



## **IBW Financial Corporation (IBWC)**

### **QUARTERLY EARNINGS REPORT**

**March 31, 2018**

**B. Doyle Mitchell Jr.**  
**President and Chief Executive Officer**

#### **Disclaimer and Cautionary Statement**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of IBW Financial Corporation's management, and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Many factors may cause these differences including but not limited to: overall economic changes, narrowing of net interest margins, increased provisions for loan losses, decreased non-interest income, increased non-interest expenses, management changes, regulatory policies and competitive developments. IBW Financial Corporation does not undertake to update the forward-looking statements of this report to reflect changes after the date of this report.

## IBW Financial Corporation

### Quarterly Earnings Report (Unaudited): March 31, 2018

This report provides unaudited financial performance information about IBW Financial Corporation (OTC-PINK: IBWC) (the “Company”), the holding company of Industrial Bank (the “Bank”), for the first quarter ended March 31, 2018 (“1Q 2018” or the “Quarter”).

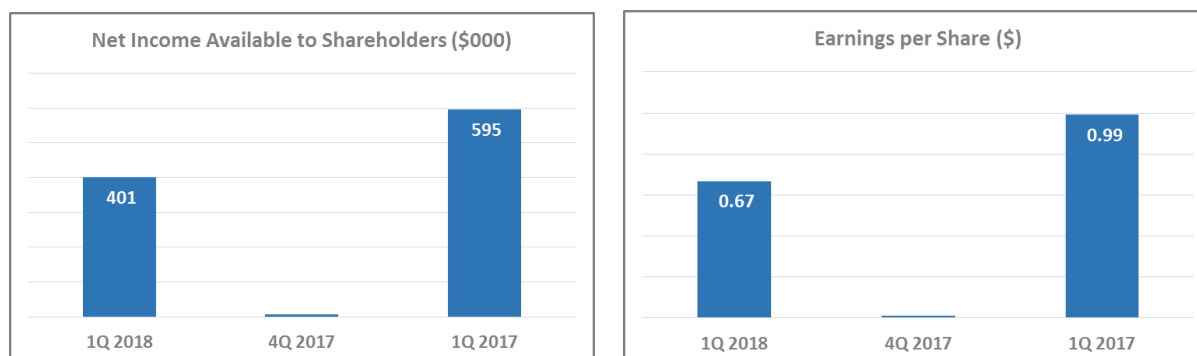
The highlights of the earnings results for the Quarter are summarized below by comparing them with the results for (a) the first quarter ended a year ago March 31, 2017 (“1Q 2017” or the “Year-ago Quarter”), and (b) the fourth quarter ended December 31, 2017 (“4Q 2017” or the “Last Quarter”).

**Note:** The information in this report is unaudited, and the numbers are rounded.

First Quarter 2018 Earnings Highlights	
<b>Net Income Available to Shareholders</b>	<ul style="list-style-type: none"> <li>▪ \$401,000 or \$0.67 earnings per share (EPS) for the Quarter, compared to net income available to shareholders of:               <ul style="list-style-type: none"> <li>(a) \$595,000 or \$0.99 EPS for the Year-ago Quarter, a decrease of \$194,000 or \$0.32 EPS. This decrease in net income for the Quarter is attributable to a decrease in net operating revenues of \$346,000 for the Quarter.</li> <li>(b) 7,000 or \$0.01 EPS for the Last Quarter, an increase of \$394,000 or \$0.66 EPS. This increase in net income for the Quarter is attributable an increase in net operating revenues of \$523,000 for the Quarter.</li> </ul> </li> </ul>
<b>Net Interest Income</b>	<ul style="list-style-type: none"> <li>▪ \$3.99 million for the Quarter, compared to net interest income of \$4.01 million for the Year-ago Quarter, a decline of \$26,000 (0.65%); and net interest income of \$4.26 million for the Last Quarter, a decline of \$268,000 (6.30%).</li> <li>▪ The net interest margin (NIM) for the Quarter is 4.04%, lower than 4.40% NIM for the Year-ago Quarter, a decline of 36 basis points for the Quarter; and also lower than 4.35% NIM for the Last Quarter, a decline of 31 basis points.</li> </ul>
<b>Non-Interest Income</b>	<ul style="list-style-type: none"> <li>▪ \$1.02 million for the Quarter, compared to non-interest income (“NII”) of \$1.43 million for the Year-ago Quarter, a decrease of \$406,000 (28.45%); and \$1.05 million for the Last Quarter, a decrease of \$29,000 (2.76%).</li> <li>▪ The decrease for the Quarter compared to the Year-ago Quarter as well as the Last Quarter is attributable primarily to decrease in “other” NII category of \$485,000 (46.91%) for the Year-ago Quarter, and \$7,000 (1.26%) for the Last Quarter.</li> </ul>
<b>Non-Interest Expense</b>	<ul style="list-style-type: none"> <li>▪ \$4.40 million for the Quarter, compared to non-interest expense of \$4.48 million for the Year-ago Quarter, savings of \$86,000 (1.92%); and \$5.22 million for the Last Quarter, savings of \$820,000 (15.72%).</li> <li>▪ The efficiency ratio for the Quarter is 87.74%, compared to efficiency ratio of 82.36% for the Year-ago Quarter, a deterioration of 6.54%; and 98.28% for the Last Quarter, an improvement of 10.73%.</li> </ul>

