



IBW Financial Corporation (IBWC)

QUARTERLY EARNINGS REPORT

December 31, 2017

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): December 31, 2017

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 fourth quarter ended December 31, 2017 (“4Q 17” or the “Quarter”).

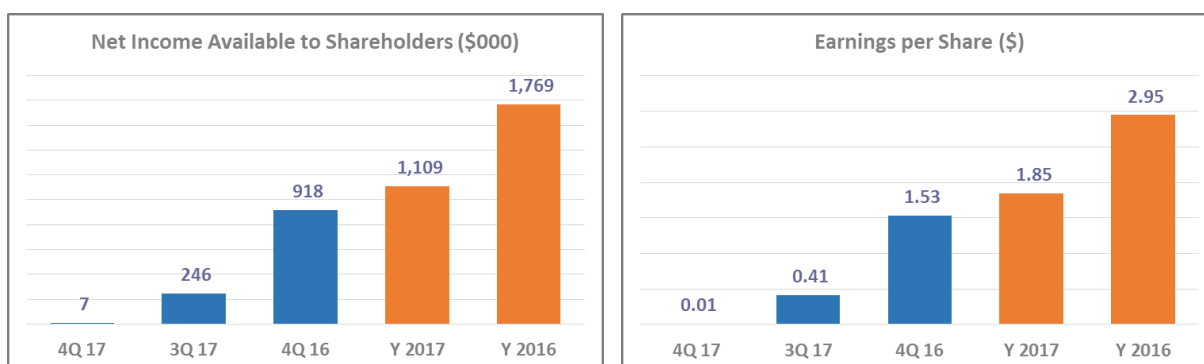
The highlights of the results for the Quarter are summarized below by comparing them with the results for (a) the fourth quarter ended a year ago December 31, 2016 (“4Q 16” or the “Year-ago Quarter”), and (b) the third quarter ended September 30, 2017 (“3Q 17” or the “Last Quarter”). In addition, the earnings performance results for the current year ended December 31, 2017 (“Y 2016” or the “Year”) are also compared with the corresponding results for the last year ended December 31, 2016 (“Y 2016” or the “Last Year”). *Note: The information in this report is unaudited, and the numbers are rounded.*

Fourth Quarter 2017 Earnings Highlights	
Net Income Available to Shareholders	<ul style="list-style-type: none"> ▪ \$7,000 or \$0.01 earnings per share (EPS) for the Quarter without non-recurring deferred tax asset adjustment expense of \$467,000 to reflect more accurately the operating net income performance of the Company, compared to its net income of: <ul style="list-style-type: none"> (a) \$918,000 or \$1.53 EPS for the Year-ago Quarter, a decrease of \$911,000 or \$1.52 EPS. This decrease in net income for the Quarter is attributable primarily to an increase in non-interest expense of \$768,000 which includes \$505,000 of non-recurring expense, and a decrease in recognition of securities gain on sale of \$542,000. (b) \$246,000 or \$0.41 EPS for the Last Quarter, a decrease of \$239,000 or \$0.40 EPS. This decrease in net income for the Quarter is largely attributable to an increase in non-interest expense of \$556,000 for the Quarter. ▪ \$1.11 million or \$1.85 EPS for the Year, compared to net income of \$1.77 million or \$2.95 EPS for the Last Year, a decrease of \$660,000 or \$1.10 EPS. This decrease is attributable primarily to an increase in non-interest expense of \$1.15 million for the quarter, offset partially by a gain on securities of \$542,000 for the Last Year.
Net Interest Income	<ul style="list-style-type: none"> ▪ \$4.26 million for the Quarter, compared to net interest income of \$4.20 million for the Year-ago Quarter, an increase of \$60,000 (1.43%); and net interest income of \$4.18 million for the Last Quarter, an increase of \$72,000 (1.72%). ▪ The net interest margin (NIM) for the Bank for the Quarter is 4.35%, lower than 4.53% NIM for the Year-ago Quarter, a decline of 18 basis points for the Quarter; and also lower than 4.41% NIM for the Last Quarter, a decrease of 6 basis points.
Non-Interest Income	<ul style="list-style-type: none"> ▪ \$1.05 million for the Quarter, compared to non-interest income of \$900,000 for the Year-ago Quarter, an increase of \$150,000 (16.67%); and \$998,000 for the Last Quarter, an increase of \$52,000 (5.21%). ▪ The increase in non-interest income for the Quarter compared to that for the Year-ago Quarter and the Last Quarter is attributable primarily due an increase in the “other” non-interest income category of \$100,000 (21.93%), and \$42,000, respectively.

