

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2019

or

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

Commission File Number 001-38456

Columbia Financial, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

22-3504946
(I.R.S. Employer Identification
Number)

19-01 Route 208 North, Fair Lawn, New Jersey
(Address of principal executive offices)

07410
(Zip Code)

(800) 522-4167
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	CLBK	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐	Smaller reporting company	☐
Non-accelerated filer	☒	Emerging growth company	☒		

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

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

☐ Yes ☒ No

As of November 7, 2019, there were 114,164,514 shares issued and outstanding of the Registrant's common stock, par value \$0.01 per share.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Index to Form 10-Q

<u>Item Number</u>		<u>Page Number</u>
PART I.	Financial Information	
Item 1.	Financial Statements	
	Consolidated Statements of Financial Condition as of September 30, 2019 (Unaudited) and December 31, 2018	2
	Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)	3
	Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months ended September 30, 2019 and 2018 (Unaudited)	4
	Consolidated Statements of Changes in Stockholder's Equity for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)	5
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)	7
	Notes to Unaudited Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	47
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	53
Item 4.	Controls and Procedures	57
PART II.	Other Information	
	Item 1. Legal Proceedings	58
	Item 1A. Risk Factors	58
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
	Item 3. Defaults Upon Senior Securities	58
	Item 4. Mine Safety Disclosures	58
	Item 5. Other Information	58
	Item 6. Exhibit	58
	Exhibit Index	59
	SIGNATURES	60

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition (In thousands, except share and per share data)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and due from banks	\$ 57,644	\$ 42,065
Short-term investments	308	136
Total cash and cash equivalents	57,952	42,201
Debt securities available for sale, at fair value	1,115,905	1,032,868
Debt securities held to maturity, at amortized cost (fair value of \$296,325 and \$254,841 at September 30, 2019 and December 31, 2018, respectively)	289,089	262,143
Equity securities, at fair value	1,765	1,890
Federal Home Loan Bank stock	57,077	58,938
Loans held-for-sale, at fair value	—	8,081
Loans receivable	5,186,097	4,979,182
Less: allowance for loan losses	62,629	62,342
Loans receivable, net	5,123,468	4,916,840
Accrued interest receivable	19,423	18,894
Real estate owned	—	92
Office properties and equipment, net	63,723	52,050
Bank-owned life insurance	187,922	184,488
Goodwill and intangible assets	6,163	6,085
Other assets	147,763	107,048
Total assets	\$ 7,070,250	\$ 6,691,618
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 4,783,322	\$ 4,413,873
Borrowings	1,129,117	1,189,180
Advance payments by borrowers for taxes and insurance	34,543	32,030
Accrued expenses and other liabilities	131,433	84,475
Total liabilities	6,078,415	5,719,558
Stockholders' equity:		
Preferred stock, \$0.01 par value. 10,000,000 shares authorized; none issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value. 500,000,000 shares authorized; 117,278,745 shares issued and 114,536,445 shares outstanding at September 30, 2019, and 115,889,175 shares issued and outstanding at December 31, 2018	1,173	1,159
Additional paid-in capital	529,588	527,037
Retained earnings	601,932	560,216
Accumulated other comprehensive loss	(55,972)	(71,897)
Treasury stock, at cost; 2,742,300 shares at September 30, 2019 and -0- at December 31, 2018	(42,084)	—
Common stock held by the Employee Stock Ownership Plan	(42,137)	(43,835)
Stock held by Rabbi Trust	(1,467)	(1,259)
Deferred compensation obligations	802	639
Total stockholders' equity	991,835	972,060
Total liabilities and stockholders' equity	\$ 7,070,250	\$ 6,691,618

See accompanying notes to unaudited consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Income (In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income:	(Unaudited)			
Loans receivable	\$ 53,594	\$ 48,585	157,563	138,291
Debt securities available for sale and equity securities	7,736	6,651	23,295	17,987
Debt securities held to maturity	2,068	1,798	6,090	5,253
Federal funds and interest earning deposits	182	44	405	1,116
Federal Home Loan Bank stock dividends	858	617	2,704	1,861
Total interest income	64,438	57,695	190,057	164,508
Interest expense:				
Deposits	16,055	10,420	44,984	27,713
Borrowings	6,667	6,692	20,130	16,134
Total interest expense	22,722	17,112	65,114	43,847
Net interest income	41,716	40,583	124,943	120,661
Provision for loan losses	1,157	1,500	1,705	5,900
Net interest income after provision for loan losses	40,559	39,083	123,238	114,761
Non-interest income:				
Demand deposit account fees	1,106	1,000	3,116	2,920
Bank-owned life insurance	1,784	1,309	4,449	3,865
Title insurance fees	1,350	1,189	3,490	3,218
Loan fees and service charges	3,038	616	5,358	1,537
Gain on securities transactions	1,256	—	1,721	116
(Decrease)/increase in fair value of equity securities	(59)	—	189	—
Gain on sale of loans	382	—	710	15
Other non-interest income	1,258	1,176	3,895	3,609
Total non-interest income	10,115	5,290	22,928	15,280
Non-interest expense:				
Compensation and employee benefits	21,362	18,179	61,285	54,503
Occupancy	3,973	3,529	11,628	10,764
Federal deposit insurance premiums	40	503	927	1,404
Advertising	533	1,003	3,311	3,142
Professional fees	1,541	967	4,219	2,824
Data processing	658	630	1,965	1,944
Charitable contribution to foundation	—	—	—	34,767
Merger-related expenses	740	—	1,202	—
Other non-interest expense	2,217	1,779	7,927	5,024
Total non-interest expense	31,064	26,590	92,464	114,372
Income before income tax expense	19,610	17,783	53,702	15,669
Income tax expense	5,392	6,956	12,534	7,800
Net income	\$ 14,218	\$ 10,827	41,168	7,869

Earnings per share - basic and diluted	\$	0.13	\$	0.10	\$	0.37	\$	0.07
Weighted average shares outstanding -basic and diluted		111,371,754		111,389,951		111,486,179		111,380,218

See accompanying notes to unaudited consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Unaudited)			
Net income	\$ 14,218	\$ 10,827	\$ 41,168	\$ 7,869
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on debt securities available for sale	4,915	(5,358)	28,302	(18,186)
Accretion of unrealized gain (loss) on debt securities reclassified as held to maturity	2	(11)	10	(13)
Reclassification adjustment for gains included in net income	965	3	1,325	90
	5,882	(5,366)	29,637	(18,109)
Derivatives, net of tax:				
Unrealized (loss) gain on swap contracts accounted for as cash flow hedges	(1,279)	1,240	(8,735)	1,746
	(1,279)	1,240	(8,735)	1,746
Employee benefit plans, net of tax:				
Amortization of prior service cost included in net income	(11)	—	(33)	98
Reclassification adjustment of actuarial net (loss) gain included in net income	(735)	—	(2,196)	520
Change in funded status of retirement obligations	1,490	(1,908)	(2,200)	(615)
	744	(1,908)	(4,429)	3
Total other comprehensive income (loss)	5,347	(6,034)	16,473	(16,360)
Total comprehensive income (loss), net of tax	\$ 19,565	\$ 4,793	\$ 57,641	\$ (8,491)

See accompanying notes to unaudited consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Three Months Ended September 30, 2018 and 2019

(In thousands)

	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Common Stock Held by the Employee Stock Ownership Plan	Stock Held by Rabbi Trust	Deferred Compensation Obligations	Total Stockholders' Equity
Balance at June 30, 2018	\$ 1,159	\$ 526,332	\$ 534,522	\$ (75,736)	\$ —	\$ (44,980)	\$ —	\$ —	\$ 941,297
Net income	—	—	10,827	—	—	—	—	—	10,827
Other comprehensive (loss)	—	—	—	(6,034)	—	—	—	—	(6,034)
Employee Stock Ownership Plan shares committed to be released	—	384	—	—	—	572	—	—	956
Balance at September 30, 2018	<u>\$ 1,159</u>	<u>\$ 526,716</u>	<u>\$ 545,349</u>	<u>\$ (81,770)</u>	<u>\$ —</u>	<u>\$ (44,408)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 947,046</u>
Balance at June 30, 2019	\$ 1,159	\$ 527,650	\$ 587,714	\$ (61,319)	\$ (3,867)	\$ (42,710)	\$ (1,407)	\$ 689	\$ 1,007,909
Net income	—	—	14,218	—	—	—	—	—	14,218
Other comprehensive income	—	—	—	5,347	—	—	—	—	5,347
Issuance of common stock allocated to restricted stock award grants	14	—	—	—	—	—	—	—	14
Stock based compensation	—	1,630	—	—	—	—	—	—	1,630
Purchase of treasury stock	—	—	—	—	(38,217)	—	—	—	(38,217)
Employee Stock Ownership Plan shares committed to be released	—	308	—	—	—	573	—	—	881
Funding of deferred compensation obligations	—	—	—	—	—	—	(60)	113	53
Balance at September 30, 2019	<u>\$ 1,173</u>	<u>\$ 529,588</u>	<u>\$ 601,932</u>	<u>\$ (55,972)</u>	<u>\$ (42,084)</u>	<u>\$ (42,137)</u>	<u>\$ (1,467)</u>	<u>\$ 802</u>	<u>\$ 991,835</u>

See accompanying notes to unaudited consolidated financial statements.

be released	—	921	—	—	—	1,698	—	—	2,619
Funding of deferred compensation obligations	—	—	—	—	—	—	(208)	163	(45)
Balance at September 30, 2019	<u>\$ 1,173</u>	<u>\$ 529,588</u>	<u>\$ 601,932</u>	<u>\$ (55,972)</u>	<u>\$ (42,084)</u>	<u>\$ (42,137)</u>	<u>\$ (1,467)</u>	<u>\$ 802</u>	<u>\$ 991,835</u>

See accompanying notes to unaudited consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2019	2018
	(In thousands, unaudited)	
Cash flows from operating activities:		
Net income	\$ 41,168	\$ 7,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees and costs, premiums and discounts	1,055	1,420
Net amortization of premiums and discounts on securities	787	1,017
Net amortization on mortgage servicing rights	(78)	57
Amortization of debt issuance costs	—	890
Depreciation and amortization of office properties and equipment	3,366	2,748
Provision for loan losses	1,705	5,900
Gain on securities transactions	(1,721)	(116)
Change in fair value of equity securities	(189)	—
Gain on sales of loans	(710)	(15)
Loss on real estate owned	1	45
Deferred tax (benefit) expense	(7,160)	6,764
Increase in accrued interest receivable	(529)	(2,679)
Increase in other assets	(44,037)	(13,801)
Increase in accrued expenses and other liabilities	36,367	3,505
Income on bank-owned life insurance	(4,449)	(3,435)
Contribution of common stock to Columbia Bank Foundation	—	34,767
Employee stock ownership plan expense	2,619	1,700
Stock based compensation	1,630	—
Increase in deferred compensation obligations under Rabbi Trust	(45)	—
Net cash provided by operating activities	29,780	46,636
Cash flows from investing activities:		
Proceeds from sales of debt securities available for sale	31,811	—
Proceeds from sales of equity securities	926	—
Proceeds from paydowns/maturities/calls of debt securities available for sale	88,504	60,959
Proceeds from paydowns/maturities/calls on debt securities held to maturity	37,968	6,846
Purchases of debt securities available for sale	(143,196)	(361,263)
Purchases of debt securities held to maturity	(65,171)	(31,639)
Purchase of equity securities	(416)	—
Proceeds from sales of loans held-for-sale	94,834	—
Proceeds from sales of loans receivable	10,273	3,695
Purchases of loans receivable	(29,885)	(4,715)
Net increase in loans receivable	(297,434)	(451,223)
Purchase of bank-owned life insurance	—	(30,000)
Proceeds from bank-owned life insurance death benefit	1,015	811
Proceeds from redemptions of Federal Home Loan Bank stock	47,860	51,676
Purchases of Federal Home Loan Bank stock	(45,999)	(63,544)
Additions to office properties and equipment	(15,039)	(8,799)
Proceeds from sales of real estate owned	91	914
Net cash (used in) investing activities	(283,858)	(826,282)
Cash flows from financing activities:		
Net increase in deposits	369,449	109,030
Proceeds from long-term borrowings	127,337	168,930
Payments on long-term borrowings	(220,000)	(170,000)
Net increase in short-term borrowings	32,600	258,400
Payments on trust preferred securities	—	(51,547)
Increase in advance payments by borrowers for taxes and insurance	2,513	7,169

Issuance of common stock	14	492,428
Purchase of treasury stock	(42,084)	—
Purchase of employee stock ownership plan shares	—	(45,428)
Net cash provided by financing activities	<u>269,829</u>	<u>768,982</u>

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

	Nine Months Ended September 30,	
	2019	2018
	(In thousands, unaudited)	
Net increase (decrease) in cash and cash equivalents	\$ 15,751	\$ (10,664)
Cash and cash equivalents at beginning of year	42,201	65,498
Cash and cash equivalents at end of period	<u>\$ 57,952</u>	<u>\$ 54,834</u>
Cash paid during the period for:		
Interest on deposits and borrowings	\$ 64,892	\$ 45,306
Income tax payments, net of (refunds)	\$ (4,293)	\$ 13,435
Non-cash investing and financing activities:		
Transfer of loans receivable to real estate owned	\$ —	\$ 251
Transfer of loans receivable to loans held-for-sale	\$ 86,043	\$ 1,860
Securitization of loans	\$ 21,615	\$ —

See accompanying notes to unaudited consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

1. Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements include the accounts of Columbia Financial, Inc., its wholly-owned subsidiary Columbia Bank (the "Bank") and the Bank's wholly-owned subsidiaries (collectively, the "Company"). In consolidation, all intercompany accounts and transactions are eliminated.

Columbia Financial, Inc. is a majority-owned subsidiary of Columbia Bank, MHC (the "MHC"). The accounts of the MHC are not consolidated in the accompanying consolidated financial statements of the Company.

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and consolidated statements of income for the periods presented. Actual results could differ from these estimates. Material estimates that are particularly susceptible to change are the determination of the adequacy of the allowance for loan losses, evaluation of the need for valuation allowances on deferred tax assets, and determination of liabilities related to retirement and other post-retirement benefits. These estimates and assumptions are evaluated on an ongoing basis and are adjusted when facts and circumstances dictate.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operation for the three and nine month periods ended September 30, 2019 are not necessarily indicative of the results of operation that may be expected for the entire fiscal year or any other period. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

The interim unaudited consolidated financial statements of the Company presented herein have been prepared in accordance with the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and U.S. generally accepted accounting principles ("GAAP"). Certain information and note disclosures have been condensed or omitted pursuant to the rules and regulations of the SEC.

These unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and the audited consolidated financial statements included therein.

2. Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. For purposes of calculating basic EPS, weighted average common shares outstanding excludes treasury stock, unallocated employee stock ownership plan shares that have not been committed for release and deferred compensation obligations required to be settled in shares of Company stock.

