



IBW Financial Corporation (IBWC)

QUARTERLY EARNINGS REPORT

June 30, 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 Performance Report (Unaudited): June 30, 2018

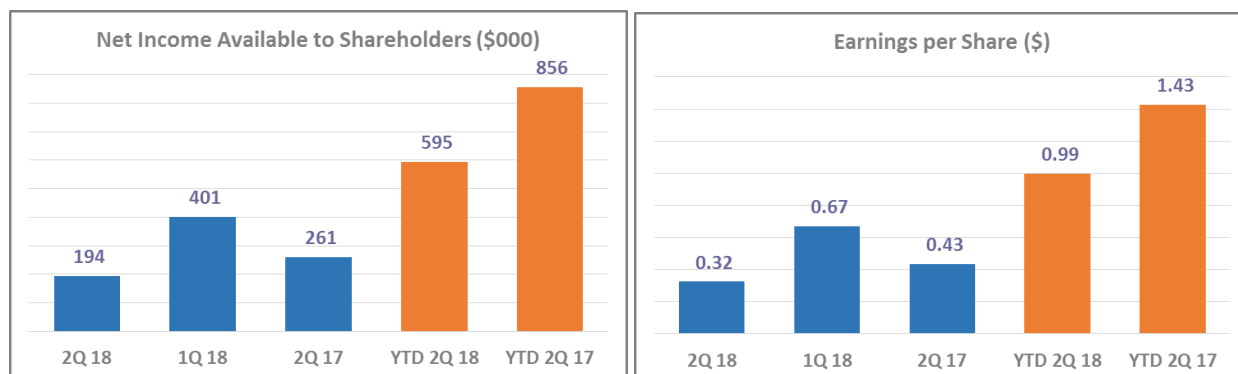
This report provides unaudited financial performance information about IBW Financial Corporation (OTC-PINK: IBWC) (the “Company”), the holding company of Industrial Bank (the “Bank”), for the second quarter ended June 30, 2018 (“2Q 18” or the “Quarter”).

The highlights of the earnings performance results for the Quarter are summarized below by comparing the results with those for (a) the second quarter ended a year ago June 30, 2017 (“2Q 17” or the “Year-ago Quarter”), and (b) the first quarter ended March 31, 2018 (“1Q 18” or the “Last Quarter”). In addition, the earnings performance results on a year-to-date (“YTD”) basis for the Quarter (“YTD 2Q 18”) are also compared with the corresponding results for the Year-ago-Quarter (“YTD 2Q 17”). *Note: The information in this report is unaudited, and the numbers are rounded.*

Second Quarter 2018 Earnings Highlights	
Net Income Available to Shareholders	<ul style="list-style-type: none"> ▪ \$194,000 or \$0.32 earnings per share (EPS) for the Quarter, compared to net income available to shareholders of: <ul style="list-style-type: none"> (a) \$261,000 or \$0.43 EPS for the Year-ago Quarter, a decrease of \$67,000 or \$0.11 EPS. This decrease in net income for the Quarter is attributable to a decrease in net operating revenues of \$95,000 for the Quarter. (b) 401,000 or \$0.67 EPS for the Last Quarter, a decrease of \$207,000 or \$0.35 EPS. This decrease in net income for the Quarter is attributable a decrease in net operating revenues of \$201,000 for the Quarter.
Net Interest Income	<ul style="list-style-type: none"> ▪ \$4.15 million for the Quarter, compared to net interest income of \$3.94 million for the Year-ago Quarter, an increase of \$211,000 (5.36%); and net interest income of \$3.99 million for the Last Quarter, an increase of \$161,000 (4.04%). ▪ The net interest margin (NIM) for the Quarter is 4.29%, lower than the NIM of 4.35% for the Year-ago Quarter, a decline of 6 basis points for the Quarter; but higher than the NIM of 4.04% for the Last Quarter, an increase of 25 basis points for the Quarter.
Non-Interest Income	<ul style="list-style-type: none"> ▪ \$1.04 million for the Quarter, compared to non-interest income (“NII”) of \$954,000 for the Year-ago Quarter, an increase of \$83,000 (8.70%); and \$1.02 million for the Last Quarter, an increase of \$16,000 (1.57%). ▪ The increase for the Quarter compared to the Year-ago Quarter is attributable to service charges on deposit accounts and “other” NII, but the increase compared to the Last Quarter is attributable only to other NII; which were offset partially by decreases in income from gain on sale of loans.
Non-Interest Expense	<ul style="list-style-type: none"> ▪ \$4.77 million for the Quarter, compared to non-interest expense of \$4.38 million for the Year-ago Quarter, an increase of \$389,000 (8.87%); and \$4.40 million for the Last Quarter, an increase of \$378,000 (8.60%). ▪ The efficiency ratio for the Quarter is 92.04%, compared to efficiency ratio of 89.62% for the Year-ago Quarter, an increase of 2.70%; and 87.74% for the Last Quarter, an increase of 4.89%.

