church	7,330	6,956	516	8,245	7,848	756
Commercial - other	66	66	15	67	67	16
Total	<u>\$ 14,628</u>	<u>\$ 11,897</u>	<u>\$ 656</u>	<u>\$ 19,377</u>	<u>\$ 15,784</u>	<u>\$ 995</u>

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.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

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.

	For the year ended December 31, 2016		For the year ended December 31, 2015	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	\$ 824	\$ 253	\$ 1,260	\$ 140
Multi-family	916	155	1,912	136
Commercial real estate	983	271	3,162	275
Church	10,880	489	13,630	614
Commercial – other	66	5	79	6
Total	<u>\$ 13,669</u>	<u>\$ 1,173</u>	<u>\$ 20,043</u>	<u>\$ 1,171</u>

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. Foregone interest income that would have been recognized had loans performed in accordance with their original terms amounted to \$69 thousand and \$708 thousand for the years ended December 31, 2016 and 2015, respectively, and were not included in the consolidated results of operations.

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

	December 31, 2016				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
	(In thousands)				
<b>Loans receivable held for investment:</b>					
Single family	\$ -	\$ 64	\$ -	\$ 64	\$ 105,268
Multi-family	-	-	-	-	231,440
Commercial real estate	1,324	-	-	1,324	7,597
Church	-	-	-	-	37,223
Construction	-	-	-	-	827
Commercial – other	-	-	-	-	308
Consumer	-	-	-	-	6
Total	<u>\$ 1,324</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 1,388</u>	<u>\$ 382,669</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

	December 31, 2015				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
	(In thousands)				
<b>Loans receivable held for investment:</b>					
Single family	\$ 103	\$ -	\$ -	\$ 103	\$ 131,492
Multi-family	291	-	-	291	119,335
Commercial real estate	-	-	-	-	11,412
Church	595	-	456	1,051	44,698
Construction	-	-	-	-	343
Commercial – other	-	-	-	-	270
Consumer	-	-	-	-	4
<b>Total</b>	<b>\$ 989</b>	<b>\$ -</b>	<b>\$ 456</b>	<b>\$ 1,445</b>	<b>\$ 307,554</b>

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

	December 31, 2016	December 31, 2015
	(In thousands)	
<b>Loans receivable held for investment:</b>		
Single family	\$ -	\$ 302
Multi-family	-	779
Commercial real estate	-	259
Church	2,944	2,887
<b>Total non-accrual loans</b>	<b>\$ 2,944</b>	<b>\$ 4,227</b>

There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2016 or December 31, 2015.

***Troubled Debt Restructurings***

At December 31, 2016, loans classified as troubled debt restructurings ("TDRs") totaled \$11.5 million, of which \$2.5 million were included in non-accrual loans and \$9.0 million were on accrual status. At December 31, 2015, loans classified as TDRs totaled \$15.3 million, of which \$3.8 million were included in non-accrual loans and \$11.5 million were on accrual status. The Company has allocated \$656 thousand and \$995 thousand of specific reserves for accruing TDRs as of December 31, 2016 and December 31, 2015, 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 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 December 31, 2016 and December 31,

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

2015, 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 years December 31, 2016 and 2015.

***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

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

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:

	December 31, 2016					
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Single family	\$ 105,332	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-family	228,522	1,274	342	1,302	-	-
Commercial real estate	6,965	-	-	1,956	-	-
Church	27,560	1,143	823	7,697	-	-
Construction	827	-	-	-	-	-
Commercial – other	242	-	-	66	-	-
Consumer	6	-	-	-	-	-
Total	<u>\$ 369,454</u>	<u>\$ 2,417</u>	<u>\$ 1,165</u>	<u>\$ 11,021</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2015					
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Single family	\$ 128,736	\$ -	\$ 2,557	\$ 302	\$ -	\$ -
Multi-family	117,602	-	352	1,672	-	-
Commercial real estate	7,509	-	-	3,903	-	-
Church	35,013	776	1,431	8,529	-	-
Construction	343	-	-	-	-	-
Commercial – other	203	-	-	67	-	-
Consumer	4	-	-	-	-	-
Total	<u>\$ 289,410</u>	<u>\$ 776</u>	<u>\$ 4,340</u>	<u>\$ 14,473</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 4 – Fair Value**

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).

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.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

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.

Appraisals for collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, an independent third-party licensed appraiser reviews the appraisals for accuracy and reasonableness, reviewing the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

**Assets Measured on a Recurring Basis**

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

<b>Fair Value Measurements at December 31, 2016</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Assets:</b>				
Securities				
available-for-sale – residential mortgage-backed	\$ -	\$ 11,214	\$ -	\$ 11,214
Securities available-for-sale – U.S. Government and federal agency	1,988	-	-	1,988

<b>Fair Value Measurements at December 31, 2015</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Assets:</b>				
Securities				
available-for-sale – residential mortgage-backed	\$ -	\$ 12,167	\$ -	\$ 12,167
Securities available-for-sale – U.S. Government and federal agency	1,973	-	-	1,973

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

There were no transfers between Level 1, Level 2, or Level 3 during the years ended December 31, 2016 and 2015.

***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 balance sheet. 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 fair value hierarchy.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(In thousands)	
Impaired loans carried at fair value of collateral	\$ 1,744	\$ 2,557
Real estate owned	-	360

The following table provides information regarding losses recognized on assets measured at fair value on a non-recurring basis for the years ended December 31, 2016 and 2015.

	<u>For the year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
Impaired loans carried at fair value of collateral	\$ -	\$ 38
Real estate owned	-	45
Total	<u>\$ -</u>	<u>\$ 83</u>

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015:

<u>December 31, 2016</u>				
	<u>Valuation Technique(s)</u>	<u>Unobservable Input(s)</u>	<u>Range</u>	<u>Weighted Average</u>
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	-2% to 0%	-1%
<u>December 31, 2015</u>				
	<u>Valuation Technique(s)</u>	<u>Unobservable Input(s)</u>	<u>Range</u>	<u>Weighted Average</u>
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	-12% to 13%	1%
Real estate owned	Third Party Appraisals	Adjustment for differences between the comparable sales	-11%	-11%

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

***Fair Values of Financial Instruments***

The carrying amounts and estimated fair values of financial instruments as of the periods indicated were as follows:

	<u>Carrying Value</u>	<u>Fair Value Measurements at December 31, 2016</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
		(In thousands)			
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 18,430	\$ 18,430	\$ -	\$ -	\$ 18,430
Securities available-for-sale	13,202	1,988	11,214	-	13,202
Loans receivable held for investment	379,454	-	-	382,717	382,717
Accrued interest receivable	1,178	64	29	1,085	1,178
Federal Home Loan Bank stock	2,573	2,573	-	-	2,573
<b>Financial Liabilities:</b>					
Deposits	\$ 287,427	\$ -	\$ 278,254	\$ -	\$ 278,254
Federal Home Loan Bank advances	85,000	-	85,748	-	85,748
Junior subordinated debentures	5,100	-	-	4,414	4,414
Accrued interest payable	154	-	147	7	154

	<u>Carrying Value</u>	<u>Fair Value Measurements at December 31, 2015</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
		(In thousands)			
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 67,839	\$ 67,839	\$ -	\$ -	\$ 67,839
Securities available-for-sale	14,140	1,973	12,167	-	14,140
Loans receivable held for investment	304,171	-	-	306,643	306,643
Accrued interest receivable	1,077	63	31	983	1,077
Federal Home Loan Bank stock	2,573	2,573	-	-	2,573
<b>Financial Liabilities:</b>					
Deposits	\$ 272,614	\$ -	\$ 265,495	\$ -	\$ 265,495
Federal Home Loan Bank advances	72,000	-	73,441	-	73,441
Junior subordinated debentures	5,100	-	-	3,117	3,117
Accrued interest payable	52	-	46	6	52

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

*(a) Cash and Cash Equivalents*

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

*(b) Loans receivable held for investment*

Fair values of loans, excluding loans receivable held for sale, are estimated as follows: For variable rate loans that repriced frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

*(c) FHLB Stock*

The carrying value of FHLB stock approximates its fair value as the shares can only be redeemed by the FHLB at par.

*(d) Accrued Interest Receivable/Payable*

The carrying amounts of accrued interest receivable/payable approximate their fair value and are classified the same as the related asset.

*(e) Deposits*

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using discounted cash flow calculations that apply interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

*(f) Federal Home Loan Bank Advances*

The fair values of the Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

*(g) Junior Subordinated Debentures*

The fair values of the Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

**Note 5 – Office Properties and Equipment, net**

Year-end office properties and equipment were as follows:

	<u>2016</u>	<u>2015</u>
	<b>(In thousands)</b>	
Land	\$ 572	\$ 572
Office buildings and improvements	3,114	3,254
Furniture, fixtures and equipment	1,805	1,743
	<u>5,491</u>	<u>5,569</u>
Less accumulated depreciation	(3,012)	(2,999)
Office properties and equipment, net	<u>\$ 2,479</u>	<u>\$ 2,570</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Depreciation expense was \$251 thousand and \$238 thousand for the years 2016 and 2015, respectively.

At December 31, 2016, the Company was obligated through 2021 under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living-indices. The Company also leases certain office equipment. Rent expense under the operating leases was \$566 thousand for 2016 and \$559 thousand for 2015.

Minimum noncancelable lease commitments, before considering renewal options that generally are present, are as follows:

	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
		(In thousands)	
Year ending December 31:			
2017	\$ 424	\$ 34	\$ 458
2018	467	17	484
2019	482	-	482
2020	494	-	494
2021	167	-	167
Thereafter	-	-	-
Total	<u>\$ 2,034</u>	<u>\$ 51</u>	<u>\$ 2,085</u>

**Note 6 – Deposits**

Deposits are summarized as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
NOW account and other demand deposits	\$ 10,743	\$ 10,630
Non-interest bearing demand deposits	20,040	19,428
Money market deposits	32,462	25,788
Passbook	37,836	35,390
Certificates of deposit	186,346	181,378
Total	<u>\$ 287,427</u>	<u>\$ 272,614</u>

Brokered deposits totaled \$28.6 million at December 31, 2016, primarily from a deposit placement service called Certificate of Deposit Account Registry Service ("CDARS") that allows banks to place its 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. There were no brokered deposits at December 31, 2015. Certificates of deposit of \$250 thousand or more were \$53.5 million and \$66.5 million at year end 2016 and 2015.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Scheduled maturities of certificates of deposit for the next five years are as follows:

<u>Maturity</u>	<u>Amount</u>
	<u>(In thousands)</u>
2017	\$ 160,332
2018	20,383
2019	2,790
2020	1,298
2021	1,279
Thereafter	264
	<u>\$ 186,346</u>

Deposits from principal officers, directors, and their affiliates totaled \$1.7 million and \$1.8 million at December 31, 2016 and 2015, respectively.

**Note 7 – Federal Home Loan Bank Advances**

The following table summarizes information relating to FHLB advances at or for the periods indicated.

	<u>At or For the Year Ended</u>	
	<u>2016</u>	<u>2015</u>
	<u>(Dollars in thousands)</u>	
FHLB Advances:		
Average balance outstanding during the year	\$ 71,940	\$ 80,875
Maximum amount outstanding at any month-end during the year	\$ 85,000	\$ 84,500
Balance outstanding at end of year	\$ 85,000	\$ 72,000
Weighted average interest rate at end of year	1.94%	2.15%
Average cost of advances during the year	2.13%	2.24%
Weighted average maturity (in months)	13	24

Each advance is payable at its maturity date, with a prepayment penalty. The advances were collateralized by \$161.1 million and \$135.2 million of first mortgage loans at year-end 2016 and 2015, respectively, under a blanket lien arrangement. Based on this collateral, the Company's holdings of FHLB stock and a general borrowing limit of 30% of total assets, the Company is eligible to borrow up to an additional \$39.0 million at year-end 2016.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Required payments over the next five years are as follows:

	<u>Amount</u>
	<u>(In thousands)</u>
2017	\$ 49,500
2018	27,500
2019	8,000
2020	-
2021	-
	<u>\$ 85,000</u>

**Note 8 – 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 3.53% at December 31, 2016. 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 9 – Employee Benefit Plans**

***Broadway Federal 401(k) Plan***

A 401(k) benefit plan allows employee contributions for substantially all employees up to 15% of their compensation, which are matched at a rate equal to 50% of the first 6% of the compensation contributed. Expense totaled \$93 thousand and \$46 thousand for 2016 and 2015.

***ESOP Plan***

Employees participate in an Employee Stock Option Plan ("ESOP") after attaining certain age and service requirements. On December 21, 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 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

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

cost of such shares, the difference is charged or credited to equity as additional paid-in capital. Dividends on allocated shares increase participant accounts. At the end of employment, participants will receive shares for their vested balance. Compensation expense related to the ESOP was \$12 thousand for 2016 and \$1.3 million for 2015.

Shares held by the ESOP were as follows:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>	
Allocated to participants	1,114,683	360,752
Suspense shares	739,748	-
Total ESOP shares	<u>1,854,431</u>	<u>360,752</u>
Fair value of unearned shares	<u>\$ 1,213</u>	<u>\$ -</u>

At December 31, 2016, the outstanding balance of unallocated shares was \$1.2 million, which is shown as Unearned ESOP shares in the equity section of the consolidated statements of financial condition. No shares were committed to be released as of December 31, 2016.

***Deferred Compensation Plan***

The Bank has a deferred compensation agreement with its former Chief Executive Officer ("Former CEO") whereby a stipulated amount will be paid to the Former CEO over a period of 15 years beginning on his retirement date in May 2013. Pursuant to the U.S Treasury Troubled Asset Relief Program, the Company is not permitted to make payments under this deferred compensation agreement. The amount accrued under this agreement was \$1.2 million at December 31, 2016 and 2015, and was accrued over the period of the Former CEO's active employment. Compensation expense was \$46 thousand for 2016 and \$104 thousand for 2015.

**Note 10 – 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.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Income tax expense was as follows:

	<u>2016</u>		<u>2015</u>
	(In thousands)		
Current			
Federal	\$ -	\$	-
State	11		20
Deferred			
Federal	163		1,238
State	128		505
Change in valuation allowance	(2,527)		(6,337)
Total	<u>\$ (2,225)</u>	<u>\$</u>	<u>(4,574)</u>

Effective tax rates differ from the federal statutory rate of 34% applied to income before income taxes due to the following:

	<u>2016</u>		<u>2015</u>
	(In thousands)		
Federal statutory rate times financial statement net income	\$ 427	\$	1,529
Effect of:			
State taxes, net of federal benefit	91		323
Earnings from bank owned life insurance	(24)		(25)
Low income housing credits	(212)		(212)
Change in valuation allowance	(2,527)		(6,337)
Other, net	20		148
Total	<u>\$ (2,225)</u>	<u>\$</u>	<u>(4,574)</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Year-end deferred tax assets and liabilities were due to the following:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 84	\$ 311
Accrued liabilities	218	222
State income taxes	46	51
Deferred compensation	494	475
Stock compensation	156	110
Net operating loss carryforward	5,886	6,141
Non-accrual loan interest	9	14
Partnership investment	175	125
General business credit	1,282	1,091
Alternative minimum tax credit	209	185
Other	37	531
Total deferred tax assets	<u>8,596</u>	<u>9,256</u>
Valuation allowance	<u>-</u>	<u>(2,527)</u>
Deferred tax liabilities:		
Deferred loan fees/costs	(1,125)	(1,246)
Real estate owned	-	(15)
Basis difference on fixed assets	(57)	(59)
Net unrealized appreciation on available-for-sale securities	(90)	(164)
FHLB stock dividends	(371)	(574)
Mortgage servicing rights	(13)	(17)
Prepaid expenses	(33)	(60)
Total deferred tax liabilities	<u>(1,689)</u>	<u>(2,135)</u>
Net deferred tax assets	<u>\$ 6,907</u>	<u>\$ 4,594</u>

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 December 31, 2016, no valuation allowance was required on its deferred tax assets, which totaled \$6.9 million. The Company recorded a valuation allowance of \$2.5 million and reported \$4.6 million in net deferred tax assets as of December 31, 2015.

As of December 31, 2016, the Company has federal net operating loss carryforwards of \$11.3 million and California net operating loss carryforwards of \$28.6 million, which begin expiring in 2031 through 2036 and 2029 through 2036, respectively. The Company also has federal general business credits of \$1.3 million, expiring beginning in 2030 through 2036, and alternative minimum tax credit carryforwards of \$192 thousand, which can be carried forward indefinitely.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

Federal income tax laws previously allowed the Company additional bad debt deductions based on the reserve method of computing the federal bad debt deduction. This method of computing the Company's federal bad debt deduction was permitted to be used by the Company until the end of 1987. As of December 31, 1987, the tax bad debt reserve balance totaled \$3.0 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total approximately \$1.0 million at year end 2016 and 2015. If the Bank were liquidated, or otherwise ceases to be a bank, the \$3.0 million tax bad debt reserve may need to be recaptured into taxable income and income tax expense would need to be provided.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2016</u>	<u>2015</u>
	<b>(In thousands)</b>	
Balance at beginning of year	\$ 475	\$ 475
Additions based on tax positions related to the current year	-	-
Additions for tax positions of prior year	-	-
Reductions for tax positions of prior years	-	-
Settlements	-	-
Balance at end of year	<u>\$ 475</u>	<u>\$ 475</u>

The \$475 thousand balance at December 31, 2016 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the income tax provision in future periods. The Company expects that the total amount of unrecognized tax benefits may decrease significantly within the next twelve months due to expected settlement with the state taxing authorities. During 2016 and 2015, \$4 thousand and \$5 thousand were accrued during each period for potential interest related to these unrecognized tax benefits.

Federal tax years 2013 through 2016 remain open for the assessment of Federal income tax. With the exception of the issues under protest for the years listed below, California tax years 2012 through 2016 remain open for the assessment of California income tax. The Company is currently under examination by the California Franchise Tax Board ("FTB") for the 2009, 2010, and 2011 tax years. The FTB has proposed adjustments to the Company's California net operating loss carryforwards for items which the Company has established an unrecognized tax benefit. The Company has protested the FTB's adjustments and does not expect that significant additional tax expense will result.

**Note 11 – Stock-Based Compensation**

In 2008, the Company adopted the 2008 Long-Term Incentive Plan ("2008 LTIP"), which was approved by its stockholders. The 2008 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards to the Company's non-employee directors and certain officers and employees for up to 2,000,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; the option awards have vesting periods ranging from immediate vesting to five years and have 10-year contractual terms.

In February 2016, the Company granted 450,000 stock options, with an exercise price of \$1.62 per share, to senior executive officers under the 2008 LTIP. These options vest over five years and expire in ten years. The Company estimated the compensation costs and fair value per share of these stock options to be \$194 thousand and \$0.43 per share, respectively, using the Black-Scholes option pricing model and the following assumptions: (i) expected volatility of 27.36%; (ii) risk free interest rate of 1.21%; (iii) expected option term of five years; and (iv) 0% dividend yield.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

A summary of the activity in the 2008 LTIP for the years 2016 and 2015 follow:

	2016		2015	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding at beginning of year	90,625	\$ 4.95	93,750	\$ 4.94
Granted during the year	450,000	1.62	-	-
Exercised during the year	-	-	-	-
Forfeited or expired during the year	-	-	(3,125)	4.80
Outstanding at end of year	<u>540,625</u>	<u>\$ 2.18</u>	<u>90,625</u>	<u>\$ 4.95</u>
Exercisable at end of year	<u>90,625</u>	<u>\$ 4.95</u>	<u>90,625</u>	<u>\$ 4.95</u>

The Company recorded \$32 thousand of stock-based compensation expense related to stock options during 2016. No stock-based compensation expense was recorded for the year 2015. As of December 31, 2016, unrecognized compensation cost related to nonvested stock options granted under the plan was \$161 thousand. The cost is expected to be recognized over a period of 4.15 years.

Options outstanding and exercisable at year-end 2016 were as follows:

Grant Date	Outstanding				Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
January 21, 2009	9,375	2.05 years	\$ 4.00		9,375	\$ 4.00	
March 18, 2009	75,000	2.21 years	\$ 4.98		75,000	\$ 4.98	
January 21, 2010	6,250	3.05 years	\$ 6.00		6,250	\$ 6.00	
February 24, 2016	450,000	9.15 years	\$ 1.62		-	-	
	<u>540,625</u>	<u>7.99 years</u>	<u>\$ 2.18</u>	<u>\$ 9,000</u>	<u>90,625</u>	<u>\$ 4.95</u>	<u>\$ -</u>

In March 2016, the Company awarded 120,483 shares of restricted stock to its Chief Executive Officer under the 2008 LTIP. 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 on a straight-line basis over the vesting period. The expense recognized during 2016 was not significant. As of December 31, 2016, unrecognized compensation cost related to nonvested restricted stock award was \$145 thousand.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Note 12 – Stockholders' Equity**

On December 21, 2016, the Company repurchased 2,513,835 shares of its voting common stock, at a price of \$1.59 per share, from the U.S. Treasury and two other stockholders for a total cost of \$4.0 million, and made a loan of \$1.2 million to the Bank's ESOP. The Company financed these purchases with a dividend of \$4.0 million received from the Bank, and proceeds of \$1.2 million from a private placement of 737,861 shares of non-voting common stock. As a result of completing these transactions, the number of outstanding shares decreased to 27,421,217 shares at December 31, 2016, from 29,076,708 shares at December 31, 2015.

**Note 13 – Capital and 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 new capital conservation buffer was also established above the regulatory minimum capital requirements. This capital conservation buffer was phased in beginning 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 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).

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). At December 31, 2016 and December 31, 2015, 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.

	Actual		Minimum Capital Requirements		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>December 31, 2016:</b>						
Tier 1 (Leverage)	\$ 43,954	10.60%	\$ 16,594	4.0%	\$ 20,742	5.0%
Common Equity Tier 1	\$ 43,954	15.36%	\$ 12,875	4.5%	\$ 18,597	6.5%
Tier 1	\$ 43,954	15.36%	\$ 17,166	6.0%	\$ 22,888	8.0%
Total Capital	\$ 47,544	16.62%	\$ 22,888	8.0%	\$ 28,610	10.0%
<b>December 31, 2015:</b>						
Tier 1 (Leverage)	\$ 46,028	11.56%	\$ 15,923	4.0%	\$ 19,903	5.0%
Common Equity Tier 1	\$ 46,028	19.45%	\$ 10,650	4.5%	\$ 15,383	6.5%
Tier 1	\$ 46,028	19.45%	\$ 14,200	6.0%	\$ 18,933	8.0%
Total Capital	\$ 49,010	20.71%	\$ 18,933	8.0%	\$ 23,667	10.0%

**Note 14 – Loan Commitments and Other Related Activities**

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk for credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Commitments to make loans	\$ 3,808	\$ 4,322
Unused lines of credit – variable rates	774	297

Commitments to make loans are generally made for periods of 60 days or less. At year-end 2016, loan commitments consisted of three multi-family residential loans with initial five year interest rates ranging from 3.25% to 3.55%.

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Note 15 – Parent Company Only Condensed Financial Information**

Condensed financial information of Broadway Financial Corporation follows:

**Condensed Balance Sheet  
December 31,**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 895	\$ 2,016
Investment in bank subsidiary	47,747	49,480
Other assets	2,345	-
Total assets	<u>\$ 50,987</u>	<u>\$ 51,496</u>
<b>Liabilities and stockholders' equity</b>		
Junior subordinated debentures	\$ 5,100	\$ 5,100
Accrued expenses and other liabilities	361	233
Stockholders' equity	45,526	46,163
Total liabilities and stockholders' equity	<u>\$ 50,987</u>	<u>\$ 51,496</u>

**Condensed Statements of Income  
Years ended December 31,**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Interest income	\$ -	\$ -
Interest expense	(167)	(146)
Other expense	(1,033)	(484)
Loss before income tax and undistributed subsidiary income	(1,200)	(630)
Income tax benefit (expense)	2,344	(1)
Equity in undistributed subsidiary income	2,336	9,703
Net income	<u>\$ 3,480</u>	<u>\$ 9,072</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Condensed Statements of Cash Flows  
Years ended December 31,**

	<u>2016</u>	<u>2015</u>
	(In thousands)	
<b>Cash flows from operating activities</b>		
Net income	\$ 3,480	\$ 9,072
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed subsidiary income	(2,336)	(9,703)
Change in other assets	(2,345)	-
Change in accrued expenses and other liabilities	128	(233)
Net cash used in operating activities	<u>(1,073)</u>	<u>(864)</u>
<b>Cash flows from investing activities</b>		
Dividends from bank subsidiary	4,000	-
Net cash provided by investing activities	<u>4,000</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Net proceeds from issuance of common stock	1,125	-
Repurchase of common stock	(3,997)	-
Loan to ESOP	(1,176)	-
Net cash used in financing activities	<u>(4,048)</u>	<u>-</u>
Net change in cash and cash equivalents	(1,121)	(864)
Beginning cash and cash equivalents	2,016	2,880
Ending cash and cash equivalents	<u>\$ 895</u>	<u>\$ 2,016</u>

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY**

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

**December 31, 2016 and 2015**

**Note 16 – Earnings Per Common Share**

The factors used in the earnings per common share computation follow:

	<u>2016</u>	<u>2015</u>
	<b>(Dollars in thousands, except share and per share)</b>	
Net income	\$ 3,480	\$ 9,072
Less net income attributable to participating securities	(3)	-
Income available to common stockholders	<u>\$ 3,477</u>	<u>\$ 9,072</u>
Weighted average common shares outstanding for basic earnings per common share	28,999,327	29,076,708
Add: dilutive effects of assumed exercises of stock options	-	-
Add: dilutive effects of unvested restricted stock awards	99,173	-
Weighted average common shares outstanding for diluted earnings per common share	<u>29,098,500</u>	<u>29,076,708</u>
Earnings per common share – basic	<u>\$ 0.12</u>	<u>\$ 0.31</u>
Earnings per common share – diluted	<u>\$ 0.12</u>	<u>\$ 0.31</u>

Stock options for 540,625 shares and 90,625 shares of common stock for the years ended December 31, 2016 and 2015, respectively, were not considered in computing diluted earnings per common share because they were anti-dilutive.

