



INDUSTRIAL
BANK

ANNUAL REPORT

2018

A LETTER FROM THE PRESIDENT



B. Doyle Mitchell Jr.
President & CEO

We are pleased to present to you our fiscal year 2018 Annual Report. The past year has been filled with outstanding improvements, internally and externally. Daily, we're working to build on the customer experience for Industrial Bank clients. We know that banking relationships are more than money, but they are a lifeline of community and connection. Each year, Industrial Bank's goal is to figure out how to bring more value and support to its customers. We do so by working within the bank and supporting our customers by listening to their challenges and creating wrap-around services, including business, home, and estate planning.

Leadership's willingness to create community culture permeates our operations, our products, and our service. Outside the bank, we're in the community because we recognize that our connections are rooted in the relationships we form with community-based organizations as well as internal customers. We are proud partners of small businesses, entrepreneurs, community advocates, and impactful non-profit organizations. Our impact towards economic development and community non-profit initiatives have made us a continued top-ranking bank that still chooses to focus on activating innovative ways to service low- to-moderate income families. We have not abandoned our customer-base with fancy enticements but yet have chosen to remain committed to foundational principles to do everything we can to help make your financial dreams come true.

Since 1934, we've never stopped upholding the standard to serve the community, going the extra mile and exceeding expectations. We understand that managing your finances can be an overwhelming task and we want to help you make sense of it all. More recently, we've come to value our voice to speak for those who can't speak so loudly and boldly for themselves. Our work with criminal justice has inspired us in a greater way to build a bank that gives more, takes

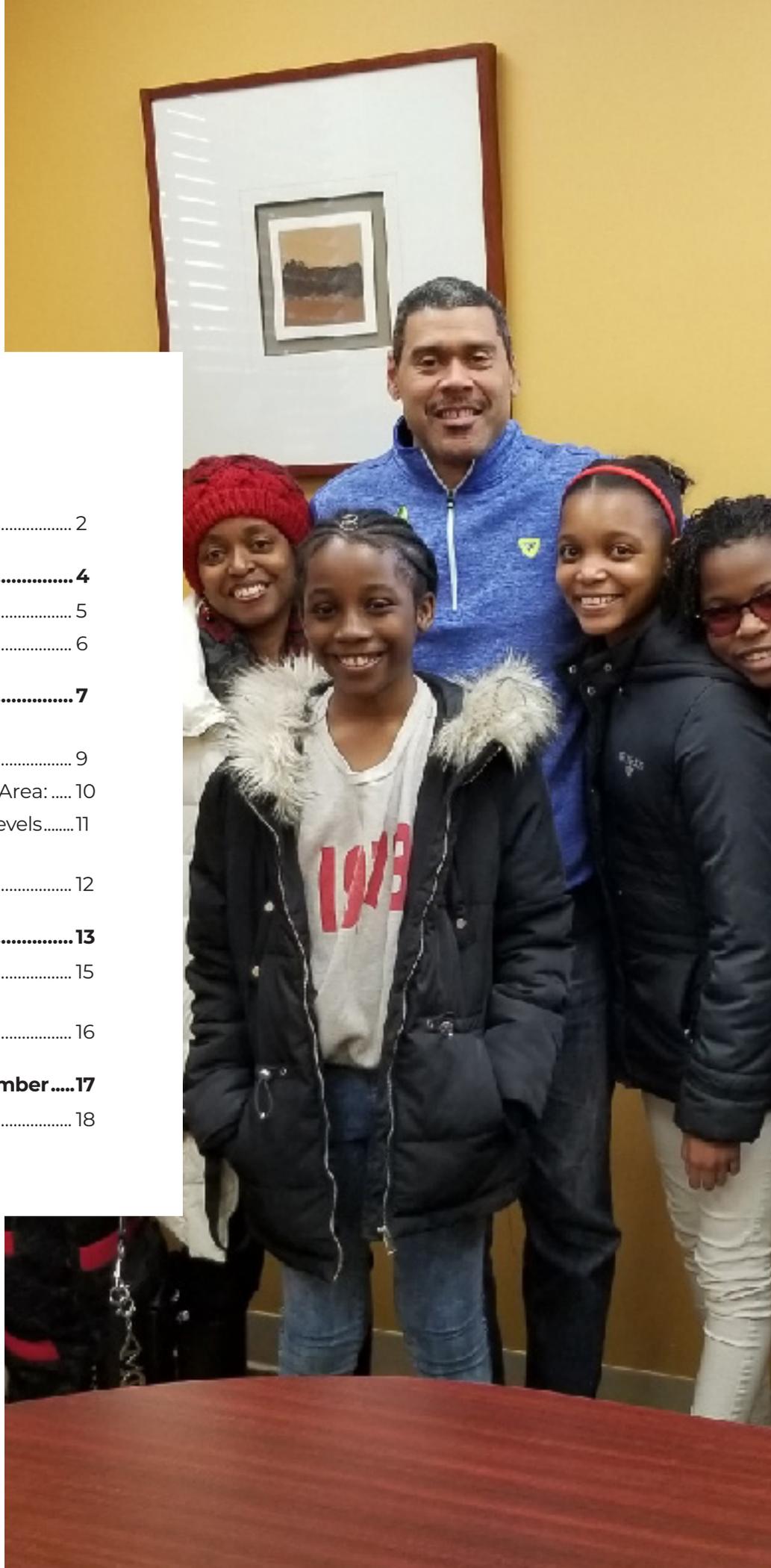
less, and reaffirms our vision at its deepest level and proves that the vision of one, undoubtedly, benefits many. This year, we've given millions to impact businesses, community partners, and consumer buyers. In 2018, we approved over 4 million in small-business loans, over \$25 million in mortgage loans, and over \$40 million in community development loans. As we look ahead to 2019, we are creating programs to support customers beyond banking.