EARNINGS PERFORMANCE

Net Income Available to Shareholders:



▪ 2nd Quarter 2018 versus 2nd Quarter 2017

- Net income available to shareholders for the Quarter is \$194,000 or \$0.32 earnings per share (EPS) compared to net income of \$261,000 or \$0.43 EPS for the Year-ago Quarter, a decline of \$67,000 (25.67%) or \$0.11 EPS.
- The decline in net income for the Quarter is attributable to a decline in net operating revenues of \$95,000 (18.70%) arising from an increase in operating expenses of \$389,000 (8.87%) which is offset partially by an increase in operating revenues of \$294,000 (6.01%).

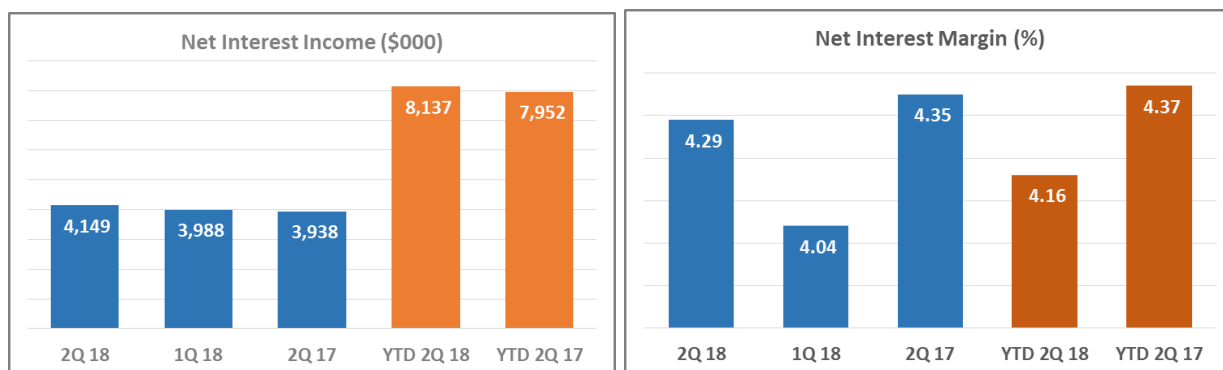
▪ 2nd Quarter 2018 versus 1st Quarter 2018

- Net income available to shareholders for the Quarter of \$194,000 or \$0.32 EPS declined compared to net income of \$401,000 or \$0.67 EPS for the Last Quarter, a decline of \$207,000 (51.62%) or \$0.35 EPS.
- The decline in net income for the Quarter is attributable to a decline in net operating revenues of \$201,000 (32.74%) arising from an increase in operating expenses of \$378,000 (8.60%) which is offset partially by an increase in operating revenues of \$177,000 (3.53%).

▪ YTD 2nd Quarter 2018 versus YTD 2nd Quarter 2017

- Net income available to common shareholders for the Quarter year-to-date (YTD) is \$595,000 or \$0.99 EPS compared to net income of \$856,000 or \$1.43 EPS for the Year-ago Quarter YTD, a decline of \$261,000 (30.49%) or \$0.43 EPS.
- The decline in net income for the Quarter YTD is attributable to a decline in net operating revenues of \$441,000 (30.04%) caused by a decline in operating revenues of \$138,000 (1.34%), and an increase in operating expenses of \$303,000 (3.42%).