Diluted EPS is computed using the same method as basic EPS and reflects the potential dilution which could occur if stock options and unvested shares were exercised and converted into common stock. The potentially diluted shares would then be included in the weighted average number of shares outstanding for the period using the treasury stock method.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

2. Earnings per Share (continued)

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
(Dollars in thousands, except per share data)				
Net income	\$ 14,218	\$ 10,827	\$ 41,168	\$ 7,869
Shares:				
Weighted average shares outstanding - basic	111,371,754	111,389,951	111,486,179	111,380,218
Effect of dilutive common stock equivalents (1)	—	—	—	—
Weighted average shares outstanding - diluted	111,371,754	111,389,951	111,486,179	111,380,218
Earnings per share:				
Basic	\$ 0.13	\$ 0.10	\$ 0.37	\$ 0.07
Diluted	\$ 0.13	\$ 0.10	\$ 0.37	\$ 0.07

(1) During the three and nine months ended September 30, 2019 the average number of stock options which were antidilutive and were not included in the computation of diluted earnings per share totaled approximately 790,000 and 310,000, respectively. There were no stock options outstanding for the three and nine months ended September 30, 2018.

3. Stock Repurchase Program

On June 11, 2019, the Company announced that its Board of Directors authorized the Company's first stock repurchase program since the completion of its minority public offering in April 2018. This program, which commenced on June 13, 2019, authorizes the purchase of up to 4,000,000 shares, or approximately 3.5%, of the Company's then issued and outstanding common stock. During the three and nine months ended September 30, 2019, the Company purchased 2,478,400 and 2,742,300 shares, respectively, at a cost of approximately \$38.2 million, or \$15.42 per share, and approximately \$42.1 million, or \$15.35 per share, respectively. Repurchased shares are held as treasury stock and will be available for general corporate purposes.

4. Summary of Significant Accounting Policies

Accounting Pronouncements Adopted in 2019

In March 2017, the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, which requires that companies disaggregate the service cost component from other components of net benefit cost. This update calls for companies that offer post-retirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service costs component and outside the subtotal of income from operations, if one is presented. The effective date for this ASU for the Company is fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted this guidance effective January 1, 2019. See note 11 for additional disclosure regarding the impact of adoption of this ASU on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, a new standard which addresses diversity in practice related to eight specific cash flow issues: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. This guidance in the ASU is effective for the Company for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities will apply the standard's provisions using a retrospective transition method to each period presented. If it is impracticable to apply the

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

4. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted in 2019 (continued)

amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted this guidance effective January 1, 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments- Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation

allowance on deferred tax assets related to unrealized losses on available-for-sale debt securities in combination with other deferred tax assets. This guidance provides an election to subsequently measure certain non-marketable equity investments at cost less any impairment and adjusted for certain observable price changes.

The guidance also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The guidance in the ASU is effective for the Company for annual periods beginning after December 15, 2018.

The Company adopted this guidance effective January 1, 2019. As a result, \$1.9 million of equity securities, as of December 31, 2018, were reclassified from securities available for sale, and presented as a separate line item on the consolidated statements of financial condition. The \$548,000 after tax unrealized gain on these securities, at time of adoption, was reclassified from other comprehensive income (loss) to retained earnings, and is reflected in the consolidated statements of changes in stockholders' equity. For financial instruments that are measured at amortized cost, the Company measures fair value utilizing an exit price methodology. See note 12 for additional disclosure regarding the impact of adoption of this ASU on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are in the scope of other standards. The guidance in the ASU was effective for the Company for fiscal years beginning after December 15, 2018. Subsequently, the FASB issued various amendments that were intended to improve and clarify the implementation guidance of ASU No. 2014-09 and had the same effective date as the original guidance. The Company's revenue is primarily comprised of net interest income on interest earning assets and liabilities and non-interest income. The scope of guidance explicitly excludes net interest income as well as other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives. The Company adopted this guidance effective January 1, 2019, after completing an evaluation of the Company's revenue streams and applicable revenue recognition, and concluded that there are no material changes related to the timing or amount of revenue recognition. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements, but resulted in additional footnote disclosures, including the disaggregation of certain categories of revenues. See note 15 for additional disclosure regarding the impact of adoption of this ASU on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In October 2018, the FASB issued ASU No. 2018-16, *Derivatives and Hedging (Topic 815)- Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. This ASU permits the use of the OIS rate based upon SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the direct Treasury obligations of the U.S. Government, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association Municipal Swap Rate. The amendments in this ASU are required to be adopted concurrently with the amendments in ASU No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which was issued in August 2017. The effective date for this ASU for the Company is for fiscal years beginning after December 15, 2019, with early adoption, including adoption in an interim period permitted. The amendments should be adopted on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after date of adoption. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

4. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Not Yet Adopted (continued)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The purpose of this updated guidance is to improve the effectiveness and disclosures in the notes to the financial statements. The ASU removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; removes the policy for timing of transfers between levels; and removes the disclosure related to the valuation process for Level 3 fair value measurements. The ASU also modifies existing disclosure requirements which relate to the disclosure for investments in certain entities which calculate net asset value and clarifies the disclosure about uncertainty in the measurements as of the reporting date.

For all entities, the effective date for this guidance is fiscal years beginning after December 15, 2019, including interim periods within the reporting period, with early adoption permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans by removing disclosures that no longer are considered cost beneficial, clarifying the specific requirements of disclosures, and adding disclosure requirements identified as relevant. Among other changes, the ASU adds disclosure requirements to Topic 715-20 for the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in benefit obligation for the period. The amendments remove disclosure requirements for the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, the amount and timing of plan assets expected to be returned to the employer, and the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for post-retirement health care benefits. ASU 2018-14 is effective for fiscal years beginning after December 15, 2020, including interim reporting periods within that reporting period, with early adoption permitted. The update is to be applied on a retrospective basis. The Company is currently evaluating the effect of ASU 2018-14 on its disclosures in the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This guidance shortens the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities. This guidance does not change the accounting for discounts on callable debt securities, which will continue to be amortized to the maturity date. This guidance includes only instruments that are held at a premium and have explicit call features. It does not include instruments that contain prepayment features, such as mortgage backed securities; nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed. The effective date for this ASU for the Company is fiscal years beginning after December 15, 2019, including interim periods within the reporting period, with early adoption permitted. Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption. If early adopted in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The main objective of this guidance is to simplify the accounting for goodwill impairment by requiring that impairment charges be based upon the first step in the current two-step impairment test under ASC 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. To determine the implied fair value of goodwill, entities estimate the fair value of any unrecognized intangible assets and any corporate-level assets or liabilities that were

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

4. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Not Yet Adopted (continued)

included in the determination of the carrying amount and fair value of the reporting unit in Step 1. Under this guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. This guidance eliminates the requirement to calculate a goodwill impairment charge using Step 2. This guidance does not change the guidance on completing Step 1 of the goodwill impairment test. Under this guidance, an entity will still be able to perform the current optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The guidance in the ASU will be applied prospectively and is effective for the Company for annual and interim impairment tests performed in periods beginning after December 15, 2019. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of this ASU is to provide financial statement users with more decision-useful information about expected credit losses on financial instruments by a reporting entity at each reporting date. The amendments of this guidance require financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses would represent a valuation account that would be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement would reflect the measurement of credit losses that have taken place during the period.

The measurement of expected credit losses would be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity would be required to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in the ASU is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted. The Company is currently assessing the impact that the guidance will have on the Company's consolidated financial statements. The Company has formed a working group under the direction of the Chief Financial Officer that is primarily comprised of individuals from various functional areas including finance, credit, risk management, and operations, among others. A detailed implementation plan was developed which includes an assessment of the processes, portfolio segmentation, model development and validation, and system requirements and resources needed. The Company has engaged third-party vendors to assist with model development, data governance and operational controls to support the adoption of this ASU. Furthermore, this ASU will necessitate establishing an allowance for expected credit losses on debt securities. The Company is continuing its evaluation of the guidance including the potential impact on its consolidated financial statements. The extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. Upon adoption, any impact to the allowance for credit losses- currently the allowance for loan losses- will have an offsetting impact on retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date for leases classified as operating leases as well as finance leases. The update also requires new quantitative disclosures related to leases in the Company's consolidated financial statements. There are also practical expedients in this update related to leases that commenced before the effective date, initial direct costs and the use of hindsight to extend or terminate a lease or purchase a leased asset. Lessor accounting remains largely unchanged under this new guidance. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842)-Land Easement Practical Expedient for Transition to Topic 842*, which provides an optional practical expedient to not evaluate land easements which were existing or expired before the adoption of Topic 842 that were not accounted for as leases under Topic 840. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842) -Targeted Improvements* which provides entities with an optional transition method under which comparative periods presented in the financial statements will continue to be in accordance with current Topic 840, Leases, and a practical expedient to not separate non-lease components from the associated lease component. The Company has selected a software platform which will support the recording, accounting and disclosure requirements of the new lease guidance. The guidance is effective for the Company for annual periods beginning after December 15, 2019, including interim periods within that reporting period. In the evaluation of this guidance, the Company identified the inventory of leases and actively accumulated the requisite lease data necessary to apply the guidance. The Company expects to record a right of use asset and lease liability as of January 1, 2020. The Company is continuing its efforts to evaluate the impact of this guidance and, as such, no conclusions have yet been reached regarding the potential impact on adoption on the Company's consolidated financial statements; however, the Company does not expect the adoption to have a material impact on its results of operations.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

5. Debt Securities Available for Sale

Debt securities available for sale at September 30, 2019 and December 31, 2018 are summarized as follows:

September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(In thousands)			
U.S. government and agency obligations	\$ 44,532	\$ 621	\$ (22)	\$ 45,131
Mortgage-backed securities and collateralized mortgage obligations	981,205	20,742	(504)	1,001,443
Municipal obligations	190	—	—	190
Corporate debt securities	64,495	774	(669)	64,600
Trust preferred securities	5,000	—	(459)	4,541
	<u>\$ 1,095,422</u>	<u>\$ 22,137</u>	<u>\$ (1,654)</u>	<u>\$ 1,115,905</u>
December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(In thousands)			
U.S. government and agency obligations	\$ 54,821	\$ 53	\$ (717)	\$ 54,157
Mortgage-backed securities and collateralized mortgage obligations	934,631	2,812	(17,436)	920,007
Municipal obligations	987	—	—	987
Corporate debt securities	54,493	129	(1,155)	53,467
Trust preferred securities	5,000	—	(750)	4,250
	<u>\$ 1,049,932</u>	<u>\$ 2,994</u>	<u>\$ (20,058)</u>	<u>\$ 1,032,868</u>

The amortized cost and fair value of debt securities available for sale at September 30, 2019, by contractual final maturity, is shown below. Expected maturities may differ from contractual maturities due to prepayment or early call options exercised by the issuer.

September 30, 2019			
	Amortized Cost	Fair Value	
	(In thousands)		
One year or less	\$ 15,098	\$ 15,110	
More than one year to five years	40,046	40,467	
More than five years to ten years	54,073	54,483	
More than ten years	5,000	4,402	
	<u>\$ 114,217</u>	<u>\$ 114,462</u>	
Mortgage-backed securities and collateralized mortgage obligations	981,205	1,001,443	
	<u>\$ 1,095,422</u>	<u>\$ 1,115,905</u>	

Mortgage-backed securities and collateralized mortgage obligations totaling \$981.2 million at amortized cost, and \$1.0 billion at fair value, are not classified by maturity in the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

5. Debt Securities Available for Sale (continued)

During the three months ended September 30, 2019, proceeds from the sale of debt securities available for sale totaled \$16.1 million, resulting in \$1.2 million of gross gains and no gross losses. During the three months ended September 30, 2019, there were no maturities or calls of debt securities available for sale.

During the nine months ended September 30, 2019, proceeds from the sale of debt securities available for sale totaled \$31.8 million, resulting in \$1.5 million of gross gains and no gross losses. During the nine months ended September 30, 2019, proceeds from one matured debt security available for sale totaled \$767,000. There were no calls of debt securities available for sale.

During the three months ended September 30, 2018, proceeds from one called debt security available for sale totaled \$1.5 million. No gross gains or losses were recognized on the security called during the quarter. There were no maturities of debt securities available for sale during the quarter.

During the nine months ended September 30, 2018, there were no sales or maturities of debt securities available for sale. During the nine months ended September 30, 2018, proceeds from called debt securities available for sale totaled \$11.5 million, resulting in \$116,000 in gross gains and no gross losses.

Debt securities available for sale having a carrying value of \$203.4 million and \$232.7 million, respectively, at September 30, 2019 and December 31, 2018, respectively, were pledged as security for public funds on deposit at the Bank as required and permitted by law.

The following tables summarize the fair value and gross unrealized losses of those securities that reported an unrealized loss at September 30, 2019 and December 31, 2018 and if the unrealized loss position was continuous for the twelve months prior to those respective dates:

	September 30, 2019					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
	(In thousands)					
U.S. government and agency obligations	\$ —	\$ —	\$ 14,970	\$ (22)	\$ 14,970	\$ (22)
Mortgage-backed securities and collateralized mortgage obligations	70,393	(161)	59,713	(343)	130,106	(504)
Corporate debt securities	4,961	(39)	9,371	(630)	14,332	(669)
Trust preferred securities	—	—	4,541	(459)	4,541	(459)
	<u>\$ 75,354</u>	<u>\$ (200)</u>	<u>\$ 88,595</u>	<u>\$ (1,454)</u>	<u>\$ 163,949</u>	<u>\$ (1,654)</u>

	December 31, 2018					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
	(In thousands)					
U.S. government and agency obligations	\$ 14,668	\$ (202)	\$ 29,437	\$ (515)	\$ 44,105	\$ (717)
Mortgage-backed securities and collateralized mortgage obligations	176,614	(1,034)	509,397	(16,402)	686,011	(17,436)
Corporate debt securities	26,480	(512)	9,358	(643)	35,838	(1,155)
Trust preferred securities	—	—	4,250	(750)	4,250	(750)
	<u>\$ 217,762</u>	<u>\$ (1,748)</u>	<u>\$ 552,442</u>	<u>\$ (18,310)</u>	<u>\$ 770,204</u>	<u>\$ (20,058)</u>

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

5. Debt Securities Available for Sale (continued)

The Company evaluates securities for other-than-temporary impairment at each reporting period and more frequently when economic or market conditions warrant such evaluation. The temporary loss position associated with debt securities available for sale was the result of changes in market interest rates relative to the coupon of the individual security and changes in credit spreads. The Company does not have the intent to sell securities in a temporary loss position at September 30, 2019, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of September 30, 2019 totaled 41, compared with 151 at December 31, 2018. All temporarily impaired securities were investment grade as of September 30, 2019 and December 31, 2018.

The Company did not record an other-than-temporary impairment charge on debt securities available for sale during the three and nine months ended September 30, 2019 and 2018.

6. Debt Securities Held to Maturity

Debt securities held to maturity at September 30, 2019 and December 31, 2018 are summarized as follows:

September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
(In thousands)				
U.S. government and agency obligations	\$ 25,000	\$ 70	\$ (142)	\$ 24,928
Mortgage-backed securities and collateralized mortgage obligations	264,089	7,342	(34)	271,397
	<u>\$ 289,089</u>	<u>\$ 7,412</u>	<u>\$ (176)</u>	<u>\$ 296,325</u>

December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
(In thousands)				
U.S. government and agency obligations	\$ 23,404	\$ 45	\$ (208)	\$ 23,241
Mortgage-backed securities and collateralized mortgage obligations	238,739	28	(7,167)	231,600
	<u>\$ 262,143</u>	<u>\$ 73</u>	<u>\$ (7,375)</u>	<u>\$ 254,841</u>

The amortized cost and fair value of debt securities held to maturity at September 30, 2019, by contractual final maturity, is shown below. Expected maturities may differ from contractual maturities due to prepayment or early call options exercised by the issuer.