INDUSTRIAL BANK'S GOAL IS TO FIGURE OUT HOW TO BRING MORE VALUE AND SUPPORT TO ITS CUSTOMERS.

Industrial Bank has always valued relationship over wealth and we hope that you continue to support us as we boldly move the bank forward to benefit you, the community, and the DMV area. Whether your dream is to become a first-time homebuyer, multi-family rental investor, or grow your business, Industrial Bank is here, and we're committed to you.

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& INDUSTRIAL BANK SNAPSHOT



WHO WE ARE

Industrial Bank is a community bank—locally owned and operated in the metro D.C. area, and one of only 23 African American-owned banks in the United States. Since 1934 we have served our community with pride, respect, and pleasure. Approaching our 85th anniversary in 2019, we proudly renewed our continued growth in service and impact to provide financial services with incomparable customer care.

OUR MISSION is to make a difference in your life and to impact economic development in your community.

And our core values still hold true...
We are committed to:



OUR MISSION IS TO MAKE A DIFFERENCE IN YOUR LIFE AND TO IMPACT ECONOMIC DEVELOPMENT IN OUR COMMUNITY.



LEADERSHIP:

As leaders, we believe leaders aspire to excellence and exert a positive influence on others by holding themselves and others accountable for continuous improvement.



CUSTOMER SERVICE:

We believe internal and external customers are our greatest assets, and providing team members the necessary resources to ensure we surpass customer expectations is critical.



INTEGRITY:

We believe in being honest and trustworthy, and fulfilling our commitments.



COMMUNITY:

We believe in strengthening our local community and hands-on involvement with our partners.



RELATIONSHIPS:

We believe and respect the confidentiality and the protection of the personal and business information of individuals. We value and respect each other's input and opinions.

A NUMERICAL SNAPSHOT

As of December 31, 2018 our assets totaled \$433.851 million and included total loans of \$310.3 million and securities of \$67.3 million.

In 1977, Congress passed the Community Reinvestment Act (CRA) to encourage depository institutions to help meet the credit needs of the local communities in which the institution is located. The CRA requires federal regulators to assess how well (in our case) the Bank fulfills its obligation to these communities, including low- and moderate-income neighborhoods. The assessment area typically encompasses the geographic area that can reasonably be served by each of a bank's locations, including its main office, any branches, and deposit taking ATM's. It also usually includes the surrounding areas in which the Bank originated or purchased a substantial portion of its loans.