Net Interest Income:



▪ 2nd Quarter 2018 versus 2nd Quarter 2017

- Net interest income for the Quarter is \$4.15 million, compared to net interest income of \$3.94 million for the Year-ago Quarter, an increase of \$211,000 (5.36%). This increase in net interest income is attributable to an increase in interest income of \$355,000 (8.59%), which is offset partially by an increase interest expense of \$144,000 (74.23%).
- The increase in interest income of \$355,000 is accounted for by increases in: (a) interest and fees on loans of \$193,000 (5.17%), (b) income from investments of \$116,000 (31.69%), and (c) other interest income of \$46,000 (127.78%).
- The Bank's net interest margin for the Quarter is 4.29%, compared to the net interest margin of 4.35% for the Year-ago Quarter, a decline of 6 basis points. The decline in net interest margin is due to a relatively lower increase in net interest income than the increase in average earnings assets for the Quarter.

▪ 2nd Quarter 2018 versus 1st Quarter 2018

- Net interest income for the Quarter of \$4.15 million increased by \$161,000 (4.04%), compared to the net interest income of \$3.99 million for the Last Quarter. This increase in net interest income is attributable to an increase in interest income of \$137,000 (3.15%), as well as savings in interest expense of \$24,000 (6.63%).
- The increase in interest income of \$137,000 (3.15%) is accounted by increases in (a) interest and fees on loans of \$102,000 (2.67%), (b) income from investments of \$30,000 (6.64%), and (c) other interest income of \$5,000 (6.49%).
- The Bank's net interest margin for the Quarter of 4.29% improved compared to the net interest margin of 4.04% for the Last Quarter, an improvement of 25 basis points.

▪ YTD 2nd Quarter 2018 versus YTD 2nd Quarter 2017

- Net interest income for the Quarter YTD is \$8.14 million, compared to net interest income of \$7.95 million for the Year-ago Quarter YTD, an increase of \$185,000 (2.33%). This increase in net interest income is attributable to an increase in interest income of \$487,000 (5.83%), which is offset partially by an increase in interest expense of \$302,000 (75.88%).

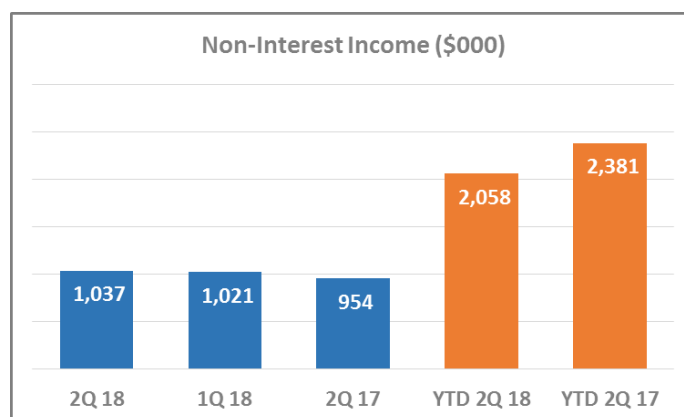
- The increase in interest income of \$487,000 is attributable to increases in (a) interest and fees on loans of \$194,000 (2.57%), (b) income from investments of \$201,000 (27.42%), and (c) other interest income of \$92,000 (137.31%).
- The Bank's net interest margin for the Quarter YTD is 4.16%, compared to the net interest margin of 4.37% for the Year-ago Quarter YTD, a decline of 21 basis points. The decline in net interest margin is due to a relatively lower increase in net interest income than the increase in average earnings assets for the Quarter YTD.

Non-Interest Income:

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

▪ 2nd Quarter 2018 versus 2nd Quarter 2017

- Non-interest income for the Quarter is \$1.04 million, compared to non-interest income of \$954,000 for the Year-ago Quarter, an increase of \$83,000 (8.70%).
- This increase is due to a combination of increases in (a) service charges on deposits of \$74,000 (22.42%), and (b) other non-interest income of \$53,000 (9.78%), which is offset partially by a decrease in gain on sales of loans of \$44,000 (53.66%).