		September 30, 2019	
		Amortized Cost	Fair Value
(In thousands)			
More than five years to ten years	\$	5,000	\$ 5,002
More than ten years		20,000	19,926
		25,000	24,928
Mortgage-backed securities and collateralized mortgage obligations		264,089	271,397
	\$	289,089	\$ 296,325

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

6. Debt Securities Held to Maturity (continued)

Mortgage-backed securities and collateralized mortgage obligations totaling \$264.1 million at amortized cost, and \$271.4 million at fair value, are not classified by maturity in the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

During the three months ended September 30, 2019, there were no sales or maturities of debt securities held to maturity. During the three months ended September 30, 2019, proceeds from calls of debt securities held to maturity totaled \$23.4 million, resulting in \$24,000 of gross gains and no gross losses.

During the nine months ended September 30, 2019, there were no sales or maturities of debt securities held to maturity. During the nine months ended September 30, 2019, proceeds from calls of debt securities held to maturity totaled \$28.4 million, resulting in \$24,000 of gross gains and no gross losses.

During the three and nine months ended September 30, 2018, there were no sales, calls or maturities of debt securities held for maturity.

Debt securities held to maturity having a carrying value of \$180.4 million and \$187.0 million, at September 30, 2019 and December 31, 2018, respectively, were pledged as security for public funds on deposit at the Bank as required and permitted by law.

The following tables summarize the fair value and gross unrealized losses of those securities that reported an unrealized loss at September 30, 2019 and December 31, 2018 and if the unrealized loss position was continuous for the twelve months prior to September 30, 2019 and December 31, 2018:

	September 30, 2019					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
	(In thousands)					
U.S. government and agency obligations	\$ 9,858	\$ (142)	\$ —	\$ —	\$ 9,858	\$ (142)
Mortgage-backed securities and collateralized mortgage obligations	5,989	(30)	941	(4)	6,930	(34)
	<u>\$ 15,847</u>	<u>\$ (172)</u>	<u>\$ 941</u>	<u>\$ (4)</u>	<u>\$ 16,788</u>	<u>\$ (176)</u>

	December 31, 2018					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
	(In thousands)					
U.S. government and agency obligations	\$ —	\$ —	\$ 8,197	\$ (208)	\$ 8,197	\$ (208)
Mortgage-backed securities and collateralized mortgage obligations	11,265	(69)	213,246	(7,098)	224,511	(7,167)
	<u>\$ 11,265</u>	<u>\$ (69)</u>	<u>\$ 221,443</u>	<u>\$ (7,306)</u>	<u>\$ 232,708</u>	<u>\$ (7,375)</u>

The Company evaluates securities for other-than-temporary impairment at each reporting period and more frequently when economic or market conditions warrant such evaluation. The temporary loss position associated with debt securities held to maturity was the result of changes in market interest rates relative to the coupon of the individual security and changes in credit spreads. The Company does not have the intent to sell securities in a temporary loss position at September 30, 2019, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

6. Debt Securities Held to Maturity (continued)

The number of securities in an unrealized loss position as of September 30, 2019 totaled 20, compared with 88 at December 31, 2018. All temporarily impaired securities were investment grade as of September 30, 2019 and December 31, 2018.

The Company did not record an other-than-temporary impairment charge on debt securities held to maturity during the three and nine months ended September 30, 2019 and 2018.

7. Equity Securities at Fair Value

The Company has an equity securities portfolio which consists of investments in other financial institutions and a payment technology company, which is reported at fair value on the Company's consolidated statements of financial condition. The fair value of the equities portfolio at September 30, 2019 and December 31, 2018 was \$1.8 million and \$1.9 million, respectively.

The Company adopted ASU 2016-01 on January 1, 2019, resulting in a \$548,000 after tax cumulative-effect adjustment from other comprehensive income (loss) to retained earnings, as reflected in the consolidated statements of changes in stockholders' equity. The Company recorded the net (decrease)/increase in the fair value of equity securities of \$(59,000) and \$189,000, during the three and nine months ended September 30, 2019, as a component of non-interest income.

During the three months ended September 30, 2019, proceeds from the sale of one equity security totaled \$161,000, resulting in a gross gain of \$70,000. During the nine months ended September 30, 2019, proceeds from sales of equity securities totaled \$926,000, resulting in \$196,000 of gross gains and no gross losses. During the three and nine months ended September 30, 2018, there were no sales of equity securities.

8. Loans Receivable and Allowance for Loan Losses

Loans receivable at September 30, 2019 and December 31, 2018 are summarized as follows:

	September 30, 2019	December 31, 2018
	(In thousands)	
Real estate loans:		
One-to-four family	\$ 1,844,507	\$ 1,830,186
Multifamily and commercial	2,316,922	2,142,154
Construction	268,522	261,473
Commercial business loans	375,412	333,876
Consumer loans:		
Home equity loans and advances	362,432	393,492
Other consumer loans	1,681	1,108
Total gross loans	5,169,476	4,962,289
Net deferred loan costs, fees and purchased premiums and discounts	16,621	16,893
Loans receivable	<u>\$ 5,186,097</u>	<u>\$ 4,979,182</u>

The Company had no loans held-for-sale at September 30, 2019, and \$8.1 million of one-to-four family real estate loans held-for-sale at December 31, 2018. During the three and nine months ended September 30, 2019, the Company sold one-to-four family real estate loans held-for-sale totaling \$49.1 million and \$94.1 million, respectively. These sales resulted in gross gains of \$382,000 and \$710,000, respectively, and no gross losses. No gross gains or losses were recognized on loans held-for-sale during the three and nine months ended September 30, 2018.

During the three and nine months ended September 30, 2019 the Company sold \$2.3 million and \$4.8 million, respectively of one-to-four family and home equity loans included in loans receivable. No gross gains or losses were recognized on the sale of these loans. For the three and nine months ended September 30, 2019, the Company sold \$5.5 million of commercial real estate loans included in loans receivable. No gross gains or losses were recognized on the commercial real estate loans sold during the three and nine months ended September 30, 2019. During both the three and nine months ended September 30, 2018, the Company sold \$3.7 million of loans receivable. These sales of one-to-four family real estate loans to a third party resulted in gross gains of \$15,000 and no gross losses.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

During the three months ended September 30, 2019, there were no loans purchased by the Company. During the nine months ended September 30, 2019, the Company purchased \$5.0 million, of one-to-four family real estate loans and \$24.9 million of commercial real estate loans from third parties. There were no loans purchased by the Company during the three months ended September 30, 2018. The Company purchased \$2.6 million of one-to-four family real estate loans and \$2.1 million of commercial real estate loans from third parties during the nine months ended September 30, 2018.

At September 30, 2019 and December 31, 2018, the carrying value of loans serviced by the Company for investors was \$538.2 million and \$462.7 million, respectively.

The Company periodically enters into Guarantor Swaps with Freddie Mac which results in improved liquidity. During the three months ended September 30, 2019, no loans were securitized. During the nine months ended September 30, 2019, the Company securitized \$21.6 million of loans for a Freddie Mac Mortgage Participation Certificate. The Company retained the servicing of these loans. No loans were sold to Freddie Mac in exchange for Freddie Mac Mortgage Participation Certificates during the three and nine months ended September 30, 2018.

The following tables summarize the aging of loans receivable by portfolio segment at September 30, 2019 and December 31, 2018:

	September 30, 2019						
	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Total	
	(In thousands)						
Real estate loans:							
One-to-four family	\$ 5,326	\$ 1,958	\$ 1,647	\$ 8,931	\$ 1,835,576	\$ 1,844,507	
Multifamily and commercial	439	114	603	1,156	2,315,766	2,316,922	
Construction	—	—	—	—	268,522	268,522	
Commercial business loans	—	—	1,129	1,129	374,283	375,412	
Consumer loans:							
Home equity loans and advances	740	537	485	1,762	360,670	362,432	
Other consumer loans	—	—	—	—	1,681	1,681	
Total loans	\$ 6,505	\$ 2,609	\$ 3,864	\$ 12,978	\$ 5,156,498	\$ 5,169,476	
	December 31, 2018						
	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Total	
	(In thousands)						
Real estate loans:							
One-to-four family	\$ 8,384	\$ 1,518	\$ 819	\$ 10,721	\$ 1,819,465	\$ 1,830,186	
Multifamily and commercial	1,870	1,425	154	3,449	2,138,705	2,142,154	
Construction	—	—	—	—	261,473	261,473	
Commercial business loans	208	279	911	1,398	332,478	333,876	
Consumer loans:							
Home equity loans and advances	1,550	173	905	2,628	390,864	393,492	
Other consumer loans	—	—	—	—	1,108	1,108	
Total loans	\$ 12,012	\$ 3,395	\$ 2,789	\$ 18,196	\$ 4,944,093	\$ 4,962,289	

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

The Company considers a loan to be delinquent when we have not received a payment within 30 days of its contractual due date. Generally, a loan is designated as a non-accrual loan when the payment of interest is 90 days or more in arrears of its contractual due date. Non-accruing loans are returned to accrual status after there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible. The Company identifies loans that may need to be charged-off as a loss, by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectability. At September 30, 2019 and December 31, 2018, non-accrual loans totaled \$4.3 million and \$2.8 million, respectively. Included in non-accrual loans at September 30, 2019, are seven loans totaling \$433,000 which are less than 90 days in arrears. At December 31, 2018, no loans less than 90 days in arrears were included in non-accrual loans.

At September 30, 2019 and December 31, 2018, there were no loans past due 90 days or more and still accruing interest.

The following table provides information with respect to our non-accrual loans at September 30, 2019 and December 31, 2018:

	September 30,	December 31,
	2019	2018
	(In thousands)	
Non-accrual loans:		
Real estate loans:		
One-to-four family	\$ 1,799	\$ 819
Multifamily and commercial	603	154
Commercial business loans	1,195	911
Consumer loans:		
Home equity loans and advances	700	905
Total non-accrual loans	<u>\$ 4,297</u>	<u>\$ 2,789</u>

We may obtain physical possession of real estate collateralizing a residential mortgage loan via foreclosure or through an in-substance repossession. At September 30, 2019, the Company had no real estate owned. At December 31, 2018, we held one single-family property in real estate owned with a carrying value of \$92,000 that was acquired through foreclosure on a residential mortgage loan. At September 30, 2019 and December 31, 2018, we had 5 and 14 residential mortgage loans with carrying values of \$866,000 and \$1.6 million, respectively, collateralized by residential real estate which are in the process of foreclosure.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

The following tables summarize loans receivable and allowance for loan losses by portfolio segment and impairment method at September 30, 2019 and December 31, 2018:

	September 30, 2019								
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Unallocated	Total	
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	\$ 507	\$ 2	\$ —	\$ 607	\$ 14	\$ —	\$ —	\$ 1,130	
Collectively evaluated for impairment	15,226	22,967	7,760	13,421	2,117	8	—	61,499	
Total	\$ 15,733	\$ 22,969	\$ 7,760	\$ 14,028	\$ 2,131	\$ 8	\$ —	\$ 62,629	
Total loans:									
Individually evaluated for impairment	\$ 9,131	\$ 2,624	\$ —	\$ 7,099	\$ 2,706	\$ —	\$ —	\$ 21,560	
Collectively evaluated for impairment	1,835,376	2,314,298	268,522	368,313	359,726	1,681	—	5,147,916	
Total loans	\$ 1,844,507	\$ 2,316,922	\$ 268,522	\$ 375,412	\$ 362,432	\$ 1,681	\$ —	\$ 5,169,476	

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

December 31, 2018									
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Unallocated	Total	
(In thousands)									
Allowance for loan losses:									
Individually evaluated for impairment	\$ 537	\$ —	\$ —	\$ 366	\$ 12	\$ —	\$ —	\$ 915	
Collectively evaluated for impairment	14,695	23,251	7,217	13,810	2,446	8	—	61,427	
Total	<u>\$ 15,232</u>	<u>\$ 23,251</u>	<u>\$ 7,217</u>	<u>\$ 14,176</u>	<u>\$ 2,458</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 62,342</u>	
Total loans:									
Individually evaluated for impairment	\$ 9,048	\$ 2,695	\$ —	\$ 2,944	\$ 3,100	\$ —	\$ —	\$ 17,787	
Collectively evaluated for impairment	1,821,138	2,139,459	261,473	330,932	390,392	1,108	—	4,944,502	
Total loans	<u>\$ 1,830,186</u>	<u>\$ 2,142,154</u>	<u>\$ 261,473</u>	<u>\$ 333,876</u>	<u>\$ 393,492</u>	<u>\$ 1,108</u>	<u>\$ —</u>	<u>\$ 4,962,289</u>	

Loan modifications to borrowers experiencing financial difficulties that are considered troubled debt restructurings ("TDRs") primarily involve the lowering of the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

There were no loans modified during the three months ended September 30, 2019 and 2018. The following table presents the number of loans modified as TDRs during the nine months ended September 30, 2019 and 2018, along with their balances immediately prior to the modification date and post-modification. Post-modification recorded investment represents the net book balance immediately following modification.