The economic and demographic breakdown of Industrial Bank's assessment area (as seen on page 6 of the Community Reinvestment Act Performance Evaluation) is seen in the table below

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	494	19.0	26.7	26.9	25.5	1.8
Population by Geography	1,913,560	18.2	25.8	28.5	26.3	1.3
Housing Units by Geography	816,969	18.1	24.3	27.2	29.5	1.0
Owner-Occupied Units by Geography	374,319	8.5	23.2	34.4	33.4	0.4
Occupied Rental Units by Geography	370,001	26.6	25.4	20.7	25.7	1.6
Vacant Units by Geography	72,649	23.9	24.0	23.0	28.2	0.8
Businesses by Geography	155,579	8.3	23.5	28.8	37.7	1.8
Family Distribution by Income Level	398,834	29.0	17.7	18.5	34.8	0.0
Median Family Income MSA-47894 Washington-Arlington-Alexandria, DC-VA-MD-WV					\$106,762	
Median Housing Value					\$398,689	

* The NA category consists of geographies without an assigned income classification.



**& OUTSTANDING
LENDING**





**EVERYONE
DESERVES A
FAIR CHANCE—
SOMETIMES PEOPLE
JUST NEED A
HELPING HAND.**

According to the current Community Reinvestment Act Performance Evaluation covering data from 2016-2018, Industrial Bank's lending levels reflect good responsiveness to credit needs within our community. The majority of our loans stay within our community and have good distribution between home and small business loans across all income and revenue ranges. Additionally, we have an excellent record of service in meeting the credit needs of the most economically disadvantaged areas of the 494 census tracts in Washington, D.C. We make extensive use of innovative and flexible lending practices in order to best serve our community.

No matter who you are, we choose you.

There is much public debate on how to best tackle income disparities in the United States. Although the "how" may be debatable, what is less debatable is the "why." Majority data suggests that the financial and economic empowerment of communities not only builds the community economically, but also builds its health, business, and education. Here at Industrial Bank, we make every effort to offer and extend loans to low- to moderate-income families because everyone deserves a fair chance—sometimes people just need a helping hand.



While it is common for commercial banks to acquire the majority of their profits from the fees and penalties assessed to their customers, Industrial Bank continues to approach with impact in mind and chooses to keep fees at a minimum as to benefit and be accessible to a wider socio-economic demographic. With the majority of our profits being intentionally placed with small business and mortgage loans, we prove our impact every year. We do this because we believe in win-win relationships.

SMALL BUSINESS PROFILE IN ASSESSMENT AREA:

NEEDS AND RESPONSE

According to the SBA, small businesses comprise 99% of businesses in America, totaling 32 million small businesses across the country and employing nearly half the workforce. Needless to say, small businesses are a crucial aspect of our economy. For this reason, in 2018 we distributed 22 small business loans totaling approximately \$4.8 million.

Small businesses by nature are hard to start and grow. Even harder is growing one from an already economically less fortunate position. We are proud to be able to share that our small business loans are distributed in a way that favors the entrepreneurial endeavors of individuals in lower income brackets.

Industrial Bank's distribution of small business loans:

- > Low income - 17.6%
- > Moderate income - 35.3%
- > Middle income - 17.6%
- > Upper income - 29.4%

SMALL BUSINESS LOAN PROGRAMS

- > District of Columbia Collateral Support Program (CSP) - The U.S. Treasury Department State Small Business Credit Initiative provides funding for this program. The CSP provides funds for deposit with participating lenders to increase the loan-to-value of secured collateral.
- > Small Business Administration (SBA) - Industrial Bank remains a "Preferred Lender" offering SBA 7(a) loans and SBA Express loans. The SBA is a U.S. government agency that provides support to entrepreneurs and small business.