▪ 2nd Quarter 2018 versus 1st Quarter 2018

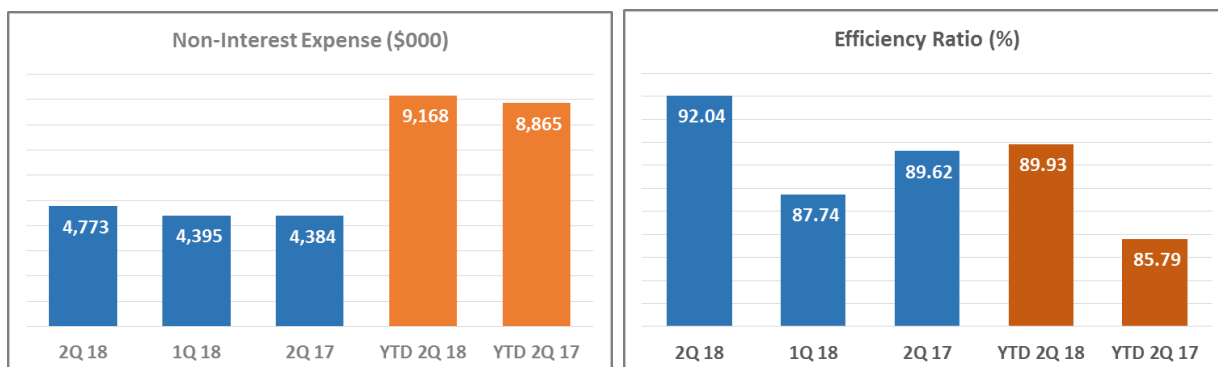
- Non-interest income for the Quarter of \$1.04 million increased by \$16,000 (1.57%), compared to non-interest income for the Last Quarter of \$1.02 million.
- This increase in non-interest income is attributable to an increase in other non-interest income of \$46,000 (8.38%), which is reduced by the sum of decreases in (a) gain on sales of loans of \$28,000 (42.42%), and (b) service charges on deposits of \$2,000 (0.49%).

▪ YTD 2nd Quarter 2018 versus YTD 2nd Quarter 2017

- Non-interest income for the Quarter YTD is \$2.06 million, compared to non-interest income of \$2.38 million for the Year-ago Quarter YTD, a decrease of \$323,000 (13.57%).
- This decrease is attributable to decreases in a combination of (a) gain on sales of loans of \$30,000 (22.39%), and (b) other non-interest income of \$432,000 (27.41%), which is offset partially by an increase in service charges on deposits of \$139,000 (20.72%).

Non-Interest Expense:

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



▪ 2nd Quarter 2018 versus 2nd Quarter 2017

- Non-interest expense for the Quarter is \$4.77 million, compared to non-interest expense of \$4.38 million for the Year-ago Quarter, an increase of \$389,000 (8.87%).
- This increase in non-interest expense is attributable to an increase in “other” non-interest expense of \$571,000 (43.82%), which is offset partially by a combination of savings in (a) compensation & benefits of \$67,000 (2.70%), and (b) premises and fixed assets of \$115,000 (19.13%).
- The Bank’s efficiency ratio for the Quarter is 92.04%, compared to efficiency ratio of 89.62% for the Year-ago Quarter, an increase of 2.70%.

▪ 2nd Quarter 2018 versus 1st Quarter 2018

- Non-interest expense for the Quarter of \$4.77 million increased by \$378,000 (8.60%), compared to non-interest expense of \$4.40 million for the Last Quarter.
- The increase in non-interest expense for the Quarter of \$378,000 (8.60%) is attributable to an increase in “other” non-interest expense of \$519,000 (38.30%), which is offset partially by a combination of savings in (a) compensation and benefits of \$73,000 (2.94%), and (b) premises and fixed assets of \$68,000 (12.27%).
- The Bank’s efficiency ratio for the Quarter of 92.04% increased by 4.89%, compared to the efficiency ratio of 87.74% for the Last Quarter.