**Note 17 – Subsequent Events**

On March 13, 2017, the Company and the Bank entered into a Settlement, Release and Assignment Agreement with Continental Casualty and Company ("Continental") and Columbia Casualty Company ("Columbia"), whereas Columbia will pay the Bank \$2.0 million within 30 days after receipt of the signed agreement. Subject to Columbia's payment of the settlement amount, the Company and the Bank acquit and forever discharge Continental and Columbia from any and all claims arising from the Paul Ryan case.

**SECURITIES PURCHASE AGREEMENT**  
**by and among**  
**THE UNITED STATES DEPARTMENT OF THE TREASURY,**  
**BROADWAY FINANCIAL CORPORATION,**  
**and**  
**EACH OF THE OTHER PURCHASERS SET FORTH ON THE SIGNATURE PAGES**  
**HERETO**

**Dated as of December 21, 2016**

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## **SECURITIES PURCHASE AGREEMENT**

**THIS SECURITIES PURCHASE AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of December 21, 2016, and is entered into by and among the United States Department of the Treasury (the “Seller”), Broadway Financial Corporation, a Delaware corporation (the “Company”), and each of the other purchasers set forth on the signature pages hereto (together with the Company, the “Purchasers”).

### **RECITALS**

**WHEREAS**, the Seller is currently the owner of and holds 10,146,000 shares of Company Common Stock;

**WHEREAS**, the Seller desires to sell to each Purchaser severally, and each Purchaser desires to purchase from the Seller severally, subject to the terms and conditions contained in this Agreement, the number of shares of Company Common Stock set forth next to that Purchaser’s name on Schedule I hereto, which in the aggregate constitute 4,702,860 shares of such stock (the “Purchased Shares”) at a purchase price of \$1.59 per share (the “Securities Purchase”);

**NOW, THEREFORE**, in consideration of the premises, and of the various representations, warranties, covenants and other agreements and undertakings of the parties hereto, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

### **AGREEMENT**

#### **ARTICLE I**

#### **DEFINITIONS**

Section 1.01 Definitions of Certain Terms. For purposes of this Agreement, the following terms are used with the meanings assigned below (such definitions to be equally applicable to both the singular and plural forms of the terms herein defined):

“Affiliate” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning set forth in the introductory paragraph of this agreement.

“Business Day” means any day that is not a Saturday, a Sunday or other day on which banking organizations in the State of California are required or authorized by Law to be closed.

“Closing” has the meaning set forth in Section 2.02(A). “Closing Date” has the meaning set forth in Section 2.02(A).

“Company” has the meaning set forth in the introductory paragraph to this Agreement.

“Company Common Stock” means the common stock, par value \$0.01, of the Company.

“Company Material Adverse Effect” means a material adverse effect on the business, results of operations or financial condition of the Company and its consolidated Subsidiaries taken as a whole; provided, however, that Company Material Adverse Effect shall not be deemed to include the effects of (i) changes after the date hereof in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in each case generally affecting the industries in which the Company and its Subsidiaries operate, (ii) changes or proposed changes after the date hereof in United States generally accepted accounting principles or regulatory accounting requirements, or authoritative interpretations thereof, (iii) changes or proposed changes after date hereof in securities, banking and other Laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (i), (ii) and (iii), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated Subsidiaries taken as a whole relative to comparable United States banking or financial services organizations), or (iv) changes in the market price or trading volume of the Company Common Stock or any other equity, equity-related or debt securities of the Company or its consolidated Subsidiaries (it being understood and agreed that the exception set forth in this clause (iv) does not apply to the underlying reason giving rise to or contributing to any such change).

“Compensation Regulations” means any guidance, rule or regulation, as the same shall be in effect from time to time, promulgated pursuant to or implementing Section 111 of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 or otherwise from time to time.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Governmental Entity” means any court, administrative agency or commission or other governmental or regulatory authority or instrumentality or self-regulatory organization.

“Law” means any law, statute, code, ordinance, rule, regulation, judgment, order, award, writ, decree or injunction issued, promulgated or entered into by or with any Governmental Entity.

“Liens” means any liens, licenses, pledges, charges, encumbrances, adverse rights or claims and security interests whatsoever.

“Prohibited Investor” has the meaning set forth in Section 3.01(E)(4).

“Purchase Price” has the meaning set forth in Section 2.01.

“Purchased Shares” has the meaning set forth in the recitals to this Agreement.

“Purchaser” has the meaning set forth in the introductory paragraph to this Agreement.

“Registration Statements” has the meaning set forth in Section 3.02(E).

“Regulatory Event” means, with respect to the Company, that (i) the Federal Deposit Insurance Corporation or any other applicable Governmental Entity shall have been appointed as conservator or receiver for the Company or any Subsidiary; (ii) the Company or any Subsidiary shall have been considered in “troubled condition” for the purposes of 12 U.S.C. Sec. 1831i or any regulation promulgated thereunder; (iii) the Company or any Subsidiary shall qualify as “Undercapitalized,” “Significantly Undercapitalized,” or “Critically Undercapitalized” as those terms are defined in 12 U.S.C. Sec. 18310 or other applicable Law; or (iv) the Company or any Subsidiary shall have become subject to any formal or informal regulatory action requiring the Company or any Subsidiary to materially improve its capital, liquidity or safety and soundness.

“Relevant Period” means the period in which any obligation of the Company arising from financial assistance under the Troubled Asset Relief Program remains outstanding, as it may be further described in the Compensation Regulations.

“SEC” has the meaning set forth in Section 3.02(E).

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Securities Purchase” has the meaning set forth in the recitals to this Agreement.

“Seller” has the meaning set forth in the introductory paragraph to this Agreement.

“Subsidiary” means, with respect to any person, any bank, corporation, partnership, joint venture, limited liability company or other organization, whether incorporated or unincorporated, (i) of which such person or a subsidiary of such person is a general partner or managing member or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons

performing similar functions with respect to such entity is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

Section 1.02 Interpretation. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section references are to this Agreement unless otherwise specified. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The term “person” as used in this Agreement shall mean any individual, corporation, limited liability company, limited or general partnership, joint venture, government or any agency or political subdivision thereof, or any other entity or any group (as defined in Section 13(d)(3) of the Exchange Act) comprised of two or more of the foregoing. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, all references to “dollars” or “\$” are to United States dollars. This Agreement and any documents or instruments delivered pursuant hereto or in connection herewith shall be construed without regard to the identity of the person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though all of the parties participated equally in the drafting of the same. Consequently, the parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable either to this Agreement or such other documents and instruments.

## ARTICLE II

### THE SECURITIES PURCHASE

Section 2.01 Purchase and Sale of the Shares. Subject to, and on the terms and conditions of, this Agreement, effective at the Closing, each Purchaser, acting severally and not jointly, will purchase from the Seller severally, and the Seller will sell, transfer, convey, assign and deliver to each Purchaser severally, the number of Purchased Shares set forth next to that Purchaser’s name on Schedule I hereto, free and clear of all Liens. Each Purchaser shall pay the purchase price for its amount of Purchased Shares as set forth next to that Purchaser’s name on Schedule I hereto, with the aggregate purchase price for the Purchased Shares to be paid by all Purchasers severally to be an amount in cash equal to Seven Million Four Hundred Seventy Seven Thousand Five Hundred Forty Seven Dollars Forty Cents (\$7,477,547.40) (the “Purchase Price”).

#### Section 2.02 Closing of the Securities Purchase.

(A) Subject to Article V, the closing of the Securities Purchase (the “Closing”) shall occur on December 22, 2016 or at such other time or date that is agreed to in writing by the Seller and the Purchasers. The date on which the Closing occurs is referred to herein as the “Closing Date”. The Closing shall be held at such place as the Seller and the Purchasers shall mutually agree in writing.

(B) At the Closing, or simultaneously therewith, the following shall occur:

(1) Each Purchaser will pay to the Seller the amount of the Purchase Price set forth next to its name on Schedule I hereto, by wire transfer in immediately available funds, to an account designated in writing by the Seller to the Company, such designation to be made not later than two Business Days prior to the Closing Date.

(2) The Sellers will deliver to each Purchaser the number of Purchased Shares set forth next to its name on Schedule I hereto in book entry form without any restrictive legends and transferred via Deposit/Withdrawal At Custodian to accounts designated in writing by such Purchaser to the Seller, such designation to be made not later than two Business Days prior to the Closing Date.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

Section 3.01 Representations and Warranties of the Purchasers. Each of the Purchasers, as to itself only and not with respect to any other Purchaser, hereby represents and warrants to the Seller, with respect to itself only, as follows:

(A) Due Organization, Power and Authority. The Purchaser is duly organized and has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(B) Authorization. This Agreement has been duly and validly executed and delivered by the Purchaser, and (assuming the due authorization, execution and delivery of this Agreement by the Seller and the other parties hereto) this Agreement constitutes a valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(C) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by the Purchaser of the transactions contemplated hereby, will violate applicable Law.

(D) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity or any other third party by and on behalf of the Purchaser are necessary in connection with the execution and delivery by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby.

(E) Securities Matters.

(1) The Purchaser acknowledges and agrees that the Purchaser (i) is a sophisticated investor; (ii) does not require the assistance of an investment advisor or other purchaser representative to purchase the Purchased Shares; (iii) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment in the Purchased Shares; (iv) has the ability to bear the economic risks of its prospective investment for an indefinite period of time; (v) can afford the complete loss of such investment; and (vi) recognizes that the investment in the Purchased Shares involves substantial risk.

(2) The Purchaser understands that the Seller may have access to information about the Company that is not generally available to the public, and acknowledges and agrees that, to the extent the Seller has any such information, such information need not (and shall not) be provided to the Purchaser by the Seller. The Purchaser further understands that the Seller is a federal agency and that the Purchaser's ability to bring a claim against the Seller under the federal securities laws may be limited.

(3) The Purchaser acknowledges that the Purchaser is not relying on any advice or recommendation from the Seller, or any investigation or examination that the Seller may have conducted, with respect to the Purchased Shares or the Company, and the Seller has not made any representation, warranty or covenant, express or implied, to the Purchaser with respect thereto and the Seller shall not have any liability to the Purchaser with respect thereto.

(4) The Purchaser is not: (i) a person listed in the annex to Executive Order No. 13224 (2001) issued by the President of the United States (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism); (ii) named on the List of Specially Designated Nationals and Blocked Persons maintained by the U.S. Office of Foreign Assets Control (OFAC); (iii) a Designated National other than an "unblocked national" as defined in the Cuban Assets Control Regulations, 31 C.F.R. Part 515; (iv) a non-U.S. shell bank (as set forth in Section 313 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act)) or providing banking services indirectly to a non-U.S. shell bank; (v) a senior non- U.S. political figure or an immediate family member or close associate of such figure; (vi) a person with whom a U.S. citizen or entity is prohibited from transacting business, whether such prohibition arises under U.S. law, regulation, executive order, anti-money laundering, antiterrorist, financial institution and asset control laws, regulations, rules or orders, or as a result of any list published by the U.S. Department of Commerce, the U.S. Department of the Treasury, or the U.S. Department of State, including any agency or office thereof; (vii) a person who has funded or supported terrorism or a suspected terrorist organization or who has

engaged in, or derived funds from, activities that relate to the laundering of the proceeds of illegal activity; or (viii) a person that would cause the Company to violate any Law (including bank or other financial institution regulatory laws, regulations or orders) to which the Company is subject by reason of such person's or entity's purchase of the Purchased Shares (categories (i) through (viii), each, a "Prohibited Investor").

(5) The Purchaser currently meets, will continue to meet, and has met (or has taken all action necessary to cure any instance of non-compliance with) all of its obligations under, the Bank Secrecy Act, as amended (31 U.S.C. Section 5311 et seq.) and its implementing regulations, if applicable.

(6) The funds used to purchase the Purchased Shares were legally derived from legitimate sources and not from any Prohibited Investor.

(F) Availability of Funds. The Purchaser has and will have as of the Closing sufficient funds available to consummate the transactions contemplated hereunder.

Section 3.02 Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchasers (other than the Company) and the Seller as follows:

(A) Due Organization, Power and Authority. The Company is duly organized and validly existing as a corporation under the Laws of the State of Delaware and has all requisite power and authority to (i) execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement and (ii) carry on its business as it has been and is currently being conducted.

(B) Authorization. The execution and delivery of this Agreement, and the consummation by the Company of the transactions contemplated hereby, have been duly and validly approved by all necessary corporate action of the Company, and no other corporate or shareholder proceedings on the part of the Company are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company, and (assuming the due authorization, execution and delivery of this Agreement by the Seller and the other parties hereto) this Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(C) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by the Company of the transactions contemplated hereby will violate any provision of the certificate of incorporation or bylaws or similar governing documents of the Company or applicable Law.

(D) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity or any other third party by and on behalf of the Company are necessary in connection with the execution and delivery by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby.

(E) Registration Statement. The Company has prepared and filed registration statements on Form S-1 (File No. 333-201233 and File No. 333-192451) (the “Registration Statements”) covering the resale of Company Common Stock from time to time, including the Purchased Shares to be sold by Seller under this Agreement, under the Securities Act and the rules and regulations promulgated thereunder. The Registration Statements have been declared effective by the Securities and Exchange Commission (the “SEC”), and no stop order has been issued or is pending or, to the knowledge of the Company, threatened by the SEC with respect thereto.

(F) CDFI Designation. The Company is a certified “community development financial institution” designated as such under the Community Development Banking and Financial Institutions Act of 1994, as amended (12 U.S.C. Sections 4701 et seq.).

## ARTICLE IV

### COVENANTS

Section 4.01 Forbearances of the Seller. From the date hereof until the Closing, without the prior written consent of the Purchasers, the Seller will not:

(A) directly or indirectly transfer, sell, assign, distribute, exchange, pledge, hypothecate, mortgage, encumber or otherwise dispose of or engage in or enter into any hedging transactions with respect to, any of the Purchased Shares or any portion thereof or interest therein (other than pursuant to the Securities Purchase); or

(B) agree, commit to or enter into any agreement to take any of the actions referred to in Section 4.01(A).

Notwithstanding the foregoing, the Seller may undertake any of the actions set forth in Section 4.01(A) with an Affiliate of the Seller so long as this Agreement is assigned to such Affiliate in accordance with Section 7.07 of this Agreement. For the avoidance of doubt, until the Closing, except as expressly set forth in this Section 4.01, the Seller shall continue to be able to exercise all rights and privileges with respect to the Purchased Shares.

Section 4.02 Further Action. The Seller, the Purchasers and the Company (A) shall each execute and deliver, or shall cause to be executed and delivered, such documents and other instruments and shall take, or shall cause to be taken, such further action as may be reasonably necessary to carry out the provisions of this Agreement and give effect to the transactions contemplated by this Agreement and (B) shall refrain from taking any actions that

could reasonably be expected to impair, delay or impede the Closing or the consummation of the transactions contemplated by this Agreement.

Section 4.03 Remaining Certification and Disclosure Requirements. The Company acknowledges and agrees to comply with the certification and disclosure requirements set forth in the Compensation Regulations, including without limitation those submissions that are required with respect to the final portion of the Relevant Period (see, for example, Sections 30.7(c) and (d), Sections 30.11(b) and (c) and Section 30.15(a)(3) of the Compensation Regulations and FAQ-14 in the Frequently Asked Questions to the Compensation Regulations, available at [www.financialstability.gov](http://www.financialstability.gov)).

Section 4.04 Transferability Restrictions Related to Long-Term Restricted Stock. The Company acknowledges that any long-term restricted stock (as defined in Section 30.1 of the Compensation Regulations) awarded by the Company that has otherwise vested may not become transferable, or payable in the case of a restricted stock unit, at any time earlier than as permitted under the schedule set forth in the definition of long-term restricted stock in Section 30.1 of the Compensation Regulations. For this purpose, aggregate financial assistance received (for purposes of the definition of long-term restricted stock) includes the full original liquidation amount with respect to 9,000 shares of the Company's Fixed Rate Cumulative Preferred Stock, Series D and 6,000 shares of the Company's Fixed Rate Cumulative Preferred Stock, Series E (see FAQ-15 in the Frequently Asked Questions to the Compensation Regulations, available at [www.financialstability.gov](http://www.financialstability.gov)). On the last date upon which any obligations arising from Treasury's TARP financial assistance remain outstanding, in the event that any long-term restricted stock awarded by the Company is not permitted to become transferable, or payable in the case of a restricted stock unit, under the schedule set forth in the definition of long-term restricted stock in Section 30.1 of the Compensation Regulations, the Company shall cancel such long term restricted stock and/or restricted stock units.

Section 4.05 Executive Compensation. The Company shall not take any action that will result in, nor will the Company permit, directly or indirectly, the acceleration, vesting, enhancement or increase in the payments or benefits that would otherwise become due as a result of the consummation of the transactions contemplated in this Agreement to any current or former executive officers of the Company.

## **ARTICLE V**

### **CONDITIONS TO THE CLOSING**

Section 5.01 Conditions to Each Party's Obligations. The respective obligations of each of the Purchasers and the Seller to consummate the Securities Purchase are subject to the fulfillment, or written waiver by the Purchasers and the Seller, at or prior to the Closing, of each of the following conditions:

(A) Regulatory Approvals. All regulatory approvals required to consummate the Securities Purchase shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired or been terminated.

(B) No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Securities Purchase shall be in effect. No Law shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits or makes illegal the consummation of the Securities Purchase.

(C) Representations and Warranties. The representations and warranties set forth in Article III of this Agreement shall be true and correct as though made on and as of the Closing Date.

(D) Consents and Approvals. All consents and approvals of, and filings and registrations with, all Governmental Entities and of or with any other third party by and on behalf of the Company and the Purchasers that are necessary in connection with the execution and delivery by the Company and the Purchasers of this Agreement and the consummation by the Company and the Purchasers of the transactions contemplated hereby shall have been obtained or made, as applicable, and shall remain in full force and effect.

(E) Other Events. None of the following shall have occurred since the date hereof:

(1) the Company or any of its Subsidiaries shall have (a) dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) become insolvent or unable to pay its debts or failed or admitted in writing its inability generally to pay its debts as they become due; (c) made a general assignment, arrangement or composition with or for the benefit of its creditors; (d) instituted or have instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or have a petition presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition shall have resulted in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; (e) had a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) sought or shall have become subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) had a secured party take possession of all or substantially all its assets or had a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets; (h) caused or shall have been subject to any event with respect to it which, under the applicable laws of any jurisdiction, had an analogous effect to any of the events specified in clauses (a) to (g) (inclusive); or (i) taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

(2) a Governmental Entity in any jurisdiction shall have (a) commenced an action or proceeding against the Company or any of its Subsidiaries; or (b) issued or entered a temporary restraining order, preliminary or permanent injunction or other order binding upon the Company or any of its Subsidiaries, which in the case of (a) and (b) shall have had or be reasonably expected to have a Company Material Adverse Effect;

(3) any fact, circumstance, event, change, occurrence, condition or development shall have occurred that, individually or in the aggregate, shall have had or shall be reasonably likely to have a Company Material Adverse Effect; or

(4) any Regulatory Event not otherwise existing on the date hereof shall have occurred.

Section 5.02 Condition to Obligations of the Seller. The obligation of the Seller to consummate the Securities Purchase is also subject to the fulfillment, or written waiver by the Seller, prior to the Closing, of the following conditions:

(A) Performance of Obligations. Each Purchaser shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing.

(B) Closing Certificates. Each Purchaser shall have delivered to the Seller a certificate, dated as of the Closing Date, certifying to the effect that all conditions precedent to the Closing have been satisfied.

## ARTICLE VI

### TERMINATION

Section 6.01 Termination Events. This Agreement may be terminated at any time prior to the Closing:

(A) by mutual written agreement of the Purchasers and the Seller;

(B) by any of the Purchasers, upon written notice to the Seller, or by the Seller, upon written notice to the Purchasers, in the event that the Closing Date does not occur on or before December 31, 2016; provided, however, that the respective rights to terminate this Agreement pursuant to this Section 6.01(B) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing Date to occur on or prior to such date; or

(C) by the Seller or any Purchaser if there shall be in effect a final non-appealable order of a Governmental Entity of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby.

Section 6.02 Effect of Termination. In the event of termination of this Agreement as provided in Section 6.01, this Agreement shall forthwith become void and have no effect, and none of the Seller, the Purchasers, the Company, any affiliates of the Seller, the Purchasers or the Company or any officers, directors or employees of the Seller, the Purchasers or the Company or any of their respective affiliates shall have any liability of any nature whatsoever hereunder, or in connection with the transactions contemplated hereby, except that this Section 6.02 and Sections 7.03, 7.04, 7.05 and 7.06 shall survive any termination of this Agreement.

## ARTICLE VII

### MISCELLANEOUS

Section 7.01 Waiver; Amendment. Any provision of this Agreement may be (A) waived in writing by the party benefiting by the provision, or (B) amended or modified at any time by an agreement in writing signed by each of the parties hereto. Neither any failure nor any delay by any party in exercising any right, power or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege.

Section 7.02 Counterparts. This Agreement may be executed by facsimile or other electronic means and in counterparts, all of which shall be considered an original and one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 7.03 Governing Law; Choice of Forum; Waiver of Jury Trial. (A) This Agreement and any claim, controversy or dispute arising under or related to this Agreement, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties shall be enforced, governed, and construed in all respects (whether in contract or in tort) in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdictions and venue of the United States District Court of the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the transactions contemplated hereby, and (b) that notice may be served upon (i) the Purchasers at the address listed on Schedule I hereto and in the manner set forth for notices to the Purchasers in Section 7.05, (ii) the Company at the address and in the manner set forth for notices to the Company in Section 7.05 and (iii) the Seller at the address and in the manner set forth for notices to the Seller in Section 7.05, but otherwise in accordance with federal law.

**(B) To the extent permitted by applicable Law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the transactions contemplated hereby.**

Section 7.04 Expenses. If requested by the Seller, the Company shall pay all reasonable out of pocket and documented costs and expenses associated with this Agreement and the transactions contemplated by this Agreement, including, but not limited to, the reasonable fees, disbursements and other charges of the Seller's legal counsel and financial advisors.

Section 7.05 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given on the date of delivery if delivered personally or telecopied (upon telephonic confirmation of receipt), on the first Business Day following the date of dispatch if delivered by a recognized next day courier service, or on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below or in Schedule I hereto or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

If to the Company to:

Broadway Financial Corporation  
5055 Wilshire Boulevard  
Suite 500  
Los Angeles, California 90036  
Facsimile: (323) 634-1723  
Attention: Chief Financial Officer

With a copy to:

Arnold & Porter LLP  
777 South Figueroa Street, Suite 4400  
Los Angeles, California 90017  
Facsimile: (213) 243-4199  
Attention: James. R. Walther

If to the Seller to:

United States Department of the Treasury  
Office of Financial Stability  
1500 Pennsylvania Avenue, NW, Room 2312  
Washington, D.C. 20220  
Facsimile: (202) 622-2882  
Attention: Assistant General Counsel (Banking and Finance)

With a copy to:

Cadwalader, Wickersham & Taft LLP  
200 Liberty Street  
New York, New York 10281  
Facsimile: (212) 504-6666  
Attention: William P. Mills

Section 7.06 Entire Understanding; No Third Party Beneficiaries. This Agreement (together with the documents, agreements and instruments referred to herein) represents the entire understanding of the parties with respect to the subject matter hereof and supersedes any and all other oral or written agreements heretofore made with respect to the subject matter hereof. Nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto, any rights or remedies hereunder.

Section 7.07 Assignment. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other parties, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be null and void; provided, however, that the Seller may assign this Agreement to an Affiliate of the Seller. If the Seller assigns this Agreement to an Affiliate, the Seller shall be relieved of its obligations and liabilities under this Agreement but (i) all rights, remedies, obligations and liabilities of the Seller hereunder shall continue and be enforceable by and against and assumed by such Affiliate, (ii) the Purchasers' obligations and liabilities hereunder shall continue to be outstanding and (iii) all references to the Seller herein shall be deemed to be references to such Affiliate. The Seller will give the Purchasers and the Company notice of any such assignment; provided, that the failure to provide such notice shall not void any such assignment.