Non-Interest Expense	<ul style="list-style-type: none"> ▪ \$5.22 million for the Quarter, compared to non-interest expense of \$4.45 million for the Year-ago Quarter, an increase of \$768,000 (17.27%); and \$4.66 million for the Last Quarter, an increase of \$556,000 (11.93%). The increase in the expense is attributable primarily to non-recurring expense of \$505,000 for the Quarter. ▪ The efficiency ratio of the Bank for the Quarter is 99.68%, compared efficiency ratio of 86.91% for the Year-ago Quarter; and 88.36% for the Last Quarter, primarily reflecting the non-recurring expense for the Quarter.
-----------------------------	--

EARNINGS PERFORMANCE

Net Income Available to Shareholders:



The discussion on net income herein is based on adding back the non-operating deferred tax asset tax adjustment expense of \$467,000 to income tax expense in order to reflect more accurately the operating net income performance of the Company. This tax adjustment expense is computed pursuant to the 2018 tax bill. In the absence of this adjustment, the net income before the preferred dividend of \$6,000 for the Quarter would have been a loss of \$454,000, not a profit of \$13,000, as computed herein.

- **4th Quarter 2017 versus 4th Quarter 2016**
 - Net income available to common shareholders for the Quarter is \$7,000 or \$0.01 earnings per share (EPS) compared to net income of \$918,000 or \$1.53 EPS for the Year-ago Quarter, a decline of \$911,000 (99.24%) or \$1.52 EPS.
 - The decline of \$911,000 (99.24%) in net income for the Quarter is attributable primarily to a combination of (i) an increase in non-interest expense of \$768,000 (17.27%), and (ii) a decrease in recognition of securities gain on sale of \$542,000; which is offset partially by improvements in net interest income of \$60,000 (1.43%), and non-interest income of \$150,000 (16.67%).

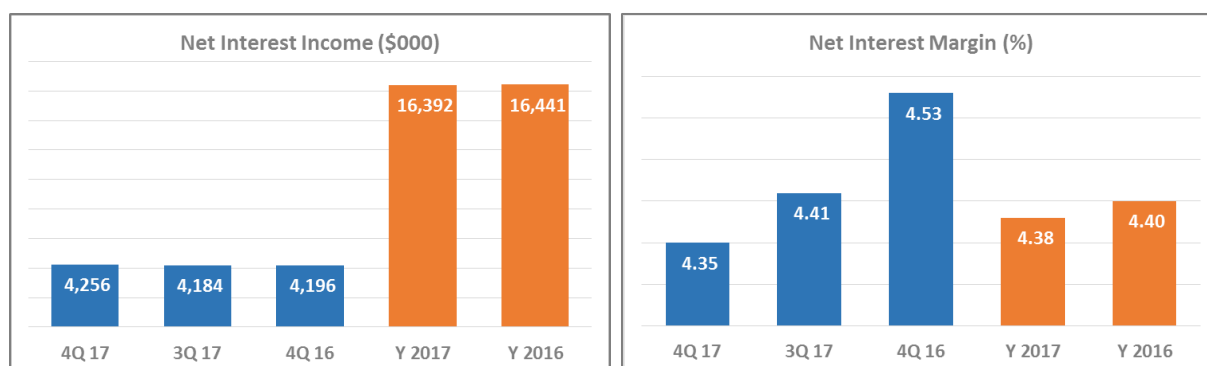
- **4th Quarter 2017 versus 3rd Quarter 2017**
 - Net income available to common shareholders for the Quarter of \$7,000 or \$0.01 EPS declined compared to net income of \$246,000 or \$0.41 EPS for the Last Quarter, a decline of \$239,000 (97.15%) or \$0.40 EPS.