For the Nine Months Ended September 30,					
2019			2018		
No. of Loans	Pre-modification Recorded Investment	Post- modification Recorded Investment	No. of Loans	Pre-modification Recorded Investment	Pre-modification Recorded Investment
(Dollars in thousands)					
Troubled Debt Restructurings					
Real estate loans:					
One-to-four family	—	\$ —	4	\$ 462	\$ 462
Commercial business loans	1	4,095	—	—	—
Consumer loans:					
Home equity loans and advances	—	—	1	588	588
Total restructured loans	1	\$ 4,095	5	\$ 1,050	\$ 1,050

The activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2019 and 2018 are as follows:

For the Three Months Ended September 30,									
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Unallocated	Total	
(In thousands)									
2019									
Balance at beginning of period	\$ 15,610	\$ 22,679	\$ 8,806	\$ 12,718	\$ 2,583	\$ 7	\$ —	\$ 62,403	
Provision charged (credited)	347	290	(1,047)	2,040	(474)	1	—	1,157	
Recoveries	4	—	1	8	22	—	—	35	
Charge-offs	(228)	—	—	(738)	—	—	—	(966)	
Balance at end of period	<u>\$ 15,733</u>	<u>\$ 22,969</u>	<u>\$ 7,760</u>	<u>\$ 14,028</u>	<u>\$ 2,131</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 62,629</u>	
2018									
Balance at beginning of period	\$ 18,549	\$ 22,802	\$ 6,728	\$ 10,920	\$ 2,870	\$ 7	\$ 648	\$ 62,524	
Provision charged (credited)	(809)	965	420	1,118	202	1	(397)	1,500	
Recoveries	108	—	—	24	17	—	—	149	
Charge-offs	(323)	—	—	(197)	(246)	(1)	—	(767)	
Balance at end of period	\$ 17,525	\$ 23,767	\$ 7,148	\$ 11,865	\$ 2,843	\$ 7	\$ 251	\$ 63,406	

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

	For the Nine Months Ended September 30,								
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Unallocated	Total	
	(In thousands)								
2019									
Balance at beginning of period	\$ 15,232	\$ 23,251	\$ 7,217	\$ 14,176	\$ 2,458	\$ 8	\$ —	\$ 62,342	
Provision charged (credited)	1,215	(282)	541	485	(255)	1	—	1,705	
Recoveries	29	—	2	374	29	—	—	434	
Charge-offs	(743)	—	—	(1,007)	(101)	(1)	—	(1,852)	
Balance at end of period	<u>\$ 15,733</u>	<u>\$ 22,969</u>	<u>\$ 7,760</u>	<u>\$ 14,028</u>	<u>\$ 2,131</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 62,629</u>	
2018									
Balance at beginning of period	\$ 19,991	\$ 19,933	\$ 5,217	\$ 8,275	\$ 4,577	\$ 8	\$ 177	\$ 58,178	
Provision charged (credited)	(2,362)	3,962	1,928	3,902	(1,607)	3	74	5,900	
Recoveries	280	—	3	111	119	5	—	518	
Charge-offs	(384)	(128)	—	(423)	(246)	(9)	—	(1,190)	
Balance at end of period	\$ 17,525	\$ 23,767	\$ 7,148	\$ 11,865	\$ 2,843	\$ 7	\$ 251	\$ 63,406	

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

The following tables present loans individually evaluated for impairment by loan segment at September 30, 2019 and December 31, 2018:

	At September 30, 2019		
	Recorded Investment	Unpaid Principal Balance	Specific Allowance
	(In thousands)		
With no allowance recorded:			
Real estate loans:			
One-to-four family	\$ 4,420	\$ 5,565	\$ —
Multifamily and commercial	1,511	2,212	—
Commercial business loans	2,223	2,411	—
Consumer loans:			
Home equity loans and advances	1,632	1,769	—
	9,786	11,957	—
With a specific allowance recorded:			
Real estate loans:			
One-to-four family	4,711	4,761	507
Multifamily and commercial	1,113	1,113	2
Commercial business loans	4,876	4,876	607
Consumer loans:			
Home equity loans and advances	1,074	1,074	14
	11,774	11,824	1,130
Total:			
Real estate loans:			
One-to-four family	9,131	10,326	507
Multifamily and commercial	2,624	3,325	2
Commercial business loans	7,099	7,287	607
Consumer loans:			
Home equity loans and advances	2,706	2,843	14
Total loans	\$ 21,560	\$ 23,781	\$ 1,130

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

	At December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Specific Allowance
	(In thousands)		
With no allowance recorded:			
Real estate loans:			
One-to-four family	\$ 4,156	\$ 5,307	\$ —
Multifamily and commercial	2,695	3,482	—
Commercial business loans	2,285	2,374	—
Consumer loans:			
Home equity loans and advances	2,511	2,866	—
	11,647	14,029	—
With a specific allowance recorded:			
Real estate loans:			
One-to-four family	4,892	4,939	537
Commercial business loans	659	768	366
Consumer loans:			
Home equity loans and advances	589	589	12
	6,140	6,296	915
Total:			
Real estate loans:			
One-to-four family	9,048	10,246	537
Multifamily and commercial	2,695	3,482	—
Commercial business loans	2,944	3,142	366
Consumer loans:			
Home equity loans and advances	3,100	3,455	12
	\$ 17,787	\$ 20,325	\$ 915

Specific allocations of the allowance for loan losses attributable to impaired loans totaled \$1.1 million and \$915,000 at September 30, 2019 and December 31, 2018, respectively. At September 30, 2019 and December 31, 2018, impaired loans for which there was no related allowance for loan losses totaled \$9.8 million and \$11.6 million, respectively.

The recorded investment in TDRs totaled \$18.7 million at September 30, 2019, of which there were no loans which had a payment default within the twelve month period ending September 30, 2019. The recorded investment in TDRs totaled \$16.0 million at December 31, 2018, of which there no loans which had a payment default within the twelve month period ending December 31, 2018.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

The following tables present interest income recognized for loans individually evaluated for impairment, by loan segment, for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
Real estate loans:				
One-to-four family	\$ 8,773	\$ 101	\$ 10,606	\$ 107
Multifamily and commercial	2,637	37	2,717	30
Construction	850	—	—	—
Commercial business loans	7,461	88	3,098	24
Consumer loans:				
Home equity loans and advances	2,629	35	3,447	39
Total loans	<u>\$ 22,350</u>	<u>\$ 261</u>	<u>\$ 19,868</u>	<u>\$ 200</u>

	For the Nine Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
Real estate loans:				
One-to-four family	\$ 9,144	\$ 340	\$ 10,873	\$ 105
Multifamily and commercial	2,667	111	2,961	29
Construction	850	—	—	—
Commercial business loans	5,848	268	3,390	25
Consumer loans:				
Home equity loans and advances	2,866	122	3,233	39
Total loans	<u>\$ 21,375</u>	<u>\$ 841</u>	<u>\$ 20,457</u>	<u>\$ 198</u>

The Company utilizes an eight-point risk rating system to summarize its loan portfolio into categories with similar risk characteristics. Loans deemed to be “acceptable quality” are rated 1 through 4 (Pass), with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of “questionable quality” are rated 5 (Special Mention) or 6 (Substandard). Loans with adverse classifications are rated 7 (Doubtful) or 8 (Loss). The risk ratings are also confirmed through periodic loan review examinations which are currently performed by both an independent third-party and the Company's credit risk review department. The Company requires an annual review be performed above certain dollar thresholds, depending on loan type, to help determine the appropriate risk ratings. Results from examinations are presented to the Audit Committee of the Board of Directors.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

8. Loans Receivable and Allowance for Loan Losses (continued)

The following tables present loans receivable by credit risk indicator and by loan segment:

At September 30, 2019							
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Total
(In thousands)							
Pass	\$ 1,841,273	\$ 2,303,084	\$ 268,522	\$ 351,083	\$ 361,384	\$ 1,681	\$ 5,127,027
Special mention	—	140	—	14,086	—	—	14,226
Substandard	3,234	13,698	—	10,243	1,048	—	28,223
Doubtful	—	—	—	—	—	—	—
Total	<u>\$ 1,844,507</u>	<u>\$ 2,316,922</u>	<u>\$ 268,522</u>	<u>\$ 375,412</u>	<u>\$ 362,432</u>	<u>\$ 1,681</u>	<u>\$ 5,169,476</u>

December 31, 2018							
	One-to-Four Family	Multifamily and Commercial	Construction	Commercial Business	Home Equity Loans and Advances	Other Consumer Loans	Total
(In thousands)							
Pass	\$ 1,826,066	\$ 2,128,680	\$ 261,473	\$ 320,451	\$ 392,092	\$ 1,108	\$ 4,929,870
Special mention	—	—	—	9,074	—	—	9,074
Substandard	4,120	13,474	—	4,351	1,400	—	23,345
Doubtful	—	—	—	—	—	—	—
Total	<u>\$ 1,830,186</u>	<u>\$ 2,142,154</u>	<u>\$ 261,473</u>	<u>\$ 333,876</u>	<u>\$ 393,492</u>	<u>\$ 1,108</u>	<u>\$ 4,962,289</u>

9. Deposits

Deposits at September 30, 2019 and December 31, 2018 are summarized as follows:

	September 30, 2019	December 31, 2018
(In thousands)		
Non-interest-bearing demand	\$ 771,138	\$ 723,794
Interest-bearing demand	1,421,064	1,219,381
Money market accounts	262,194	259,694
Savings and club deposits	464,089	510,688
Certificates of deposit	1,864,837	1,700,316
Total deposits	<u>\$ 4,783,322</u>	<u>\$ 4,413,873</u>

The aggregate amount of certificates of deposit that meet or exceed \$100,000 totaled approximately \$1.0 billion and \$885.3 million as of September 30, 2019 and December 31, 2018, respectively.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

9. Deposits (continued)

Interest expense on deposits for the three and nine months ended September 30, 2019 and September 30, 2018 totaled \$16.1 million and \$10.4 million, and \$45.0 million and \$27.7 million, respectively.

Scheduled maturities of certificates of deposit accounts at September 30, 2019 and December 31, 2018 are summarized as follows:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(In thousands)	
One year or less	\$ 1,216,491	\$ 1,107,667
After one year to two years	464,718	326,800
After two years to three years	160,181	230,468
After three years to four years	9,502	24,939
After four years	13,945	10,442
	<u>\$ 1,864,837</u>	<u>\$ 1,700,316</u>

10. Stock Based Compensation

At the annual meeting held on June 6, 2019, stockholders of the Company approved the Columbia Financial, Inc. 2019 Equity Incentive Plan ("2019 Plan") which provides for the issuance of up to 7,949,996 shares (2,271,427 restricted stock awards and 5,678,569 stock options) of Columbia Financial Inc. common stock.

On July 23, 2019, 1,389,570 shares of restricted stock were awarded, with a grant date fair value of \$15.60 per share. To fund the grant of restricted common stock, the Company issued shares from authorized unissued shares. Restricted shares granted under the 2019 Plan vest in equal installments, over the performance or service periods ranging from three to five years, beginning one year from the date of grant. A portion of restricted shares awarded are performance vesting awards, which may or may not vest depending upon the attainment of certain corporate financial targets. Management recognizes compensation expense for the fair value of restricted shares on a straight line basis over the requisite performance or service period. During the three and nine months ended September 30, 2019, approximately \$1.0 million in expense was recognized in regard to these awards. There was no restricted stock expense recorded for the three and nine months ended September 30, 2018. The expected future compensation expense related to the 1,389,570 non-vested restricted shares outstanding at September 30, 2019 is approximately \$20.6 million over a weighted average period of 4.0 years.

The following is a summary of the Company's restricted stock activity during the nine months ended September 30, 2019:

	<u>Number of Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, January 1, 2019	—	\$ —
Granted	1,389,570	15.60
Outstanding, September 30, 2019	<u>1,389,570</u>	<u>\$ 15.60</u>

On July 23, 2019, options to purchase 3,707,901 shares of Company common stock were awarded, with a grant date fair value of \$4.25 per option. Stock options granted under the 2019 Plan vest in equal installments over the service period of five years beginning one year from the date of grant. Stock options were granted at an exercise price of \$15.60, which represents the fair value of the Company's common stock price on the grant date based on the closing market price, and have an expiration period of 10 years.

The fair value of stock options granted was estimated utilizing the Black-Scholes option pricing model using the following assumptions: expected life of 6.5 years, risk-free rate of return of 1.90%, volatility of 22.12%, and a dividend yield of 0.00%.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

10. Stock Based Compensation (continued)

The expected life of the options represents the period of time that stock options are expected to be outstanding and is estimated using the simplified approach, which assumes that all outstanding options will be exercised at the midpoint of the vesting date and full contractual term. The risk-free rate of return is based on the rates on the grant date of a U.S. Treasury Note with a term equal to the expected option life. Since the Company recently converted to a public Company and does not have sufficient historical price data, the expected volatility is based on the historical daily stock prices of a peer group of similar entities based on factors such as industry, stage of life cycle, size and financial leverage. The Company has not paid any cash dividends on its common stock.

Management recognizes expense for the fair value of these awards on a straight line basis over the requisite service period. During the three and nine months ended September 30, 2019, approximately \$601,000 in expense was recognized in regard to these awards. There was no stock option expense recorded for the three and nine months ended September 30, 2018. The expected future compensation expense related to the 3,707,901 non-vested options outstanding at September 30, 2019 is \$15.2 million over a weighted average period of 4.8 years.

The following is a summary of the Company's option activity during the nine months ended September 30, 2019:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, January 1, 2019	—	\$ —	—	\$ —
Granted	3,707,901	\$ 15.6	9.8	\$ 704,501
Outstanding, September 30, 2019	3,707,901	\$ 15.6	9.8	\$ 704,501
Options exercisable at September 30, 2019	—	\$ —	—	\$ —

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options.

11. Components of Net Periodic Benefit Cost

Pension Plan, Retirement Income Maintenance Plan (the "RIM Plan") and Post-retirement Plan

The Company maintains a single employer, tax-qualified defined benefit pension plan (the "Pension Plan") which covers full-time employees that satisfy the Pension Plan's eligibility requirements. The benefits are based on years of service and the employee's compensation during the last five years of employment. Effective October 1, 2018, employees hired by the Bank are not eligible to participate in the Pension Plan as the Pension Plan has been closed to new employees as of that date.

The Company also has a Retirement Income Maintenance Plan (the "RIM Plan") which is a non-qualified defined benefit plan which provides benefits to all employees of the Company if their benefits under the Pension Plan are limited by Internal Revenue Code 415 and 401(a)(17).

In addition, the Company provides certain health care and life insurance benefits to eligible retired employees under a Post-retirement Plan. The Company accrues the cost of retiree health care and other benefits during the employees' period of active service. Effective January 1, 2019, the Post-retirement Plan has been closed to new hires. The Company also provides life insurance benefits to eligible employees under an endorsement split-dollar life insurance program.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

11. Components of Net Periodic Benefit Cost (continued)

Net periodic benefit (income) cost for Pension Plan, RIM Plan, Post-retirement Plan and split-dollar life insurance arrangement plan benefits for the three and nine months ended September 30, 2019 and 2018, includes the following components:

For the Three Months Ended September 30,							Affected Line Item in the Consolidated Statements of Income
Pension Plan		RIM Plan		Post-retirement Plans			
2019	2018	2019	2018	2019	2018		
(In thousands)							
Service cost	\$ 1,746	\$ 1,780	\$ 53	\$ 61	\$ 172	\$ 93	Compensation and employee benefits
Interest cost	2,090	2,129	116	111	321	205	Other non-interest expense
Expected return on plan assets	(5,802)	(4,815)	—	—	—	—	Other non-interest expense
Amortization:							
Prior service cost	—	—	—	—	14	(34)	Other non-interest expense
Net loss	770	707	61	103	99	69	Other non-interest expense
Net periodic (income) benefit cost	<u>\$ (1,196)</u>	<u>\$ (199)</u>	<u>\$ 230</u>	<u>\$ 275</u>	<u>\$ 606</u>	<u>\$ 333</u>	
For the Nine Months Ended September 30,							
Pension Plan		RIM Plan		Post-retirement Plans			
2019	2018	2019	2018	2019	2018		
(In thousands)							
Service cost	\$ 4,748	\$ 5,340	\$ 159	\$ 183	\$ 516	\$ 279	Compensation and employee benefits
Interest cost	6,478	6,387	348	333	963	615	Other non-interest expense
Expected return on plan assets	(15,256)	(14,445)	—	—	—	—	Other non-interest expense
Amortization:							
Prior service cost	—	—	—	—	42	(102)	Other non-interest expense
Net loss	2,300	2,121	183	309	297	207	Other non-interest expense
Net periodic (income) benefit cost	<u>\$ (1,730)</u>	<u>\$ (597)</u>	<u>\$ 690</u>	<u>\$ 825</u>	<u>\$ 1,818</u>	<u>\$ 999</u>	

Effective January 1, 2019, the Company implemented ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*. Under this ASU, the FASB requires employers to report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the consolidated statements of income separately from the service cost component. The table above details the affected line items within the consolidated statements of income related to the net periodic benefits costs for the periods noted. This ASU is also required to be applied retrospectively to all periods presented.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

11. Components of Net Periodic Benefit Cost (continued)

The following table summarizes the impact of retrospective application to the consolidated statements of income for the three and nine months ended September 30, 2018:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
	(In thousands)	
Compensation and employee benefits:		
As previously reported	\$ 16,654	\$ 49,929
As reported under new guidance	18,179	54,503
Other non-interest expense:		
As previously reported	\$ 3,304	\$ 9,599
As reported under new guidance	1,779	5,024

During the nine months ended September 30, 2019, the Bank contributed \$35.0 million which increased the funded status of the Plan to meet the approximate maximum tax deductible contribution limit. The net periodic cost (income) for pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2019 were calculated using the the most recent available benefit valuations.

12. Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

In January 2016, the FASB issued ASU 2016-01- "Financial Instruments". This guidance amended existing guidance to improve accounting standards for financial instruments including clarification and simplification of the accounting and disclosure requirements and the requirement to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The Company adopted the guidance effective January 1, 2019, and the fair value of the Company's loan portfolio is now presented using an exit price method.

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: Unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access on the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in markets that are active or not active, or inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require unobservable inputs that are both significant to the fair value measurement and unobservable (i.e., supported by minimal or no market activity). Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

The valuation techniques are based upon the unpaid principal balance only and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on the discount or premium.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The methods described below were used to measure fair value of financial instruments as reflected in the tables below on a recurring basis as of September 30, 2019 and December 31, 2018.

Debt Securities Available for Sale, at Fair Value

For debt securities available for sale, fair value was estimated using a market approach. The majority of these securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third-party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to a benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analysis on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to assess the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in an adjustment in the prices obtained from the pricing service. The Company may hold debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Equity Securities, at Fair Value

The Company holds equity securities that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Derivatives

The Company records all derivatives included in other assets and liabilities on the consolidated statements of financial condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. See note 14 for disclosures related to the accounting treatment for derivatives.

The fair value of the Company's derivatives is determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of September 30, 2019 and December 31, 2018, by level within the fair value hierarchy:

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

September 30, 2019				
	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Debt securities available for sale:				
U.S. government and agency obligations	\$ 45,131	\$ 45,131	\$ —	\$ —
Mortgage-backed securities and collateralized mortgage obligations	1,001,443	—	1,001,443	—
Municipal obligations	190	—	190	—
Corporate debt securities	64,600	—	64,600	—
Trust preferred securities	4,541	—	4,541	—
Total debt securities available for sale	1,115,905	45,131	1,070,774	—
Equity securities	1,765	1,765	—	—
Derivative assets	8,740	—	8,740	—
	<u>\$ 1,126,410</u>	<u>\$ 46,896</u>	<u>\$ 1,079,514</u>	<u>\$ —</u>
Derivative liabilities	<u>\$ 22,676</u>	<u>\$ —</u>	<u>\$ 22,676</u>	<u>\$ —</u>

December 31, 2018				
	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Debt securities available for sale:				
U.S. government and agency obligations	\$ 54,157	\$ 54,157	\$ —	\$ —
Mortgage-backed securities and collateralized mortgage obligations	920,007	—	920,007	—
Municipal obligations	987	—	987	—
Corporate debt securities	53,467	—	53,467	—
Trust preferred securities	4,250	—	4,250	—
Total debt securities available for sale	1,032,868	54,157	978,711	—
Equity securities	1,890	1,890	—	—
Derivative assets	1,342	—	1,342	—
	<u>\$ 1,036,100</u>	<u>\$ 56,047</u>	<u>\$ 980,053</u>	<u>\$ —</u>
Derivative liabilities	<u>\$ 3,944</u>	<u>\$ —</u>	<u>\$ 3,944</u>	<u>\$ —</u>

There were no transfers between Level 1, Level 2 and Level 3 during the three and nine months ended September 30, 2019 and September 30, 2018.

There were no Level 3 assets measured at fair value on a recurring basis at September 30, 2019 and December 31, 2018.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

Assets Measured at Fair Value on a Non-Recurring Basis

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of September 30, 2019 and December 31, 2018.

Collateral Dependent Impaired Loans

Loans which meet certain criteria are evaluated individually for impairment. For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell between 6.0% and 8.0%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Real Estate Owned

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell between 6.0% and 8.0%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraiser's market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value less estimated selling costs is charged to the allowance for loan losses. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred.

Mortgage Servicing Rights, Net ("MSR's")

Mortgage servicing rights are carried at the lower of cost or estimated fair value. The estimated fair value of MSRs is obtained through an analysis of future cash flows, incorporating assumptions that market participants would use in determining fair value including market discount rates, prepayments speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. A significant degree of judgment is involved in valuing the mortgage servicing rights using Level 3 inputs. The use of different assumptions could have a significant effect on this fair value estimate.

The following tables present the assets reported on the consolidated statements of financial condition at their fair values as of September 30, 2019 and December 31, 2018, by level within the fair value hierarchy:

	September 30, 2019			
	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Mortgage servicing rights	\$ 582	\$ —	\$ —	\$ 582
	\$ 582	\$ —	\$ —	\$ 582

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

	December 31, 2018			
	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value				
	(In thousands)			
Impaired loans	\$ 125	\$ —	\$ —	\$ 125
Real estate owned	92	—	—	92
Mortgage servicing rights	442	—	—	442
	\$ 659	\$ —	\$ —	\$ 659

At September 30, 2019, there were no impaired loans or real estate owned assets measured at fair value on a non-recurring basis.

The following table presents qualitative information for Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2019 and December 31, 2018:

September 30, 2019					
Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs	Weighted Average	
(In thousands)					
Mortgage servicing rights	\$ 582	Estimated cash flow	Prepayment speeds	5.8% - 21.4%	13.0%

December 31, 2018					
Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs	Weighted Average	
(In thousands)					
Impaired loans	\$ 125	Appraised value ⁽²⁾	Discount for cost to sell ⁽³⁾	6.0%	6.0%
Real estate owned	92	Contract sales price ⁽¹⁾	Discount for cost to sell ⁽³⁾	6.0%	6.0%
Mortgage servicing rights	442	Estimated cash flow	Prepayment speeds	3.3% - 26.8%	12.0%

(1) Value is based on signed contract for sale.

(2) Value is based on independent appraisal of the fair value of the loan's underlying collateral.

(3) Includes commissions, fees and other costs.

Other Fair Value Disclosures

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. A description of the valuation methodologies used for those assets and liabilities not recorded at fair value on a recurring or non-recurring basis are set forth below.

Cash and Cash Equivalents

For cash and due from banks, federal funds sold and short-term investments, the carrying amount approximates fair value due to their nature and short-term maturities.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

Debt Securities Held to Maturity

For debt securities held to maturity, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third-party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to a benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analysis on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to assess the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in an adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs within the fair value hierarchy.

Federal Home Loan Bank Stock ("FHLB")

The fair value of FHLB stock is based on redemption at par value and can only be sold to the issuing FHLB, to other FHLBs, or to other member banks. As such, the Company's FHLB stock is recorded at cost, or par value, and is evaluated for impairment each reporting period by considering the ultimate recoverability of the investment rather than temporary declines in value. The Company classifies the estimated fair value as Level 2 within the fair value hierarchy.

Loans Receivable

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction, and consumer and other. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories.

The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

In accordance with the prospective adoption of ASU 2016-01, the fair value of loans was measured using the exit price method as of September 30, 2019. The fair value of loans was measured using the entry price notion as of December 31, 2018.

Deposits

The fair value of deposits with no stated maturity, such as demand, money market, and savings and club deposits are payable on demand at each reporting date and classified as Level 2. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company's current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and is classified by the Company as Level 2 within the fair value hierarchy.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter-parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and letters of credit are deemed immaterial in comparison to their carrying value.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of September 30, 2019 and December 31, 2018:

	September 30, 2019					
			Fair Value Measurements			
	Carrying Value	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)					
Financial assets:						
Cash and cash equivalents	\$ 57,952	\$ 57,952	\$ 57,952	\$ —	\$ —	
Debt securities available for sale	1,115,905	1,115,905	45,131	1,070,774		
Debt securities held to maturity	289,089	296,325	24,928	271,397		
Equity securities	1,765	1,765	1,765	—		
Federal Home Loan Bank stock	57,077	57,077	—	57,077		
Loans held-for-sale	—	—	—	—		
Loans receivable, net	5,123,468	5,219,669	—	—		5,219,669
Derivative assets	8,740	8,740	—	8,740		
Financial liabilities:		—				
Deposits	\$ 4,783,322	\$ 4,789,970	\$ —	\$ 4,789,970	\$ —	
Borrowings	1,129,117	1,133,344	—	1,133,344		
Derivative liabilities	22,676	22,676	—	22,676		

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

12. Fair Value Measurements (continued)

	December 31, 2018					
	Fair Value Measurements					
	Carrying Value	Total Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	(In thousands)					
Financial assets:						
Cash and cash equivalents	\$ 42,201	\$ 42,201	\$ 42,201	\$ —	\$ —	\$ —
Debt securities available for sale	1,032,868	1,032,868	54,157	978,711		—
Debt securities held to maturity	262,143	254,841	23,241	231,600		—
Equity securities	1,890	1,890	1,890	—		—
Federal Home Loan Bank stock	58,938	58,938	—	58,938		—
Loans held-for-sale	8,081	8,081	—	8,081		—
Loans receivable, net	4,916,840	4,841,830	—	—		4,841,830
Derivative assets	1,342	1,342	—	1,342		—
Financial liabilities:						
Deposits	\$ 4,413,873	\$ 4,402,336	\$ —	\$ 4,402,336	\$ —	\$ —
Borrowings	1,189,180	1,185,007	—	1,185,007		—
Derivative liabilities	3,944	3,944	—	3,944		—

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because limited markets exist for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets, office properties and equipment, and bank-owned life insurance. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

13. Other Comprehensive Income (Loss)

The following tables present the components of other comprehensive income (loss), both gross and net of tax, for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,					
	2019			2018		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
(In thousands)						
Components of other comprehensive income (loss):						
Unrealized gains (losses) on debt securities available for sale:	\$ 6,186	\$ (1,271)	\$ 4,915	\$ (5,992)	\$ 634	\$ (5,358)
Accretion of unrealized gain on debt securities reclassified as held to maturity	2	—	2	1	(12)	(11)
Reclassification adjustment for gains included in net income	1,256	(291)	965	—	3	3
	7,444	(1,562)	5,882	(5,991)	625	(5,366)
Derivatives:						
Unrealized (loss) gain on swap contracts accounted for as cash flow hedges	(1,619)	340	(1,279)	1,554	(314)	1,240

	<u>(1,619)</u>	<u>340</u>	<u>(1,279)</u>	<u>1,554</u>	<u>(314)</u>	<u>1,240</u>
Employee benefit plans:						
Amortization of prior service cost included in net income	(14)	3	(11)	—	—	—
Reclassification adjustment of actuarial net (loss) included in net income	(930)	195	(735)	—	—	—
Change in funded status of retirement obligations	<u>1,887</u>	<u>(397)</u>	<u>1,490</u>	<u>—</u>	<u>(1,908)</u>	<u>(1,908)</u>
	<u>943</u>	<u>(199)</u>	<u>744</u>	<u>—</u>	<u>(1,908)</u>	<u>(1,908)</u>
Total other comprehensive income (loss)	<u>\$ 6,768</u>	<u>\$ (1,421)</u>	<u>\$ 5,347</u>	<u>\$ (4,437)</u>	<u>\$ (1,597)</u>	<u>\$ (6,034)</u>

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

13. Other Comprehensive Income (Loss) (continued)

	For the Nine Months Ended September 30,					
	2019			2018		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
(In thousands)						
Components of other comprehensive income (loss):						
Unrealized gains (losses) on debt securities available for sale:	\$ 35,781	\$ (7,479)	\$ 28,302	\$ (23,253)	\$ 5,067	\$ (18,186)
Accretion of unrealized gain (loss) on debt securities reclassified as held to maturity	13	(3)	10	(18)	5	(13)
Reclassification adjustment for gains included in net income	1,721	(396)	1,325	116	(26)	90
	37,515	(7,878)	29,637	(23,155)	5,046	(18,109)
Derivatives:						
Unrealized (loss) gain on swap contracts accounted for as cash flow hedges	(11,059)	2,324	(8,735)	2,232	(486)	1,746
	(11,059)	2,324	(8,735)	2,232	(486)	1,746
Employee benefit plans:						
Amortization of prior service cost included in net income	(42)	9	(33)	125	(27)	98
Reclassification adjustment of actuarial net (loss) gain included in net income	(2,779)	583	(2,196)	664	(144)	520
Change in funded status of retirement obligations	(2,785)	585	(2,200)	(789)	174	(615)
	(5,606)	1,177	(4,429)	—	3	3
Total other comprehensive income (loss)	\$ 20,850	\$ (4,377)	\$ 16,473	\$ (20,923)	\$ 4,563	\$ (16,360)

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

13. Other Comprehensive Income (Loss) (continued)

The following tables present the changes in the components of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2019 and 2018:

For the Three Months Ended September 30,								
2019				2018				
Unrealized Gains on Securities Available for Sale	Unrealized (Losses) on Swaps	Employee Benefit Plans	Accumulated Other Comprehensive (Loss)	Unrealized (Losses) on Securities Available for Sale	Unrealized Gains on Swaps	Employee Benefit Plans	Accumulated Other Comprehensive (Loss)	
(In thousands)								
Balance at beginning of period	\$ 9,981	\$ (9,462)	\$ (61,838)	\$ (61,319)	\$ (20,086)	\$ 730	\$ (56,380)	\$ (75,736)
Current period changes in other comprehensive income (loss)	5,882	(1,279)	744	5,347	(5,366)	1,240	(1,908)	(6,034)
Total other comprehensive income (loss)	<u>\$ 15,863</u>	<u>\$ (10,741)</u>	<u>\$ (61,094)</u>	<u>\$ (55,972)</u>	<u>\$ (25,452)</u>	<u>\$ 1,970</u>	<u>\$ (58,288)</u>	<u>\$ (81,770)</u>
For the Nine Months Ended September 30,								
2019				2018				
Unrealized Gains (Losses) on Securities Available for Sale	Unrealized (Losses) Gains on Swaps	Employee Benefit Plans	Accumulated Other Comprehensive (Loss)	Unrealized (Losses) on Securities Available for Sale	Unrealized Gains on Swaps	Employee Benefit Plans	Accumulated Other Comprehensive (Loss)	
(In thousands)								
Balance at beginning of period	\$ (13,226)	\$ (2,006)	\$ (56,665)	\$ (71,897)	\$ (7,343)	\$ 224	\$ (58,291)	\$ (65,410)
Effect of the adoption of ASU 2016-01	(548)	—	—	(548)	—	—	—	—
Balance at January 1, 2019	(13,774)	(2,006)	(56,665)	(72,445)	(7,343)	224	(58,291)	(65,410)
Current period changes in other comprehensive income (loss)	29,637	(8,735)	(4,429)	16,473	(18,109)	1,746	3	(16,360)
Total other comprehensive income (loss)	<u>\$ 15,863</u>	<u>\$ (10,741)</u>	<u>\$ (61,094)</u>	<u>\$ (55,972)</u>	<u>\$ (25,452)</u>	<u>\$ 1,970</u>	<u>\$ (58,288)</u>	<u>\$ (81,770)</u>

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

13. Other Comprehensive Income (Loss) (continued)

The following tables reflect amounts reclassified from accumulated other comprehensive income (loss) to the consolidated statements of income and the affected line item in the statement where net income is presented for the three and nine months ended September 30, 2019 and 2018:

	Accumulated Other Comprehensive Income (Loss) Components		
	For the Three Months Ended September 30,		Affected Line Items in the Consolidated Statements of Income
	2019	2018	
	(In thousands)		
Reclassification adjustment for gains included in net income	\$ 1,256	\$ —	Gains on securities transactions
Reclassification adjustment of actuarial net (loss) included in net income	(930)	—	Other non-interest expense
Total before tax	326	—	
Income (tax) benefit	(96)	3	
Net of tax	\$ 230	\$ 3	
	Accumulated Other Comprehensive Income (Loss) Components		
	For the Nine Months Ended September 30,		Affected Line Items in the Consolidated Statements of Income
	2019	2018	
	(In thousands)		
Reclassification adjustment for gains included in net income	\$ 1,721	\$ 116	Gains on securities transactions
Reclassification adjustment of actuarial net gain included in net income	(2,779)	664	Other non-interest expense
Total before tax	(1,058)	780	
Income (tax) benefit	187	(170)	
Net of tax	\$ (871)	\$ 610	

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

14. Derivatives and Hedging Activities

The Company uses derivative financial instruments as components of its market risk management, principally to manage interest rate risk. Certain derivatives are entered into in connection with transactions with commercial customers. Derivatives are not used for speculative purposes. All derivatives are recognized as either assets or liabilities in the consolidated statements of financial condition, reported at fair value and presented on a gross basis. Until a derivative is settled, a favorable change in fair value results in an unrealized gain that is recognized as an asset, while an unfavorable change in fair value results in an unrealized loss that is recognized as a liability.