Section 7.08 Severability. Any term or provision of this Agreement which is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid, illegal or unenforceable the remaining terms and provisions of this Agreement. or affecting the validity, legality or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction, and if any provision of this Agreement is determined to be so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable, in all cases so long as neither the economic nor legal substance of the transactions contemplated hereby is affected in any manner materially adverse to any party or its shareholders. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

UNITED STATES DEPARTMENT OF THE  
TREASURY

By: /s/Marc McArdle  
Name: Marc McArdle  
Title: Deputy Assistant Secretary for  
Financial Stability

BROADWAY FINANCIAL CORPORATION

By: \_\_\_\_\_  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive  
Officer

FIRST REPUBLIC BANK

By: \_\_\_\_\_  
Name: Michael J. Roffler  
Title: Executive Vice President and Chief  
Financial Officer

BROADWAY FEDERAL BANK F.S.B.  
EMPLOYEE STOCK OWNERSHIP  
TRUST

By: \_\_\_\_\_  
Name: Nicholas L. Saakvitne  
Title: Trustee

*[Signature Page to Securities Purchase Agreement]*

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UNITED STATES DEPARTMENT OF THE  
TREASURY

By: \_\_\_\_\_  
Name: Marc McArdle  
Title: Deputy Assistant Secretary for  
Financial Stability

BROADWAY FINANCIAL CORPORATION

By: /s/Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive  
Officer

FIRST REPUBLIC BANK

By: \_\_\_\_\_  
Name: Michael J. Roffler  
Title: Executive Vice President and Chief  
Financial Officer

BROADWAY FEDERAL BANK F.S.B.  
EMPLOYEE STOCK OWNERSHIP  
TRUST

By: \_\_\_\_\_  
Name: Nicholas L. Saakvitne  
Title: Trustee

*[Signature Page to Securities Purchase Agreement]*

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TREASURY

By: \_\_\_\_\_  
Name: Marc McArdle  
Title: Deputy Assistant Secretary for  
Financial Stability

BROADWAY FINANCIAL CORPORATION

By: \_\_\_\_\_  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive  
Officer

FIRST REPUBLIC BANK

By: /s/Michael J. Roffler  
Name: Michael J. Roffler  
Title: Executive Vice President and Chief  
Financial Officer

BROADWAY FEDERAL BANK F.S.B.  
EMPLOYEE STOCK OWNERSHIP  
TRUST

By: \_\_\_\_\_  
Name: Nicholas L. Saakvitne  
Title: Trustee

*[Signature Page to Securities Purchase Agreement]*

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TREASURY

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Name: Marc McArdle  
Title: Deputy Assistant Secretary for  
Financial Stability

BROADWAY FINANCIAL CORPORATION

By: \_\_\_\_\_  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive  
Officer

FIRST REPUBLIC BANK

By: \_\_\_\_\_  
Name: Michael J. Roffler  
Title: Executive Vice President and Chief  
Financial Officer

BROADWAY FEDERAL BANK F.S.B.  
EMPLOYEE STOCK OWNERSHIP  
TRUST

By: /s/Nicholas L. Saakvitne  
Name: Nicholas L. Saakvitne  
Title: Trustee

*[Signature Page to Securities Purchase Agreement]*

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**SCHEDULE I**

<b>NAME OF PURCHASER/SUBSCRIBER</b>	<b>PURCHASER/SUBSCRIBER ADDRESS</b>	<b>NUMBER OF COMMON SHARES</b>	<b>DOLLAR AMOUNT</b>
First Republic Bank	111 Pine Street Suite 200 San Francisco, California 94111 Facsimile: (415) 395-2235 Attention: Michael Roffler, Chief Financial Officer	834,465	\$1,326,799.35
Broadway Federal Bank, f.s.b. Employee Stock Ownership Trust	11900 W. Olympic Blvd. Suite 410 Los Angeles, California 90064 Facsimile: (310) 451-9089 Attention: Nicholas L. Saakvitne, as Trustee  Copy to:  Fox Rothschild LLP 1800 Century Park East Suite 300 Los Angeles, California Facsimile: (310) 556-9828 Attention: Jeremy M. Pelphry	1,493,679	\$2,374,949.61
Broadway Financial Corporation	5055 Wilshire Boulevard Suite 500 Los Angeles, California 90036 Facsimile: (323) 634-1723 Attention: Chief Financial Officer	2,374,716	\$3,775,798.44

**[Schedule I]**

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**STOCK PURCHASE AGREEMENT**

**between**

**BROADWAY FINANCIAL CORPORATION**

**and**

**FIRST REPUBLIC BANK**

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**December 21, 2016**

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## **STOCK PURCHASE AGREEMENT**

**THIS STOCK PURCHASE AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of December 21, 2016, and is entered into by and among Broadway Financial Corporation, a Delaware corporation (the “Company”), and First Republic Bank, a California state chartered bank (the “Investor”).

### **RECITALS**

**WHEREAS**, the Company desires to issue and sell to the Investor, and the Investor desires to purchase from the Company, on the terms and conditions described herein, shares of the Company’s non-voting common stock, par value \$0.01 per share (“**Non-Voting Common Stock**”) in the amount and at the Per Share Purchase Price specified herein (the “**Investment**”);

**WHEREAS**, the Investment is proposed to be made concurrently with, and subject to completion of, certain other transactions consisting of (i) the purchase by the Investor of outstanding shares of the common stock, par value \$.01 per share of the Company having full voting rights (“**Voting Common Stock**”) now held by the United States Treasury Department (“**Treasury**”), (ii) the repurchase by the Company and the purchase by the Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust (the “**ESOP Trust**”) of additional outstanding shares of Voting Common Stock now held by Treasury, (iii) the repurchase by the Company from certain other shareholders of outstanding shares of Voting Common Stock, and (iv) the exchange by the Company of outstanding shares of Voting Common Stock for shares of Non-Voting Common Stock, such transactions being collectively referred to herein as the “**Concurrent Other Transactions**”) and summarized on Schedule I hereto; and

**WHEREAS**, the Company and the Investor are sometimes collectively referred to herein as the “**Parties**” and certain other terms having initial capital letters are used as defined herein.

**NOW, THEREFORE**, in consideration of the premises, and of the respective representations, warranties, covenants and other agreements of the Parties set forth herein, the Parties hereby agree as follows:

### **ARTICLE 1**

#### **PURCHASE; CLOSING**

**1.1 Issuance, Sale and Purchase.** On the terms and subject to the conditions set forth herein, the Company agrees to issue and sell to the Investor, and the Investor agrees to purchase from the Company, free and clear of any Liens, 737,861 shares of Non-Voting Common Stock (the “**Shares**”) at a per share purchase price of U.S. \$1.59 (the “**Per Share Purchase Price**”), payable to the Company in immediately available funds at the Closing. The aggregate purchase price payable pursuant to this Section 1.1 is \$1,173,198.99 and is referred to herein as the “**Purchase Price**”).

## **1.2 Closing; Deliverables for the Closing; Conditions to the Closing.**

(a) **Closing.** Unless this Agreement has been terminated pursuant to Article 4, and subject to the satisfaction or, to the extent permitted by Law and this Agreement, the written waiver of the conditions set forth in Section 1.2(c), the closing of the transaction contemplated by this Agreement (the "**Closing**") shall take place at the offices of Arnold & Porter LLP, located at 777 South Figueroa Street, 44th Floor, Los Angeles, California 90017, or remotely via the electronic or other exchange of documents and signature pages, at 9:00 a.m. Eastern Time on December 22, 2016, or at such other place or such other date as may be agreed to by the Parties (the "**Closing Date**").

(b) **Closing Deliverables.** Subject to the satisfaction or permitted waiver of the conditions to the Closing set forth in Section 1.2(c), at the Closing the Parties shall make the following deliveries:

(i) the Company shall deliver to the Investor one or more certificates evidencing the Shares registered in the name of the Investor (or if the Shares are to be uncertificated, the Company shall deliver appropriate evidence of such registration of the Shares in the name of the Investor); and

(ii) the Investor shall deliver the Purchase Price by wire transfer of immediately available funds to the account specified by the Company for this purpose by notice to the Investor prior to the Closing.

(c) **Closing Conditions.**

(i) The obligations of the Investor, on the one hand, and the Company, on the other hand, to consummate the purchase and sale of the Shares provided for in this Agreement are each subject to the satisfaction or, to the extent permitted by Law and this Agreement, the waiver by the Company or the Investor, as applicable, of the following conditions to the Closing under this Agreement:

(A) No provision of any Law and no judgment, injunction, order or decree shall prohibit the Closing or shall prohibit or restrict the Investor from owning or voting any Voting Common Stock to be purchased by the Investor as part of the Concurrent Other Transactions; and

(B) All Governmental Consents required to have been obtained at or prior to the Closing Date in connection with the execution, delivery or performance of this Agreement and the consummation of the transactions contemplated hereby shall have been obtained and shall be in full force and effect.

(ii) The obligation of the Investor to consummate the purchase of Shares provided for in this Agreement is also subject to the satisfaction or waiver by the Investor of the following conditions to the Closing:

(A) The representations and warranties of the Company set forth in this Agreement shall be true and correct in all respects on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of the Closing Date, except to the extent that the failure to be true and correct (without regard to any materiality or Material Adverse Effect qualifications contained therein), would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and except that representations and warranties made as of a specified date shall be true and correct as of such date;

(B) The Company shall have performed and complied with, in all material respects, all agreements, covenants and conditions required by this Agreement to be performed by it on or prior to the Closing Date;

(C) The Investor shall have received a certificate, dated as of the Closing Date, signed on behalf of the Company by a senior executive officer certifying to the effect that the conditions set forth in Section 1.2(c)(ii)(A), Section 1.2(c)(ii)(B) and Section 1.2(c)(ii)(D) have been satisfied on and as of the Closing Date;

(D) Since the date of this Agreement, no Material Adverse Effect shall have occurred and no change or other event shall have occurred that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(E) The Concurrent Other Transactions shall be completed concurrently with the Closing under this Agreement;

(iii) The obligation of the Company to consummate the sale of the Shares provided for in this Agreement is also subject to the satisfaction or written waiver by the Company of the following conditions to the Closing:

(A) The representations and warranties of the Investor set forth in this Agreement shall be true and correct in all respects on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of the Closing Date, except to the extent that the failure to be true and correct (without regard to any materiality qualifications contained therein) would not materially adversely affect the ability of the Investor to perform its obligations hereunder and except that (1) representations and warranties made as of a specified date shall be true and correct as of such date and (2) the representations and warranties of the Investor set forth in Sections 2.3(d) and 2.3(f) shall be true and correct in all respects;

(B) The Investor shall have performed and complied with, in all material respects, all agreements, covenants and conditions required by this Agreement to be performed by it on or prior to the Closing Date; and

(C) The Company shall have received a certificate, dated as of the Closing Date, signed on behalf of the Investor by a duly authorized person certifying to the effect that the conditions set forth in Section 1.2(c)(iii)(A) and Section 1.2(c)(iii)(B) have been satisfied on and as of the Closing Date.

## ARTICLE 2

### REPRESENTATIONS AND WARRANTIES

#### 2.1 Certain Terms.

(a) As used in this Agreement, the term “**Material Adverse Effect**” means any circumstance, event, change, development or effect that, individually or in the aggregate, would reasonably be expected to (i) result in a material adverse effect on the assets, liabilities, business, financial condition or results of operations of the Company and the Company Subsidiaries, taken as a whole, or (ii) materially impair or delay the ability of the Company or any of the Company Subsidiaries to perform its or their obligations under this Agreement to consummate the Closing or any of the transactions contemplated hereby; provided, however, that in determining whether a Material Adverse Effect has occurred under clause (i), there shall be excluded any circumstance, event, change, development or effect to the extent resulting from (A) actions or omissions of the Company or any Company Subsidiary expressly required or contemplated by the terms of this Agreement, (B) changes after the date hereof in general economic conditions in the United States, including financial market volatility or downturns, or in the markets in which the Company and the Company Subsidiaries operate, (C) changes after the date hereof affecting the banking industry generally, (D) any changes after the date hereof in applicable Laws or accounting rules or principles, including changes in GAAP, (E) changes in the market price or trading volume of the Common Stock or the Company’s other outstanding securities (but not the underlying causes of such changes) or (F) any failure by the Company or any of the Company Subsidiaries to meet any internal projections or forecasts with regard to the assets, liabilities, business, financial condition or results of operations of the Company and the Company Subsidiaries, taken as a whole (but not the underlying causes of such failure), in each case to the extent that such circumstance, event, change, development or effect referred to in clauses (B), (C) and (D) do not have a disproportionate effect on the Company and the Company Subsidiaries compared to other participants in the industries or markets in which the Company and the Company Subsidiaries operate.

(b) As used in this Agreement, the term “**Previously Disclosed**” (i) with regard to any Party, means information set forth in its Disclosure Schedule under Section references corresponding with the provision of this Agreement to which such information relates (including, in the case of the Company, information identified in the Company’s Disclosure Schedule); provided, however, that if such information is disclosed in such a way as to make its relevance or applicability to another provision of this Agreement reasonably apparent on its face, such information shall be deemed to be responsive to such other provision of this Agreement and (ii) with regard to the Company, includes information publicly disclosed by the Company in (A) the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed by it with the Securities and Exchange Commission (the “**SEC**”) (B) the Company’s

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016, June 30, 2016, and September 30, 2016 as filed by it with the SEC, (C) the Company's amended Definitive Proxy Statement on Schedule 14A, as filed by it with the SEC on May 3, 2016 or (D) each Current Report on Form 8-K filed or furnished by it with the SEC since January 1, 2016, in each case available prior to the date of this Agreement (excluding any risk factor disclosures contained in such documents under the heading "Risk Factors" and any disclosure of risks included in any "forward-looking statements" disclaimer or other statements that are similarly non-specific and are predictive or forward-looking in nature). Notwithstanding anything in this Agreement to the contrary, the mere inclusion of an item in a Disclosure Schedule shall not be deemed an admission that such item represents a material exception or material fact, event or circumstance or that such item has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**2.2 Representations and Warranties of the Company.** Except as Previously Disclosed, the Company hereby represents and warrants to the Investor, as of the date of this Agreement and as of the Closing Date (except for the representations and warranties that are as of a specific date, which are made as of that date) that:

(a) **Organization and Authority.** Each of the Company and the Company Subsidiaries is a corporation or other entity duly organized and validly existing under the laws of the jurisdiction of its incorporation or organization, is duly qualified to do business and is in good standing in all jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified, except where any failure to be so qualified would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and has the corporate or other organizational power and authority to own its properties and assets and to carry on its business as it is now being conducted. The Company has Previously Disclosed correct and complete copies of the certificate of incorporation and bylaws (or similar governing documents) as amended through the date of this Agreement for the Company and Broadway Federal Bank, f.s.b. (the "**Bank**"). The Company is duly registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") as a savings and loan holding company under the Savings and Loan Holding Company Act, as amended, 12 U.S.C. 1467a (the "**SLHCA Act**"). The Company is a certified "community development financial institution" designated as such under the Community Development Banking and Financial Institutions Act of 1994, as amended (12 U.S.C. Sections 5311 et seq.) and its implementing regulations, as applicable.

(b) **Company Subsidiaries.** As of the date of this Agreement, the Company has Previously Disclosed a true, complete and correct list of each entity in which the Company, directly or indirectly, owns sufficient capital stock or holds a sufficient equity or similar interest such that it is consolidated with the Company in the financial statements of the Company or has the power to elect a majority of the board of directors or other persons performing similar functions (each, a "**Company Subsidiary**" and, collectively, the "**Company Subsidiaries**"). Except for the Company Subsidiaries, the Company does not own beneficially, directly or indirectly, more than 5% of any class of equity securities or similar interests of any corporation, bank, business trust, association or similar organization, and is not, directly or indirectly, a partner in any partnership or party to any joint venture. The Company owns, directly or indirectly, all of its interests in each Company Subsidiary free and clear of any and all Liens. No equity security of any Company Subsidiary is or may be required to be issued by reason of any

option, warrant, scrip, preemptive right, right to subscribe to, gross-up right, call or commitment of any character whatsoever relating to, or security or right convertible into, shares of any capital stock or other interest of such Company Subsidiary, and there are no contracts, commitments, understandings or arrangements by which any Company Subsidiary is bound to issue additional shares of its capital stock or other interest, or any option, warrant or right to purchase or acquire any additional shares of its capital stock. The deposit accounts of the Bank are insured by the Federal Deposit Insurance Corporation (“**FDIC**”) to the fullest extent permitted by the Federal Deposit Insurance Act, as amended, and the rules and regulations of the FDIC thereunder, and all premiums and assessments required to be paid in connection therewith have been paid when due (after giving effect to any applicable extensions). The Company beneficially owns all of the outstanding capital securities of, and has sole control of, the Bank.

(c) **Capitalization.**

(i) As of the date hereof, (A) the authorized Capital Stock of the Company consists of 50,000,000 shares of Voting Common Stock, par value \$0.01 per share, 25,000,000 shares of Non-Voting Common Stock, par value \$0.01, and 1,000,000 shares of preferred stock, par value \$0.01 (“**Preferred Stock**”). The Voting Common Stock and the Non-Voting Common Stock are collectively referred to herein as “**Common Stock**”).

(ii) As of the date hereof, before giving effect to the transaction provided for herein and to the Concurrent Other Transactions, (the “**Capitalization Date**”), the Company had outstanding: 21,405,188 shares of Voting Common Stock, 7,671,520 shares of Non-Voting Common Stock and no shares of Preferred Stock. Schedule I to this Agreement sets forth information concerning the pro forma capitalization of the Company as of the date hereof after giving effect to the transaction provided for herein and to the Concurrent Other Transactions.

(iii) As of the date hereof, other than in respect of awards outstanding under or issuable pursuant to the Company’s 2008 Long-Term Incentive Plan (the “**Company Stock Plan**”) consisting of options to purchase an aggregate of 540,625 shares of common stock and 120,483 shares of long-term restricted stock, and except in connection with this Agreement and the transactions contemplated hereby, including the Concurrent Other Transactions, the Company has not (A) agreed to issue or authorized the issuance after the date hereof of any shares of Common Stock or Preferred Stock, or any securities convertible into or exchangeable or exercisable for shares of Common Stock or Preferred Stock, (B) reserved for issuance any shares of Common Stock or Preferred Stock or (C) repurchased or redeemed, or agreed to or authorized the repurchase or redemption of, any shares of Common Stock or Preferred Stock.

(iv) All of the issued and outstanding shares of Common Stock and Preferred Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, except for the preemptive rights granted to the Investor pursuant to this Agreement and to certain institutional

stockholders of the Company identified on Schedule 2.2(c)(iv) of the Company's Disclosure Schedule. None of the outstanding shares of Capital Stock or other securities of the Company or any of the Company Subsidiaries was issued, sold or offered by the Company or any Company Subsidiary in violation of the Securities Act of 1933, as amended (the "**Securities Act**") or the securities or blue sky laws of any state or jurisdiction, or in violation of any agreement, arrangement or commitment to which the Company was or is a party or subject, or in violation of any preemptive or similar rights of any Person. No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which the shareholders of the Company may vote ("**Voting Debt**") are issued and outstanding.

(v) As of the date of this Agreement, except for the outstanding awards under the Company Stock Plan, the Company does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of, or securities or rights convertible into or exchangeable or exercisable for, any shares of Common Stock or Preferred Stock or any other equity securities or Voting Debt of the Company.

(d) **Authorization; No Conflicts.**

(i) The Company has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The Board of Directors has approved the transactions contemplated by this Agreement. This Agreement has been duly and validly executed and delivered by the Company and, assuming due authorization, execution and delivery by the Investor, is the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles (whether applied in equity or at law).

(ii) Neither the execution and delivery by the Company of this Agreement nor the consummation of the transactions contemplated hereby, nor compliance by the Company with any of the provisions hereof, will (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or result in the loss of any benefit or creation of any right on the part of any third party under, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of any liens, charges, adverse rights or claims, pledges, covenants, title defects, security interests or other encumbrances of any kind ("**Liens**") upon any of the properties or assets of the Company or any Company Subsidiary, under any of the terms, conditions or provisions of (1) the certificate of incorporation or bylaws (or similar governing documents) of the Company and each Company Subsidiary or (2) any note, bond, mortgage, indenture, deed of trust, license,

lease, agreement or other instrument or obligation to which the Company or any of the Company Subsidiaries is a party or by which it may be bound, or to which the Company or any of the Company Subsidiaries, or any of the properties or assets of the Company or any of the Company Subsidiaries may be subject, or (B) violate any Law applicable to the Company or any of the Company Subsidiaries or any of their respective properties or assets except in the case of clauses (A)(2) and (B) for such violations, conflicts and breaches as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(e) **Governmental Consents**. Except as set forth in the Disclosure Schedule, no Governmental Consents are necessary for the execution and delivery of this Agreement or for the sale by the Company of Common Stock to the Investor pursuant to this Agreement.

(f) **Litigation and Other Proceedings**. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, there is no pending or, to the Knowledge of the Company, threatened claim, action, suit, arbitration, complaint, charge or investigation or proceeding (each an "**Action**") against the Company or any Company Subsidiary or any of its assets, rights or properties, nor is the Company or any Company Subsidiary a party or named as subject to the provisions of any order, writ, injunction, settlement, judgment or decree of any court, arbitrator or government agency, or instrumentality. There has not been, and to the Knowledge of the Company, there is not pending or contemplated, any investigation or other Action by the SEC involving the Company or any current or former director or officer of the Company in his or her capacity as such.

(g) **Financial Statements**. The audited consolidated balance sheets of the Company and the Company Subsidiaries and the related consolidated statements of operations, changes in stockholders' equity and cash flows, together with the notes thereto, included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015 (the "**Company Financial Statements**") (i) have been prepared from, and are in accordance with, the books and records of the Company and the Company Subsidiaries, (ii) complied, as of the date of such filing, in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, (iii) have been prepared in accordance with GAAP applied on a consistent basis and (iv) present fairly in all material respects the consolidated financial position of the Company and the Company Subsidiaries at the dates and the consolidated results of operations, changes in stockholders' equity and cash flows of the Company and the Company Subsidiaries for the periods stated therein.

(h) **Reports**. Since December 31, 2013, the Company and each Company Subsidiary have filed all material reports, registrations, documents, filings, statements and submissions, together with any required amendments thereto, that they were required to file with any Governmental Entity, including all those required under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof (the foregoing, collectively, being referred to herein as the "**Company Reports**") and have paid all material fees and assessments due and payable in connection therewith. As of their respective filing dates, or as subsequently amended prior to the date hereof, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities. As of the date of this

Agreement, there are no outstanding comments from the SEC or any other Governmental Entity with respect to any Company Report that were the subject of written correspondence that have not been resolved. The Company Reports, including the documents incorporated by reference in each of them, each contained all the information required to be included in it and, when it was filed and, as of the date of each such Company Report filed with the SEC, or if amended prior to the date of this Agreement, as of the date of such amendment, did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in it, in light of the circumstances under which they were made, not misleading and complied as to form in all material respects with the applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). No executive officer of the Company has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act of 2002.

(i) **Internal Accounting and Disclosure Controls.** The records, systems, controls, data and information of the Company and the Company Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of the Company or the Company Subsidiaries or accountants (including all means of access thereto and therefrom) or reputable banking industry service providers, except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have an adverse effect on the system of internal accounting controls described below in this Section 2.2(i). The Company (i) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) intended to ensure that material information relating to the Company, including its consolidated Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (ii) has disclosed, based on its most recent evaluation prior to the date of this Agreement, to the Company’s outside auditors and the audit committee of the Board of Directors (A) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information, and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal controls over financial reporting. As of the date of this Agreement, the Company has no Knowledge of any reason that its outside auditors and its chief executive and chief financial officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, without qualification, when due. Since December 31, 2013, neither the Company nor any Company Subsidiary nor, to the Knowledge of the Company, any director, officer, employee, auditor, accountant or representative of the Company or any Company Subsidiary has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of the Company or any Company Subsidiary or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that the Company or any Company Subsidiary has engaged in questionable accounting or auditing practices.

(j) **No Undisclosed Liabilities.** There are no liabilities of the Company or any of the Company Subsidiaries of any kind whatsoever, whether accrued, contingent, absolute,

determined, determinable or otherwise, except for (i) liabilities adequately reflected or reserved against in accordance with GAAP in the Company's audited balance sheet as of December 31, 2015 and (ii) liabilities that have arisen in the ordinary and usual course of business and consistent with past practice since December 31, 2015 and that have not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(k) **Mortgage Lending**. The Company and each of the Company Subsidiaries have complied in all material respects with, and all documentation in connection with the origination, processing, underwriting and credit approval of any mortgage loan originated, purchased or serviced by the Company or any Company Subsidiary has satisfied, in all material respects (i) all Laws with respect to the origination, insuring, purchase, sale, servicing, or filing of claims in connection with mortgage loans, including all Laws relating to real estate settlement procedures, consumer credit protection, truth in lending laws, usury limitations, fair housing, transfers of servicing, collection practices, equal credit opportunity and adjustable rate mortgages, (ii) the responsibilities and obligations relating to mortgage loans set forth in any agreement between the Company and any Agency, Loan Investor or Insurer, (iii) the applicable rules, regulations, guidelines, handbooks and other requirements of any Agency, Loan Investor or Insurer and (iv) the terms and provisions of any mortgage or other collateral documents and other loan documents with respect to each mortgage loan.

(l) **Bank Secrecy Act; Anti-Money Laundering; OFAC; and Customer Information**. The Company is not aware of, has not been advised of, and, to the Knowledge of the Company, has no reason to believe that any facts or circumstances exist that would cause it or any Company Subsidiary to be deemed to be not operating in compliance, in all material respects, with the Bank Secrecy Act of 1970, as amended, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (also known as the USA PATRIOT Act), any order or regulation issued by the Treasury's Office of Foreign Assets Control ("**OFAC**"), or any other applicable anti-money laundering or anti-terrorist-financing statute, rule or regulation. The Company is not aware of any facts or circumstances that would cause it to believe that any nonpublic customer information has been disclosed to or accessed by an unauthorized third party in a manner that would cause it to undertake any material remedial action. The Company and each of the Company Subsidiaries have adopted and implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that comply with the USA PATRIOT Act and such anti-money laundering program meets the requirements in all material respects of Section 352 of the USA PATRIOT Act and the regulations thereunder, and they have complied in all respects with any requirements to file reports and other necessary documents as required by the USA PATRIOT Act and the regulations thereunder. The Company will not directly or indirectly use the proceeds of the sale of the Common Stock pursuant to transactions contemplated by this Agreement, or lend, contribute or otherwise make available such proceeds to any Company Subsidiary, joint venture partner or other Person, towards any sales or operations in any country appearing on the OFAC Specially Designated Nationals List ("SDN List") or for the purpose of financing the activities of any Person currently appearing on the SDN List.

(m) **Certain Payments**. Neither the Company nor any of the Company Subsidiaries, nor any directors, officers, nor to the Knowledge of the Company, employees or

any of their Affiliates or any other Person who to the Knowledge of the Company is associated with or acting on behalf of the Company or any of the Company Subsidiaries has directly or indirectly (i) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment in material violation of any Law to any Person, private or public, regardless of form, whether in money, property, or services (A) to obtain favorable treatment in securing business for the Company or any of the Company Subsidiaries, (B) to pay for favorable treatment for business secured by the Company or any of the Company Subsidiaries, or (C) to obtain special concessions or for special concessions already obtained, for or in respect of the Company or any of the Company Subsidiaries or (ii) established or maintained any fund or asset with respect to the Company or any of the Company Subsidiaries that was required by Law or GAAP to have been recorded and was not recorded in the books and records of the Company or any of the Company Subsidiaries.