- The decline of \$239,000 (97.15%) in net income for the Quarter is primarily due to an increase in non-interest expense of \$556,000 (11.93%), which is offset partially by a combination of increases in (i) net interest income of \$72,000 (1.72%), and (ii) non-interest income of \$52,000 (5.21%).

▪ **Year 2017 versus Year 2016**

- Net income available to common shareholders for the Year is \$1.11 million or \$1.85 EPS compared to net income of \$1.77 million or \$2.95 EPS for the Last Year, a decline of \$660,000 (37.31%) or \$1.10 EPS.
- The decline in net income available to shareholders of \$660,000 (37.31%) is primarily due to a combination of (i) an increase in non-interest expense of \$1.15 million (6.54%), (ii) a decrease on non-recognition of securities gain on sale of \$542,000, and (iii) a decrease in net interest income of \$49,000 (0.30%), which is offset partially by an increase in non-interest income of \$925,000 (26.40%).

Net Interest Income:



▪ **4th Quarter 2017 versus 4th Quarter 2016**

- Net interest income for the Quarter is \$4.26 million, compared to net interest income of \$4.20 million for the Year-ago Quarter, an increase of \$60,000 (1.43%). This increase in net interest income is attributable to an increase in interest income of \$159,000 (3.60%), reduced by an increase in interest expense of \$99,000 (44.80%).
- The increase in interest income of \$159,000 (3.60%) is attributable primarily to increases in (a) interest and fees on loans of \$122,000 (3.10%), and (b) interest income from other sources of 36,000 (133.33%).
- The net interest margin of the Bank for the Quarter is 4.35% compared to the net interest margin of 4.53% for the Year-ago Quarter, a decline of 18 basis points.

▪ **4th Quarter 2017 versus 3rd Quarter 2017**

- Net interest income for the Quarter of \$4.26 million increased compared with net interest income of \$4.18 million for the Last Quarter, an increase of \$72,000 (1.72%). This increase in net interest income is accounted by an increase in interest income of

\$168,000 (3.81%), which is reduced by an increase in interest expense of \$96,000 (42.86%).

- The increase in interest income of \$168,000 (3.81%) is attributable to increases in (a) interest income and fees on loans of \$142,000 (3.63%), (b) income from investments of \$9,000 (202%), and (c) interest income from other sources of \$17,000 (36.96%).
- The net interest margin of the Bank for the Quarter of 4.35% declined compared to the net interest margin of 4.41% for the Last Quarter, a decline of 6 basis points.

▪ **Year 2017 versus Year 2016**

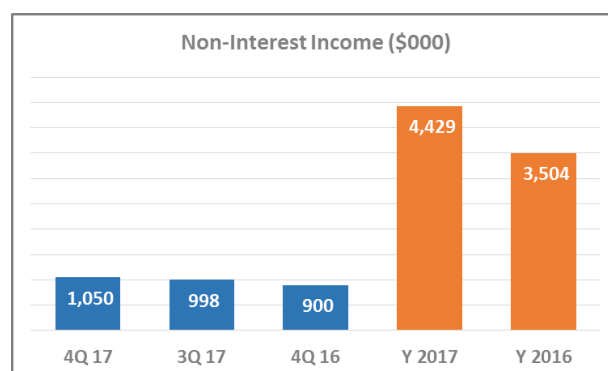
- Net interest income for the year is \$16.39 million, compared to net interest income of \$16.44 million for the Last Year, a decline of \$49,000 (0.30%). This decline in net interest income is attributable to (i) a decrease in interest income of \$15,000 (0.09%), and (ii) an increase in interest expense of \$34,000 (3.74%).
- The decrease in interest income of \$15,000 (0.09%) is attributable to a combination of increases in (a) interest and fees on loans of \$207,000 (1.35%), and (b) interest income from other sources of \$46,000 (35.38%), which is offset partially by a decrease in investment income of \$268,000 (14.09%).
- The net interest margin of the Bank for the Year is 4.38%, compared to the net interest margin of 4.40 % for the Last Year, a decline of 2 basis points.