The Company generally applies hedge accounting to its derivatives used for market risk management purposes. Hedge accounting is permitted only if specific criteria are met, including a requirement that a highly effective relationship exists between the derivative instrument and the hedged item, both at inception of the hedge and on an ongoing basis. Changes in the fair value of effective fair value hedges are recognized in current earnings (with the change in fair value of the hedged asset or liability also recognized in earnings). Changes in the fair value of effective cash flow hedges are recognized in other comprehensive income (loss) until earnings are affected by the variability in cash flows of the designated hedged item. Ineffective portions of hedge results are recognized in current earnings. Changes in the fair value of derivatives for which hedge accounting is not applied are recognized in current earnings.

The Company formally documents at inception all relationships between the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities, or to specific firm commitments. The Company also formally assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items. If it is determined that a derivative is not highly effective or has ceased to be a highly effective hedge, the Company would discontinue hedge accounting prospectively. Gains or losses resulting from the termination of a derivative accounted for as a cash flow hedge remain in other comprehensive income (loss) and is (accrued) amortized to earnings over the remaining period of the former hedging relationship.

Certain derivative financial instruments are offered to certain commercial banking customers to manage their risk of exposure and risk management strategies. These derivative instruments consist primarily of currency forward contracts and interest rate swap contracts. The risk associated with these transactions is mitigated by simultaneously entering into similar transactions having essentially offsetting terms with a third party. In addition, the Company executes interest rate swaps with third parties in order to hedge the interest rate risk of short-term FHLB advances.

Currency Forward Contracts. At September 30, 2019 and December 31, 2018, the Company had no currency forward contracts in place with commercial banking customers.

Interest Rate Swaps. At September 30, 2019, the Company had interest rate swaps in place with 15 commercial banking customers executed by offsetting interest rate swaps with third parties, with an aggregated notional amount of \$135.8 million. At December 31, 2018, the Company had interest rate swaps in place with three commercial banking customers executed by offsetting interest rate swaps with third parties, with an aggregated notional amount of \$36.6 million. These derivatives are not designated as hedges and are not speculative. These interest rate swaps do not meet hedge accounting requirements.

At September 30, 2019 and December 31, 2018, the Company had 29 and 24 interest rate swaps with notional amounts of \$410.0 million and \$320.0 million, respectively, hedging certain FHLB advances. These interest rate swaps meet the hedge accounting requirements.

Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counter-party in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount.

For the three and nine months ended September 30, 2019 and 2018, the Company did not record any hedge ineffectiveness associated with these contracts.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

14. Derivatives and Hedging Activities (continued)

The tables below present the fair value of the Company's derivative financial instruments as well as their classification in the consolidated statements of financial condition at September 30, 2019 and December 31, 2018:

September 30, 2019				
Asset Derivative			Liability Derivative	
Consolidated Statements of Financial Condition	Fair Value		Consolidated Statements of Financial Condition	Fair Value
(In thousands)				
Derivatives:				
Interest rate swaps	Other Assets	\$ 8,740	Other Liabilities	\$ 22,676
Total derivative instruments		<u>\$ 8,740</u>		<u>\$ 22,676</u>

December 31, 2018				
Asset Derivative			Liability Derivative	
Consolidated Statements of Financial Condition	Fair Value		Consolidated Statements of Financial Condition	Fair Value
(In thousands)				
Derivatives:				
Interest rate swaps	Other Assets	\$ 1,342	Other Liabilities	\$ 3,944
Total derivative instruments		<u>\$ 1,342</u>		<u>\$ 3,944</u>

For the three and nine months ended September 30, 2019, losses of \$75,000 and \$288,000, respectively, were recorded for changes in fair value of interest rate swaps with third parties. For the three and nine months ended September 30, 2018, \$14,000 of losses were recorded for changes in fair value of interest rate swaps with third parties.

At September 30, 2019 and December 31, 2018, accrued interest was \$210,000 and \$65,000, respectively.

The Company has agreements with counterparties that contain a provision that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default of its derivative obligations.

At September 30, 2019, the termination value of derivatives in a net liability position, which includes accrued interest, was \$13.9 million. The Company has collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of \$22.4 million against its obligations under these agreements.

15. Revenue Recognition

On January 1, 2019, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* and all subsequent ASUs that modified Topic 606. The Company performed a review and assessment of all revenue streams, the related contracts with customers, and the underlying performance obligations in those contracts. This guidance does not apply to revenue associated with financial instruments, including interest income on loans and securities, which comprise the majority of the Company's revenue. Revenue-generating activities that are within the scope of Topic 606, are components of non-interest income. These revenue streams can generally be classified as demand deposit account fees, title insurance fees and other fees.

The Company, using a modified retrospective transition approach, determined that there was no cumulative effect adjustment to retained earnings as a result of adopting the new standard, nor did the standard have a material impact on our consolidated financial statements including the timing or amounts of revenue recognized.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

15. Revenue Recognition (continued)

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2019 and 2018.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Non-interest income				
In-scope of Topic 606:				
Demand deposit account fees	\$ 1,106	\$ 1,000	\$ 3,116	\$ 2,920
Title insurance fees	1,350	1,189	3,490	3,218
Other non-interest income	1,189	1,144	3,467	3,418
Total in-scope non-interest income	3,645	3,333	10,073	9,556
Total out-of-scope non-interest income	6,470	1,957	12,855	5,724
Total non-interest income	<u>\$ 10,115</u>	<u>\$ 5,290</u>	<u>\$ 22,928</u>	<u>\$ 15,280</u>

Demand deposit account fees include monthly maintenance fees and service charges. These fees are generally derived as a result of either transaction-based or serviced-based services. The Company's performance obligation for these services is generally satisfied, and revenue recognized, at the time the transaction is completed or the service rendered. Fees for these services are generally received from the customer either at the time of the transaction or monthly.

Title insurance fees are generally recognized at the time the transaction closes or when the service is rendered.

Other non-interest income includes check printing fees, traveler's check fees, gift card fees, branch service fees, overdraft fees, account analysis fees, other deposit related fees, wealth management related fee income which includes annuity fees, brokerage commissions, and asset management fees. Wealth management related fee income represent fees earned from customers as consideration for asset management and investment advisory services provided by a third party. The Company's performance obligation is generally satisfied monthly and the resulting fees are recognized monthly based upon the month-end market value of the assets under management and the applicable fee rate. The Company does not earn performance-based incentives. The Company's performance obligation for these transaction-based services are generally satisfied, and related revenue recognized, at the time the transaction closes or when the service is rendered or a point in time when the service is completed.

Also included in other fees are debit card and ATM fees which are transaction-based. Debit card revenue is primarily comprised of interchange fees earned when a customer's Company card is processed through a card payment network. ATM fees are largely generated when a Company cardholder uses a non-Company ATM, or a non-Company cardholder uses a Company ATM. The Company's performance obligation for these services is satisfied when the service is rendered. Payment is generally received at time of transaction or monthly.

Out-of-scope non-interest income primarily consists of income from bank-owned life insurance, loan prepayment and servicing fees, net fees loan level swaps, gains and losses on the sale of loans and securities, and changes in the fair value of equity securities. None of these revenue streams are subject to the requirements of Topic 606.

16. Acquisition of Stewardship Financial Corporation

On November 1, 2019, the Company completed its previously announced acquisition of Stewardship Financial Corporation ("Stewardship"), pursuant to the Agreement and Plan of Merger, dated as of June 6, 2019 (the "Merger Agreement"), by and between the Company, Broadway Acquisition Corp., a wholly owned subsidiary of the Company ("Merger Sub"), and Stewardship.

Under the terms of the Merger Agreement, Merger Sub merged (the "First-Step Merger") with and into Stewardship, with Stewardship as the surviving entity, and immediately following the effective time of the First-Step Merger, Stewardship merged with and into the Company, with the Company as the surviving entity (together with the First-Step Merger, the "Merger"). Immediately following

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

16. Acquisition of Stewardship Financial Corporation (continued)

the consummation of the Merger, Atlantic Stewardship Bank, a wholly owned subsidiary of Stewardship, merged with and into Columbia Bank, a wholly owned subsidiary of Columbia, with Columbia Bank as the surviving bank.

Under the terms of the Merger Agreement, at the effective time of the merger, each outstanding share of Stewardship common stock was converted into the right to receive \$15.75 in cash.

Merger-related expenses which are recorded in the consolidated statements of income and include costs relating to the Company's acquisition of Stewardship, represent one-time costs associated with acquisition activities and do not represent ongoing costs of the fully integrated combined organization. Accounting guidance requires that acquisition-related transactional and restructuring costs incurred by the Company be charged to expense as incurred.

Based on the closing date of November 1, 2019, the Company's unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q do not reflect the changes attributable to the Company's acquisition of Stewardship.

17. Subsequent Events

The Company has evaluated events subsequent to September 30, 2019 and through the financial statement issuance date of November 12, 2019. See Note 16 regarding the Company's acquisition of Stewardship on November 1, 2019. Other than as disclosed, the Company has not identified any material subsequent events that would require adjustment or disclosure in the consolidated financial statements.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

Forward-Looking Statements

Certain statements contained herein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "project," "intend," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risk factors and uncertainties, including, but not limited to, those set forth in Item 1A of the Company's Annual Report on Form 10-K as supplemented by its Quarterly Reports on Form 10-Q, and those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets, and the availability of and costs associated with sources of liquidity.

The Company cautions readers not to place undue reliance on any such forward-looking statements which speak only as of the date made. The Company also advises readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not have any obligation to update any forward-looking statements to reflect any subsequent events or circumstances after the date of this statement.

Comparison of Financial Condition at September 30, 2019 and December 31, 2018

Total assets increased \$378.6 million, or 5.7%, to \$7.1 billion at September 30, 2019 from \$6.7 billion at December 31, 2018. The increase in total assets was primarily attributable to increases in debt securities available for sale of \$83.0 million, debt securities held to maturity of \$26.9 million, loans receivable, net of \$206.6 million, and other assets of \$40.7 million.

Debt securities available for sale increased \$83.0 million, or 8.0%, to \$1.1 billion at September 30, 2019 from \$1.0 billion at December 31, 2018. The increase was mainly attributable to purchases of \$143.2 million in U.S. agency obligations, mortgage-backed securities and corporate and municipal bonds, partially offset by maturities of \$797,000 in municipal securities, repayments of \$87.7 million in mortgage-backed securities, and sales of \$31.8 million in U.S. government obligations and mortgage-backed securities. The gross unrealized gain on debt securities available for sale increased by \$37.5 million during the period, due to current market conditions.

Debt securities held to maturity increased \$26.9 million, or 10.3%, to \$289.1 million at September 30, 2019 from \$262.1 million at December 31, 2018. The increase was mainly attributable to purchases of \$65.2 million in U.S. agency obligations, mortgage-backed securities and corporate bonds, partially offset by calls of \$28.4 million in U.S. agency obligations, and repayments of \$9.5 million in mortgage-backed securities.

Loans receivable, net, increased \$206.6 million, or 4.2%, to \$5.1 billion at September 30, 2019 from \$4.9 billion at December 31, 2018. The increase was mainly attributable to increases in one-to-four family real estate, multifamily and commercial real estate and commercial business loans of \$14.3 million, \$174.8 million, and \$41.5 million, respectively, partially offset by a decrease in home equity loans and advances of \$31.1 million. There has been steady growth in most segments of the loan portfolio due to favorable pricing, even though competition for loans has remained intense.

Office properties and equipment, net, increased \$11.7 million, or 22.4%, to \$63.7 million at September 30, 2019 from \$52.1 million at December 31, 2018. The increase is related to the renovation costs of premises and the upgrade of equipment at the executive and loan offices, and the costs related to newly opened branches.

Other assets increased \$40.7 million, or 38.0%, to \$147.8 million at September 30, 2019 from \$107.0 million at December 31, 2018. The increase was primarily attributable to a \$35.0 million contribution which increased the funded status of the Company's pension plan in June 2019.

Total liabilities increased \$358.9 million, or 6.3%, to \$6.1 billion at September 30, 2019 from \$5.7 billion at December 31, 2018. The increase was primarily attributable to an increase in total deposits of \$369.4 million, or 8.4%, coupled with an increase in accrued expense and other liabilities of \$47.0 million, or 55.6%, partially offset by a decrease of \$60.1 million, or 5.1%, in borrowings. The increase in total deposits consisted of increases in the balances of interest-bearing and non-interest-bearing demand accounts, as well as, certificates of deposit. The Bank's high yield checking account program experienced significant growth during the period, along with non-interest-bearing commercial demand accounts which were primarily obtained from existing commercial loan customers. Certificates of deposit balances also increased as the Bank continued to offer competitive rates on these products. The increase in accrued expenses

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

and other liabilities consisted of increases in investment purchases pending settlement and swap liabilities. The decrease in borrowings was attributable to maturing long-term borrowings of \$220.0 million, partially offset by proceeds from new long-term borrowings of \$127.3 million, and an increase of \$32.6 million in short-term borrowings.

Total stockholders' equity increased \$19.8 million, or 2.0%, to \$991.8 million at September 30, 2019 from \$972.1 million at December 31, 2018. The net increase was primarily attributable to net income of \$41.2 million, coupled with improved fair market values on debt securities within our available for sale portfolio, partially offset by the repurchase of approximately 2,742,000 shares of common stock for approximately \$42.1 million, through September 30, 2019, under our stock repurchase program.