(n) **Absence of Certain Changes**. Since December 31, 2015 and except as Previously Disclosed or as required or contemplated by the terms of this Agreement, (i) the Company and the Company Subsidiaries have conducted their respective businesses in all material respects in the ordinary and usual course of business consistent with past practices, (ii) through (and including) the date of this Agreement, no fact, event, change, condition, development, circumstance or effect has occurred that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and (iii) no material default (or event which, with notice or lapse of time, or both, would constitute a material default) exists on the part of the Company or any Company Subsidiary in the due performance and observance of any term, covenant or condition of any agreement to which the Company or any Company Subsidiary is a party and which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(o) **Compliance with Laws**. The Company and each Company Subsidiary have all material permits, licenses, franchises, authorizations, orders and approvals of, and have made all filings, applications and registrations with, Governmental Entities that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted and that are material to the business of the Company and each Company Subsidiary. The Company and each Company Subsidiary have complied with and (i) are not in default or violation in any respect of, (ii) are not under investigation with respect to, and (iii) have not been threatened to be charged with or given notice of any material violation of, any applicable material domestic (federal, state or local) or foreign law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity (each, a "**Law**"), other than such noncompliance, defaults or violations as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. Except for statutory or regulatory restrictions of general application and restrictions applicable to recipients of funds under the Troubled Asset Relief Program of the Treasury, no Governmental Entity has placed any material restriction on the business or properties of the Company or any of the Company Subsidiaries. As of the date hereof, the Bank has a Community Reinvestment Act rating of "outstanding."

(p) **Adequate Capitalization**. As of September 30, 2016, the Bank met or exceeded the standards necessary to be considered "adequately capitalized" under the FDIC's regulatory framework for prompt corrective action. As of the Closing and after giving effect to

this Agreement, the transactions contemplated hereby and the Concurrent Transactions, the Bank meets or exceeds the standards necessary to be considered “adequately capitalized” under the FDIC’s regulatory framework for prompt corrective action.

(q) **Agreements with Regulatory Agencies**. The Company and the Company Subsidiaries (A) are not subject to any cease-and-desist or other similar order or enforcement action issued by, (B) are not a party to any written agreement, consent agreement or memorandum of understanding with, (C) are not a party to any commitment letter or similar undertaking to, and (D) are not subject to any capital directive by, and since December 31, 2015, neither the Company nor any of the Company Subsidiaries has adopted any board resolutions at the request of any Governmental Entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies, its internal controls, its management or its operations or business, nor has the Company nor any of the Company Subsidiaries been advised since December 31, 2015 by any Governmental Entity that it is considering issuing, initiating, ordering, or requesting any of the same.

(r) **Insurance**. The Company and each of the Company Subsidiaries are presently insured, and have been insured for at least the past two years, for reasonable amounts with financially sound and reputable insurance companies against such risks as companies engaged in a similar business would, in accordance with good business practice, customarily be insured. All of the policies, bonds and other arrangements providing for the foregoing (the “**Company Insurance Policies**”) are in full force and effect, the premiums due and payable thereon have been or will be timely paid through the Closing Date, and there is no material breach or default (and no condition exists or event has occurred that, with the giving of notice or lapse of time or both, would constitute such a material breach or default) by the Company or any of the Company Subsidiaries under any of the Company Insurance Policies or, to the Knowledge of the Company, by any other party to the Company Insurance Policies. Neither the Company nor any of the Company Subsidiaries has received any written notice of cancellation or non-renewal of any Company Insurance Policy nor, to the Knowledge of the Company, is the termination of any such policies threatened in writing by the insurer, and there is no material claim for coverage by the Company, or any of the Company Subsidiaries, pending under any of such Company Insurance Policies as to which coverage has been denied or disputed by the underwriters of such Company Insurance Policies or in respect of which such underwriters have reserved their rights.

(s) **Title**. The Company and the Company Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and valid title to all material personal property owned by them, in each case free and clear of all Liens, except for Liens which do not materially affect the value of such property or do not interfere with the use made and proposed to be made of such property by the Company or any Company Subsidiary. Any real property and facilities held under lease by the Company or the Company Subsidiaries are leased pursuant to valid, subsisting and enforceable leases with such exceptions that are not material and do not interfere with the use made and proposed to be made of such property and facilities by the Company or the Company Subsidiaries.

(t) **Employee Benefits.**

(i) Section 2.2(t) of the Disclosure Schedule sets forth a correct and complete list of each “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), including, without limitation, multiemployer plans within the meaning of Section 3(37) of ERISA), and all stock purchase, stock option, severance, employment, change-in-control, fringe benefit, bonus, incentive, deferred compensation and all other employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise), whether formal or informal, oral or written, under which (A) any current or former employee or director of the Company or any of the Company Subsidiaries (the “**Company Employees**”) has any present or future right to benefits and which are contributed to, sponsored by or maintained by the Company or any of the Company Subsidiaries or (B) the Company or any Company Subsidiary has had or has any present or future liability. All such plans, agreements, programs, policies and arrangements are collectively referred herein to as the “**Benefit Plans.**”

(ii) (A) Each Benefit Plan has been established and administered in all material respects in accordance with its terms, and in compliance with the applicable provisions of ERISA, the Code and other Laws; (B) no “reportable event” (as such term is defined in Section 4043 of ERISA) that could reasonably be expected to result in material liability has occurred with respect to any Benefit Plan, and (C) no non-exempt “prohibited transaction” (as such term is defined in Section 406 of ERISA and Section 4975 of the Code) has been engaged in by the Company or any Company Subsidiary with respect to any Benefit Plan that has or is expected to result in any material liability or “accumulated funding deficiency” (as such term is defined in Section 302 of ERISA and Section 412 of the Code (whether or not waived)).

(iii) The Company and the Company Subsidiaries will be in compliance, as of the Closing Date, with Sections 111 and 302 of the Emergency Economic Stabilization Act of 2008, as amended by the U.S. American Recovery and Reinvestment Act of 2009, including all guidance issued thereunder by a Governmental Entity (collectively “**EESA**”).

(u) **Taxes.** All material Tax Returns required to be filed by, or on behalf of, the Company or the Company Subsidiaries have been timely filed, or will be timely filed, in accordance with all Laws, and all such Tax Returns are, or will be at the time of filing, complete and correct in all material respects. The Company and the Company Subsidiaries have timely paid all material Taxes due and payable (whether or not shown on such Tax Returns), or, where payment is not yet due, have made adequate financial statement provisions therefor in accordance with GAAP. There are no Liens with respect to Taxes upon any of the assets or

properties of either the Company or the Company Subsidiaries other than with respect to Taxes not yet due and payable.

(v) **Labor.**

(i) Employees of the Company and the Company Subsidiaries are not represented by any labor union nor are any collective bargaining agreements otherwise in effect with respect to such employees. No labor organization or group of employees of the Company or any Company Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions presently pending or threatened to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority, nor have there been in the last three years. There are no strikes, work stoppages, slowdowns, labor picketing lockouts, material arbitrations or material grievances, or other material labor disputes pending or, to the Knowledge of the Company, threatened against or involving the Company or any Company Subsidiary, nor have there been any in the past year.

(ii) Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the Company and the Company Subsidiaries are in compliance with all federal and state Laws and requirements respecting employment and employment practices, terms and conditions of employment, collective bargaining, disability, immigration, health and safety, wages, hours and benefits, non-discrimination in employment, workers' compensation and the collection and payment of withholding and/or payroll taxes and similar taxes.

(iii) There is no charge or complaint pending or threatened before any Governmental Entity alleging unlawful discrimination in employment practices, unfair labor practices or other unlawful employment practices by the Company or any Company Subsidiary.

(w) **Brokers and Finders.** Neither the Company nor any of its officers, directors, employees or agents has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder's fees, and no broker or finder has acted directly or indirectly for the Company in connection with this Agreement or the transactions contemplated hereby, the fees of which would be payable by the Investor.

(x) **Offering of Securities.** Neither the Company nor any Person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Shares to be issued pursuant to this Agreement under the Securities Act and the rules and regulations of the SEC promulgated thereunder) which would subject the offering, issuance or sale of any of the Shares to be issued pursuant to this Agreement to be subject to the registration requirements of the Securities Act. Neither the Company nor any Person acting on its behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer or sale of the

Shares pursuant to the transactions contemplated by this Agreement. Assuming the accuracy of the Investor's representations and warranties set forth in this Agreement, no registration under the Securities Act is required for the offer and sale of the Shares by the Company to the Investor.

(y) **Affiliate Transactions**. No officer, director, five percent (5%) stockholder or other Affiliate of the Company (or any Company Subsidiary), or any individual who, to the Knowledge of the Company, is related by marriage or adoption to or shares the same home as any such Person, or any entity which, to the Knowledge of the Company, is controlled by any such Person (collectively, an "**Insider**"), is a party to any contract or transaction with the Company (or any Company Subsidiary) which pertains to the business of the Company (or any Company Subsidiary) or has any interest in any property, real or personal or mixed, tangible or intangible, used in or pertaining to the business of the Company or any Company Subsidiary. The foregoing representation and warranty does not include deposit accounts of an Insider at the Company or any Company Subsidiary or loans made in the ordinary course of business to Insiders in compliance with Regulation O and other applicable Law.

(z) **Private Placement**. Assuming the accuracy of the Investor's representations and warranties set forth in Section 2.3 of this Agreement, no registration under the Securities Act is required for the offer and sale of the Non-Voting Common Stock by the Company to the Investor. The issuance and sale of the Non-Voting Common Stock hereunder does not contravene the rules and regulations of the NASDAQ Stock Market.

(aa) **Listing and Maintenance Requirements**. The Company's Voting Common Stock is registered pursuant to Section 12(b) of the Exchange Act, and the Company has taken no action designed to terminate the registration of the Voting Common Stock under the Exchange Act nor has the Company received any notification that the SEC is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received written notice from the NASDAQ Stock Market to the effect that the Company is not in compliance with the listing or maintenance requirements of the NASDAQ Stock Market.

(bb) **Investment Company**. Neither the Company nor any of the Company Subsidiaries is required to be registered as, and is not an Affiliate of, and immediately following the Closing will not be required to register as, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(cc) **Acknowledgment Regarding the Investor's Purchase of Shares**. The Company acknowledges and agrees that the Investor is acting solely in the capacity of an arm's length purchaser with respect to this Agreement, the transactions contemplated hereby and the Concurrent Other Transactions. The Company further acknowledges that the Investor is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement, the transactions contemplated hereby and the Concurrent Other Transactions and any advice given by the Investor or any of its representatives or agents in connection with this Agreement, the transactions contemplated hereby and the Concurrent Other Transactions is merely incidental to Investor's purchase of the Non-Voting Common Stock.

(dd) **No General Solicitation or General Advertising**. Neither the Company nor any person acting on its behalf has engaged or will engage in any form of general solicitation

or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer or sale of the Non-Voting Common Stock.

(ee) **CDFI Designation**. The Company is a certified “community development financial institution” designated as such under the Community Development Banking and Financial Institutions Act of 1994, as amended (12 U.S.C. Sections 4701 et seq.).

(ff) **Shell Company Status**. The Company is not, and has never been, an issuer identified in Rule 144(i)(1) under the Securities Act.

**2.3 Representations and Warranties of the Investor**. Except as Previously Disclosed, the Investor hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date (except for the representations and warranties that are as of a specific date which are made as of that date) that:

(a) **Organization and Authority**. The Investor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, is duly qualified to do business and is in good standing in all jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified and where failure to be so qualified would be reasonably expected to materially and adversely impair or delay its ability to perform its obligations under this Agreement or to consummate the transactions contemplated hereby.

(b) **Authorization; No Conflicts**.

(i) The Investor has the necessary power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by its board of directors, general partner or managing members, investment committee, investment adviser or other authorized person, as the case may be, and no further approval or authorization by any of its shareholders, partners or other equity owners, as the case may be, is required. This Agreement has been duly and validly executed and delivered by the Investor and, assuming due authorization, execution and delivery by the Company is the valid and binding obligation of the Investor enforceable against the Investor in accordance with its terms (except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors’ rights or by general equity principles).

(ii) Neither the execution, delivery and performance by the Investor of this Agreement nor the consummation of the transactions contemplated hereby, nor compliance by the Investor with any of the provisions hereof, will (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of any

Liens upon any of the properties or assets of the Investor under any of the terms, conditions or provisions of (1) its articles of incorporation or bylaws, its certificate of limited partnership or partnership agreement or its similar governing documents or (2) any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Investor is a party or by which the Investor may be bound, or to which the Investor or any of the properties or assets of the Investor may be subject, or (B) violate any Law applicable to the Investor or any of its properties or assets, except in the case of clauses (A)(2) and (B) for such violations, conflicts and breaches as would not reasonably be expected to materially adversely affect the Investor's ability to perform its obligations under this Agreement or consummate the transactions contemplated hereby on a timely basis.

(c) **Governmental Consents**. Except as set forth in the Disclosure Schedule, no Governmental Consents are necessary for the execution and delivery of this Agreement or for the purchase by the Investor of the Shares pursuant to this Agreement.

(d) **Purchase for Investment; Accredited Investor Status**. The Investor acknowledges that the Shares to be purchased by the Investor pursuant to this Agreement have not been registered under the Securities Act or under any state securities laws and may not be resold or transferred by the Investor without such registration or appropriate reliance on any available exemption from such requirements. The Investor (i) is acquiring the Shares pursuant to an exemption from the registration requirements of the Securities Act and other applicable securities laws solely for investment with no present intention to distribute any of the Shares to any Person, (ii) will not sell or otherwise dispose of any of the Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any other applicable securities laws, (iii) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of its investment in the Shares and of making an informed investment decision and (iv) is an "accredited investor" (as that term is defined by Rule 501 under the Securities Act).

(e) **Brokers and Finders**. Neither the Investor, nor its respective Affiliates nor any of their respective officers or directors, has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder's fees, and no broker or finder has acted directly or indirectly for the Investor in connection with this Agreement or the transactions contemplated hereby.

(f) **Access to Information**. The Investor acknowledges that it has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Shares and the merits and risks of investing in the Shares; (ii) access to information about the Company and the Company Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the Investment; and (iv) the opportunity to ask questions of management of the Company.

(g) **No Reliance.** The Investor has not relied on any representation or warranty in connection with the Investment other than those contained in this Agreement.

### ARTICLE 3

#### COVENANTS

**3.1 Conduct of Business Prior to Closing.** Except as otherwise expressly required or contemplated by this Agreement or applicable Law, or with the prior written consent of the Investor, between the date of this Agreement and the Closing, the Company shall, and the Company shall cause each Company Subsidiary to:

(a) use commercially reasonable efforts to conduct its business only in the ordinary course of business; and

(b) use commercially reasonable efforts to (i) preserve the present business operations, organization (including officers and employees) and goodwill of the Company and any Company Subsidiary and (ii) preserve business relationships with customers, suppliers, consultants and others having business dealings with the Company; provided, however, that nothing in this clause (b) shall place any limit on the ability of the Board of Directors to act in accordance with, or require any actions that the Board of Directors may, in good faith, determine to be inconsistent with, its duties or the Company's obligations under applicable Law or imposed by any Governmental Entity.

**3.2 Confidentiality.** The Investor acknowledges that the information being provided to it in connection with the transactions contemplated hereby includes confidential information that has not been publicly disclosed and agrees to maintain the confidentiality of the information with the same degree of care that it uses to protect its own confidential information.

**3.3 Publicity.** The Company shall not publicly disclose the financial or other terms of the transactions contemplated hereby or the Concurrent Transactions or the name of Investor or any Affiliate or investment adviser of the Investor, or include the name of the Investor or any Affiliate or investment adviser of the Investor in any press release or filing with the SEC or the NASDAQ Stock Market, without the prior written consent of the Investor, except (i) as required by federal securities law in connection with the filing of final transaction documents with the SEC, (ii) to the extent such disclosure is required by applicable law, at the request of the staff of the SEC or at the request of the NASDAQ Stock Market regulations, in which case the Company shall provide the Investor with prior written notice of such disclosure and the form of such disclosure shall be subject to the approval of the Investor, such approval not to be unreasonably withheld or delayed.

**3.4 Commercially Reasonable Efforts.** Upon the terms and subject to the conditions herein provided, except as otherwise provided in this Agreement, each of the Parties hereto agrees to use its commercially reasonable efforts to take or cause to be taken all action, to do or cause to be done and to assist and cooperate with the other Party in doing all things necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated hereby, including but not limited to: (a) the satisfaction of the

conditions precedent to the obligations of the Parties; (b) the obtaining of applicable Governmental Consents, and consents, waivers and approvals of any other third parties; (c) defending of any claim, action, suit, investigation or proceeding, whether judicial or administrative, challenging this Agreement or the performance of the obligations hereunder; and (d) the execution and delivery of such instruments, and the taking of such other actions as the other Party may reasonably request in order to carry out the intent of this Agreement. Notwithstanding the foregoing, under no circumstances will the Investor be required to disclose to the Company, the Company Subsidiaries or any third party any information the disclosure of which is prohibited by Law, nor shall it be required to agree to any restrictions, conditions or commitments imposed or otherwise required by any Government Entity that are determined by the Investor in its sole discretion to be unduly burdensome, other than customary passivity commitments, in order to consummate and make effective the transactions contemplated hereby.

### **3.5 Legend.**

(a) The Investor agrees that all certificates or other instruments representing the Shares subject to this Agreement shall bear legends substantially to the following effect, until such time as they are not required under Section 3.5(b):

“THE SHARES OF NON-VOTING COMMON STOCK REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.”

“THE SALE OR TRANSFER OF SHARES OF THE NON-VOTING COMMON STOCK OF THE CORPORATION IS SUBJECT TO CERTAIN RESTRICTIONS SET FORTH IN THE CERTIFICATE OF INCORPORATION OF THE CORPORATION, A COPY OF WHICH MAY BE OBTAINED FROM THE SECRETARY OF THE CORPORATION.”

(b) Upon request of the Investor, the Company shall promptly cause such legends to be removed from any certificate for any Shares to be so transferred if such Shares are being transferred pursuant to an exemption from the registration securities requirements of the Securities Act and applicable state Laws, subject to receipt by the Company of an opinion of counsel for the Investor reasonably satisfactory to the Company to the effect that such legend is no longer required under the Securities Act and applicable state Laws. The Investor acknowledges that the sale of the Shares provided for herein has not been registered under the Securities Act or under any state securities Laws and agrees that it shall not sell or otherwise dispose of any of the Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any other applicable securities Laws.

**3.6 Exchange Listing.** The Company shall use its reasonable best efforts to cause any shares of Voting Common Stock into which the Shares may be converted in connection with resale of the Shares by the Investor in compliance with the restrictions set forth in the certificate of incorporation of the Company to be approved for listing on the Nasdaq Stock Market as promptly as possible.

**3.7 Authorized Shares.** The Company will at all times reserve, free of any preemptive or similar rights of stockholders of the Company, a number of unissued shares of Voting Common Stock, sufficient to convert automatically, in accordance with the terms of the certificate of incorporation of the Company, all of the shares of Non-Voting Common Stock then outstanding.

**3.8 Rule 144 Reporting.** With a view to making available to the Investor the benefits of certain rules and regulations of the SEC which may permit the sale of the Shares by the Investor without registration under the Securities Act upon compliance with the initial holding period and other applicable requirements of Rule 144 under the Securities Act, the Company agrees to use its reasonable best efforts to:

(i) make and keep adequate current public information with respect to the Company available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of this Agreement;

(ii) so long as the Investor owns any of the Shares, furnish to the Investor forthwith upon request: (A) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; (B) a copy of the most recent annual or quarterly report of the Company; and (C) such other reports and documents as the Investor may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any of the Shares without registration; and

(iii) to take such further action as the Investor may reasonably request, all to the extent required from time to time to enable the Investor to sell Shares without registration under the Securities Act.

**3.9 Exchange Rights; Co-Redemption Rights.**

(a) The Investor shall have the right from time to time to exchange any of the shares of Voting Common Stock acquired by the Investor from the Treasury as part of the Concurrent Other Transactions for Non-Voting Common Stock in order to reduce its ownership of Voting Common Stock to less than 4.50% of the then outstanding shares of Voting Common Stock. Any Non-Voting Common Stock held by the Investor shall, upon its transfer to any Person other than the Investor, or an Affiliate of the Investor, immediately and without any further action on the part of any Person, automatically convert into Voting Common Stock only as provided in the provisions of the Company's certificate of incorporation relating to the Non-Voting Common Stock including restrictions on transfer contained therein that are intended to cause such shares to qualify as non-voting shares under the applicable requirements and policies

of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation or any other regulatory body having jurisdiction over the Company or the Bank. Any shares of Non-Voting Common Stock received by the Investor or any Affiliate of the Investor pursuant to this Section 3.9(a) shall not be convertible by the Investor into shares of Voting Common Stock or any other voting security of the Company, and any such shares shall be subject to the restrictions set forth in the provisions of the Company's certificate of incorporation relating to the Non-Voting Common Stock.

(b) Should the Company at any time and for any reason propose to retire or repurchase shares of its outstanding Voting Common Stock or Non-Voting Common Stock, the Company shall give the Investor thirty (30) days' prior written notice of such proposed action. Such notice shall specify the number of outstanding shares of Voting Common Stock or Non-Voting Common Stock, as applicable, prior to such retirement or repurchase, and the number of outstanding shares of Voting Common Stock or Non-Voting Common Stock, as applicable, that would be outstanding after giving effect to such retirement or repurchase. Upon receipt of such notice, the Investor shall have the right to sell to the Company, at the same price per share as that at which the Company proposes to retire or repurchase its other outstanding shares of Voting Common Stock or Non-Voting Common Stock, the minimum number of shares of Voting Common Stock and Non-Voting Common Stock, as applicable, that would result in the Investor and its Affiliates owning less than 4.50% of the then outstanding shares of Voting Common Stock and less than 10% of the total shareholders' equity of the Company, as applicable, after giving effect to such retirement or repurchase and such sale by the Investor to the Company; provided, that (i) the Company shall not be required hereby to purchase from the Investor more shares of Voting Common Stock and Non-Voting Common Stock, as applicable, than were indicated in its notice of desired purchase sent to the Investor, (ii) the Company may decide, after having given such a notice, not to repurchase or retire any shares of Voting Common Stock or Non-Voting Common Stock, as applicable, and (iii) the Investor's right to sell shares of Voting Common Stock and Non-Voting Common Stock, as applicable, pursuant hereto shall be subject to pro rata reduction to the extent that CJA Private Equity Financial Restructuring Master Fund I LP, National Community Investment Fund and/or Hope Bancorp, Inc. or its Affiliates exercise the similar sale rights granted to them by the Company pursuant to agreements that are in effect as of the date hereof, based on the respective numbers of shares of Voting Common Stock or Non-Voting Common Stock, as applicable, requested to be sold by each. Within ten (10) days after the receipt of such notice by the Investor, the Investor shall notify the Company in writing of its intention to exercise its rights to sell shares of Voting Common Stock and Non-Voting Common Stock, as applicable, to the Company pursuant to this Section 3.9(b), which shall include the number of shares of Voting Common Stock and Non-Voting Common Stock to be sold by the Investor to the Company in accordance with this Section 3.9, the record and beneficial owner of such shares and the proposed closing date, which date, unless otherwise agreed by the Company, shall be no later than the business day preceding the date of the retirement or repurchase. The rights of the Investor provided in this Section 3.9(b) shall remain in effect for so long as the Investor and its Affiliates have beneficial ownership of any shares of the Company's outstanding Voting Common Stock or Non-Voting Common Stock. The provisions of this Section 3.9 shall apply on an as-converted basis to any Non-Voting Common Stock theretofore issued in exchange for Voting Common Stock at the request of the Investor.

## ARTICLE 4

### TERMINATION

**4.1 Termination.** This Agreement may be terminated prior to the Closing:

(a) by mutual written agreement of the Company and the Investor;

(b) by either Party, upon written notice to the other Party in the event that any of the contemplated sales of Voting Common Stock by the Treasury Department included in the Concurrent Other Transactions are terminated prior to the Closing;

(c) by either Party, upon written notice to the other Party, in the event that the Closing does not occur on or before December 31, 2016; provided, however, that the right to terminate this Agreement pursuant to this Section 4.1(c) shall not be available to any Party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(d) by the Investor, upon written notice to the Company, if (i) there has been a breach of any representation, warranty, covenant or agreement made by the Company in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that Section 1.2(c)(ii)(A) would not be satisfied and (ii) such breach or condition is not curable or, if curable, is not cured prior to the date that would otherwise be the Closing Date in the absence of such breach or condition; provided that this Section 4.1(d) shall only apply if the Investor is not in material breach of any of the terms of this Agreement;

(e) by the Company, upon written notice to the Investor, if (i) there has been a breach of any representation, warranty, covenant or agreement made by the Investor in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that Section 1.2(c)(iii)(A) would not be satisfied and (ii) such breach or condition is not curable or, if curable, is not cured prior to the date that would otherwise be the Closing Date in absence of such breach or condition; provided that this Section 4.1(e) shall only apply if the Company is not in material breach of any of the terms of this Agreement; or

(f) by any Party, upon written notice to the other Party, in the event that any Governmental Entity shall have issued any order, decree or injunction or taken any other action restraining, enjoining or prohibiting any of the transactions contemplated by this Agreement, and such order, decree, injunction or other action shall have become final and non-appealable.

**4.2 Effects of Termination.** In the event of any termination of this Agreement as provided in Section 4.1, this Agreement (other than Section 3.2, Section 3.9, this Article 4 and Article 6 of this Agreement, which shall remain in full force and effect) shall forthwith become wholly void and of no further force and effect; provided, that nothing herein shall relieve any Party from liability for fraud or willful breach of this Agreement.

**ARTICLE 5**  
**INDEMNITY**

**5.1 Indemnification by the Company.**

(a) After the Closing, and subject to Sections 5.1(b), 5.3 and 5.4, the Company shall indemnify, defend and hold harmless to the fullest extent permitted by Law the Investor and its Affiliates, and their successors and assigns, officers, directors, partners, members and employees, as applicable, (the “**Investor Indemnified Parties**”) against and from, and reimburse any of the Investor Indemnified Parties for, all Losses that any of the Investor Indemnified Parties may at any time suffer or incur, or become subject to, as a result of or in connection with (1) the inaccuracy or breach of any representation or warranty made by the Company in this Agreement or any certificate delivered pursuant hereto or (2) any breach or failure by the Company to perform any of its covenants or agreements contained in this Agreement. Notwithstanding anything herein to the contrary, the obligations of the Company under this Section 5.1(a) shall not be applicable to or inure to the benefit of any transferee of the Common Stock sold pursuant to this Agreement who is not an Affiliate of the Investor.