82.4% of our small business loans go to **businesses with less than \$1 million** in gross annual revenue;

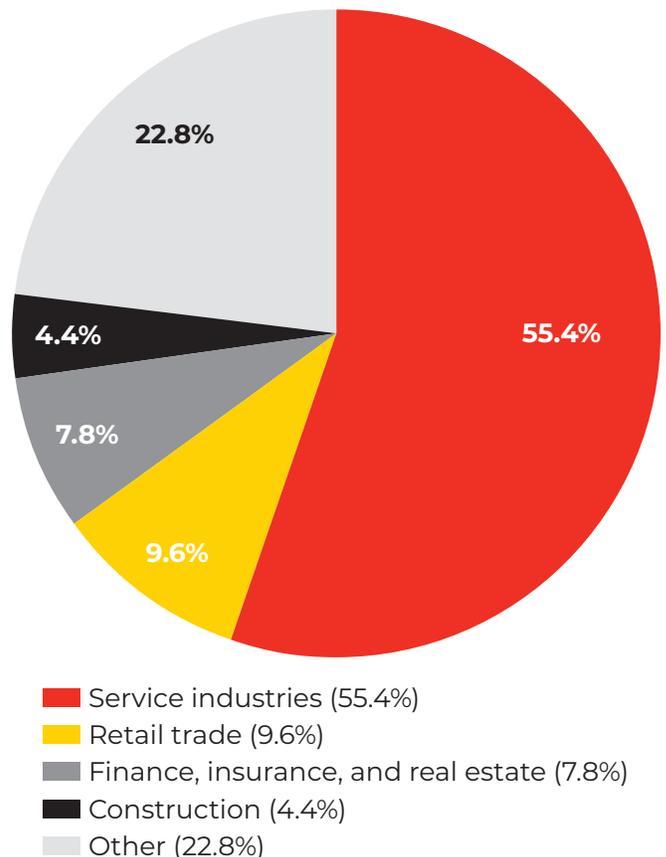


65.7% of businesses in the area have **four or fewer employees**; and



87.3% of businesses operate **at one single location** and have room to grow.

Small businesses in our assessment area fall under these categories:



MORTGAGE PROFILE IN ASSESSMENT AREA:

NEEDS AND RESPONSE

We aim to help increase homeownership in populations that would not generally have it accessible. Homeownership is important because it builds wealth over time, there are tax deductions, and it is cheaper than renting in the long term. Unfortunately, in our assessment area, including roughly 817,000 housing units, 45.4% of those units are occupied by renters who are not reaping the benefits of homeownership when many of them likely would want to.

We are proud to say that Industrial Bank has put a dent in these numbers by providing 75 mortgages in 2018 totaling \$25.7 million. At least 33% of the home mortgage loans that we service went to low- to moderate-income households.



We are fortunate to have home mortgage programs like the Federal Housing Administration, U.S. Department of Veterans Affairs, Maryland Department of Housing and Community Development, and Greater Washington Urban League Down Payment Assistance Programs with whom we can work and help originate loans.

Industrial Bank's distribution of home mortgage loans in 2018*:

- > Low income - 11.9%
- > Moderate income - 22.0%
- > Middle income - 10.2%
- > Upper income - 23.7%

**32.2% of loan data were unavailable*

- > Our home mortgage loans were given at a higher rate to low-income households than national aggregate data and at a lower rate to upper-income households.
- > Approximately 817,000 housing units
- > 45.8% owner occupied
- > 45.3% occupied rental units
- > 8.9% vacant

MORTGAGE ASSISTANCE PROGRAMS

- > Federal Housing Administration (FHA) - FHA programs provide lower down payments, low closing costs, and less stringent underwriting guidelines.
- > U.S. Department of Veteran Affairs (VA) - The VA offers home loans and other housing-related programs to service members, veterans, and eligible surviving spouses.
- > Maryland Department of Housing and Community Development (MDHCD)/Community Development Administration (CDA) - Maryland Mortgage Program (MMP) and Down Payment and

Settlement Expense Loan Program (DPSELP) - The MMP provides first-time homebuyers in targeted areas with financial assistance for down payment and closing costs. The DPSELP program provides borrowers with a deferred second lien loan up to \$7,500.