## EARNINGS PERFORMANCE

### Net Income Available to Shareholders:



#### ▪ 1<sup>st</sup> Quarter 2018 versus 1<sup>st</sup> Quarter 2017

- Net income available to common shareholders for the Quarter is \$401,000 or \$0.67 earnings per share (EPS), compared to net income of \$595,000 or \$0.99 EPS for the Year-ago Quarter, a decrease of \$194,000 (32.61%) or \$0.32 EPS.
- The decrease of \$194,000 (32.61%) in net income for the Quarter is attributable, in part, to a decline in operating income of \$432,000 (8.14%), which is offset partially by an improvement in operating expense of \$86,000 (1.65%).

#### ▪ 1<sup>st</sup> Quarter 2018 versus 4<sup>th</sup> Quarter 2017

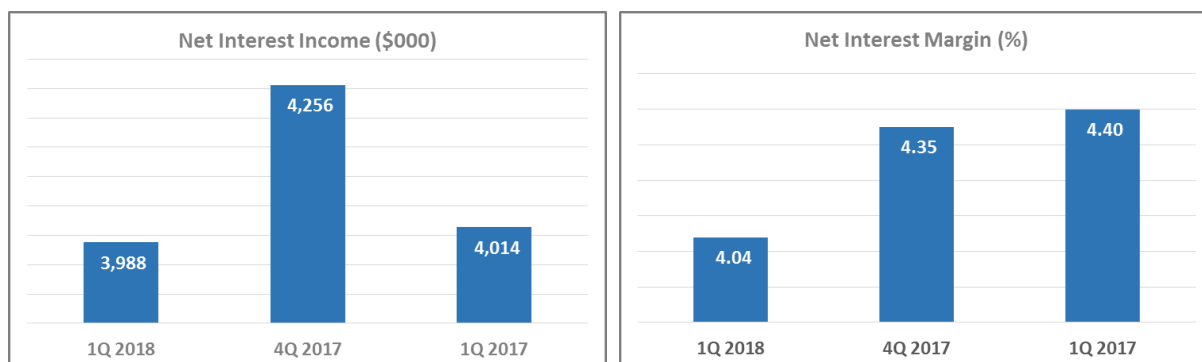
- Net income available to common shareholders for the Quarter of \$401,000 or \$0.67 EPS improved compared to net income of \$7,000 or \$0.01 EPS for the Last Quarter, an improvement of \$394,000 or \$0.66 EPS. The low net income for the Last Quarter was due to extra-ordinary non-interest expense and the impact new tax legislation.
- The improvement of \$394,000 in net income for the Quarter is attributable, in part, to savings in operating expense of \$820,000 (15.72%), which is offset partially by a decline in operating income of 297,000 (5.60%).