(b) Notwithstanding anything to the contrary contained herein, the Company shall not be required to indemnify, defend or hold harmless any of the Investor Indemnified Parties against, or reimburse any of the Investor Indemnified Parties for, any Losses pursuant to Section 5.1(a) (other than Losses arising out of the inaccuracy or breach of any Company Specified Representations) until the aggregate amount of the Investor Indemnified Parties’ Losses for which the Investor Indemnified Parties are finally determined to be otherwise entitled to indemnification under Section 5.1(a) exceeds \$100,000 (the “**Threshold Amount**”), upon the occurrence of which the Company shall be obligated for all of the Investor Indemnified Parties’ Losses for which the Investor Indemnified Parties are finally determined to be otherwise entitled to indemnification under Section 5.1(a). Notwithstanding anything to the contrary contained herein, the Company shall not be required to indemnify, defend or hold harmless the Investor Indemnified Parties against, or reimburse the Investor Indemnified Parties for, any Losses pursuant to Section 5.1(a) in a cumulative aggregate amount exceeding the Purchase Price paid by the Investor to the Company pursuant to Section 1.1.

(c) For purposes of Section 5.1(a), in determining whether there has been a breach of a representation or warranty, the Parties hereto shall ignore any “materiality,” “Material Adverse Effect” or similar qualifications.

**5.2 Indemnification by the Investor.**

(a) After the Closing, and subject to Sections 5.2(b), 5.3 and 5.4, the Investor shall indemnify, defend and hold harmless to the fullest extent permitted by Law the Company and its respective Affiliates and their respective successors and assigns, officers, directors, partners, members and employees (collectively, the “**Company Indemnified Parties**”) against and from, and reimburse any of the Company Indemnified Parties for, all Losses that the Company Indemnified Parties may at any time suffer or incur, or become subject to, as a result of or in connection with (1) the inaccuracy or breach of any representation or warranty made by

the Investor in this Agreement or any certificate delivered pursuant hereto or (2) any breach or failure by such Investor to perform any of its covenants or agreements contained in this Agreement.

(b) Notwithstanding anything to the contrary contained herein, the Investor shall not be required to indemnify, defend or hold harmless any of the Company Indemnified Parties against, or reimburse any of the Company Indemnified Parties for any Losses pursuant to Section 5.2(a)(1) until the aggregate amount of the Company Indemnified Parties' Losses for which the Company Indemnified Parties are finally determined to be otherwise entitled to indemnification under Section 5.2(a) exceeds the Threshold Amount, upon the occurrence of which the Investor shall be obligated for all of the Company Indemnified Parties' Losses for which the Company Indemnified Parties are finally determined to be otherwise entitled to indemnification under Section 5.2(a)(1). Notwithstanding anything to the contrary contained herein, the Investor shall not be required to indemnify, defend or hold harmless the Company Indemnified Parties against, or reimburse the Company Indemnified Parties for, any Losses pursuant to Section 5.2(a)(1) in a cumulative aggregate amount exceeding the Purchase Price paid by the Investor to the Company pursuant to Section 1.1 hereof.

(c) For purposes of Section 5.2(a), in determining whether there has been a breach of a representation or warranty, the Parties shall ignore any "materiality" or similar qualifications.

### **5.3 Notification of Claims.**

(a) Any Person that may be entitled to be indemnified under this Article 5 (the "**Indemnified Party**") shall promptly notify the party or parties liable for such indemnification (the "**Indemnifying Party**") in writing of any claim in respect of which indemnity may be sought hereunder, including any pending or threatened claim or demand by a third party that the Indemnified Party has determined has given or could reasonably give rise to a right of indemnification under this Agreement (including a pending or threatened claim or demand asserted by a third party against the Indemnified Party) (each, a "**Third Party Claim**"), describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or demand; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Agreement except to the extent that the Indemnifying Party is materially prejudiced by such failure. The Parties agree that notices for claims in respect of a breach of a representation, warranty, covenant or agreement must be delivered prior to the expiration of any applicable survival period specified in Section 6.1 for such representation, warranty, covenant or agreement; provided, that if, prior to such applicable date, a Party hereto shall have notified the other Party hereto in accordance with the requirements of this Section 5.3(a) of a claim for indemnification under this Agreement (whether or not formal legal action shall have been commenced based upon such claim), such claim shall continue to be subject to indemnification in accordance with this Agreement notwithstanding the passing of such applicable date.

(b) Upon receipt of a notice of a claim for indemnity from an Indemnified Party pursuant to Section 5.3(a) in respect of a Third Party Claim, the Indemnifying Party may, by notice to the Indemnified Party delivered within twenty (20) Business Days of the receipt of

notice of such Third Party Claim, assume the defense and control of any Third Party Claim, with its own counsel reasonably acceptable to the Indemnified Party and at its own expense. The Indemnified Party shall have the right to employ counsel on its own behalf for, and otherwise participate in the defense of, any such Third Party Claim, but the fees and expenses of its counsel will be at its own expense unless (A) the employment of counsel by the Indemnified Party at the Indemnifying Party's expense has been authorized in writing by the Indemnifying Party, (B) the Indemnified Party reasonably believes there may be a conflict of interest between the Indemnified Party and the Indemnifying Party in the conduct of the defense of such Third Party Claim, (C) the Indemnified Party reasonably believes there are legal defenses available to it that are different from, additional to or inconsistent with those available to the Indemnifying Party, or (D) the Indemnifying Party has not in fact employed counsel to assume the defense of such Third Party Claim within a reasonable time after receipt of notice of the commencement of such Third Party Claim, in each of which cases the fees and expenses of such Indemnified Party's counsel shall be at the expense of the Indemnifying Party; provided, however, that in the event any Investor Indemnified Party is similarly situated with any other "Investor Indemnified Party" under any of the other Agreements with respect to any Third Party Claim, and does not have any conflict of interest with such Person in the conduct of the defense of such Third Party Claim or have legal defenses available to it that are different from, additional to or inconsistent with those available to such Person, such Investor Indemnified Party shall be required to employ the same counsel as such Person and the Company shall be responsible for the fees and expenses of only one such counsel for such Investor Indemnified Party and such other Person or Persons (assuming any of clauses (A) through (D) above is satisfied). The Indemnified Party may take any actions reasonably necessary to defend such Third Party Claim prior to the time that it receives a notice from the Indemnifying Party as contemplated by the immediately preceding sentence. The Indemnified Party shall, and shall cause each of its Affiliates and representatives to, use reasonable best efforts to cooperate with the Indemnifying Party in the defense of any Third Party Claim. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (which shall not be unreasonably withheld or delayed), consent to a settlement, compromise or discharge of, or the entry of any judgment arising from, any Third Party Claim, unless such settlement, compromise, discharge or entry of any judgment does not involve any statement, finding or admission of any fault, culpability, failure to act, violation of Law or admission of any wrongdoing by or on behalf of the Indemnified Party, and the Indemnifying Party shall (i) pay or cause to be paid all amounts arising out of such settlement or judgment concurrently with the effectiveness of such settlement or judgment (unless otherwise provided in such judgment), (ii) not encumber any of the assets of any Indemnified Party or agree to any restriction or condition that would apply to or materially adversely affect any Indemnified Party or the conduct of any Indemnified Party's business and (iii) obtain, as a condition of any settlement, compromise, discharge, entry of judgment (if applicable), or other resolution, a complete and unconditional release of each Indemnified Party in form and substance reasonably satisfactory to such Indemnified Party from any and all liabilities in respect of such Third Party Claim. An Indemnified Party shall not settle, compromise or consent to the entry of any judgment with respect to any claim or demand for which it is seeking indemnification from the Indemnifying Party or admit to any liability with respect to such claim or demand without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed); provided, that such consent shall not be required if the Indemnifying Party has not fulfilled any material obligations under this Section 5.3(b).

(c) In the event any Indemnifying Party receives a notice of a claim for indemnity from an Indemnified Party pursuant to Section 5.3(a) that does not involve a Third Party Claim, the Indemnifying Party shall notify the Indemnified Party within twenty (20) Business Days following its receipt of such notice whether the Indemnifying Party disputes its liability to the Indemnified Party under this Agreement. The Indemnified Party shall reasonably cooperate with and assist the Indemnifying Party in determining the validity of any such claim for indemnity by the Indemnified Party.

**5.4 Indemnification Payment.** In the event a claim or any Action for indemnification hereunder has been finally determined, the amount of such final determination shall be paid by the Indemnifying Party to the Indemnified Party on demand in immediately available funds. A claim or an Action, and the liability for and amount of damages therefor, shall be deemed to be “finally determined” for purposes of this Agreement when the Parties have so determined by mutual agreement or, if disputed, when a final non-appealable judicial order has been entered into with respect to such claim or Action.

**5.5 Exclusive Remedies.** Each Party acknowledges and agrees that following the Closing, the indemnification provisions hereunder shall be the sole and exclusive remedies of the Parties for any breach of the representations, warranties or covenants contained in this Agreement. No investigation of the Company by the Investor, or of the Investor by the Company, whether prior to or after the date of this Agreement, shall limit any Indemnified Party’s exercise of any right hereunder or be deemed to be a waiver of any such right. The Parties agree that any indemnification payment made pursuant to this Agreement shall be treated as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by Law.

## ARTICLE 6

### MISCELLANEOUS

**6.1 Survival.** The representations and warranties of the Parties contained in this Agreement shall survive in full force and effect until the date that is fifteen (15) months after the Closing Date (or until final resolution of any claim or action arising from the breach of any such representation and warranty, if notice of such breach was provided prior to the end of such period), at which time they shall terminate and no claims shall be made for indemnification under Section 5.1 or Section 5.2, as applicable, for breaches of representations or warranties thereafter, except the Company Specified Representations (other than the representations and warranties made in Section 2.2(v), which shall survive until the expiration of the applicable statute of limitations) and the Investor Specified Representations shall survive the Closing indefinitely. The covenants and agreements set forth in this Agreement shall survive until the expiration of any applicable statute of limitations or until performed or no longer operative in accordance with their respective terms.

**6.2 Other Definitions.** Wherever required by the context of this Agreement, the singular shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa, and references to any agreement, document or instrument shall be deemed to refer to such agreement, document or instrument as amended,

supplemented or modified from time to time. In addition, the following terms shall have the meanings assigned to them below:

(a) the term “**Affiliate**” means, with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with, such other Person provided that no security holder of the Company shall be deemed to be an Affiliate of any other security holder or of the Company or any of the Company Subsidiaries solely by reason of any investment in the Company and, for purposes of this definition, “**control**” (including, with correlative meanings, the terms “**controlling**”, “**controlled by**” and “**under common control with**”) when used with respect to any Person, means the possession, directly or indirectly, of the power to cause the direction of management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise;

(b) the term “**Agency**” means the Federal Housing Administration, the Federal Home Loan Mortgage Corporation, the Farmers Home Administration (now known as Rural Housing and Community Development Services), the Federal National Mortgage Association, the United States Department of Veterans’ Affairs, the Rural Housing Service of the U.S. Department of Agriculture or any other federal or state agency with authority to (i) determine any investment, origination, lending or servicing requirements with regard to mortgage loans originated, purchased or serviced by the Company or (ii) originate, purchase, or service mortgage loans, or otherwise promote mortgage lending, including state and local housing finance authorities;

(c) the term “**Board of Directors**” means the Board of Directors of the Company;

(d) the term “**Business Day**” means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York or in the State of California generally are authorized or required by Law or other governmental actions to close;

(e) the term “**Capital Stock**” means the capital stock or other applicable type of equity interest in a Person;

(f) the term “**Code**” means the Internal Revenue Code of 1986, as amended;

(g) the term “**Company Specified Representations**” means the representations and warranties made in Section 2.2(a), Section 2.2(c), Section 2.2(d)(i) and Section 2.2(x);

(h) the term “**Disclosure Schedule**” shall mean a schedule delivered, on or prior to the date of this Agreement, by (i) the Investor to the Company and (ii) the Company to the Investor setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2 with respect to the Company, or in Section 2.3 with respect to the Investor, or to one or more covenants contained in Article 3;

(i) the term “**GAAP**” means United States generally accepted accounting principles and practices as in effect from time to time;

(j) the term “**Governmental Consent**” means any notice to, registration, declaration or filing with, exemption or review by, or authorization, order, consent or approval of, any Governmental Entity, or the expiration or termination of any statutory waiting periods;

(k) the term “**Governmental Entity**” means any court, administrative agency or commission or other governmental authority or instrumentality, whether federal, state, local or foreign, and any applicable industry self-regulatory organization or securities exchange;

(l) the term “**Insurer**” means a Person who insures or guarantees for the benefit of the mortgagee all or any portion of the risk of loss upon borrower default on any of the mortgage loans originated, purchased or serviced by the Bank, including the Federal Housing Administration, the United States Department of Veterans’ Affairs, the Rural Housing Service of the U.S. Department of Agriculture and any private mortgage insurer, and providers of hazard, title or other insurance with respect to such mortgage loans or the related collateral;

(m) the term “**Investor Specified Representations**” means the representations and warranties made in Section 2.3(b)(i), Section 2.3(d) and Section 2.3(f);

(n) the term “**Knowledge**” of the Company and words of similar import mean the knowledge of any directors or executive officers of the Company listed on the Disclosure Schedule hereto;

(o) the term “**Loan Investor**” means any Person (including an Agency) having a beneficial interest in any mortgage loan originated, purchased or serviced by the Bank or a security backed by or representing an interest in any such mortgage loan;

(p) the term “**Losses**” means any and all losses, damages, reasonable costs, reasonable expenses (including reasonable attorneys’ fees and disbursements), liabilities, settlement payments, awards, judgments, fines, obligations, claims, and deficiencies of any kind, excluding special, consequential, exemplary and punitive damages;

(q) the term “**Person**” means any individual, firm, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company, Governmental Entity or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity;

(r) the term “**Subsidiary**” means, with respect to any Person, any corporation, partnership, joint venture, limited liability company or other entity (x) of which such Person or a Subsidiary of such Person is a general partner or (y) of which a majority of the voting securities or other voting interests, or a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity, is directly or indirectly owned by such Person and/or one or more Subsidiaries thereof;

(s) the term “**Tax**” or “**Taxes**” means all United States federal, state, local or foreign income, profits, estimated, gross receipts, windfall profits, severance, property, intangible property, occupation, production, sales, use, license, excise, emergency excise, franchise, capital gains, capital stock, employment, withholding, transfer, stamp, payroll, goods and services, value added, alternative or add-on minimum tax, or any other tax, custom, duty or governmental fee, or other like assessment or charge of any kind whatsoever, together with any interest, penalties, fines, related liabilities or additions to tax that may become payable in respect thereof imposed by any Governmental Entity, whether or not disputed;

(t) the term “**Tax Return**” means any return, declaration, report or similar statement required to be filed with respect to any Taxes (including any attached schedules), including, without limitation, any information return, claim or refund, amended return and declaration of estimated Tax;

(u) the term “**Voting Securities**” means at any time shares of any class of Capital Stock of the Company, including but not limited to Voting Common Stock, and Voting Debt that are then entitled to vote generally in the election of directors;

(v) the word “**or**” is not exclusive;

(w) the words “**including**,” “**includes**,” “**included**” and “**include**” are deemed to be followed by the words “without limitation”;

(x) the terms “**herein**,” “**hereof**” and “**hereunder**” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision; and

(y) all article, section, paragraph or clause references not attributed to a particular document shall be references to such parts of this Agreement, and all exhibit and schedule references not attributed to a particular document shall be references to such exhibits and schedules to this Agreement.

**6.3 Amendment and Waivers.** The conditions to each Party’s obligation to consummate the Closing are for the sole benefit of such Party and may be waived by such Party in whole or in part to the extent permitted by Law. No amendment or waiver of any provision of this Agreement will be effective against any Party unless it is in a writing signed by a duly authorized officer of such Party.

**6.4 Counterparts and Facsimile.** For the convenience of the Parties, this Agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this Agreement may be delivered by facsimile and such facsimiles shall be deemed as sufficient as if manually signed signature pages had been delivered.

**6.5 Governing Law.** This Agreement will be governed by and construed in accordance with the Laws of the State of California applicable to contracts made and to be performed entirely within such State.

**6.6 WAIVER OF JURY TRIAL.** TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, INVESTOR HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED ON CONTRACT, EQUITY, TORT OR ANY OTHER THEORY. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN BY INVESTOR, KNOWINGLY AND VOLUNTARILY WITH THE BENEFIT OF COMPETENT LEGAL COUNSEL.

**6.7 Notices.** Any notice, request, instruction or other document to be given hereunder by any Party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally or by telecopy or facsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Party to receive such notice.

(a) **If to the Investor, at the address set forth on the signature page to this Agreement:**

(b) **If to the Company:**

Broadway Financial Corporation  
5055 Wilshire Boulevard, Suite 500  
Los Angeles, California 90036  
Attn: Wayne-Kent A. Bradshaw, President and Chief  
Executive Officer  
Fax: (323) 556-3216

with a copy (which copy shall not constitute notice) to:

Arnold & Porter LLP  
777 South Figueroa Street,  
44th Floor  
Los Angeles, California 90017  
Attn: James R. Walther, Esq.  
Fax: (213) 243-4199

**6.8 Entire Agreement.** This Agreement constitutes the entire agreement, and supersedes all other prior agreements, understandings, representations and warranties, inducements or conditions, both written and oral, among the Parties, with respect to the subject matter hereof and thereof.

**6.9 Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns, including any purchasers of the Common Stock to be issued pursuant to this Agreement. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the

Investor. The Investor may assign some or all of its rights hereunder or thereunder without the consent of the Company to any Affiliate of the Investor, and such assignee shall be deemed to be an Investor hereunder with respect to such assigned rights and shall be bound by the terms and conditions of this Agreement that apply to the Investor.

**6.10 Captions.** The article, section, paragraph and clause captions herein are for convenience of reference only, do not constitute part of this Agreement and will not be deemed to limit or otherwise affect any of the provisions hereof.

**6.11 Severability.** If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the Parties.

**6.12 Third Party Beneficiaries.** Nothing contained in this Agreement, expressed or implied, is intended to confer upon any Person other than the Parties, any benefit right or remedies, except that the provisions of Sections 5.1 and 5.2 shall inure to the benefit of the Persons referred to in such Sections.

**6.13 Public Announcements.** The Investor will not make (and will use its reasonable best efforts to ensure that its Affiliates and representatives do not make) any news release or public disclosure with respect to this Agreement and any of the transactions contemplated hereby, without first consulting with the Company and, in each case, also receiving the Company's consent (which shall not be unreasonably withheld or delayed).

**6.14 Specific Performance.** The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the Parties shall be entitled to seek specific performance of the terms hereof, this being in addition to any other remedies to which they are entitled at law or equity.

**6.15 No Recourse to Other Persons.** This Agreement may only be enforced against the named Parties. All claims or causes of action that may be based upon, arise out of or relate to this Agreement, or the negotiation, execution or performance of this Agreement may be made only against the entities that are expressly identified as Parties or that are subject to the terms hereof, and no past, present or future director, officer, employee, incorporator, member, manager, partner, shareholder, Affiliate, agent, attorney or representative of any Party (including any person negotiating or executing this Agreement on behalf of a Party) shall have any liability or obligation with respect to this Agreement or with respect to any claim or cause of action, whether in tort, contract or otherwise, that may arise out of or relate to this Agreement, or the negotiation, execution or performance of this Agreement and the transactions contemplated hereby.

*[signature page follows]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

**BROADWAY FINANCIAL CORPORATION**

By: /s/ Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive Officer

**FIRST REPUBLIC BANK**

By: /s/ Michael J. Roffler  
Name: Michael J. Roffler  
Title: Executive Vice President and Chief  
Financial Officer

Address for notices:

First Republic Bank  
Attn: Michael J. Roffler  
111 Pine Street  
San Francisco, CA 94111

*[signature page to Stock Purchase Agreement]*

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## SCHEDULE I

### Broadway Financial Corporation Pro Forma Share Ownership

#### Existing Ownership - Pre Transactions

	Voting	%	Non-Voting	%	Total	%
U.S. Treasury	10,146,000	47.40 %	-	0.00 %	10,146,000	34.89 %
CJA	2,129,816	9.95 %	6,169,320	80.42 %	8,299,136	28.54 %
Hope Bancorp	1,925,000	8.99 %	-	0.00 %	1,925,000	6.62 %
Grace & White	1,343,076	6.27 %	-	0.00 %	1,343,076	4.62 %
NCIF	1,021,000	4.77 %	1,502,200	19.58 %	2,523,200	8.68 %
AAA	361,232	1.69 %	-	0.00 %	361,232	1.24 %
ESOP	360,752	1.69 %	-	0.00 %	360,752	1.24 %
<b>First Republic</b>	-	<b>0.00 %</b>	-	<b>0.00 %</b>	-	<b>0.00 %</b>
All Other Holders	4,118,312	19.24 %	-	0.00 %	4,118,312	14.16 %
<b>Total</b>	<b>21,405,188</b>	<b>100.00 %</b>	<b>7,671,520</b>	<b>100.00 %</b>	<b>29,076,708</b>	<b>100.00 %</b>

#### Pro Forma Ownership - Post Contemplated Transactions

	Voting	%	Non-Voting	%	Total	%
U.S. Treasury	5,443,140	29.35 %	-	0.00 %	5,443,140	19.94 %
CJA	1,845,141	9.94989 %	6,453,995	73.71 %	8,299,136	30.40 %
Hope Bancorp	1,835,881	9.89995 %	-	0.00 %	1,835,881	6.72 %
Grace & White	1,343,076	7.24 %	-	0.00 %	1,343,076	4.92 %
NCIF	908,660	4.89993 %	1,564,540	17.87 %	2,473,200	9.06 %
AAA	361,232	1.95 %	-	0.00 %	361,232	1.32 %
ESOP	1,854,431	9.99998 %	-	0.00 %	1,854,431	6.79 %
<b>First Republic</b>	<b>834,465</b>	<b>4.49984 %</b>	<b>737,861</b>	<b>8.43 %</b>	<b>1,572,326</b>	<b>5.76 %</b>
All Other Holders	4,118,312	22.21 %	-	0.00 %	4,118,312	15.08 %
<b>Total</b>	<b>18,544,338</b>	<b>100.00 %</b>	<b>8,756,396</b>	<b>100.00 %</b>	<b>27,300,734</b>	<b>100.00 %</b>

**EXCHANGE AGREEMENT**

THIS EXCHANGE AGREEMENT (this “Agreement”) is made as of December 21, 2016 by and between Broadway Financial Corporation (the “Company”), a Delaware corporation and parent company of Broadway Federal Bank, f.s.b., and CJA Private Equity Financial Restructuring Master Fund I L.P. (“Investor”).

**WITNESSETH**

**WHEREAS**, Investor owns shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”);

**WHEREAS**, pursuant to the terms of that certain letter agreement dated August 22, 2013 between the Company and Investor and that certain letter agreement dated October 16, 2014 between the Company and Gapstow Financial Growth Capital Fund I L.P. (“Gapstow”) (such letter agreements being collectively referred to herein as the “**Letter Agreements**”), Investor and its successors and assigns (collectively hereinafter referred to as “Investor”) have the right to exchange any voting common stock held by them for Non-Voting Stock (as defined in the Letter Agreement), in order to effect a reduction of its or their ownership of voting securities to as low as 4.9% of the voting securities of the Company, as determined on a fully-diluted basis; and

**WHEREAS**, Investor wishes to exercise its right pursuant to the Letter Agreements to exchange 284,675 shares of the Company’s Common Stock (the “**Exchanged Shares**”) for 284,675 shares of Non-Voting Stock (the “**Replacement Shares**”) to maintain its ownership of outstanding voting securities of the Company at a level not exceeding 9.95%.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements set forth herein, the parties hereby agree as follows:

**ARTICLE 1**

**EXCHANGE TRANSACTION**

1.1 **Exchange**. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), Investor shall deliver to the Company a stock certificate representing a number of shares of the Company’s Common Stock that exceeds the number of Exchanged Shares and in exchange therefor the Company shall issue and deliver to Investor stock certificates, registered in Investor’s name and address, representing (x) the Replacement Shares, and (y) the number of shares of the Company’s Common Stock equal to the difference between the number of Exchanged Shares and the number of shares of the Company’s Common Stock represented by the stock certificate delivered to the Company pursuant to this Section 1.1.

**ARTICLE 2**

**REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

The Company represents and warrants to Investor as follows:

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2.1 **Organization; Qualification**. The Company is a corporation duly incorporated and validly existing under the laws of the State of Delaware. The Company has all requisite corporate power to execute and deliver this Agreement, to issue and exchange the Replacement Shares for the Exchanged Shares and otherwise to carry out the provisions of this Agreement.

2.2 **Authorization; Valid and Binding Obligation**. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization of this Agreement, the performance of all obligations of the Company hereunder and the authorization and exchange of the Replacement Shares for the Exchanged Shares pursuant hereto has been taken. The Replacement Shares, including the Common Stock issuable upon conversion of the Replacement Shares, when so issued, sold and delivered against receipt of the consideration therefor in accordance with the provisions of this Agreement, shall be duly and validly issued, fully paid and non-assessable. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

2.3 **Capitalization**. The Company has disclosed to Investor in writing the capitalization of the Company that will be in effect immediately after the Closing. Such disclosure, which is based on the Company's understanding that the ownership of stock in the Company of Investor and its affiliates immediately prior to the Closing consists solely of 2,129,816 shares of Common Stock and 6,169,320 shares of Non-Voting Stock, indicates that immediately after the consummation of the transactions contemplated by this Agreement and the transactions contemplated by that certain Securities Purchase Agreement by and among the United States Department of the Treasury and certain named purchasers, including the Company, (i) Investor will not own more than 9.95% of the Common Stock then outstanding for purposes of the Change in Bank Control Act and the regulations of the Board of Governors of the Federal Reserve System promulgated thereunder and (ii) Investor's aggregate investment in the Company will not account for more than 24.95% of the Company's contributed capital for purposes of the Home Owners' Loan Act and the regulations of the Board of Governors of the Federal Reserve System promulgated thereunder.