▪ YTD 2nd Quarter 2018 versus YTD 2nd Quarter 2017

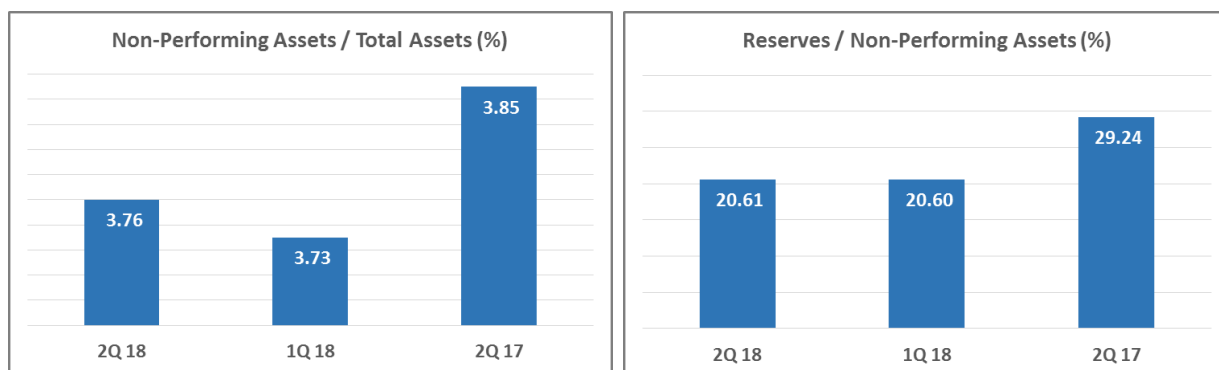
- Non-interest expense for the Quarter YTD is \$9.17 million, compared to non-interest expense of \$8.87 million for the Year-ago Quarter YTD, an increase of \$303,000 (3.42%).
- This increase in non-interest expense is due to an increase in other non-interest expense of \$502,000 (18.41%), which is offset partially by a combination of savings in (a) compensation and benefits of \$37,000 (0.75%), and (b) premises and fixed assets of \$162,000 (13.48%).

- The Bank's efficiency ratio for the Quarter YTD is 89.93%, an increase of 4.82% compared to the efficiency ratio of 85.79% for the Year-ago Quarter YTD.

ASSET QUALITY

Non-Performing Assets:

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 3.76%, compared to NPAs of (a) 3.85% for the Year-ago Quarter, an incremental improvement of 9 basis points, and (b) 3.73% for the Last Quarter, an incremental deterioration of 3 basis points.



Allowance for Loan Losses:

- The reserves for potential losses on loans as a percent of gross loans for the Quarter is 1.08%, which is lower than the reserves for the Year-ago Quarter of 1.53%, but higher than the reserves for the Last Quarter of 1.04%.
- The reserves as a percent of NPAs for the Quarter decreased to 20.61%, compared to that for the Year-ago Quarter of 29.24%, but remained approximately the same as the reserves for the Last Quarter of 20.60%.

IBW Financial Corporation
STATEMENTS OF INCOME (Unaudited)

Summary Income Statement (Amounts in \$000)	2Q 2018	1Q 2018	2Q 2017	YTD 2018	YTD 2017
Total Interest Income	4,487	4,350	4,132	8,837	8,350
Total Interest Expense	338	362	194	700	398
Net Interest Income	4,149	3,988	3,938	8,137	7,952
Provision for Loan Losses	180	170	100	350	200
Total Non-Interest Income	1,037	1,021	954	2,058	2,381
Realized Gain on Securities	-	-	-	-	-
Total Noninterest Expense	4,773	4,395	4,384	9,168	8,865
Net Income before Income Taxes	233	444	408	677	1,268
Income Taxes	33	37	141	70	400
Net Income	200	407	267	607	868
Preferred Dividends	6	6	6	12	12
Net Income Available for Shareholders	194	401	261	595	856
Weighted Avg. Shares Outstanding*	598,312	598,312	600,032	598,312	600,032
Earnings per Share (\$)	0.32	0.67	0.43	0.99	1.43
* Basic and diluted shares are same					
Supplementary Information (Amounts in \$000)	2Q 2018	1Q 2018	2Q 2017	YTD 2018	YTD 2017
Interest Income					
Interest and Fees on Loans	3,923	3,821	3,730	7,744	7,550
Income from Investments	482	452	366	934	733
Other Interest Income	82	77	36	159	67
Total Interest Income	4,487	4,350	4,132	8,837	8,350
Interest Expense					
Interest on Deposits	227	192	163	419	350
Interest on Borrowings	111	170	31	281	48
Total Interest Expense	338	362	194	700	398
Non-Interest Income					
Service Charges on Deposit Accounts	404	406	330	810	671
Gain on Sale of Loans	38	66	82	104	134
Other Non-Interest Income	595	549	542	1,144	1,576
Total Non-Interest Income	1,037	1,021	954	2,058	2,381
Non-Interest Expense					
Compensation & Benefits	2,413	2,486	2,480	4,899	4,936
Premises & Fixed Assets	486	554	601	1,040	1,202
Other Non-Interest Expenses	1,874	1,355	1,303	3,229	2,727
Total Non-Interest Expense	4,773	4,395	4,384	9,168	8,865

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.

Disclaimer on Forward Looking Statements

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