### Net Interest Income:

#### ▪ 1<sup>st</sup> Quarter 2018 versus 1<sup>st</sup> Quarter 2017

- Net interest income for the Quarter is \$3.99 million, compared to net interest income of \$4.01 million for the Year-ago Quarter, a decline of \$26,000 (0.65%). This decline in net interest income is attributable to an increase in interest expense of \$158,000 (77.45%), which is offset partially by an improvement in interest income of \$132,000 (3.13%).
- The increase in interest expense of \$158,000 (77.45%) is attributable to an increase interest on deposits of \$5,000 (2.67%), and interest on borrowings of \$153,000 (900.00%).

On the other hand, the increase in interest income of \$132,000 (3.13%) is attributable to a combination of increases in (a) interest and fees on loans of \$1,000 (0.03%), (b) income from investments of \$85,000 (23.16%), and (c) other interest income of \$46,000 (148.39%).



- The net interest margin for the Quarter is 4.04%, compared to the net interest margin of 4.40% for the Year-ago Quarter, a decline of 36 basis points.

▪ **1<sup>st</sup> Quarter 2018 versus 4<sup>th</sup> Quarter 2017**

- Net interest income for the Quarter of \$3.99 million declined compared with net interest income of \$4.26 million for the Last Quarter, a decline of \$268,000 (6.30%). This decline in net interest income is accounted for by a decline in interest income of \$226,000 (4.94%), and an increase in interest expense of \$42,000 (13.13%).
- The decline in interest income of \$226,000 (4.94%) is attributable to declines in (a) interest income and fees on loans of \$237,000 (5.84%), and (b) interest income from securities investments of \$3,000 (0.66%); which is offset partially by an increase in “other” interest income of \$14,000 (22.22%).

On the other hand, the increase in interest expense of \$42,000 (13.13%) is accounted for by an increase in interest expense on borrowings of \$56,000 (49.12%), which is offset partially by a decrease in interest expense on deposits of \$14,000 (6.80%).

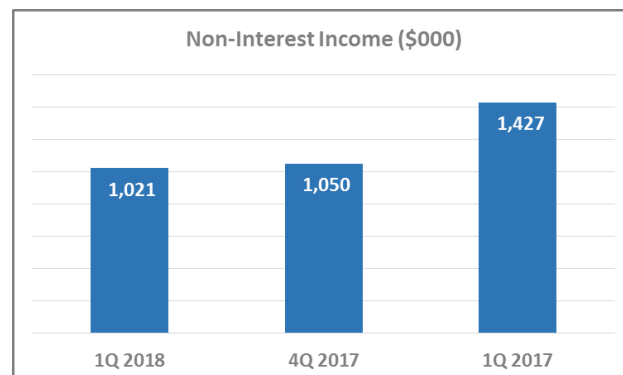
- The net interest margin for the Quarter of 4.04% declined, compared to net interest margin of 4.35% for the Last Quarter by 31 basis points.

**Non-Interest Income:**

Non-Interest Income consists of (a) service charges on deposit accounts, (b) gain on sales of loans, and (c) other sources of non-interest income.

▪ **1<sup>st</sup> Quarter 2018 versus 1<sup>st</sup> Quarter 2017**

- Non-interest income for the Quarter is \$1.02 million, compared to non-interest income of \$1.43 million for the Year-ago Quarter, a decline of \$406,000 (28.45%).
- This decline in non-interest income of \$406,000 (28.45%) stems from a decline of \$485,000 (46.91%) in other non-interest income, which is offset partially by a combination of increases in (a) service charges on deposits of \$65,000 (19.06%), and (b) gain on sales of loans of \$14,000 (26.92%).

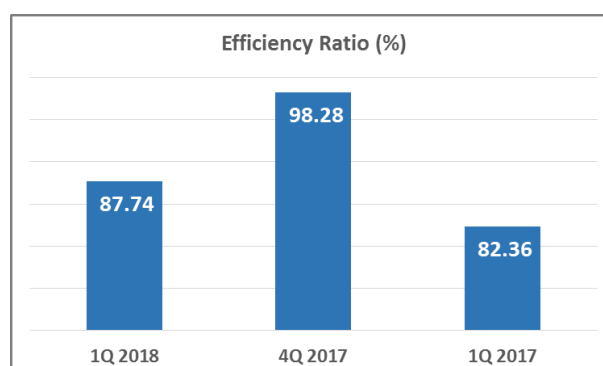
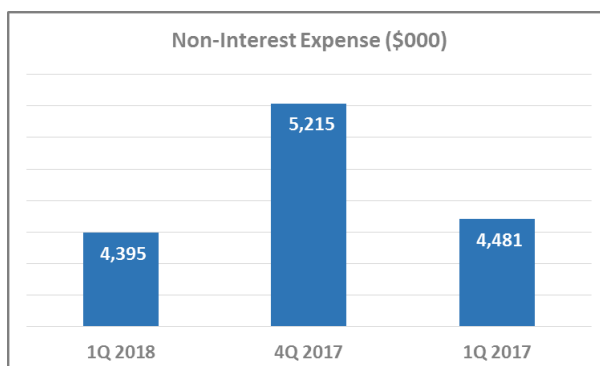