### **ARTICLE 3**

#### **REPRESENTATIONS AND WARRANTIES OF INVESTOR**

Investor represents and warrants to the Company as follows:

3.1 **Authorization; Valid and Binding Obligation**. Investor has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and binding obligation of Investor, enforceable against it in accordance with its terms, assuming the due authorization, execution and delivery hereof by the Company.

3.2 **Title to Shares**. Investor has valid title to the Exchanged Shares, free and clear of all liens, restrictions, proxies, voting trusts, voting agreements, encumbrances and claims of any kind. At the Closing, the Company shall acquire valid title to and beneficial and record ownership of the Exchanged Shares being transferred by Investor pursuant to this Agreement.

## **ARTICLE 4**

### **CLOSING**

4.1 **Closing**. The Closing of the transactions contemplated by this Agreement (“Closing”) shall take place concurrently with the execution of this Agreement, either by mail, virtually through the Internet, or at the offices of Arnold & Porter LLP, 777 South Figueroa Street, 44th Floor, Los Angeles, California, or at such other time and place as may be mutually agreed upon by the parties hereto.

4.2 **Deliveries at the Closing**.

(a) **By Investor**. At the Closing, Investor shall deliver or cause to be delivered to the Company or, if applicable, the transfer agent for the Replacement Shares, certificates representing the Exchanged Shares owned by Investor free and clear of all liens, encumbrances, pledges and claims of any kind, accompanied by instruments of transfer sufficient to transfer such stock to the Company.

(b) **By the Company**. At the Closing, the Company shall deliver the Replacement Shares to Investor, including the certificates specified in Section 1.1.

## **ARTICLE 5**

### **MISCELLANEOUS**

5.1 **Survival of Representations, Warranties and Covenants**. The representations, warranties, agreements and covenants made by each party in this Agreement shall survive execution and delivery of this Agreement and the consummation of the transactions contemplated hereby notwithstanding any investigation, audit or review made at any time by any party to this Agreement and notwithstanding the delivery of any documents, exhibits, schedules or certificates pursuant to this Agreement.

5.2 **Further Assurances**. Each party will at any time and from time to time execute, acknowledge, deliver and perform all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may be necessary to carry out the provisions and intent of this Agreement.

5.3 **Notices**. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earliest of: (i) personal delivery to the party to be notified; (ii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iii) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to each party as follows:

If to the Company:

Broadway Financial Corporation

5055 Wilshire Boulevard, Suite 500  
Los Angeles, CA 90036  
Attention: Wayne-Kent A. Bradshaw, President and CEO

with a copy to:

Arnold & Porter LLP  
777 South Figueroa Street, 44th Floor  
Los Angeles, CA 90017  
Attention: James R. Walther, Esq.

If to Investor:

CJA Private Equity Financial Restructuring Master Fund I L.P.  
654 Madison Avenue, Suite 601  
New York, NY 10065

5.4 **Entire Agreement**. This Agreement contains the entire understanding of the parties in respect of its subject matter and supersedes all prior agreements and understandings between or among the parties with respect to such subject matter.

5.5 **Expenses**. The parties shall pay their own fees and expenses, including their own counsel fees, incurred in connection with this Agreement or any transaction contemplated by this Agreement.

5.6 **Amendment; Waiver**. This Agreement may not be modified, amended, supplemented, cancelled or discharged, except by written instrument executed by each of the parties. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege.

5.7 **Binding Effect; Assignment**. Except as otherwise provided herein, the rights and obligations of this Agreement shall bind and inure to the benefit of the parties and their respective successors and legal assigns. The rights and obligations of this Agreement may not be assigned by any of the parties without the prior written consent of the other parties. Any assignment in violation of this Section 5.7 shall be void and of no force or effect.

5.8 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile or PDF signatures shall be deemed originals for all purposes.

5.9 **Headings**. The headings contained in this Agreement are for convenience of reference only and are not to be given any legal effect and shall not affect the meaning or interpretation of this Agreement.

5.10 **Governing Law.** This Agreement shall be governed by, and construed in accordance with the laws of the State of Delaware, all rights and remedies being governed by said laws, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws.

**IN WITNESS WHEREOF**, each of the parties, intending to be legally bound, has executed this Agreement or has caused this Agreement to be executed by its duly authorized representatives as of the date first above written.

**BROADWAY FINANCIAL CORPORATION**

By: /s/Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive Officer

**CJA PRIVATE EQUITY FINANCIAL  
RESTRUCTURING MASTER FUND I L.P.**

By: CJA Private Equity Financial Restructuring  
Master Fund GP I Ltd., its General Partner

By: /s/Christopher J. Acito  
Name: Christopher J. Acito  
Title: Managing Member

**STOCK PURCHASE AGREEMENT**

**between**

**BROADWAY FINANCIAL CORPORATION**

**and**

**THE SELLER OR SELLERS SIGNATORY HERETO**

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## **STOCK PURCHASE AGREEMENT**

**THIS SECURITIES PURCHASE AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of December 21, 2016, and is entered into by and among Broadway Financial Corporation, a Delaware corporation (the “Company”), and the seller or sellers set forth on the signature page hereto (individually and collectively, the “Seller”).

### **RECITALS**

**WHEREAS**, the Seller currently owns shares of Company Common Stock and, pursuant to certain contractual arrangements entered into with the Company, the Seller has the right to require the Company to purchase a portion of the shares of such stock the Seller owns to the extent necessary to maintain the percentage ownership by the Seller of voting stock of the Company below a specified level;

**WHEREAS**, the Seller desires to sell to the Company, and the Company agrees to purchase from the Seller, subject to the terms and conditions contained in this Agreement and in the contractual arrangements referred to in the preceding paragraph, 89,119 shares of Company Common Stock (the “Purchased Shares”) at a purchase price of \$1.59 per share (the “Securities Purchase”); and

**WHEREAS**, the purchase of the Purchased Shares contemplated hereby is only intended by the parties to take place concurrently with certain sales of shares of Company Common Stock currently held by the U.S. Treasury Department that are proposed to be made pursuant to that certain Securities Purchase Agreement, dated the date hereof, entered into by and among the U. S. Treasury Department and the Purchasers named therein (such purchase transactions being collectively referred to herein as the “Treasury Sale”).

**NOW, THEREFORE**, in consideration of the premises, and of the representations, warranties, covenants and other agreements of the parties hereto, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

### **ARTICLE I**

#### **DEFINITIONS**

Section 1.01 Definitions of Certain Terms. For purposes of this Agreement, the following terms are used with the meanings assigned below (such definitions to be equally applicable to both the singular and plural forms of the terms herein defined):

“Affiliate” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under

common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning set forth in the introductory paragraph of this agreement.

“Business Day” means any day that is not a Saturday, a Sunday or other day on which banking organizations in the State of California are required or authorized by Law to be closed.

“Closing” has the meaning set forth in Section 2.02(A).

“Closing Date” has the meaning set forth in Section 2.02(A).

“Company” has the meaning set forth in the introductory paragraph to this Agreement.

“Company Common Stock” means the common stock, par value \$0.01, of the Company.

“Company Material Adverse Effect” means a material adverse effect on the business, results of operations or financial condition of the Company and its consolidated Subsidiaries taken as a whole; provided, however, that Company Material Adverse Effect shall not be deemed to include the effects of (i) changes after the date hereof in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in each case generally affecting the industries in which the Company and its Subsidiaries operate, (ii) changes or proposed changes after the date hereof in United States generally accepted accounting principles or regulatory accounting requirements, or authoritative interpretations thereof, (iii) changes or proposed changes after date hereof in securities, banking and other Laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (i), (ii) and (iii), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated Subsidiaries taken as a whole relative to comparable United States banking or financial services organizations), or (iv) changes in the market price or trading volume of the Company Common Stock or any other equity, equity-related or debt securities of the Company or its consolidated Subsidiaries (it being understood and agreed that the exception set forth in this clause (iv) does not apply to the underlying reason giving rise to or contributing to any such change).

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Governmental Entity” means any court, administrative agency or commission or other governmental or regulatory authority or instrumentality or self-regulatory organization.

“Law” means any law, statute, code, ordinance, rule, regulation, judgment, order, award, writ, decree or injunction issued, promulgated or entered into by or with any Governmental Entity.

“Liens” means any liens, licenses, pledges, charges, encumbrances, adverse rights or claims and security interests whatsoever.

“Purchase Price” has the meaning set forth in Section 2.01.

“Purchased Shares” has the meaning set forth in the recitals to this Agreement.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Securities Purchase” has the meaning set forth in the recitals to this Agreement.

“Seller” has the meaning set forth in the introductory paragraph to this Agreement.

“Subsidiary” means, with respect to any person, any bank, corporation, partnership, joint venture, limited liability company or other organization, whether incorporated or unincorporated, (i) of which such person or a subsidiary of such person is a general partner or managing member or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

Section 1.02 Interpretation. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section references are to this Agreement unless otherwise specified. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The term “person” as used in this Agreement shall mean any individual, corporation, limited liability company, limited or general partnership, joint venture, government or any agency or political subdivision thereof, or any other entity or any group (as defined in Section 13(d)(3) of the Exchange Act) comprised of two or more of the foregoing. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, all references to “dollars” or “\$” are to United States dollars. This Agreement and any documents or instruments delivered pursuant hereto or in connection herewith shall be construed without regard to the identity of the person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though all of the parties participated equally in the drafting of the same. Consequently, the parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable either to this Agreement or such other documents and instruments.

## ARTICLE II

### THE SECURITIES PURCHASE

Section 2.01 Purchase and Sale of the Shares. Subject to, and on the terms and conditions of, this Agreement, effective at the Closing, the Company will purchase from the Seller, and the Seller will sell, transfer, convey, assign and deliver to the Company the Purchased Shares set forth herein, free and clear of all Liens other than restrictions on transfer imposed by federal and state securities laws. The aggregate purchase price for the Purchased Shares shall be an amount in cash equal to \$141,699.21 (the "Purchase Price").

Section 2.02 Closing of the Securities Purchase.

(A) Subject to Article V, the closing of the Securities Purchase (the "Closing") shall occur at such time or date that is agreed to in writing by the Company and the Seller. The date on which the Closing occurs is referred to herein as the "Closing Date". The Closing shall be held at such place as the Company and the Seller shall mutually agree in writing.

(B) At the Closing, or simultaneously therewith, the following shall occur:

(1) the Company will pay the Purchase Price to the Seller, by wire transfer in immediately available funds, to an account or accounts designated in writing by the Seller to the Company, such designation to be made not later than two Business Days prior to the Closing Date.

(2) The Seller will deliver the Purchased Shares in book entry form without any restrictive legends and transferred via Deposit/Withdrawal At Custodian to accounts designated in writing by the Company to the Seller, such designation to be made not later than two Business Days prior to the Closing Date.

## ARTICLE III

### REPRESENTATIONS AND WARRANTIES

Section 3.01 Representations and Warranties of the Company. The Company hereby represents and warrants to the Seller as follows:

(A) Due Organization, Power and Authority. The Company is duly organized and has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(B) Authorization. The execution and delivery of this Agreement, and the consummation by the Company of the transactions contemplated hereby, have been duly and validly approved in accordance with all requirements and procedures applicable to the Company, and no other proceedings on the part of the Company are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company, and (assuming the due authorization, execution and

delivery of this Agreement by the Seller) this Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(C) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by the Company of the transactions contemplated hereby will violate the Company's certificate of incorporation or bylaws, any agreement, arrangement, note, contract or other binding instrument to which the Company is a party or bound, or applicable Law.

(D) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity or any other third party by or on behalf of the Company are necessary in connection with the execution and delivery by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby.

(E) Availability of Funds. The Company has and will have as of the Closing sufficient funds available to consummate the transactions contemplated hereunder.

Section 3.02 Representations and Warranties of the Seller. The Seller hereby represents and warrants to the Company as follows:

(A) Power and Authority. The Seller has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(B) Authorization. The execution and delivery of this Agreement, and the consummation by the Seller of the transactions contemplated hereby, have been duly and validly approved in accordance with all requirements and procedures applicable to the Seller, and no other proceedings on the part of the Seller are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Seller, and (assuming the due authorization, execution and delivery of this Agreement by the other parties hereto) this Agreement constitutes a valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(C) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by the Seller of the transactions contemplated hereby, will violate any provision of any agreement to which Seller is a party or any applicable Law. Without limiting the foregoing, the Seller is the sole record and beneficial owner of the Purchased Shares, free and clear of any Lien, but subject to the restrictions on transfer imposed by federal and state laws, and the Seller has the unrestricted right to sell the Purchased Shares to the Company as herein provided.

(D) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity or any other third party by and on behalf of the

Seller are necessary in connection with the execution and delivery by the Seller of this Agreement and the consummation by the Seller of the transactions contemplated hereby.

#### **ARTICLE IV**

#### **COVENANTS**

Section 4.01 Forbearances of the Seller. From the date hereof until the Closing, without the prior written consent of the Company, the Seller will not:

(A) directly or indirectly transfer, sell, assign, distribute, exchange, pledge, hypothecate, mortgage, encumber or otherwise dispose of or engage in or enter into any hedging transactions with respect to, any of the Purchased Shares or any portion thereof or interest therein (other than pursuant to the Securities Purchase); or

(B) agree, commit to or enter into any agreement to take any of the actions referred to in Section 4.01(A).

Section 4.02 Further Action. The Company and the Seller (A) shall each execute and deliver, or shall cause to be executed and delivered, such documents and other instruments and shall take, or shall cause to be taken, such further action as may be reasonably necessary to carry out the provisions of this Agreement and give effect to the transactions contemplated by this Agreement and (B) shall refrain from taking any actions that could reasonably be expected to impair, delay or impede the Closing or the consummation of the transactions contemplated by this Agreement.

#### **ARTICLE V**

#### **CONDITIONS TO THE CLOSING**

Section 5.01 Conditions to Each Party's Obligations. The respective obligations of the Company and the Seller to consummate the Securities Purchase are subject to the fulfillment, or written waiver by the Company and the Seller, at or prior to the Closing, of each of the following conditions:

(A) No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Securities Purchase shall be in effect. No Law shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits or makes illegal the consummation of the Securities Purchase.

(B) Representations and Warranties. The representations and warranties set forth in Article III of this Agreement shall be true and correct as though made on and as of the Closing Date.

(C) Other Events. None of the following shall have occurred since the date hereof:

(1) the Company or any of its Subsidiaries shall have (a) become insolvent or unable to pay its debts or failed or admitted in writing its inability generally to pay its debts as they become due; (b) made a general assignment, arrangement or composition with or for the benefit of its creditors; (c) have instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or have a petition presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition shall have resulted in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; (d) had a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (e) sought or shall have become subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (f) had a secured party take possession of all or substantially all its assets or had a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets; (g) caused or shall have been subject to any event with respect to it which, under the applicable laws of any jurisdiction, had an analogous effect to any of the events specified in clauses (a) to (f) (inclusive); or (g) taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

(2) a Governmental Entity in any jurisdiction shall have (a) commenced an action or proceeding against the Company or any of its Subsidiaries; or (b) issued or entered a temporary restraining order, preliminary or permanent injunction or other order binding upon the Company or any of its Subsidiaries, which in the case of (a) and (b) shall have had or be reasonably expected to have a Company Material Adverse Effect; or

(3) any fact, circumstance, event, change, occurrence, condition or development shall have occurred that, individually or in the aggregate, shall have had or shall be reasonably likely to have a Company Material Adverse Effect.

(D) The Treasury Sale shall be completed concurrently with the transactions provided for in this Agreement.

Section 5.02 Condition to Obligations of the Seller. The obligation of the Seller to consummate the Securities Purchase is also subject to the fulfillment, or written waiver by the Seller, prior to the Closing, of the following conditions:

(A) Performance of Obligations. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing.

(B) Closing Certificates. The Company shall deliver to the Seller a certificate, dated as of the Closing Date, certifying to the effect that all conditions precedent to the Closing have been satisfied.

## ARTICLE VI

### TERMINATION

Section 6.01 Termination Events. This Agreement may be terminated at any time prior to the Closing:

(A) by mutual written agreement of the Company and the Seller; or

(B) by the Company, upon written notice to the Seller, or by the Seller, upon written notice to the Company, in the event that the Closing Date does not occur on or before December 31, 2016; provided, however, that the respective rights to terminate this Agreement pursuant to this Section 6.01(B) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date.

Section 6.02 Effect of Termination. In the event of termination of this Agreement as provided in Section 6.01, this Agreement shall forthwith become void and have no effect, and none of the Company, the Seller or any officers, directors or employees of the Company or the Seller, or any of their respective Affiliates, shall have any liability of any nature whatsoever hereunder, or in connection with the transactions contemplated hereby, except that this Section 6.02 and Sections 7.03, 7.04, 7.05 and 7.06 shall survive any termination of this Agreement.

## ARTICLE VII

### MISCELLANEOUS

Section 7.01 Waiver; Amendment. Any provision of this Agreement may be (A) waived in writing by the party benefiting by the provision, or (B) amended or modified at any time by an agreement in writing signed by each of the parties hereto. Neither any failure nor any delay by any party in exercising any right, power or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege.

Section 7.02 Counterparts. This Agreement may be executed by facsimile or other electronic means and in counterparts, all of which shall be considered an original and one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 7.03 Governing Law; Choice of Forum; Waiver of Jury Trial. (A) This Agreement and any claim, controversy or dispute arising under or related to this Agreement, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties shall be enforced, governed, and construed in all respects (whether in contract or in tort) in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdictions and venue of the United States District Court of the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the transactions contemplated hereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 7.04, and (ii) the Seller at the address and in the manner set forth for notices to the Seller in Section 7.04.

**(B) To the extent permitted by applicable Law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the transactions contemplated hereby.**

Section 7.04 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given on the date of delivery if delivered personally or telecopied (upon telephonic confirmation of receipt), on the first Business Day following the date of dispatch if delivered by a recognized next day courier service, or on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below or on the signature page hereof, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

If to the Company to:

Broadway Financial Corporation  
5055 Wilshire Boulevard  
Suite 500  
Los Angeles, California 90036  
Facsimile: (323) 634-1723  
Attention: Chief Financial Officer

With a copy to:

Arnold & Porter LLP  
777 South Figueroa Street,  
Suite 4400  
Los Angeles, California 90017  
Facsimile: (213) 243-4199  
Attention: James. R. Walther

Section 7.05 Entire Understanding; No Third Party Beneficiaries. This Agreement (together with the documents, agreements and instruments referred to herein)

represents the entire understanding of the parties with respect to the subject matter hereof and supersedes any and all other oral or written agreements heretofore made with respect to the subject matter hereof. Nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto, any rights or remedies hereunder.

Section 7.06 Assignment. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other parties, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be null and void; provided, however, that the Seller may assign this Agreement to an Affiliate of the Seller. If the Seller assigns this Agreement to an Affiliate, the Seller shall be relieved of its obligations and liabilities under this Agreement but (i) all rights, remedies, obligations and liabilities of the Seller hereunder shall continue and be enforceable by and against and assumed by such Affiliate, (ii) the Seller's obligations and liabilities hereunder shall continue to be outstanding and (iii) all references to the Seller herein shall be deemed to be references to such Affiliate. The Seller will give the Company notice of any such assignment; provided, that the failure to provide such notice shall not void any such assignment.

Section 7.07 Severability. Any term or provision of this Agreement which is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid, illegal or unenforceable the remaining terms and provisions of this Agreement. or affecting the validity, legality or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction, and if any provision of this Agreement is determined to be so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable, in all cases so long as neither the economic nor legal substance of the transactions contemplated hereby is affected in any manner materially adverse to any party or its shareholders. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

*[remainder of page intentionally left blank]*

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BROADWAY FINANCIAL CORPORATION

By: /s/ Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive Officer

BANK OF HOPE

By: /s/ Douglas Goddard  
Name:  
Title:

Notice Address:

Bank of Hope  
3200 Wilshire Blvd., 5<sup>th</sup> Floor  
Los Angeles, CA 90010  
Attention: Chief Financial Officer

*[Signature Page to Securities Purchase Agreement]*

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**STOCK PURCHASE AND EXCHANGE AGREEMENT**

**between**

**BROADWAY FINANCIAL CORPORATION**

**and**

**NATIONAL COMMUNITY INVESTMENT FUND**

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## **STOCK PURCHASE AND EXCHANGE AGREEMENT**

**THIS SECURITIES AND EXCHANGE PURCHASE AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of December 21, 2016, and is entered into by and among Broadway Financial Corporation, a Delaware corporation (the “Company”), and National Community Investment Fund (“NCIF”).

### **RECITALS**

**WHEREAS**, NCIF currently owns shares of Common Stock of the Company having full voting rights and, pursuant to that certain letter agreement, dated August 22, 2013, that certain Exchange Agreement, dated August 22, 2013 and that certain letter agreement, dated October 16, 2014, each entered into between NCIF and the Company, NCIF has the right to require the Company to purchase a portion of the shares of such stock NCIF owns, and also has the right to exchange a portion of the shares of such stock NCIF owns for shares of Non-Voting Common Stock of the Company, in each case to the extent necessary to maintain the percentage ownership by NCIF of voting stock of the Company below a specified level;

**WHEREAS**, NCIF desires to sell to the Company, and the Company agrees to purchase from NCIF, subject to the terms and conditions contained in this Agreement and in the contractual arrangements referred to above, 50,000 shares of Common Stock (the “Purchased Shares”) at a purchase price of \$1.59 per share (the “Share Purchase”);

**WHEREAS**, NCIF also desires to exercise its right pursuant to the contractual arrangements referred to above and on the terms and conditions contained in this Agreement, to exchange 62,340 shares of Common Stock (the “Exchanged Shares”) for 62,340 shares of Non-Voting Common Stock (the “Replacement Shares”) (such exchange being referred to herein as the “Share Exchange”);

**WHEREAS**, the Share Purchase and the Share Exchange are only intended by the parties hereto to take place concurrently with certain sales of shares of Common Stock currently held by the U.S. Treasury Department that are proposed to be made pursuant to that certain Share Purchase Agreement, dated the date hereof, entered into by and among the U. S. Treasury Department and the Purchasers named therein (such purchase transactions being collectively referred to herein as the “Treasury Sale”).

**NOW, THEREFORE**, in consideration of the premises, and of the representations, warranties, covenants and other agreements of the parties hereto, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

**ARTICLE I**  
**DEFINITIONS**

Section 1.01 Definitions of Certain Terms. For purposes of this Agreement, the following terms are used with the meanings assigned below (such definitions to be equally applicable to both the singular and plural forms of the terms herein defined):

“Affiliate” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning set forth in the introductory paragraph of this agreement.

“Business Day” means any day that is not a Saturday, a Sunday or other day on which banking organizations in the State of California are required or authorized by Law to be closed.

“Closing” has the meaning set forth in Section 2.02(A).

“Closing Date” has the meaning set forth in Section 2.02(A).

“Common Stock” means the common stock, par value \$0.01 per share, of the Company having full voting rights.

“Company” has the meaning set forth in the introductory paragraph of this Agreement.

“Company Material Adverse Effect” means a material adverse effect on the business, results of operations or financial condition of the Company and its consolidated Subsidiaries taken as a whole; provided, however, that Company Material Adverse Effect shall not be deemed to include the effects of (i) changes after the date hereof in general business, economic or market conditions (including, without limitation, changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in each case generally affecting the industries in which the Company and its Subsidiaries operate, (ii) changes or proposed changes after the date hereof in United States generally accepted accounting principles or regulatory accounting requirements, or authoritative interpretations thereof, (iii) changes or proposed changes after date hereof in securities, banking and other Laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (i), (ii) and (iii), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated Subsidiaries taken as a whole relative to comparable

United States banking or financial services organizations), or (iv) changes in the market price or trading volume of the Common Stock or any other equity, equity-related or debt securities of the Company or its consolidated Subsidiaries (it being understood and agreed that the exception set forth in this clause (iv) does not apply to the underlying reason giving rise to or contributing to any such change).

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Exchanged Shares” has the meaning set forth in the recitals to this Agreement.

“Governmental Entity” means any court, administrative agency or commission or other governmental or regulatory authority or instrumentality or self-regulatory organization.

“Law” means any law, statute, code, ordinance, rule, regulation, judgment, order, award, writ, decree or injunction issued, promulgated or entered into by or with any Governmental Entity.

“Liens” means any liens, licenses, pledges, charges, encumbrances, adverse rights or claims and security interests whatsoever.

“NCIF” has the meaning set forth in the introductory paragraph of this Agreement.

“Purchase Price” has the meaning set forth in Section 2.01.

“Purchased Shares” has the meaning set forth in the recitals to this Agreement.

“Replacement Shares” has the meaning set forth in the recitals to this Agreement.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Share Exchange” has the meaning set forth in the recitals to this Agreement

“Share Purchase” has the meaning set forth in the recitals to this Agreement.

“NCIF” has the meaning set forth in the introductory paragraph of this Agreement.

“Subsidiary” means, with respect to any person, any bank, corporation, partnership, joint venture, limited liability company or other organization, whether incorporated or unincorporated, (i) of which such person or a subsidiary of such person is a general partner or managing member or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

“Non-Voting Common Stock” means the non-voting common stock, par value \$0.01 per share, of the Company.

Section 1.02 Interpretation. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section references are to this Agreement unless otherwise specified. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The term “person” as used in this Agreement shall mean any individual, corporation, limited liability company, limited or general partnership, joint venture, government or any agency or political subdivision thereof, or any other entity or any group (as defined in Section 13(d)(3) of the Exchange Act) comprised of two or more of the foregoing. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, all references to “dollars” or “\$” are to United States dollars. This Agreement and any documents or instruments delivered pursuant hereto or in connection herewith shall be construed without regard to the identity of the person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though all of the parties participated equally in the drafting of the same. Consequently, the parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable either to this Agreement or such other documents and instruments.

## ARTICLE II

### SHARE PURCHASE AND EXCHANGE

Section 2.01 Purchase and Exchange of Shares. Subject to, and on the terms and conditions of, this Agreement, effective at the Closing:

(a) The Company will purchase from NCIF, and NCIF will sell, transfer, convey, assign and deliver to the Company, the Purchased Shares set forth herein, free and clear of all Liens. The aggregate purchase price for the Purchased Shares shall be an amount in cash equal to \$79,500.00 (the “Purchase Price”).