Comparison of Results of Operations for the Quarter Ended September 30, 2019 and September 30, 2018

Net income of \$14.2 million was recorded for the quarter ended September 30, 2019, an increase of \$3.4 million, or 31.3%, compared to net income of \$10.8 million for the quarter ended September 30, 2018. The increase in net income was primarily attributable to a \$1.1 million increase in net interest income, a \$4.8 million increase in non-interest income, and a \$1.6 million decrease in income tax expense, which was partially offset by a \$4.5 million increase in non-interest expense.

Net interest income was \$41.7 million for the quarter ended September 30, 2019, an increase of \$1.1 million, or 2.8%, from \$40.6 million for the quarter ended September 30, 2018. The increase in net interest income was attributable to a \$6.7 million increase in interest income which was partially offset by a \$5.6 million increase in interest expense. The increase in interest income for the quarter ended September 30, 2019 was largely due to increases in the average balances and yields on loans, securities and other interest-earning assets. The increase in interest expense for the quarter ended September 30, 2019 was largely due to increases in both the average balances and yields on deposits and Federal Home Loan Bank borrowings.

The average yield on loans for the quarter ended September 30, 2019 increased 15 basis points to 4.16%, as compared to 4.01% for the quarter ended September 30, 2018, while the average yield on securities for the quarter ended September 30, 2019 increased 4 basis points to 2.79%, as compared to 2.75% for the quarter ended September 30, 2018. Increases in yields on loans for the quarter ended September 30, 2019 reflect more significant increases in balances of higher yielding multifamily and commercial loans. Interest income on loans for the quarter ended September 30, 2019 included \$758,000 in prepayment fee income on construction, multifamily and commercial loans as compared to \$13,000 for the quarter ended September 30, 2018, as prepayment levels increased during the 2019 period. The average yield on other interest-earning assets for the quarter ended September 30, 2019 increased 165 basis points to 6.10%, as compared to 4.45% for the quarter ended September 30, 2018. This was mainly a result of the 2019 average balance of other interest-earning assets including a higher average balance of Federal Home Loan Bank stock which yielded a higher rate than other interest-earning assets.

Total interest expense was \$22.7 million for the quarter ended September 30, 2019, an increase of \$5.6 million, or 32.8%, from \$17.1 million for the quarter ended September 30, 2018. The increase in interest expense was primarily attributable to a \$155.1 million increase in the average balance of interest-bearing demand accounts and a \$309.5 million increase in the average balance of certificates of deposits, partially offset by a decrease of \$54.0 million in the average balance of savings and club accounts, coupled with a 44 basis point increase in the average cost of interest-bearing deposits. The increase in the cost of deposits was primarily driven by higher market rates and a shift in the mix from non-maturity deposits to higher costing certificates of deposit. The increase in interest on borrowings was attributable to a \$70.4 million increase in the average balance of Federal Home Loan Bank advances coupled with a 24 basis point increase in the cost of these borrowings.

The Company's net interest margin for the quarter ended September 30, 2019 decreased 13 basis points to 2.52%, when compared to 2.65% for the quarter ended September 30, 2018. The weighted average yield on interest-earning assets increased 13 basis points to 3.89% for the quarter ended September 30, 2019 as compared to 3.76% for the quarter ended September 30, 2018. The average cost of interest-bearing liabilities increased 30 basis points to 1.77% for the quarter ended September 30, 2019 as compared to 1.47% for the quarter ended September 30, 2018. Increases in yields and costs for the quarter ended September 30, 2019 were largely driven by competitive pricing pressures in a higher market interest rate environment.

The provision for loan losses was \$1.2 million for the quarter ended September 30, 2019, a decrease of \$343,000, or 22.9%, from \$1.5 million for the quarter ended September 30, 2018. The decrease was primarily driven by a decrease in historical loss factors, partially offset by the level of growth in the loan portfolio. Net charge offs increased to \$931,000 for the quarter ended September 30, 2019, as compared to \$618,000 for the quarter ended September 30, 2018.

Non-interest income was \$10.1 million for the quarter ended September 30, 2019, an increase of \$4.8 million, or 91.2%, from \$5.3 million for the quarter ended September 30, 2018. The increase was primarily attributable to an increase in income from loan fees and service charges of \$2.4 million, which represented an increase in income from customer swap transactions, and gains on the sale of

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

securities and loans of \$1.3 million and \$382,000, respectively. There were no realized gains on the sale of securities or loans for the quarter ended September 30, 2018. In addition, there was an increase of \$475,000 in income from bank-owned life insurance which included income related to a death benefit of \$461,000 during the 2019 period.

Non-interest expense was \$31.1 million for the quarter ended September 30, 2019, an increase of \$4.5 million, or 16.8%, from \$26.6 million for the quarter ended September 30, 2018. This increase was attributable to an increase in compensation and employee benefits of \$3.2 million, an increase in professional fees of \$574,000, an increase in other non-interest expense of \$438,000, and merger-related expenses of \$740,000 recorded in the quarter ended September 30, 2019, partially offset by a \$463,000 decrease in federal deposit insurance premiums. The higher compensation and employee benefits expense was primarily attributable to \$1.6 million in expense recorded related to grants made under the Company's 2019 Equity Incentive Plan that was approved in June 2019, coupled with the cost of new hires. The increase in professional fees was the result of higher legal, accounting and consulting fees commensurate with being a public company. The increase in other non-interest expense was due to an increase of \$372,000 in miscellaneous expense mainly attributable to the payment of \$338,000 in state Franchise tax fees, which increased due to the issuance of stock related to the minority stock offering, along with increases in various other miscellaneous expenses. These increases were partially offset by an increase of \$806,000 in the credit associated with pension benefit costs, resulting from a new pension accounting standard, effective January 1, 2019, which requires that other components of net periodic benefit costs be reported separately from the service cost as a component of non-interest expense in the statements of income. Merger-related expenses included expenses related to the Company's acquisition of Stewardship Financial Corporation ("Stewardship"), which was completed on November 1, 2019. The federal deposit insurance premium expense decreased during the quarter ended September 30, 2019, as the Federal Deposit Insurance Corporation's reserve rates exceeded a limit at which a small bank assessment credit was applied against premiums due.

Income tax expense was \$5.4 million for the quarter ended September 30, 2019, a decrease of \$1.6 million, as compared to \$7.0 million for the quarter ended September 30, 2018. The Company's effective tax rate was 27.5% and 39.1% for the quarters ended September 30, 2019 and 2018, respectively. The 2019 income tax expense and resulting decrease in the effective tax rate was primarily driven by maximizing the tax benefits related to the real estate investment trust subsidiary of the Bank, coupled with other previously implemented tax strategies.

Results of Operations for the Nine Months Ended September 30, 2019 and September 30, 2018

Net income of \$41.2 million was recorded for the nine months ended September 30, 2019, an increase of \$33.3 million, compared to net income of \$7.9 million for the nine months ended September 30, 2018. The increase in net income was primarily attributable to a \$4.3 million increase in net interest income, a \$4.2 million decrease in the provision for loan losses, a \$7.6 million increase in non-interest income, and a \$21.9 million decrease in non-interest expense, partially offset by a \$4.7 million increase in income tax expense. The decrease in non-interest expense for the nine months ended September 30, 2019 was attributable to a \$34.8 million one-time contribution to the Columbia Bank Foundation.

Net interest income was \$124.9 million for the nine months ended September 30, 2019, an increase of \$4.3 million, or 3.5%, from \$120.7 million for the nine months ended September 30, 2018. The increase in net interest income was attributable to a \$25.5 million increase in interest income, which was partially offset by a \$21.3 million increase in interest expense. The increase in interest income for the period was largely due to increases in both the average balances and yields on loans and securities, coupled with an increase in the yield on other interest-earning assets.

The average yield on loans for the nine months ended September 30, 2019 increased 19 basis points to 4.18%, as compared to 3.99% for the nine months ended September 30, 2018, while the average yield on securities for the nine months ended September 30, 2019 increased 14 basis points to 2.87%, as compared to 2.73% for the nine months ended September 30, 2018. Increases in yields on loans for the nine months ended September 30, 2019 reflect more significant increases in balances of higher yielding multifamily and commercial loans. Interest income on loans for the nine months ended September 30, 2019 included \$1.6 million in prepayment fees on construction, multifamily and commercial loans as compared to \$108,000 for the nine months ended September 30, 2018. The average yield on other interest-earning assets for the nine months ended September 30, 2019 increased 317 basis points to 6.30%, as compared to 3.13% for the nine months ended September 30, 2018. This was driven by the 2019 average balance of other interest-earning assets including higher yielding Federal Home Loan Bank stock, while the 2018 average balance of other interest-earning assets included higher cash deposits related to the subscriptions for the Company's minority stock offering which yielded a lower rate of interest.

Total interest expense was \$65.1 million for the nine months ended September 30, 2019, an increase of \$21.3 million, or 48.5%, from \$43.8 million for the nine months ended September 30, 2018. The increase in interest expense was primarily attributable to a \$336.6 million increase in the average balance of certificates of deposit, partially offset by decreases of \$7.3 million in the average balance of interest-bearing demand accounts, \$48.3 million in the average balance of money market accounts and \$179.5 million in the average balance of savings and club accounts, coupled with a 56 basis point increase in the cost of interest-bearing deposits. The decrease in the

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

average balance of savings and club accounts was primarily attributable to subscription funds from the minority stock offering in 2018. The increase in the cost of deposits was driven by higher market rates and a shift in the mix from core deposits to higher costing certificates of deposit. The increase in interest on borrowings was attributable to a \$253.9 million increase in the average balance of Federal Home Loan Bank advances coupled with a 45 basis point increase in the cost of these borrowings.

The Company's net interest margin for the nine months ended September 30, 2019 decreased 15 basis points to 2.58%, when compared to 2.73% for the nine months ended September 30, 2018. The weighted average yield on interest-earning assets increased 20 basis points to 3.93% for the nine months ended September 30, 2019 as compared to 3.73% for the nine months ended September 30, 2018. The average cost of interest-bearing liabilities increased 49 basis points to 1.74% for the nine months ended September 30, 2019 as compared to 1.25% for the nine months ended September 30, 2018. Increases in yields and costs for the nine months ended September 30, 2019 were largely driven by competitive pricing pressures in a higher market interest rate environment.

The provision for loan losses was \$1.7 million for the nine months ended September 30, 2019, a decrease of \$4.2 million, or 71.1%, from \$5.9 million for the nine months ended September 30, 2018. The decrease was primarily driven by a decrease in historical loss factors, partially offset by the level of growth in the loan portfolio. Net charge offs increased to \$1.4 million for the nine months ended September 30, 2019, as compared to \$672,000 for the nine months ended September 30, 2018.

Non-interest income was \$22.9 million for the nine months ended September 30, 2019, an increase of \$7.6 million, or 50.1%, from \$15.3 million for the nine months ended September 30, 2018. The increase was primarily attributable to an increase in income from loan fees and service charges of \$3.8 million, which included an increase in income from customer swap transactions of \$3.7 million, and increases in gains on the sale of securities and loans of \$1.6 million and \$695,000, respectively. In addition, there was an increase of \$584,000 in income from bank-owned life insurance which included income related to a death benefit of \$461,000 during the 2019 period.

Non-interest expense was \$92.5 million for the nine months ended September 30, 2019, a decrease of \$21.9 million, or 19.2%, from \$114.4 million for the nine months ended September 30, 2018. The decrease was primarily attributable to a decrease of \$34.8 million in charitable contributions which was made during the 2018 period as previously noted. Excluding the impact of this one-time contribution in 2018, non-interest expense increased \$12.9 million, or 16.2%, for the nine months ended September 30, 2019. This increase was attributable to an increase in compensation and employee benefits of \$6.8 million, an increase in professional fees of \$1.4 million, an increase in other non-interest expense of \$3.5 million, and merger-related expenses of \$1.2 million recorded in the 2019 period, partially offset by a \$477,000 decrease in federal deposit insurance premiums. The higher compensation and employee benefits expense was primarily attributable to \$1.6 million in expense recorded related to grants made under the Company's 2019 Equity Incentive Plan that was approved in June 2019, coupled with the cost of new hires. The increase in professional fees was the result of higher legal, accounting and consulting fees commensurate with being a public company. The increase in other non-interest expense was mainly due to \$1.2 million in software amortization and related expenses recognized during the period, along with the payment of \$338,000 in state Franchise tax fees noted above. Merger-related expenses included expenses related to the Company's acquisition of Stewardship, which was completed on November 1, 2019. The federal deposit insurance premium expense decreased during the nine months ended September 30, 2019, due to a reduction in our deposit insurance assessment as a result of the utilization of credits.

Income tax expense was \$12.5 million for the nine months ended September 30, 2019, an increase of \$4.7 million, from \$7.8 million for the nine months ended September 30, 2018. The Company's effective tax rate was 23.3% and 49.8% for the nine months ended September 30, 2019 and 2018, respectively. The 2018 income tax expense and resulting effective tax rate was impacted by the net loss resulting from the one-time charitable contribution. The 2019 income tax expense and resulting decrease in the effective tax rate was primarily driven by maximizing the tax benefits related to the real estate investment trust subsidiary of the Bank, coupled with other previously implemented tax strategies.

Asset Quality

The Company's total non-performing loans at September 30, 2019 totaled \$4.3 million, or 0.08% of total gross loans, as compared to \$2.8 million, or 0.06% of total gross loans, at December 31, 2018. The \$1.5 million increase in non-performing loans was mainly attributable to increases of \$980,000 in one-to-four family real estate loans and \$449,000 in multifamily and commercial real estate loans. The increase in one-to-four family real estate loans was the result of an increase in the number of loans from 6 non-performing loans at December 31, 2018 to 13 non-performing loans at September 30, 2019, while the multifamily and commercial real estate non-performing balance at September 30, 2019 consisted of six loans related to the same borrower. The Company had no real estate owned at September 30, 2019 compared to one property owned, with a carrying value of \$92,000, at December 31, 2018. Non-performing assets as a percentage of total assets totaled 0.06% at September 30, 2019 as compared to 0.04% at December 31, 2018.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

The Company's allowance for loan losses was \$62.6 million, or 1.21% of total loans at September 30, 2019, compared to \$62.3 million, or 1.26% of total loans, at December 31, 2018.

Critical Accounting Policies

The Company considers certain accounting policies to be critically important to the fair presentation of its consolidated statements of financial condition and consolidated statements of income. These policies require management to make judgments on matters which by their nature have elements of uncertainty. The sensitivity of the Company's consolidated financial statements to these critical accounting policies, and the assumptions and estimates applied, could have a significant impact on its financial condition and results of operations. These assumptions, estimates and judgments made by management can be influenced by a number of factors, including the general economic environment. The Company has identified the following as critical accounting policies:

- Adequacy of the allowance for loan losses
- Valuation of deferred tax assets
- Valuation of retirement and post-retirement benefits

The calculation of the allowance for loan losses is a critical accounting policy of the Company. The allowance for loan losses is a valuation account that reflects management's evaluation of the probable losses in the loan portfolio. Determining the amount of the allowance for loan losses involves a high degree of judgment. Estimates required to establish the allowance include: the overall economic environment, value of collateral, strength of guarantors, loss exposure in the event of default, the amount and timing of future cash flows on impaired loans, and determination of loss factors applied to the portfolio segments. These estimates are susceptible to significant change. Management regularly reviews loss experience within the portfolio and monitors current economic conditions and other factors related to the collectability of the loan portfolio.