▪ **1<sup>st</sup> Quarter 2018 versus 4<sup>th</sup> Quarter 2017**

- Non-interest income for the Quarter of \$1.02 million is \$29,000 (2.76%) lower than the non-interest income for the Last Quarter of \$1.05 million.
- This lower non-interest income of \$29,000 (2.76%) is attributable to declines in (a) service charges on deposits of \$12,000 (2.87%), (b) gain on sales of loans of \$10,000 (13.16%), and (b) other non-interest income of \$7,000 (1.26%).

**Non-Interest Expense:**

Non-interest expense consists of (a) compensation and benefits, (b) premises and fixed-assets, and (c) other sources of non-interest expense.



▪ **1<sup>st</sup> Quarter 2018 versus 1<sup>st</sup> Quarter 2017**

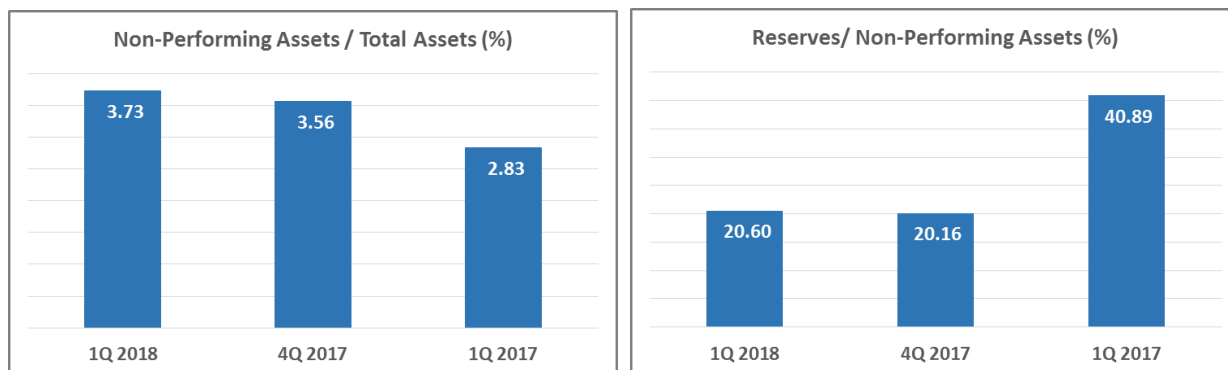
- Non-interest expense for the Quarter is \$4.40 million, compared to non-interest expense of \$4.48 million for the Year-ago Quarter, a decline of \$86,000 (1.92%).
- This decline in non-interest expense of \$86,000 (1.92%) is due to savings in (a) premises and fixed assets of \$47,000 (7.82%) and (b) other non-interest expenses of \$69,000 (4.85%), which is offset partially by an increase in compensation & benefits of \$30,000 (1.22%).

- The efficiency ratio for the Quarter is 87.74%, which deteriorated by 6.54% compared to the efficiency ratio of 82.36% for the Year-ago Quarter.
- **1<sup>st</sup> Quarter 2018 versus 4<sup>th</sup> Quarter 2017**
  - Non-interest expense for the Quarter of \$4.40 million declined significantly by \$820,000 (15.72%), compared to non-interest expense of \$5.22 million for the Last Quarter.
  - This decline in non-interest expense for the Quarter of \$820,000 (15.72%) is due to savings in (a) premises and fixed assets of \$71,000 (11.36%) and (b) other non-interest expense of \$796,000 (37.01%), which is offset partially by an increase in compensation & benefits of \$47,000 (1.98%).
  - The efficiency ratio of 87.74% for the Quarter improved by 10.73%, compared to the efficiency ratio of 98.28% for the Last Quarter.