Non-Interest Income:

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

▪ **4th Quarter 2017 versus 4th Quarter 2016**

- Non-interest income for the Quarter is \$1.05 million, compared to non-interest income of \$900,000 for the Year-ago Quarter, an increase of \$150,000 (16.67%).
- This increase is due to a combination of increases in (a) service charges on deposits of \$97,000 (30.22%), and (b) other non-interest income of \$100,000 (21.93%), which is offset partially by a decrease in gain on sale of loans and other assets of \$47,000 (38.21%).



▪ **4th Quarter 2017 versus 3rd Quarter 2017**

- Non-interest income for the Quarter of \$1.05 million is \$52,000 (5.21%) higher than the non-interest income for the Last Quarter of \$998,000.

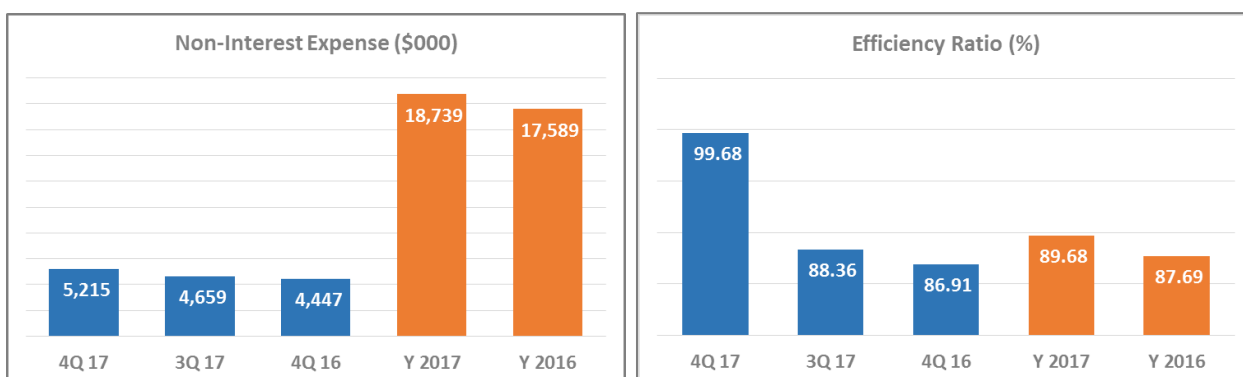
- This increase in non-interest income of \$52,000 (5.21%) is attributable increases in (a) service charges on deposits of \$3,000 (0.72%), (b) gain on sale of loans and other assets of \$7,000 (10.14%), and (c) other non-interest income of \$42,000 (8.17%).

▪ **Year 2017 versus Year 2016**

- Non-interest income for the Year is \$4.43 million, compared to non-interest income of \$3.50 million for the Last Year, an increase of \$925,000 (26.40%).
- This increase in non-interest income of \$925,000 (26.40%) is attributable to increases in (a) service charges on deposits of \$184,000 (13.94%), (b) gain on sale of loans and other assets of \$600,000 (197.37%), and (c) other non-interest income of \$141,000 (7.50%).

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.



▪ **4th Quarter 2017 versus 4th Quarter 2016**

- Non-interest expense for the Quarter is \$5.22 million, compared to non-interest expense of \$4.45 million for the Year-ago Quarter, an increase of \$768,000 (17.27%).
- This increase in non-interest expense of \$768,000 (17.27%) is attributable to increases in (a) compensation & benefits of \$30,000 (1.25%), (b) premises & fixed assets of \$14,000 (2.29%), and (b) other non-interest expense of \$724,000 (50.74%).
- The efficiency ratio of the Bank for the Quarter is 99.68%, which is approximately 14.69% higher than the efficiency ratio of 86.91% for the Year-ago Quarter.