- > Greater Washington Urban League Down Payment Assistance Programs - This organization offers low down payment assistance programs. The Home Purchase Assistance Program (HPAP) enables low- and moderate-income individuals and families to purchase affordable housing in Washington, D.C. Qualified HPAP applicants can receive up to \$80,000 in financial assistance to purchase single-family houses, condominiums, and cooperative apartments.
- > District of Columbia Housing Finance Agency Open Doors Program - This program offers down payment assistance for FHA loans to qualified applicants.

LET'S TALK LOW-MODERATE- INCOME LEVELS

Although there are many debates on how to tackle U.S. income disparities, all data suggests that the financial and economic empowerment of communities not only builds the community economically, but also in health, business, and education. Industrial Bank makes every effort to offer and extend loans to low-moderate income families because everyone deserves a fair chance, sometimes, a helping hand. The realities of life for low- to moderate-income families are so challenging and the numbers are significant. That is why we are pleased to be able to share where our impact lies.

Of the 398,834 families living in the metro DC area...

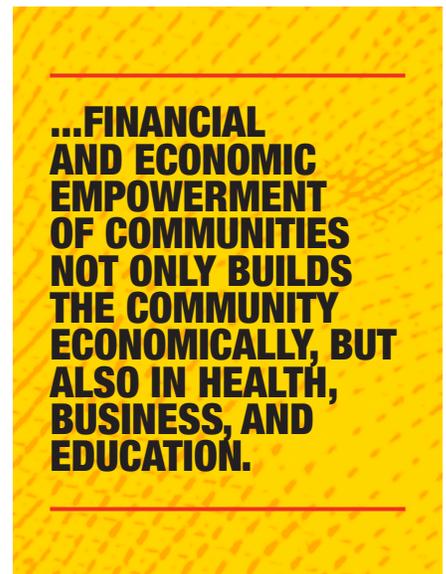
- > 29% are low income (115,661 families)
- > 18% are moderate income (70,593 families)
- > 9% have either no income or are below the poverty level (35,895 families)

That amounts to over 50% of this assessment area's families struggling to access or afford loans. Data not only show the difficulty for borrowers to qualify for a mortgage loan or sustain a monthly mortgage payment, but also show the challenges lenders may face in originating loans to low- and moderate-income borrowers. Imagine how difficult it is to purchase a home when living on less than \$53,000 annually when the median home value in the area is \$398,689.

THEN, LET'S WALK THE TALK...

The affordable housing industry supports that there is a need for increased funding for loans to purchase homes. Although the D.C. metro area experienced an increase in available affordable housing, that financing remains at a level difficult for low- to moderate-income individuals to obtain. Affordable housing industry representatives assert that collaboration between financial institutions and local housing organizations could improve the financial literacy and position of low- to moderate-income individuals.

Despite the fact that demand and opportunity for lending to low-income families is relatively limited because of the difficulty this audience has in qualifying, Industrial Bank continues to grow in services to low- and moderate-income demographics.



INNOVATIVE AND FLEXIBLE LENDING FOR LOW- AND MODERATE-INCOME INDIVIDUALS

We make extensive use of innovative and flexible lending practices in order to put low- and moderate-income individuals in the realm of homeownership and better business development. Through the use of programs targeting small businesses such as the District of Columbia Collateral Support Program (CSP) and the Small Business Administration (SBA) we are able to provide over \$6 million in loans. Through home mortgage programs such as the Maryland Department of Housing and Community Development (MDHCD)/Community Development Administration (CDA), and Greater Washington Urban League Down Payment Assistance Program, Industrial Bank was able to approve and originate over \$22 million in home mortgages.

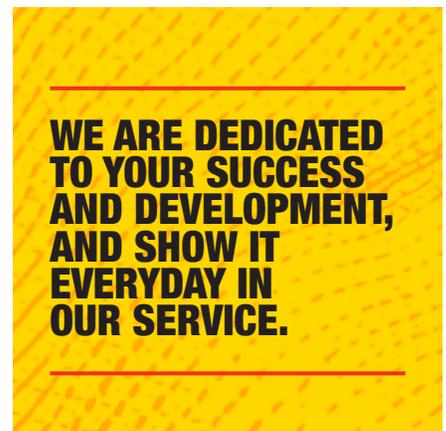
DID YOU KNOW?