## ASSET QUALITY

### Non-Performing Assets:

The Bank's Non-performing assets (NPAs) (including restructured loans that were 90 days or more past due), as a percent of total assets for the Quarter is 3.73%, compared to NPAs of (a) 2.83% for the Year-ago Quarter, an incremental deterioration of 90 basis points, and (b) 3.56% for the Last Quarter, an incremental deterioration of 17 basis points.



### Allowance for Loan Losses:

- The reserves for potential losses on loans as a percent of gross loans for the Quarter is 1.04%, which is lower by 50 basis points than reserves for the Year-ago Quarter of 1.54%, but higher by 6 basis points than the reserves for the Last Quarter of 0.98%.
- The reserves as a percent of NPAs for the Quarter is 20.60%, which is almost half of the reserves for the Year-ago Quarter of 40.89%, but higher by 44 basis points than the reserves for the Last Quarter of 20.16%.

**IBW Financial Corporation**  
**STATEMENTS OF INCOME (Unaudited)**

<b>Summary Income Statement</b> (Amounts in \$000)	<b>1Q 2018</b>	<b>4Q 2017</b>	<b>1Q 2017</b>
Total Interest Income	4,350	4,576	4,218
Total Interest Expense	362	320	204
<b>Net Interest Income</b>	<b>3,988</b>	<b>4,256</b>	<b>4,014</b>
Provision for Loan Losses	170	150	100
Total Non-Interest Income	1,021	1,050	1,427
Realized Gain on Securities	-	-	-
Total Non-Interest Expense	4,395	5,215	4,481
<b>Net Income before Income Taxes</b>	<b>444</b>	<b>(59)</b>	<b>860</b>
Income Taxes	37	(72)	259
<b>Net Income</b>	<b>407</b>	<b>13</b>	<b>601</b>
Preferred Dividends	6	6	6
Net Income Available for Shareholders	401	7	595
Weighted Avg. Shares Outstanding	598,312	600,013	599,927
<b>Earnings per Share (\$)</b>	<b>0.67</b>	<b>0.01</b>	<b>0.99</b>
<b>Supplementary Information</b> (Amounts in \$000)	<b>1Q 2018</b>	<b>4Q 2017</b>	<b>1Q 2017</b>
<b>Interest Income</b>			
Interest and Fees on Loans	3,821	4,058	3,820
Income from Investments	452	455	367
Other Interest Income	77	63	31
<b>Total Interest Income</b>	<b>4,350</b>	<b>4,576</b>	<b>4,218</b>
<b>Interest Expense</b>			
Interest on Deposits	192	206	187
Interest on Borrowings	170	114	17
<b>Total Interest Expense</b>	<b>362</b>	<b>320</b>	<b>204</b>
<b>Non-Interest Income</b>			
Service Charges on Deposit Accounts	406	418	341
Gain on Sale of Loans	66	76	52
Other Non-Interest Income	549	556	1,034
<b>Total Non-Interest Income</b>	<b>1,021</b>	<b>1,050</b>	<b>1,427</b>
<b>Non-Interest Expense</b>			
Compensation & Benefits	2,486	2,439	2,456
Premises & Fixed Assets	554	625	601
Other Non-Interest Expenses	1,355	2,151	1,424
<b>Total Non-Interest Expense</b>	<b>4,395</b>	<b>5,215</b>	<b>4,481</b>

## **About IBW Financial Corporation**

IBW Financial Corporation (OTC-PINK: IBWC), a Washington DC based bank holding company for Industrial Bank, offers wide range of banking services through the Bank operating from seven banking centers, of which five are located in the District of Columbia. The services include consumer and commercial banking to retail and business customers, including loans, deposits and online banking. For additional information about the Company and the Bank, investor can access website at [www.industrial-bank.com](http://www.industrial-bank.com).

## **Disclaimer on Forward Looking Statements**

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***The information contained in this report is unaudited, and is subject to error and omission***