(b) NCIF will exchange the Exchanged Shares with the Company for the Replacement Shares.

Section 2.02 Closing of Share Purchase and Share Exchange.

(a) Subject to Article V, the closing of the Share Purchase and the Share Exchange (the “Closing”) shall occur at 9 a.m. Eastern Time on December 22, 2016 or at such time or date as shall be agreed to in writing by the Company and NCIF. The date on which the Closing occurs is referred to herein as the “Closing Date”. The Closing shall be held at such place as the Company and NCIF shall mutually agree.

(b) At the Closing, or simultaneously therewith, the following shall occur:

(1) the Company will pay the Purchase Price to NCIF by wire transfer in immediately available funds to an account designated in writing by NCIF to the Company;

(2) NCIF will deliver the Purchased Shares in book entry form without any restrictive legends and transferred via Deposit/Withdrawal At Custodian to the account designated in writing by the Company to NCIF, such designation to be made not later than two Business Days prior to the Closing Date; and

(3) NCIF will deliver the Exchanged Shares to the Company via Deposit/Withdrawal At Custodian, retaining its ownership of the remaining shares of Common Stock it then owns, and in exchange for the Exchanged Shares the Company shall issue and deliver the Replacement Shares to NCIF in certificated form registered in NCIF's name. The Replacement Shares shall have the same rights, preferences and privileges as set forth in: (i) the Investor Rights Agreement dated August 22, 2013; (ii) the Investor Rights Agreement dated October 16, 2014; and (iii) the Company's certificate of incorporation.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

Section 3.01 Representations and Warranties of the Company. The Company hereby represents and warrants to NCIF as follows:

(a) Due Organization, Power and Authority. The Company is duly organized and has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(b) Authorization. The execution and delivery of this Agreement, and the consummation by the Company of the transactions contemplated hereby, have been duly and validly approved in accordance with all requirements and procedures applicable to the Company, and no other proceedings on the part of the Company are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company, and (assuming the due authorization, execution and delivery of this Agreement by NCIF) this Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(c) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by the Company of the transactions contemplated hereby will violate the Company's certificate of incorporation or bylaws, any agreement, arrangement, note, contract or other binding instrument to which the Company is a party or bound, or applicable Law.

(d) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity, shareholders or any other third party by or on behalf of the Company are necessary in connection with the execution and delivery by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby.

(e) Availability of Funds. The Company has and will have as of the Closing sufficient funds available to consummate the transactions contemplated hereunder.

Section 3.02 Representations and Warranties of NCIF. NCIF hereby represents and warrants to the Company as follows:

(a) Power and Authority. NCIF has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(b) Authorization. The execution and delivery of this Agreement, and the consummation by NCIF of the transactions contemplated hereby, have been duly and validly approved in accordance with all requirements and procedures applicable to NCIF, and no other proceedings on the part of NCIF are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by NCIF, and (assuming the due authorization, execution and delivery of this Agreement by the other parties hereto) this Agreement constitutes a valid and binding obligation of NCIF, enforceable against NCIF in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency and similar Laws affecting creditors' rights and remedies generally.

(c) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by NCIF of the transactions contemplated hereby, will violate any provision of any agreement to which NCIF is a party or any applicable Law. Without limiting the foregoing, NCIF is the sole record and beneficial owner of the Purchased Shares, free and clear of any Lien, but subject to the restrictions on transfer imposed by federal and state laws, and NCIF has the unrestricted right to sell the Purchased Shares to the Company as herein provided.

(d) Consents and Approvals. No consents or approvals of, or filings or registrations with, any Governmental Entity or any other third party by and on behalf of NCIF are necessary in connection with the execution and delivery by NCIF of this Agreement and the consummation by NCIF of the transactions contemplated hereby.

## ARTICLE IV

### COVENANTS

Section 4.01 Forbearances of NCIF. From the date hereof until the Closing, without the prior written consent of the Company, NCIF will not:

(a) directly or indirectly transfer, sell, assign, distribute, exchange, pledge, hypothecate, mortgage, encumber or otherwise dispose of or engage in or enter into any hedging transactions with respect to, any of the Purchased Shares or the Exchanged Shares or any portion thereof or interest therein (other than pursuant to the Share Purchase and the Securities Exchange); or

(b) agree, commit to or enter into any agreement to take any of the actions referred to in Section 4.01(A).

Section 4.02 Further Action. The Company and NCIF (A) shall each execute and deliver, or shall cause to be executed and delivered, such documents and other instruments and shall take, or shall cause to be taken, such further action as may be reasonably necessary to carry out the provisions of this Agreement and give effect to the transactions contemplated by this Agreement and (B) shall refrain from taking any actions that could reasonably be expected to impair, delay or impede the Closing or the consummation of the transactions contemplated by this Agreement.

Section 4.03 Reservation and Listing of Shares. The Company shall at all times reserve a number of unissued shares of Common Stock sufficient to convert automatically, in accordance with the terms of the certificate of incorporation of the Company, all of the shares of Non-Voting Common Stock then outstanding and shall use its reasonable best efforts to cause any shares of Voting Common Stock into which the Replacement Shares may be converted in connection with resale of the Replacement Shares by NCIF in compliance with the restrictions set forth in the certificate of incorporation of the Company to be approved for listing on the Nasdaq Stock Market as promptly as possible.

## ARTICLE V

### CONDITIONS TO THE CLOSING

Section 5.01 Conditions to Each Party's Obligations. The respective obligations of the Company and NCIF to consummate the transactions provided for herein are subject to the fulfillment, or written waiver by the Company and NCIF, at or prior to the Closing, of each of the following conditions:

(a) No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the transactions provided for herein shall be in effect. No Law shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits or makes illegal the consummation of the transactions provided for herein.

(b) Representations and Warranties. The representations and warranties set forth in Article III of this Agreement shall be true and correct as though made on and as of the Closing Date.

(c) Other Events. None of the following shall have occurred since the date hereof:

(1) the Company or any of its Subsidiaries shall have (a) become insolvent or unable to pay its debts or failed or admitted in writing its inability generally to pay its debts as they become due; (b) made a general assignment, arrangement or composition with or for the benefit of its creditors; (c) have instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or have a petition presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition shall have resulted in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; (d) had a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (e) sought or shall have become subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (f) had a secured party take possession of all or substantially all its assets or had a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets; (g) caused or shall have been subject to any event with respect to it which, under the applicable laws of any jurisdiction, had an analogous effect to any of the events specified in clauses (a) to (f) (inclusive); or (g) taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

(2) a Governmental Entity in any jurisdiction shall have (a) commenced an action or proceeding against the Company or any of its Subsidiaries; or (b) issued or entered a temporary restraining order, preliminary or permanent injunction or other order binding upon the Company or any of its Subsidiaries, which in the case of (a) and (b) shall have had or be reasonably expected to have a Company Material Adverse Effect; or

(3) any fact, circumstance, event, change, occurrence, condition or development shall have occurred that, individually or in the aggregate, shall have had or shall be reasonably likely to have a Company Material Adverse Effect.

(d) The Treasury Sale and the other transactions reflected in Schedule I to this Agreement shall be completed concurrently with the transaction provided for herein.

Section 5.02 Condition to Obligations of NCIF. The obligation of NCIF to consummate the Share Purchase is also subject to the fulfillment, or written waiver by NCIF, prior to the Closing, of the following conditions:

(a) Performance of Obligations. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing.

(b) Closing Certificates. The Company shall deliver to NCIF a certificate, dated as of the Closing Date, certifying to the effect that all conditions precedent to the Closing have been satisfied.

## ARTICLE VI

### TERMINATION

Section 6.01 Termination Events. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written agreement of the Company and NCIF; or

(b) by the Company, upon written notice to NCIF, or by NCIF, upon written notice to the Company, in the event that the Closing Date does not occur on or before December 31, 2016, 2016; provided, however, that the respective rights to terminate this Agreement pursuant to this Section 6.01(B) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date.

Section 6.02 Effect of Termination. In the event of termination of this Agreement as provided in Section 6.01, this Agreement shall forthwith become void and have no effect, and none of the Company, NCIF or any officers, directors or employees of the Company or NCIF, or any of their respective Affiliates, shall have any liability of any nature whatsoever hereunder, or in connection with the transactions contemplated hereby, except that this Section 6.02 and Sections 7.03, 7.04, 7.05 and 7.06 shall survive any termination of this Agreement.

## ARTICLE VII

### MISCELLANEOUS

Section 7.01 Waiver; Amendment. Any provision of this Agreement may be (A) waived in writing by the party benefiting by the provision, or (B) amended or modified at any time by an agreement in writing signed by each of the parties hereto. Neither any failure nor any delay by any party in exercising any right, power or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege.

Section 7.02 Counterparts. This Agreement may be executed by facsimile or other electronic means and in counterparts, all of which shall be considered an original and one and the same agreement and shall become effective when counterparts have been signed by each

of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 7.03 Governing Law; Choice of Forum; Waiver of Jury Trial. (a) This Agreement and any claim, controversy or dispute arising under or related to this Agreement, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties shall be enforced, governed, and construed in all respects (whether in contract or in tort) in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdictions and venue of the United States District Court of the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the transactions contemplated hereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 7.04, and (ii) NCIF at the address and in the manner set forth for notices to NCIF in Section 7.04.

**(b) To the extent permitted by applicable Law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the transactions contemplated hereby.**

Section 7.04 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given on the date of delivery if delivered personally or telecopied (upon telephonic confirmation of receipt), on the first Business Day following the date of dispatch if delivered by a recognized next day courier service, or on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below or on the signature page hereof, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

If to the Company to:

Broadway Financial Corporation  
5055 Wilshire Boulevard  
Suite 500  
Los Angeles, California 90036  
Facsimile: (323) 634-1723  
Attention: Chief Financial Officer

With a copy to:

Arnold & Porter LLP  
777 South Figueroa Street,  
Suite 4400  
Los Angeles, California 90017  
Facsimile: (213) 243-4199  
Attention: James. R. Walther

If to NCIF to:

National Community Investment Fund  
135 South LaSalle Street  
Suite 2040  
Chicago, Illinois 60603  
Facsimile: (312) 662-6100  
Attention: Chief Executive Officer

Section 7.05 Entire Understanding; No Third Party Beneficiaries. This Agreement (together with the documents, agreements and instruments referred to herein) represents the entire understanding of the parties with respect to the Share Exchange and the Share Purchase and supersedes any and all other oral or written agreements heretofore made with respect to the subject matter hereof. Nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto, any rights or remedies hereunder.

Section 7.06 Assignment. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other parties, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be null and void; provided, however, that NCIF may assign this Agreement to an Affiliate of NCIF. If NCIF assigns this Agreement to an Affiliate, NCIF shall be relieved of its obligations and liabilities under this Agreement but (i) all rights, remedies, obligations and liabilities of NCIF hereunder shall continue and be enforceable by and against and assumed by such Affiliate, (ii) NCIF's obligations and liabilities hereunder shall continue to be outstanding and (iii) all references to NCIF herein shall be deemed to be references to such Affiliate. NCIF will give the Company notice of any such assignment; provided, that the failure to provide such notice shall not void any such assignment.

Section 7.07 Severability. Any term or provision of this Agreement which is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid, illegal or unenforceable the remaining terms and provisions of this Agreement. or affecting the validity, legality or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction, and if any provision of this Agreement is determined to be so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable, in all cases so long as neither the economic nor legal substance of the transactions contemplated hereby is affected in any manner materially adverse to any party or its shareholders. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

*[remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BROADWAY FINANCIAL CORPORATION

By: /s/ Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President and Chief Executive Officer

NATIONAL COMMUNITY INVESTMENT  
FUND

By: /s/ Saurabh Narain  
Name:  
Title:

*[Signature Page to Securities Purchase Agreement]*

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**Broadway Financial Corporation  
Pro Forma Share Ownership**

**Existing Ownership - Pre Transactions**

	<b>Voting</b>	<b>%</b>	<b>Non-Voting</b>	<b>%</b>	<b>Total</b>	<b>%</b>
U.S. Treasury	10,146,000	47.40%	-	0.00%	10,146,000	34.89%
CJA	2,129,816	9.95%	6,169,320	80.42%	8,299,136	28.54%
Hope Bancorp	1,925,000	8.99%	-	0.00%	1,925,000	6.62%
Grace & White	1,343,076	6.27%	-	0.00%	1,343,076	4.62%
<b>NCIF</b>	<b>1,021,000</b>	<b>4.77%</b>	<b>1,502,200</b>	<b>19.58%</b>	<b>2,523,200</b>	<b>8.68%</b>
AAA	361,232	1.69%	-	0.00%	361,232	1.24%
ESOP	360,752	1.69%	-	0.00%	360,752	1.24%
First Republic	-	0.00%	-	0.00%	-	0.00%
All Other Holders	4,118,312	19.24%	-	0.00%	4,118,312	14.16%
<b>Total</b>	<b>21,405,188</b>	<b>100.00%</b>	<b>7,671,520</b>	<b>100.00%</b>	<b>29,076,708</b>	<b>100.00%</b>

**Pro Forma Ownership - Post Contemplated Transactions**

	<b>Voting</b>	<b>%</b>	<b>Non-Voting</b>	<b>%</b>	<b>Total</b>	<b>%</b>
U.S. Treasury	5,443,140	29.35%	-	0.00%	5,443,140	19.94%
CJA	1,845,141	9.94989%	6,453,995	73.71%	8,299,136	30.40%
Hope Bancorp	1,835,881	9.89995%	-	0.00%	1,835,881	6.72%
Grace & White	1,343,076	7.24%	-	0.00%	1,343,076	4.92%
<b>NCIF</b>	<b>908,660</b>	<b>4.89993%</b>	<b>1,564,540</b>	<b>17.87%</b>	<b>2,473,200</b>	<b>9.06%</b>
AAA	361,232	1.95%	-	0.00%	361,232	1.32%
ESOP	1,854,431	9.99998%	-	0.00%	1,854,431	6.79%
First Republic	834,465	4.49984%	737,861	8.43%	1,572,326	5.76%
All Other Holders	4,118,312	22.21%	-	0.00%	4,118,312	15.08%
<b>Total</b>	<b>18,544,338</b>	<b>100.00%</b>	<b>8,756,396</b>	<b>100.00%</b>	<b>27,300,734</b>	<b>100.00%</b>

Schedule I

**ESOP LOAN AGREEMENT**

This Loan Agreement (the “Agreement”), dated December 19, 2016, is entered into by and between Broadway Financial Corporation, a Delaware corporation (“Lender”), and Nicholas L. Saakvitne (the “Trustee”) as trustee for the Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust (the “Borrower”).

**RECITALS**

The Lender owns all of the outstanding capital stock of Broadway Federal Bank, f.s.b., a federal savings bank (“BFB”). BFB has adopted an employee ownership plan (the “ESOP”) to purchase and hold shares of voting common stock of the Lender on behalf of eligible employees of BFB and its affiliates and the Borrower is a trust established in connection with implementation of the ESOP. The ESOP is intended to qualify as an employee stock ownership plan under section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the “Code”), and Section 407(d)(6) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The ESOP provides that the ESOP may obtain loans to purchase shares of the Lender’s stock. It is intended that the loan made pursuant to this Agreement shall qualify for an exemption under Section 4975(d) of the Code from being prohibited transactions under Section 4975(c) of the Code.

The Lender is willing to lend and the Borrower is willing to borrow \$1,176,200.00 (the “Principal Amount”) in order to finance the Borrower’s purchase of 739,748 shares of Lender’s voting common stock. The undersigned therefore agree to the following:

**ARTICLE 1  
THE ESOP LOAN**

1.1 Subject to the terms set forth herein, the Lender agrees to lend to the Borrower the Principal Amount (the “Loan”).

1.2 The Borrower hereby agrees that it will use the entire proceeds of the Loan to acquire Lender’s voting common stock pursuant to the Securities Purchase Agreement by and among Borrower, the U.S. Department of the Treasury and certain other persons (as amended, restated, modified or supplemented from time to time, the “Purchase Agreement”). If for any reason such purchases cannot be effected pursuant to the terms of the Purchase Agreement, the Borrower must make a principal prepayment of the Loan with all such unused proceeds.

1.3 The Borrower’s indebtedness is evidenced by a Promissory Note of even date (as amended, restated, modified or supplemented from time to time, the “Note”) in the form attached hereto as Exhibit A.

1.4 Interest shall accrue on the balance of unpaid principal as provided in the Note from the date thereof until all such principal and interest accrued thereon is paid in full. The Note will mature, and all unpaid principal and interest accrued thereon shall be paid in full, on December 19, 2036.

1.5 To secure payment of the Promissory Note, the Borrower is granting the Lender a security interest concurrently herewith in the shares purchased with proceeds of the Loan pursuant to the ESOP Pledge Agreement in the form attached hereto as Exhibit B (as amended, restated, modified or supplemented from time to time, the "Pledge Agreement").

1.6 The Borrower shall make principal and interest payments to the Lender according to the terms of the Note. The date and amount of each payment of principal or interest shall be entered on the schedule to the Note.

1.7 The Lender agrees to make, or cause to be made by BFB, contributions to the ESOP in cash or by cancellation of indebtedness from time to time and in amounts sufficient to permit the Borrower to make timely repayments of principal and interest due under the terms of the Note. Subject to the preceding sentence, the amount and timing of such contribution(s) shall be in the sole discretion of the Lender. The Lender shall not be required to make contributions to the ESOP in amounts in excess of the limitations under Sections 404(a) and 415(c) of the Code. The Borrower agrees that so long as any interest or principal amount remains payable pursuant to the Loan, the Borrower will use all cash contributions, earnings thereon and cash dividends received by the ESOP on shares of the Lender's voting common stock to make payments on the Loan. The Borrower's obligation to make payments on the Loan is limited to the excess of the aggregate of such contributions, earnings and dividends over prior Loan payments. The Lender shall have no recourse against the Borrower's assets other than such contributions, the shares of Lender's voting common stock then pledged under the Pledge Agreement, earnings attributable to such voting common stock and the investment of such contributions.

1.8 The Borrower may prepay principal or interest without premium or penalty. Any such prepayment shall be applied to the principal installments in the inverse order of maturities.

1.9 The ESOP may elect to apply the proceeds from the sale of any Shares remaining subject to pledge to pay principal and interest due on the Loan in the event of the termination of the ESOP or if the ESOP ceases to be an employee stock ownership plan under Section 4975(e)(7) of the Code.

## **ARTICLE 2**

### **Representations and Warranties of Borrower**

The Borrower hereby makes the following representations and warranties:

2.1 The Borrower has duly authorized the execution, delivery and performance of this Agreement, the Note, and the Pledge Agreement and any other documents in connection with the Loan. These documents that have been or will be executed and delivered pursuant to this Agreement constitute valid, binding obligations of the ESOP, each enforceable according to its terms.

2.2 The Borrower is an employee stock ownership plan established by the BFB and has all requisite power and authority, as described in the plan document for the ESOP, to execute, deliver and perform its obligations under this Agreement.

2.3 All of the proceeds of the Loan will be used by the Trustee to purchase for the ESOP shares of “employer securities” as defined in Section 409(1) of the Code, subject to Section 1.3 above.

2.4 This Agreement is executed by Nicholas L. Saakvitne solely in his capacity as Trustee of the Broadway Federal Bank, F.S.B. Employee Stock Ownership Plan pursuant to directions from the ESOP and not in his individual capacity.

2.5 No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the execution, delivery and performance of this Agreement.

### **ARTICLE 3**

#### **Lender Representations and Warranties**

The Lender hereby makes the following representations and warranties:

3.1 The Lender is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

3.2 The Lender has all requisite power and authority to deliver and perform its obligations under this Agreement. The Lender has taken all corporate action necessary to establish the ESOP and to authorize this Agreement. This Agreement has been duly executed and delivered by the Lender and is a legal, valid and binding obligation of the Lender.

3.3 Neither the execution of this Agreement nor the fulfillment of any of the Lender’s obligations under this Agreement will conflict with or result in a breach or violation of or constitute any default under any rule, law, regulation, judgement or order applicable to the Lender or any contract or agreement of the Lender.

### **ARTICLE 4**

#### **Event of Default**

4.1 As used in this Agreement, the term “Event of Default” shall mean a failure of the Borrower to make any installment of principal or interest due under the Note within ten (10) days after receipt of written notice of non-payment from the Lender.

4.2 The Lender shall have all rights and remedies afforded a secured party, and all other rights and remedies available, under the Uniform Commercial Code in effect in the State of California (the “UCC”) or under other applicable law, all of which (i) shall be cumulative, but shall be subject to all limitations set forth herein, in the Pledge Agreement, in the Note, under Section 4975 of the Code, or under any applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, and (ii) may be exercised with or, if allowed by law, without notice to the Borrower. Notwithstanding anything herein or in the Pledge Agreement to the contrary, the value of the Borrower’s assets transferred to the Lender following an Event of Default in satisfaction of the due and unpaid amount of the Loan shall not exceed the amount in default.

**ARTICLE 5**  
**Miscellaneous**

5.1 No amendment or waiver of any provision of the Agreement shall be effective unless set forth in an instrument in writing and signed by both parties to this Agreement.

5.2 No delay or omission of Lender in exercising any right or remedy under this Agreement shall impair such right or remedy or be construed to be a waiver of any default or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude other or further exercise thereof or the exercise of any other right or remedy, and no waiver, amendment or other variation of the terms, conditions or provisions of this Agreement whatsoever shall be valid unless in writing signed by the Lender, and then only to the extent specifically set forth in such writing. All rights and remedies described in this Agreement, the Note or other Loan documents shall be cumulative and all shall be available to the Lender until all terms of the Loan have been satisfied.

5.3 This Agreement, the Purchase Agreement, the Pledge Agreement and the Note, including the exhibits and schedules hereto or thereto, constitute the entire agreement between the parties hereto with respect to the Loan and supersedes any and all representations, warranties, agreements or undertakings heretofore or contemporaneously made that are not set forth herein, in the Note or in such other agreements.

5.4 This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors or assigns. The Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Lender, and any purported assignment without such consent shall be null and void.

5.5 All provisions hereof shall be construed so as to maintain (a) the ESOP as a tax-qualified, leveraged employee stock ownership plan under Section 401(a) and 4975(e)(7) of the Code, and (b) the Loan as an exempt loan under Section 54.4975-7(b) of the Treasury Regulations and as described in Department of Labor Regulation Section 2550.408b-3.

5.6 Any notice, consent, approval or directions required or permitted to be given hereunder shall be in writing and shall be deemed duly given and received upon personal delivery to the addressee stated below or if mailed, forty-eight (48) hours after deposit in the United States Mail, with first class postage prepaid and addressed as required below:

LENDER:  
Broadway Financial Corporation  
5055 Wilshire Boulevard, Suite 500  
Los Angeles, California 90010  
Attention: Chief Financial Officer

**BORROWER:**

Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust  
c/o Nicholas L. Saakvitne, as Trustee  
11900 W. Olympic Boulevard, Suite 410  
Los Angeles, California 90064

IN WITNESS WHEREOF, the parties have executed this ESOP Loan Agreement as of the date first above written.

LENDER:

Broadway Financial Corporation

By: /s/ Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President/CEO

BORROWER:

Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust

By: /s/ Nicholas L. Saakvitne  
Name: Nicholas L. Saakvitne  
Title: Trustee

ESOP Loan Agreement

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## ESOP PLEDGE AGREEMENT

This ESOP Pledge Agreement (the "Pledge Agreement") dated December 19, 2016 is entered into by and between Broadway Financial Corporation, a Delaware corporation (the "Lender"), and Nicholas L. Saakvitne (the "Trustee") as trustee for the Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust (the "Borrower").

### RECITALS

The Lender owns all of the outstanding capital stock of Broadway Federal Bank, f.s.b., a federal savings bank ("BFB"). BFB has adopted an employee stock ownership plan (the "ESOP") to purchase and hold shares of voting common stock of the Lender on behalf of eligible employees of BFB and its affiliates and the Borrower is a trust established in connection with implementation of the ESOP. The ESOP is intended to qualify as an employee stock ownership plan under section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), and Section 407(d)(6) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The ESOP provides that the ESOP may obtain loans to purchase shares of Lender's stock.

In accordance with the terms and conditions of the ESOP Loan Agreement of even date herewith (as amended, restated or modified from time to time, the "Loan Agreement") and the Promissory Note of even date herewith (as amended, restated, modified or supplemented from time to time, the "Note"), the Borrower desires to purchase securities with the proceeds of a loan from the Lender (the "Loan"). Under the Loan Agreement, Borrower agrees to borrow and Lender agrees to lend \$1,176,200.00 to purchase shares of voting common stock of the Lender (the "Shares").

### AGREEMENT

#### 1. Pledge and Grant of Security Interest.

In consideration of the Lender making the Loan to the Borrower for the purchase of Shares, and as security for the Note and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Borrower hereby pledges and grants to the Lender a first priority security interest in all of the Borrower's right, title and interest in and to the following (the "Collateral") for the full performance and payment of the Secured Obligations (as defined below): (i) the Shares and all dividends or other distributions on or attributable to the Shares; (ii) all contributions made to the ESOP; and (iii) all earnings received from investment of such contributions. The Borrower hereby transfers to the Lender all of the Borrower's right, title and interest in and to the Collateral, and agrees to transfer the Borrower's right, title and interest in all future Collateral to the Lender, to be held in the physical possession of the Lender or, in the case of the Shares or of any other certificated or uncertificated shares of stock or other securities that may be included in the Collateral from time to time, registered in the name of the Lender, as pledgee and holder of a security interest granted pursuant to this Pledge Agreement, upon the terms and conditions set forth in this Pledge Agreement.

2. Obligations Secured.

The pledge of the Collateral hereunder secures the full payment and performance of all of the Borrower's present and future obligations, duties and liabilities under the Note, this Pledge Agreement and the Loan Agreement and all renewals, extensions, modifications and notations thereof (collectively, the "Secured Obligations").

3. Borrower Covenants.

Until this Pledge Agreement is terminated, the Borrower shall:

3.1 Deliver to the Lender all Collateral purchased with Loan proceeds.

3.2 Not create, incur or suffer to exist any lien, encumbrance or security interest against the Collateral except the security interest created by this Pledge Agreement.