According to the S&P Case Shiller U.S. National Home Price Index, Housing prices in the United States have risen by 105% between the years 2000 to 2018.

STAKING OUR CLAIM AS A FORCE IN THE LENDING INDUSTRY

“These should be golden days for small U.S. banks. The economy is booming, interest rate spreads have widened, credit losses are minimal, and compliance costs are at last coming down,” says Alan Macintyre of Forbes. Industrial Bank continues to rank phenomenally well in lending activity compared to major bank competitors. We are dedicated to your success and development, and show it everyday in our service.

The institutions that ranked higher than Industrial Bank are significantly larger, serve regional and national clients, and have over \$1 billion in assets. With our numbers, it is evident that we have chosen to focus on the community and the customer. We service a higher proportion of small business loans and mortgages in relation to our market capital. We make most of our money by lending (i.e., supporting economic development), not by charging consumer banking fees. Our commitment to community development is apparent through our comparative level of activity despite having a very small market share (0.1% in many categories).



OUR COMPETITIVE MARKET DATA

The financial services industry is very competitive in the metro DMV (District/Maryland/Virginia) market area. Though Industrial Bank is a small bank, we hold high rankings in lending.

- > Ranked 36th of 77 full-service banks with .1% market share of deposits
- > Ranked 47th of 139 in market share of small business loan originating/purchasing
- > Ranked 115th of 580 in home mortgage loans

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**& OUTSTANDING
INVESTMENTS**



Industrial Bank responds to credit and community economic development needs, and has reached an excellent level of qualified community development investments and grants not routinely provided by private investors. We have provided loans as well as grants to local small businesses, helping them reach their business goals. To keep things simple and low cost, we rarely use complex qualifying investments to support community development initiatives.

COMMUNITY DEVELOPMENT LENDING/LOANS

Within the past three years, Industrial Bank originated 30 community development loans totaling over \$40 million.

2018 community development loans by purpose

- > Affordable housing - 14.6%
- > Community service - 33.1%
- > Economic development - 32.5%
- > Revitalization/stabilization - 19.5%

Industrial Bank 2018 notable community development stories

- > \$4.2 million loan to a community organization that provides food, clothing, medical care, and legal and social services to low-income residents of Washington, D.C.
- > \$2 million loan to a federally qualified health center that provides medical, dental, and behavioral health services to low-income individuals in an underserved Washington, D.C. area.
- > \$200,000 loan to an organization that provides community services and affordable housing to homeless women and children in Washington, D.C. "Organization Name" currently serves over 200 D.C. residents in 97 housing units.

BUSINESS DEVELOPMENT

There is no economic development, including neighborhood revitalization projects, without business development. Local economies are raised and sustained through a financial ecosystem where capital circulates at higher rates versus capital departure. Fostering the support and development of entrepreneurship and business owners within our local communities is vital to bank customers and residents in these communities.

Business development experts express that local small businesses need the ability to refinance property loans, obtain flexible business loans, and increase capital. Financial institutions need to increase participation in local community organizations, and as such we have developed innovative small business and home mortgage loans to accommodate those who may not traditionally qualify. Economic and demographic data support the premise that financial institutions benefit from offering flexible assistance in service.

WE ARE MAKING COMMUNITY DEPOSITS: THE CDFI FUND

On October 25, 2013, Industrial Bank earned the designation of Community Development Financial Institution (CDFI) from the United States Department of the Treasury. Industrial Bank actively sought out the CDFI designation in order to obtain additional flexibility to help meet community needs. The CDFI designation enables the bank to establish flexible underwriting standards in order to provide additional opportunities to meet the needs of the local community.

Loans, investments, and services qualify as community development activity when their primary purpose is to support affordable housing for low- to moderate-income parties, target community services toward these same people, promote economic development, provide activities that revitalize or stabilize underserved geographies, or enable projects and activities that address needs regarding foreclosed or abandoned residential properties.