The Company maintains the allowance for loan losses through provisions for loan losses which are charged to income. Charge-offs against the allowance for loan losses are taken on loans where management determines that the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

As part of the evaluation of the adequacy of the allowance for loan losses, management prepares an analysis each quarter that categorizes the loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes an eight-point internal risk rating system. Loans deemed to be "acceptable quality" are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of "questionable quality" are rated 5 (Special Mention) or 6 (Substandard). Loans with adverse classifications are rated 7 (Doubtful) or 8 (Loss). The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by both an independent third-party and the Company's internal loan review department. The Company requires an annual review be performed above certain dollar thresholds, depending on loan type, to help determine the appropriate risk rating. Results are presented to the Audit Committee of the Board of Directors.

Management estimates the allowance for loans collectively evaluated for impairment by applying quantitative loss factors to the loan segments by risk rating and determining qualitative adjustments to each loan segment at an overall level. Quantitative loss factors give consideration to historical loss experience and migration experience by loan type based on an appropriate look-back period, adjusted for a loss emergence period.

Qualitative adjustments give consideration to other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries and loan volumes, as well as national and local economic trends and conditions.

Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated relative to the risk levels present over the look-back period. The reserves resulting from the application of both the quantitative experience and qualitative factors are combined to arrive at the allowance for loan losses for loans collectively evaluated for impairment.

Management believes the primary risks inherent in the portfolio are a general decline in the economy, a decline in real estate market values, rising unemployment, elevated unemployment, increasing vacancy rates, and increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect a borrower's ability to repay its loan, resulting in increased delinquencies and loan losses. Accordingly, the Company has recorded loan losses at a level which is estimated to represent the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level considering the current composition of the loan portfolio.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

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

Although management believes that the Company has established and maintained the allowance for loan losses at appropriate levels, additional reserves may be necessary if future economic and other conditions differ substantially from the current operating environment. Management evaluates its estimates and assumptions on an ongoing basis and the estimates and assumptions are adjusted when facts and circumstances necessitate a re-valuation of the estimate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. In addition, regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carry-back years, and estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period enacted. Based on all available evidence, a valuation allowance was established for the portion of the state tax benefit that is not more likely than not to be realized. At September 30, 2019 and December 31, 2018, the Company's gross deferred tax assets totaled \$47.6 million and \$52.1 million, respectively, while the valuation allowance totaled \$1.8 million and \$2.4 million, respectively.

The Company provides certain health care and life insurance benefits to eligible retired employees. The cost of retiree health care and other benefits during the employees' period of active service are accrued monthly. The accounting guidance requires the following: a) recognizing in the statement of financial position the over funded or underfunded status of a defined benefit post-retirement plan measured as the difference between the fair value of plan assets and the benefit obligations; b) measuring a plan's assets and its obligations that determine its funded status as of the end of the Company's fiscal year (with limited exceptions); and c) recognizing as a component of other comprehensive income (loss), net of tax, the actuarial gain and losses and the prior service costs and credits that arise during the period.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative Analysis. Interest rate risk is defined as the exposure of a Company's current and future earnings and capital arising from adverse movements in interest rates. The guidelines of the Company's interest rate risk policy seek to limit the exposure to changes in interest rates that affect the underlying economic value of assets, liabilities, earnings and capital.

The Asset/Liability Committee meets regularly to review the impact of interest rate changes on net interest income, net interest margin, net income, and the economic value of equity. The Asset/Liability Committee reviews a variety of strategies that project changes in asset or liability mix and the impact of those changes on projected net interest income and net income.

The Company's strategy for liabilities has been to maintain a stable funding base by focusing on core deposit accounts. The Company's ability to retain maturing time deposit accounts is the result of its strategy to remain competitively priced within its marketplace. The Company's pricing strategy may vary depending upon current funding needs and the ability of the Company to fund operations through alternative sources.

Quantitative Analysis. Current and future sensitivity to changes in interest rates are measured through the use of balance sheet and income simulation models. The analysis captures changes in net interest income using flat rates as a base and rising and declining interest rate forecasts. Changes in net interest income and net income for the forecast period, generally twelve to twenty-four months, are measured and compared to policy limits for acceptable changes. The Company periodically reviews historical deposit re-pricing activity and makes modifications to certain assumptions used in its balance sheet and income simulation models regarding the interest rate sensitivity of deposits. These modifications are made to more closely reflect the most likely results under the various interest rate change scenarios. Since it is inherently difficult to predict the sensitivity of interest bearing deposits to changes in interest rates, the changes in net interest income due to changes in interest rates cannot be precisely predicted. There are a variety of reasons that may cause actual results to vary considerably from the predictions presented below which include, but are not limited to, the timing, magnitude, and frequency of changes in interest rates, interest rate spreads, prepayments, and actions taken in response to such changes.

Assumptions used in the simulation model may include but are not limited to:

- Investment pricing from third parties;
- Loan pricing indications from third parties;
- Loan and depository spread assumptions based upon the Company's product offerings;
- Investment and borrowing spreads based upon third party indications; and
- Prepayment assumptions derived from the Company's actual results and third party surveys.

The table below sets forth, as of September 30, 2019, Columbia Bank's net portfolio value, the estimated changes in our net portfolio value, and the net interest income that would result from the designated instantaneous parallel changes in market interest rates. This data is for the Bank and its subsidiaries only and does not include any assets of the Company.

	Twelve Months Net Interest Income			Net Portfolio Value ("NPV")		
	Amount	Dollar Change	Percent of Change	Estimated NPV	Present Value Ratio	Percent Change
Change in Interest Rates (Basis Points)						
+200	\$ 158,720	\$ 2,393	1.53 %	\$ 905,020	13.55%	(12.34)%
+100	157,973	1,646	1.05	980,701	14.22	(5.00)
Base	156,327	—	—	1,032,369	14.53	—
-100	153,269	(3,058)	(1.96)	1,041,760	14.27	0.91
-200	149,028	(7,299)	(4.67)	946,190	12.80	(8.35)

As of September 30, 2019, based on the scenarios above, net interest income would increase by approximately 1.53% if rates were to rise 200 basis points, but would decrease by 4.67% if rates were to decrease 200 basis points over a one-year time horizon.

Another measure of interest rate sensitivity is to model changes in net portfolio value through the use of immediate and sustained interest rate shocks. As of September 30, 2019, based on the scenarios above, in the event of an immediate and sustained 200 basis point increase in interest rates, the NPV is projected to decrease 12.34%. If rates were to decrease 200 basis points, the model forecasts a 8.35% decrease in the NPV.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the use of certain assumptions regarding prepayment and deposit repricing, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and repricing rates will approximate actual future loan prepayment and deposit repricing activity.

Moreover, net interest income assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company's interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual.

Liquidity Management and Capital Resources:

Liquidity Management. Liquidity refers to the Company's ability to generate adequate amounts of cash to meet financial obligations of a short-term and long-term nature. Sources of funds consist of deposit inflows, loan repayments and maturities, maturities and sales of securities, and the ability to execute new borrowings. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, calls of debt securities, and prepayments on loans and mortgage-based securities are influenced by economic conditions, competition, and interest rate movements.

The Company's cash flows are identified as cash flows from operating activities, investing activities and financing activities. Refer to the consolidated statements of cash flows for further details of the cash inflows and outflows of the Company.

Capital Resources. The Company and its subsidiary Bank are subject to various regulatory capital requirements administered by the federal banking regulators, including a risk-based capital measure. The Federal Reserve establishes capital requirements, including well capitalized standards, for the consolidated financial holding company, and the OCC has similar requirements for the Company's subsidiary bank. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated statements of financial condition. Federal regulators require federally insured depository institutions to meet several minimum capital standards: (1) total capital to risk-weighted assets of 8.0%; (2) tier 1 capital to risk-weighted assets of 6.0%; (3) common equity tier 1 capital to risk-weighted assets of 4.5%; and (4) tier 1 capital to adjusted total assets of 4.0%. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer capital requirement was fully phased in on January 1, 2019. The regulators established a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well capitalized if it has: a total capital to risk-weighted assets ratio of at least 10.0%, a tier 1 capital to risk-weighted assets ratio of at least 8.0%, a common tier 1 capital to risk-weighted assets ratio of at least 6.5%, and a tier 1 capital to adjusted total assets ratio of at least 5.0%. As of September 30, 2019 and December 31, 2018, each of the Company and the Bank exceeded all capital adequacy requirements to which it is subject.

The following table presents the Company's and the Bank's actual capital amounts and ratios as of September 30, 2019 and December 31, 2018 compared to the Federal Reserve Bank minimum capital adequacy requirements and the Federal Reserve Bank requirements for classification as a well-capitalized institution:

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Company	Actual		Minimum Capital Adequacy Requirements		Minimum capital Adequacy Requirements with Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In thousands, except ratio data)								
At September 30, 2019:								
Total capital (to risk-weighted assets)	\$ 1,102,458	22.21%	\$ 397,167	8.00%	\$ 521,282	10.50%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	1,040,393	20.96%	297,875	6.00%	421,990	8.50%	N/A	N/A
Common equity tier 1 capital (to risk-weighted assets)	1,040,393	20.96%	223,407	4.50%	347,521	7.00%	N/A	N/A
Tier 1 capital (to adjusted total assets)	1,040,393	15.30%	271,975	4.00%	271,975	4.00%	N/A	N/A
At December 31, 2018:								
Total capital (to risk-weighted assets)	\$ 1,094,062	23.45%	\$ 373,276	8.00%	\$ 460,763	9.88%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	1,035,477	22.19	279,957	6.00	367,444	7.88	N/A	N/A
Common equity tier 1 capital (to risk-weighted assets)	1,035,477	22.19	209,968	4.50	297,455	6.38	N/A	N/A
Tier 1 capital (to adjusted total assets)	1,035,477	15.75	263,037	4.00	263,037	4.00	N/A	N/A

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Actual		Minimum Capital Adequacy Requirements		Minimum capital Adequacy Requirements with Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio

Bank (In thousands, except ratio data)

At September 30, 2019:

Total capital (to risk-weighted assets)	\$ 892,078	18.00%	\$ 396,471	8.00%	\$ 520,369	10.50%	\$ 495,589	10.00%
Tier 1 capital (to risk-weighted assets)	830,120	16.75	297,354	6.00	421,251	8.50	396,471	8.00
Common equity tier 1 capital (to risk-weighted assets)	830,120	16.75	223,015	4.50	346,913	7.00	322,133	6.50
Tier 1 capital (to adjusted total assets)	830,120	12.21	272,042	4.00	272,042	4.00	340,053	5.00

At December 31, 2018:

Total capital (to risk-weighted assets)	\$ 886,728	19.04%	\$ 372,550	8.00%	\$ 459,866	9.88%	\$ 465,687	10.00%
Tier 1 capital (to risk-weighted assets)	828,257	17.79	279,412	6.00	366,729	7.88	372,550	8.00
Common equity tier 1 capital (to risk-weighted assets)	828,257	17.79	209,559	4.50	296,875	6.38	302,697	6.50
Tier 1 capital (to adjusted total assets)	828,257	12.60	263,025	4.00	263,025	4.00	328,781	5.00

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's Tier 1 equity capital to average total consolidated assets) for financial institutions with less than \$10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the minimum capital for the new Community Bank Leverage Ratio at 9%. A financial institution can elect to be subject to this new definition.

COLUMBIA FINANCIAL, INC. AND SUBSIDIARIES

Item 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2019. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

During the quarter ended September 30, 2019, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition.

Item 1A. Risk Factors

For information regarding the Company's risk factors, refer to the Risk Factors previously disclosed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission. Except as set forth below, as of September 30, 2019 the risk factors of the Company have not materially changed from those disclosed in the Company's Annual Report on Form 10-K.

Reforms to and uncertainty regarding LIBOR may adversely impact the value of, and the return on the Company's financial assets and liabilities which are indexed to LIBOR. In 2017, The United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Subsequently, the Federal Reserve Bank announced final plans for the production of SOFR, which resulted in the commencement of its published rates by the Federal Reserve Bank of New York on April 2, 2018. Whether or not SOFR attains market attraction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. This uncertainty as to the nature and effect of such reforms and actions and the political discontinuance of LIBOR may adversely affect the value and return on the Company's financial assets and liabilities that are based on or are linked to LIBOR. In addition, these reforms may also require extensive changes to the contracts that govern these LIBOR based products, as well as the Company's systems and processes.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table reports information regarding repurchases of the Company's common stock during the quarter ended September 30, 2019:

Period	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - 31, 2019	396,100	\$ 15.38	396,100	3,340,000
August 1 - 31, 2019	1,145,700	15.26	1,145,700	2,194,300
September 1 - 30, 2019	936,600	15.63	936,600	1,257,700
Total	2,478,400	\$ 15.42	2,478,400	

(1) On June 11, 2019, the Company announced that the Company's Board of Directors authorized a stock repurchase program for up to 4,000,000 shares of the Company's issued and outstanding common stock, commencing on June 13, 2019.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the Exhibit Index (following the signatures section of this report) are included in, or incorporated by reference into this Quarterly Report on Form 10-Q.

Exhibit Index

- 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 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101. The following materials from the Company's Quarterly Report to Stockholders on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
- 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 Definition Linkbase Document
- 101. LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

Columbia Financial, Inc.

Date: November 12, 2019

/s/Thomas J. Kemly
Thomas J. Kemly
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2019

/s/Dennis E. Gibney
Dennis E. Gibney
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Section 2: EX-31.1 (EXHIBIT 31.1)

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas J. Kemly, certify that:

1. I have reviewed this report on Form 10-Q of Columbia Financial, Inc.
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 officers 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 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 officers 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:
 - 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: November 12, 2019

/s/Thomas J. Kemly
Thomas J. Kemly
President and Chief Executive Officer

Section 3: EX-31.2 (EXHIBIT 31.2)

Certification Pursuant to Exchange Act Rule 13a-14(a) and Rule 15d-14(a)

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dennis E. Gibney, certify that:

1. I have reviewed this report on Form 10-Q of Columbia Financial, Inc.
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 officers 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officers 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:

- 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: November 12, 2019

/s/Dennis E. Gibney

Dennis E. Gibney

Executive Vice President and Chief Financial Officer

Section 4: EX-32 (Exhibit 32)

**Certification pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

Thomas J. Kemly, President and Chief Executive Officer, and Dennis E. Gibney, Executive Vice President and Chief Financial Officer of Columbia Financial Inc. (the “Company”), each certify in his capacity as an officer of the Company that he has reviewed the quarterly report of the Company on Form 10-Q for the quarter ended September 30, 2019 and that to the best of his knowledge:

- (1) the report fully complies with the requirements of Sections 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/Thomas J. Kemly
Thomas J. Kemly
President and Chief Executive Officer

Date: November 12, 2019

/s/Dennis E. Gibney
Dennis E. Gibney
Executive Vice President and Chief Financial Officer