4. Borrower Representations and Warranties.

The Borrower represents and warrants that:

4.1 The Borrower on the date hereof is, and at all times hereafter shall be, the sole legal, record and beneficial owner of the Collateral free and clear of all liens, claims, charges, restrictions, encumbrances, and rights of others (collectively, "Liens"), other than Liens in favor of the Lender and restrictions on transfer under applicable federal and state securities laws, the articles of incorporation of Lender and any agreements among stockholders relating to the Shares (collectively, "Permitted Liens"). The Borrower shall maintain, preserve and defend the title to the Collateral and the lien of the Lender thereon against the claim of any other person. The Borrower will not, without the prior written consent of the Lender sell, transfer, assign or otherwise dispose of, or grant any option or warrant with respect to, any of the Collateral. If any Collateral is sold, transferred, assigned or otherwise disposed of in violation of this Section 4, the security interest of the Lender shall continue in the Collateral notwithstanding such sale, transfer, assignment or other disposition, and the Borrower will deliver any proceeds thereof to the Lender to be held as Collateral hereunder.

4.2 This Pledge Agreement creates a valid and perfected first priority security interest in the Collateral, securing the full payment and performance of all of the Secured Obligations.

4.3 The execution, delivery and performance of this Pledge Agreement (including without limitation the pledge of the Collateral and foreclosure by the Lender on the Collateral) do not and will not conflict with, constitute a default under, or result in the creation of a Lien on any Collateral under, any agreement, instrument, judgment, order, writ or decree to which the Borrower is a party or by which the Borrower or the Collateral is bound.

4.4 No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the execution, delivery and performance of this Pledge Agreement (including without limitation the pledge of the Collateral

and foreclosure by the Lender on the Collateral), or for the exercise by the Lender of the voting and other rights provided for in this Pledge Agreement.

4.5 All certificates representing or evidencing the Collateral in existence on the date hereof have been delivered to the Lender in suitable form for transfer by delivery or accompanied by duly executed instruments of transfer or assignment in blank and (assuming continuing possession by the Lender of all such Collateral) the Lender has a perfected First Priority security interest therein.

4.6 The Lender has a perfected first priority security interest in all Collateral that consists of uncertificated securities pledged by Borrower hereunder.

4.7 On the date hereof all financing statements, agreements, instruments and other documents necessary to perfect the security interest granted by the Borrower to the Lender in respect of the Collateral have been delivered to the Lender in completed and, to the extent necessary or appropriate, duly executed form for filing in each governmental, municipal or other office required by law to perfect, continue and maintain a valid, enforceable, first priority security interest in the Collateral as provided herein.

4.8 This Agreement is effective to create in favor of the Lender, a legal, valid and enforceable security interest in the Collateral and the proceeds thereof. All filings and other actions necessary or appropriate to perfect the security interest in the Collateral granted by the Borrower hereunder have been duly made or taken and are in full force and effect; and such security interest is first priority.

4.9 The Borrower is a trust organized in accordance with the laws of the State of California. The Borrower's legal name is "Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust" and its chief executive office or principal place of business is located at 5055 Wilshire Boulevard Suite 500, Los Angeles, California 90010. Trustee's legal name is Nicholas L. Saakvitne and his principal place of business is 11900 W. Olympic Boulevard, Suite 410, Los Angeles, California 90064.

#### 5. Borrower Authorization of Financing Statements.

The Borrower hereby irrevocably authorizes the Lender at any time and from time to time to file in any relevant jurisdiction any financing statements and amendments thereto that contain the information required by Article 9 of the UCC of each applicable jurisdiction for the filing of any financing statement or amendment relating to the Collateral where permitted by law. The Borrower agrees to provide all necessary information related to such filings to the Lender promptly upon request by the Lender.

#### 6. Lender Agreements.

The Lender agrees as follows:

6.1 Except upon the occurrence of an Event of Default (as defined in the Loan Agreement), the Lender shall not sell, exchange or otherwise dispose of any of the Collateral without the prior consent of the Borrower, which consent shall not be withheld unreasonably.

6.2 Within ten (10) days after each annual payment of principal under the Loan, the Lender shall release a number of the Shares held hereunder as provided in this Section 6.2. The number of Shares to be released shall be calculated by multiplying the number of Shares held by the Lender immediately before the release by a fraction the numerator of which is the amount of the principal and interest payment paid for the year and the denominator of which is the sum of the numerator and the principal and interest to be paid for all future years of the Loan, using for this purpose the rate of interest in effect for the Loan as of the end of the most recent plan year of the ESOP.

7. Voting of Shares.

So long as no Event of Default has occurred and is continuing, the Borrower shall have the right to vote the Shares, grant or withhold consent, or exercise any other right or privilege with respect to the Shares allowed under the Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan (the "Plan Document") for any purpose not inconsistent with the terms of this Pledge Agreement, the Loan Agreement or the Note, provided that the Borrower shall not exercise or shall refrain from exercising any of those rights if, in the judgment of the Lender, such action would have a material adverse effect on the value of the Collateral or any part thereof. After the occurrence and during the continuation of an Event of Default, all voting and other consensual rights pertaining to any or all of the Collateral shall automatically become vested in the Lender, which shall then have the sole right and authority to exercise such rights.

8. Effects of Default.

Upon the occurrence and during the continuation of an Event of Default:

8.1 The Lender shall have all rights and remedies afforded a secured party and all other rights and remedies available under the Uniform Commercial Code in effect in the State of California (the "UCC") at that time or under other applicable law, all of which shall be cumulative, but subject to all limitations set forth herein, in the Loan Agreement or in the Note, or under Section 4975 of the Code, or under the Employee Retirement Income Security Act of 1974, as amended, all of which may be exercised with or, if allowed by law, without notice to the Borrower. Notwithstanding anything herein or in the Loan Agreement to the contrary, the value of the Borrower's assets that may be transferred to the Lender in satisfaction of the Loan upon an Event of Default shall not exceed the amount of the default.

8.2 The Lender shall have the right at any time after the occurrence of an Event of Default to sell or otherwise convert to cash, including sale to the Lender in exchange for cancellation of indebtedness due under the Loan, all or any portion of the Shares remaining subject to pledge, provided that such Shares may be so applied only in an amount necessary to cure the Event of Default.

8.3 The Borrower authorizes the Lender without notice (except notice required by applicable law) or demand and without affecting its liability hereunder or under the Note from time to time to: (i) exchange, enforce, waive and release the Collateral herein described or any part thereof or any such other security; and (ii) apply such Collateral or other security and direct the order or manner of sale thereof as Lender in its discretion may determine.

8.4 The powers conferred on the Lender under this Pledge Agreement are solely to protect its interests in the Collateral and shall not impose on it any duty to exercise such powers. Except as provided in Section 9-207 of the Uniform Commercial Code in effect in the State of California (the "UCC"), the Lender shall have no duty with respect to the Collateral or any responsibility for taking any necessary steps to preserve rights against any persons with respect to any of the Collateral.

8.5 In any sale of any of the Collateral after an Event of Default shall have occurred, the Lender is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers or further restrict such prospective bidders or purchasers to persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain such required approval of the sale or of the purchase by any governmental regulatory authority or official, and the Borrower further agrees that such compliance shall not result in such sale's being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Lender be liable or accountable to the Borrower for any discount allowed by reason of the fact that such Collateral is sold in compliance with any such limitation or restriction. The Borrower acknowledges and agrees that in order to protect the Lender's interest it may be necessary to sell the Collateral at a price less than the maximum price attainable if a sale were delayed or were made in another manner, such as a registered public offering under the Securities Act of 1933. The Borrower has no objection to sale in such a manner and agrees that the Lender shall have no obligation to obtain the maximum possible price for the Collateral. To the maximum extent permitted by applicable law, the Lender may be the purchaser of any or all of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public or private sale, to use and apply all or any part of the Obligations as a credit on account of the purchase price of any Collateral payable at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of the Borrower, and the Borrower hereby waives (to the extent permitted by law) all rights of redemption, stay, or appraisal that it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Borrower acknowledges and agrees that if the Lender is the only purchaser at any such sale, then a good faith determination of the then current fair market value of the Collateral by the board of directors of the Lender shall be deemed a commercially reasonable purchase price for the Collateral.

#### 9. Taxes.

The Borrower agrees to pay when due all taxes, charges, Liens and assessments ("Taxes") against the Collateral, unless being contested in good faith by appropriate proceedings diligently conducted and against which adequate reserves have been established and evidenced to the satisfaction of the Lender, and provided that all enforcement proceedings in the nature of levy or foreclosure against the Collateral are effectively stayed. If the Borrower fails to pay Taxes or to perform any obligation pursuant to the Loan Agreement, this Pledge Agreement or the Note, the Lender may perform, or cause to be performed, that obligation, but shall not have

any obligation to do so. All amounts paid and expenses incurred by the Lender in connection with the exercise of its rights under this Section 9 shall be payable by the Borrower as provided in Section 11.

10. Waivers by Borrower.

The Borrower waives to the extent permitted by applicable law (a) any right to require the Lender to (i) proceed against any person or entity, (ii) proceed against or exhaust any Collateral or other collateral for the Secured Obligations, or (iii) pursue any other remedy in its power, (b) any defense arising by reason of any disability or other defense of any other person, or by reason of the cessation from any cause whatsoever of the liability of any other person or entity, (c) any right of subrogation, and (d) any right to enforce any remedy which the Lender now has or may hereafter have against any other person and any benefit of and any right to participate in any collateral or security whatsoever now or hereafter held by the Lender. The Lender shall not be under any duty or obligation whatsoever to make or give any presentments, demands for performances, notices of nonperformance, protests, notice of protest or notice of dishonor in connection with any obligations or evidences of indebtedness held hereby as Collateral, or in connection with any obligations or evidences of indebtedness which constitute in whole or in part the Secured Obligations hereunder.

11. Security Interest Absolute.

All rights and security interests of the Lender, and all obligations of the Borrower, under this Pledge Agreement shall be absolute and unconditional irrespective of: (i) any lack of validity or enforceability of either of the Notes or any other agreement or instrument relating to it or the Secured Obligations; (ii) any change in the time, manner, or place of payment of, or in any other term of, any of the Secured Obligations, or any other amendment or waiver of or consent to any departure from either of the Notes or any other agreement or instrument relating to it or to the Secured Obligations; (iii) any exchange, release, or non-perfection of any other collateral, or any release, amendment, or waiver of any of the Secured Obligations; or (iv) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Secured Obligations or of this Pledge Agreement.

12. Reinstatement.

The security interest in the Collateral granted in or pursuant to this Pledge Agreement and the other provisions of this Pledge Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Secured Obligations is rescinded or must otherwise be returned by Lender or is repaid by Lender in whole or in part in good faith settlement of a pending or threatened claim, whether upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, and whether as a "voidable preference," "fraudulent conveyance" or otherwise, all as though such payment had not been made. This Section 13 shall survive repayment of all of the Secured Obligations and the termination or expiration of this Pledge Agreement in any manner.

13. Further Assurances.

The Borrower agrees that at any time and from time to time, at the Borrower's expense, the Borrower will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Lender may request, in order to perfect, protect, confirm or assure any security interest granted or purported to be granted by this Pledge Agreement or to enable the Lender to exercise and enforce its rights and remedies under this Pledge Agreement with respect to any Collateral, including without limitation executing and delivering, and authorizing the Lender to execute, deliver and/or file, additional conveyances, assignments, financing statements, control agreements, documents, certificates, stock powers, agreements and instruments.

14. Power of Attorney.

The Borrower hereby irrevocably appoints the Lender as the Borrower's attorney-in-fact, with full authority in the place and stead of the Borrower and in the name of the Borrower, the Lender or otherwise, from time to time at the Lender's discretion, to take any action and to execute any instrument that Lender may reasonably deem necessary or advisable to accomplish the purposes of this Pledge, including: (i) upon the occurrence and during the continuance of an Event of Default, to receive, indorse, and collect all instruments made payable to the Borrower representing any dividend, interest payment or other distribution in respect of the Collateral or any part thereof to the extent permitted hereunder and to give full discharge for the same and to execute and file governmental notifications and reporting forms; (ii) to enter into any control agreements the Lender deems necessary; or (iii) to arrange for the transfer of the Collateral on the books of the Lender or any other Person to the name of the Lender or to the name of the Lender's nominee. In addition to the designation of the Lender as the Borrower's attorney-in-fact pursuant to this Section 15.1, the Borrower hereby irrevocably appoints the Lender as the Borrower's agent and attorney-in-fact to make, execute and deliver any and all documents and writings which may be necessary or appropriate for approval of, or be required by, any regulatory authority located in any city, county, state or country where the Borrower engages in business, in order to transfer or to more effectively transfer any of the Collateral or otherwise enforce the Lender's rights hereunder.

15. No Implied Waiver.

No failure to exercise, delay in exercising or partial exercise of any right or remedy hereunder shall operate as a waiver of any provision of this Pledge Agreement. No waiver of any provision of this Pledge Agreement shall operate as a waiver of any other provision (whether or not similar), nor shall it operate as a continuing waiver, unless so provided in writing by the waiving party.

16. Governing Law.

This Pledge Agreement and the rights and obligations of the parties hereunder shall be governed by and construed under the laws of the State of California, without regard to choice of law or conflicts of law provisions.

17. Entire Agreement.

This Pledge Agreement, the Loan Agreement and the Note, including the exhibits and schedules thereto, constitute the entire agreement of the parties with respect to the subject matter hereof, and supersede any and all prior or contemporaneous agreements, understandings or representations between the parties with respect thereto that are not set forth or specifically referred to herein, in the Loan Agreement or in the Note.

18. Successors and Assigns.

This Pledge Agreement, and any consents or stipulations hereunder, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

19. Notices.

All notices required or permitted hereunder shall be in writing and shall be delivered in accordance with the Loan Agreement.

20. Severability.

If any provision of this Pledge Agreement is declared illegal, invalid or unenforceable in any jurisdiction, such declaration shall not affect the legality, validity or enforceability of the remainder of this Pledge Agreement in such jurisdiction, or of the entirety of this Pledge Agreement in any other jurisdiction.

21. Amendment.

21.1 This Pledge Agreement may be modified, amended or terminated, and any provision hereof waived, either generally or in a particular instance and either retroactively or prospectively, only by a writing signed by the Lender and the Borrower.

22. Assignment.

The Borrower may not assign or transfer any of its rights or obligations under this Pledge Agreement without the prior written consent of the Lender, and any purported assignment without such consent shall be null and void.

23. Headings; Counterparts.

The headings used in this Pledge Agreement are for convenience only and are not to be considered in construing this Pledge Agreement. This Pledge Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute a single instrument. Facsimile signatures hereto shall be valid.

IN WITNESS WHEREOF, the parties hereto have executed this Pledge Agreement as of the date first above written.

**BORROWER:**

Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust

By: /s/ Nicholas L. Saakvitne  
Name: Nicholas L. Saakvitne  
Title: Trustee

**LENDER:**

Broadway Financial Corporation

By: /s/ Wayne-Kent A. Bradshaw  
Name: Wayne-Kent A. Bradshaw  
Title: President/CEO

ESOP Pledge Agreement

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## PROMISSORY NOTE

\$1,176,200.00

December 19, 2016

For value received, Nicholas L. Saakvitne (the "Trustee") as trustee for the Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust (the "Borrower") promises to pay to the order of Broadway Financial Corporation, a Delaware corporation (the "Lender"), at 5055 Wilshire Boulevard Suite, 500, Los Angeles, California, 90010 or at such other place as the holder of this Promissory Note ("Note") may designate, the principal sum of One Million One Hundred Seventy-Six Thousand and Two Hundred Dollars (\$1,176,200.00) with interest thereon as provided in this Note.

This Note shall bear interest from the date made at the applicable federal rate (the "AFR") set forth in Table 1 of the Applicable Federal Rate Rulings of the Internal Revenue Service, or any successor publication (the "Applicable Federal Rate") established and adjusted from time to time as provided herein. Interest shall be compounded annually as of September 15 each year. Due and unpaid interest shall bear interest in the same manner as principal.

Principal is payable in annual installments on September 15<sup>th</sup> of each year beginning September 15, 2017 in an amount equal to the unpaid principal balance divided by the number of years remaining until maturity of this Note on December 19, 2036, when the entire unpaid principal balance shall be due and payable. Interest on unpaid principal shall be paid annually on September 15<sup>th</sup> concurrently with such principal installments. The maturity of this Note is not subject to acceleration by the Lender.

Payments shall be applied first to interest then accrued and the remainder to principal, whereupon interest shall cease to accrue on the principal so paid. Principal and interest shall be payable in lawful money of the United States of America.

This Note evidences the indebtedness incurred by the Borrower to the Lender under the ESOP Loan Agreement, dated December 19, 2016, by and between the Borrower and the Lender (as amended, restated, modified or supplemented from time to time, the "Loan Agreement") the terms of which are made a part hereof.

This Note may be prepaid in whole or in part at any time, without premium or penalty. Partial prepayments shall be applied in inverse order of maturity.

Except as otherwise provided in the Loan Agreement, payments of principal and interest hereunder shall be made by the Borrower only from cash contributions (or contributions in the form of cancellation of indebtedness), from any earnings attributable to such contributions and from any cash dividends paid on the shares of common stock of the Lender purchased with the proceeds of the loan evidenced hereby. The Lender's recourse against the Borrower is limited as provided in Section 1.8 of the Loan Agreement.

All obligations of Borrower, and all rights, powers and remedies of the Lender, expressed herein shall be in addition to, and not in limitation of, those provided by law or in the Loan Agreement, Pledge Agreement.

This Note is secured by a pledge of stock under the Pledge Agreement.

This Note is governed by the laws of the State of California, except to the extent preempted by federal laws.

Borrower waives presentment, demand, protest and notice of every kind in connection with the enforcement and collection of this Note.

This Note, together with the Purchase Agreement, the Loan Agreement, the Pledge Agreement and any documents delivered pursuant hereto or thereto, constitute the full and complete understanding and agreement of the parties hereto with respect to the subject matter hereof, and supersede any prior agreements between such parties with respect thereto. If any provision of this Note is declared illegal, invalid or unenforceable in any jurisdiction, such declaration shall not affect the legality, validity or enforceability of the remainder of this Note in such jurisdiction, or of the entirety of this Note in any other jurisdiction.

This Note, and any consents or stipulations hereunder, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The Borrower may not assign or transfer any of its rights or obligations under this Note without the prior written consent of the Lender, and any purported assignment without such consent shall be null and void.

The Trustee has executed this Note solely in his capacity as Trustee of the Borrower and not in his individual capacity, and no personal liabilities or responsibilities are assumed by, or shall at any time be asserted against, the Trustee in his individual capacity, under or with respect to this Note, the Loan Agreement or the Pledge Agreement referred to herein.

**BORROWER:**

Broadway Federal Bank, f.s.b. Employee Stock Ownership Plan Trust

By: /s/ Nicholas L. Saakvitne  
Name: Nicholas L. Saakvitne  
Title: Trustee

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-17331 on Form S-8 pertaining to the Broadway Financial Corporation Stock Option Plan for Outside Directors and the Broadway Financial Corporation Long-Term Incentive Plan, Registration Statement No. 333-102138 on Form S-8 pertaining to the Broadway Financial Corporation Long-Term Incentive Plan, and Registration Statement No. 333-163150 on Form S-8 pertaining to the Broadway Financial Corporation 2008 Long-Term Incentive Plan of our report dated March 27, 2017 relating to the consolidated financial statements of Broadway Financial Corporation and Subsidiary, which report appears in the Form 10-K of Broadway Financial Corporation for the year ended December 31, 2016.

/s/ Moss Adams LLP

San Francisco, California  
March 27, 2017

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**SECTION 302 CERTIFICATION**

I, Wayne-Kent A. Bradshaw, certify that:

1. I have reviewed this annual report on Form 10-K of Broadway Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2017

/s/ Wayne-Kent A. Bradshaw  
Wayne-Kent A. Bradshaw  
Chief Executive Officer  
Broadway Financial Corporation

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**SECTION 302 CERTIFICATION**

I, Brenda Battey, certify that:

1. I have reviewed this annual report on Form 10-K of Broadway Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2017

/s/ Brenda J. Battey  
Brenda J. Battey  
Chief Financial Officer  
Broadway Financial Corporation

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**SECTION 906 CERTIFICATION**

The following statement is provided by the undersigned to accompany the foregoing Report on Form 10-K pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed filed pursuant to any provision of the Securities Exchange Act of 1934 or any other securities law.

The undersigned certifies that the foregoing Report on Form 10-K fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78) and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Broadway Financial Corporation as of and for the year ended December 31, 2016.

Date: March 27, 2017

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

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**SECTION 906 CERTIFICATION**

The following statement is provided by the undersigned to accompany the foregoing Report on Form 10-K pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed filed pursuant to any provision of the Securities Exchange Act of 1934 or any other securities law.

The undersigned certifies that the foregoing Report on Form 10-K fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78) and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Broadway Financial Corporation as of and for the year ended December 31, 2016.

Date: March 27, 2017

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

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**TARP CERTIFICATION FOR YEAR 2016**

I, Wayne-Kent A. Bradshaw, certify, based on my knowledge, that:

- (i) The compensation committee of Broadway Financial Corporation has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (“SEO”) compensation plans and employee compensation plans and the risks these plans pose to Broadway Financial Corporation;
  - (ii) The compensation committee of Broadway Financial Corporation has identified and limited during any part of the most recently completed fiscal year that was a TARP period any features in the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Broadway Financial Corporation and identified any features in the employee compensation plans that pose risks to Broadway Financial Corporation and limited those features to ensure that Broadway Financial Corporation is not unnecessarily exposed to risks;
  - (iii) The compensation committee has reviewed, at least every six months during any part of the most recently completed fiscal year that was a TARP period, the terms of each employee compensation plan and identified the features in the plan that could encourage the manipulation of reported earnings of Broadway Financial Corporation to enhance the compensation of an employee, and has limited these features that would encourage the manipulation of reported earnings of Broadway Financial Corporation;
  - (iv) The compensation committee of Broadway Financial Corporation will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;
  - (v) The compensation committee of Broadway Financial Corporation will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in:
    - a) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Broadway Financial Corporation;
    - b) Employee compensation plans that unnecessarily expose Broadway Financial Corporation to risks; and
    - c) Employee compensation plans that could encourage the manipulation of reported earnings of Broadway Financial Corporation to enhance the compensation of an employee;
  - (vi) Broadway Financial Corporation has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;
  - (vii) Broadway Financial Corporation has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a SEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;
  - (viii) Broadway Financial Corporation has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;
  - (ix) Broadway Financial Corporation and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period, and that any expenses requiring approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;
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- (x) Broadway Financial Corporation will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to CEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;
- (xi) Broadway Financial Corporation will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds \$25,000 for each employee subject to the bonus payment limitations identified in paragraph (viii);
- (xii) Broadway Financial Corporation will disclose whether Broadway Financial Corporation, the board of directors of Broadway Financial Corporation, or the compensation committee of Broadway Financial Corporation has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;
- (xiii) Broadway Financial Corporation has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the CEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;
- (xiv) Broadway Financial Corporation has substantially complied with all other requirements related to employee compensation that are provided in the agreement between Broadway Financial Corporation and Treasury, including any amendments;
- (xv) Broadway Financial Corporation has submitted to Treasury a complete and accurate list of the CEOs and the twenty next most highly compensated employees for the current fiscal year, with the non-CEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each CEO and most highly compensated employee identified; and
- (xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both.

Date: March 27, 2017

/s/ Wayne-Kent A. Bradshaw  
Wayne-Kent A. Bradshaw  
Chief Executive Officer  
Broadway Financial Corporation

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**TARP CERTIFICATION FOR YEAR 2016**

I, Brenda J. Battey, certify, based on my knowledge, that:

- (i) The compensation committee of Broadway Financial Corporation has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (“SEO”) compensation plans and employee compensation plans and the risks these plans pose to Broadway Financial Corporation;
  - (ii) The compensation committee of Broadway Financial Corporation has identified and limited during any part of the most recently completed fiscal year that was a TARP period any features in the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Broadway Financial Corporation and identified any features in the employee compensation plans that pose risks to Broadway Financial Corporation and limited those features to ensure that Broadway Financial Corporation is not unnecessarily exposed to risks;
  - (iii) The compensation committee has reviewed, at least every six months during any part of the most recently completed fiscal year that was a TARP period, the terms of each employee compensation plan and identified the features in the plan that could encourage the manipulation of reported earnings of Broadway Financial Corporation to enhance the compensation of an employee, and has limited these features that would encourage the manipulation of reported earnings of Broadway Financial Corporation;
  - (iv) The compensation committee of Broadway Financial Corporation will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;
  - (v) The compensation committee of Broadway Financial Corporation will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in:
    - a) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Broadway Financial Corporation;
    - b) Employee compensation plans that unnecessarily expose Broadway Financial Corporation to risks; and
    - c) Employee compensation plans that could encourage the manipulation of reported earnings of Broadway Financial Corporation to enhance the compensation of an employee;
  - (vi) Broadway Financial Corporation has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;
  - (vii) Broadway Financial Corporation has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a SEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;
  - (viii) Broadway Financial Corporation has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;
  - (ix) Broadway Financial Corporation and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period, and that any expenses requiring approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;
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- (x) Broadway Financial Corporation will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to CEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;
- (xi) Broadway Financial Corporation will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds \$25,000 for each employee subject to the bonus payment limitations identified in paragraph (viii);
- (xii) Broadway Financial Corporation will disclose whether Broadway Financial Corporation, the board of directors of Broadway Financial Corporation, or the compensation committee of Broadway Financial Corporation has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;
- (xiii) Broadway Financial Corporation has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the CEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;
- (xiv) Broadway Financial Corporation has substantially complied with all other requirements related to employee compensation that are provided in the agreement between Broadway Financial Corporation and Treasury, including any amendments;
- (xv) Broadway Financial Corporation has submitted to Treasury a complete and accurate list of the CEOs and the twenty next most highly compensated employees for the current fiscal year, with the non-CEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each CEO and most highly compensated employee identified; and
- (xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both.

Date: March 27, 2017

/s/ Brenda J. Battey  
Brenda J. Battey  
Chief Financial Officer  
Broadway Financial Corporation

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