Community development loans have the primary purpose of just that: community development. They benefit our bank's local community, state, and the broader community. Our qualified investments and donations toward our community totaled over \$11 million—over 16% of our total securities. The primary channel we use to support community development is through deposits into Community Development Financial Institutions (CDFIs), in which Industrial Bank made deposits totalling \$5 million into 10 CDFIs.

OUTSTANDING SERVICE

LOCATIONS

Industrial Bank's services are delivered and are readily accessible throughout all of the communities we serve. Our business hours are convenient for everyone, taking into account varying work schedules. Further, we continue to provide community development services like financial literacy workshops for incarcerated individuals or their families.

Industrial Bank makes great service to clients in the D.C. metropolitan area a priority. We operate seven branches and 13 ATMs throughout D.C. and Prince George's County, Maryland. They are strategically placed to provide great service to the community. 42.9% of our locations are housed in areas of low-moderate income in order to increase the quality and quantity of financial services, financial resources, and capital access to the less advantaged.

Our branch distribution by geography/ income level in the metro DC area*

- > 28.6% of our branches serve the 18.2% low-income population
- > 14.3% of our branches serve the 25.8% moderate-income population
- > 28.6% of our branches serve the 28.5% middle-income population
- > 28.6% of our branches serve the 26.3% upper-income population

**Note the high percentage of branches serving the comparatively small low-income population*



**IN 2018, 100% OF
OUR QUALIFIED
INVESTMENTS
AND DONATIONS
WENT TOWARD
COMMUNITY
SERVICE IN
WASHINGTON, D.C.**



**EVERYONE
DESERVES A
FAIR CHANCE—
SOMETIMES PEOPLE
JUST NEED A
HELPING HAND.**

24/7 ACCESS

Our online banking and telephone services are available to all of our customers. Our clients can log on to or call us anytime. Alternatively, our 13 ATMs are accessible 24/7/365.

COMMUNITY SERVICE

Our employees focus ample time on free programs benefiting the community and those who need it the most. Their financial expertise and technical assistance was used in over 85 instances in the three-year evaluation period at 20 different community development-related organizations within the D.C. metropolitan area. Several of our officers and employees provide financial education workshops for incarcerated men and women, informing them of the importance of saving, homeownership, budgeting, and managing credit. Others spend time assisting low- to moderate-income residents of Washington, D.C. and Prince George's County with income tax preparation. While others provide financial education to residents throughout Washington, D.C. and Prince George's County.

STANDING OUT: A HISTORY OF COMMUNITY REINVESTMENT

THE COMMUNITY REINVESTMENT ACT

Did you know that the Community Reinvestment Act (CRA) is a federal law enacted in 1977 with the intent of encouraging depository institutions to help meet the credit needs of low- and moderate-income neighborhoods? The CRA requires federal regulators to assess how well each bank or thrift fulfills its obligations to these communities. Upon establishment, one of the aims of the CRA was to reverse the effects of redlining—a controversial practice in which banks restricted lending in certain neighborhoods that were deemed too risky.

Only non-bank financial institutions and credit unions (backed by NCUA/NCUI) are exempt from CRA regulations. Industrial Bank did volunteer to be examined as a “Large Bank” for CRA purposes as opposed to “Intermediate – Small Bank”, which is our actual asset class. Volunteering to be examined under the same metrics and standards of larger banks means we were held to higher expectations and more stringent criteria. Since our first year of volunteering to take the CRA assessment, Industrial Bank has continued to be assessed regularly and has been reported as an outstanding lending institution by regulating authorities. We are not choosing to focus our efforts on reinvesting in the community because we have to; it is because we care.

CRA ratings are available online for all banks operated in the U.S., as well as upon request at any bank's local branches. Inquire about a bank's CRA rating the next time you walk into any American banking institution.

OUR NEXT YEAR WILL BE ONE TO REMEMBER

**YOU CHOSE INDUSTRIAL BANK FOR OUR SERVICES AND OUR
VALUES. FOR THIS, WE ARE SINCERELY GRATEFUL.**

Thank you. Because you care about 2018's highlights, we know that you are invested in our future and the future of your community. Here at Industrial Bank, we have been developing our culture of service to one another.

We have been around for many years, which has given us the chance to become experts in our industry. In fact, in 2019, Industrial Bank will celebrate its 85th year of service. We will look forward to celebrating this milestone with you and our entire D.C. metropolitan community.

HERE FOR YOU...HERE FOR THE LONG RUN.



2019

2018 FINANCIALS

ASSETS	2018	2017
Cash and due from banks	3,154	5,636
Interest-bearing deposits with banks	20,123	13,079
Total cash and cash equivalents	23,277	18,715
Short-term Investments	3,454	3,408
Investment securities available-for-sale, at fair value	68,308	66,814
Restricted stock, at cost	2,039	2,257
Loans held for sale	-	1,566
Loans receivable, net of unearned income and deferred fees	311,834	309,559
Less: Allowance for loan losses	(4,133)	(3,037)
Net loans	3 07,701	306,522
Premises and equipment, net	9,343	9,035
Real estate owned (REO)	2,407	-
Bank owned life insurance (BOLI)	9,345	9,136
Other assets	7,977	5,912
Total assets	433,851	423,365
LIABILITIES AND SHAREHOLDERS' EQUITY	2018	2017
LIABILITIES		
Non-interest bearing deposits	96,746	93,237
Interest bearing deposits	2 54,166	241,678
Total deposits	350,912	334,915
Short-term borrowings	45,344	51,760
Accounts payable and accrued expenses	2,010	1,433
Total liabilities	398,266	388,108
SHAREHOLDERS' EQUITY		
Preferred stock \$1 par value per share; (500,000 voting and 480,000 nonvoting) authorized; \$25 par value, 20,000 Series A nonvoting issued and outstanding, stated liquidation value	500	500
Common stock, \$1 par value; 1,000,000 shares authorized, 598,312 issued and outstanding for 2017 and 600,302 for 2016	598	598
Additional paid-in-capital	3,197	3,213
Retained earnings	31,549	30,645
Accumulated other comprehensive income	(259)	301
Total shareholders' equity	35,585	35,257
Total liabilities and shareholders' equity	433,851	383,275
INTEREST INCOME:	2018	2017
Interest and fees on loans	\$16,427	\$15,524
Interest on investment securities	1,942	1,634
Interest on interest-bearing deposits and short-term investments	318	176
Total interest income	18,687	17,334

INTEREST EXPENSE:	2018	2017
Interest on deposits	1,005	739
Interest on short-term borrowings	450	203
Total interest expense	1,455	942
Net interest income	17,232	16,392
Provision for loan losses	10	500
Net interest income after provision for loan losses	17,222	15,892
NONINTEREST INCOME:	2018	2017
Impairment loss on equity securities without readily determinable fair value	(800)	-
Gain on sale of loans	196	286
Loss on sale of REO	-	(7)
Service charges and other fees on deposits	1,795	1,690
Other fee income	348	389
Other income	2,113	2,072
Total non-interest income	3,652	4,430
NONINTEREST EXPENSE:	2018	2017
Salaries and benefits	9,923	10,014
Occupancy	1,685	1,475
Furniture and equipment	425	347
Data processing and information technology	2,158	1,931
Office expense	681	747
Professional fees	1,475	1,159
Security	473	381
FDIC insurance assessment	394	372
Lending expense	566	186
Other	1,812	2,128
Total non-interest expense	19,592	18,740
Income before income taxes	1,282	1,582
Income tax expense	280	915
Net income	1,002	667
Preferred stock dividends	(26)	(24)
Net income available to common shareholders	\$976	\$643
Basic and diluted net income per common share	\$1.63	\$1.07
Dividend per common share	\$0.12	\$0.10
Weighted average number of common shares outstanding	598,311	600,027
COMPREHENSIVE INCOME	2018	2017
Net income	1,002	667
Other comprehensive income before tax:		
Unrealized holding losses on available-for-sale investment securities	(850)	(365)
Other comprehensive income before tax	(850)	(365)
Income tax benefit effect	290	139
Other comprehensive income, net of tax	(560)	(226)
Comprehensive income	\$442	\$441

See Notes to Consolidated Financial Statements.

(dollars in thousands)

CONTACT US

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