▪ **4th Quarter 2017 versus 3rd Quarter 2017**

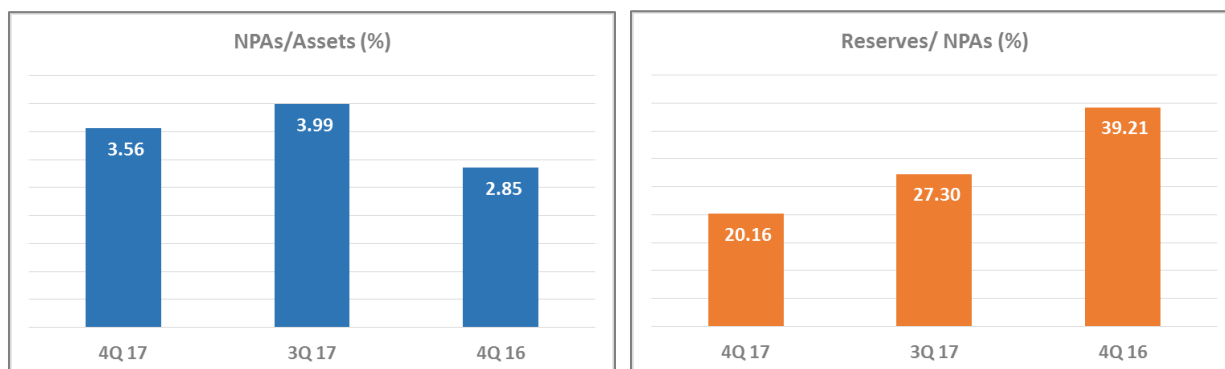
- Non-interest expense for the Quarter of \$5.22 million increased substantially compared to non-interest expense of \$4.66 million for the Last Quarter, an increase of \$556,000 (11.93%). Non-interest expense for the Quarter included \$505,000 of non-recurring expense.

- This increase in non-interest expense for the Quarter of \$556,000 (11.93%) is due to a combination of increases in (a) premises & fixed assets of \$32,000 (5.40%), and (b) other non-interest expense of \$724,000 (50.74%), which is offset partially by savings in compensation and benefits of \$200,000 (7.58%).
 - The efficiency ratio of the Bank for the Quarter of 99.68% is 12.81% higher than the efficiency ratio of 88.36% for the Last Quarter.
- **Year-to-Date 2016 versus Year-to-Date 2015**
- Non-interest expense for the Year is \$18.74 million, compared to non-interest expense of \$17.59 million for the Last Year, reflecting an increase of \$1.15 million (6.54%).
 - This increase in non-interest expense of \$1.15 million (6.54%) is due to a combination of increases in (a) compensation and benefits of \$377,000 (3.91%), and (b) other non-interest expense of \$835,000 (15.27%), which is offset partially by a reduction in premises & fixed assets of \$62,000 (2.50%).
 - The efficiency ratio of the Bank for the Year is 89.68%, reflecting a slight deterioration of 2.27% over the efficiency ratio of 87.69% for the Last Year.

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 3.56%, compared to NPAs of (a) 2.85% for the Year-ago Quarter, an incremental deterioration of 71 basis points, and (b) 3.99% for the Last Quarter, an incremental improvement of 43 basis points.



Allowance for Loan Losses:

- The reserves for potential losses on loans as a percent of gross loans for the Quarter is 0.98%, which is lower than the reserves for the Year-ago Quarter of 1.48%, as well as lower than the reserves for the Last Quarter of 1.51%.
- The reserves as a percent of NPAs for the Quarter of 20.16% is lower than that for the Year-ago Quarter of 39.21%, as well for the Last Quarter of 27.30%.

Provision for Loan Losses:

The loan loss provision for the Quarter is \$150,000, compared to provisions of \$150,000 for the Year-ago Quarter, and for the Last Quarter.

STATEMENTS OF INCOME (Unaudited)

Summary Income Statement (Amounts in \$000)	4Q 2017	3Q 2017	4Q 2016	Y 2017	Y 2016
Total Interest Income	4,576	4,408	4,417	17,334	17,349
Total Interest Expense	320	224	221	942	908
Net Interest Income	4,256	4,184	4,196	16,392	16,441
Provision for Loan Losses	150	150	150	500	500
Total Non-Interest Income	1,050	998	900	4,429	3,504
Realized Gain on Securities	-	-	542	-	542
Total Noninterest Expense	5,215	4,659	4,447	18,739	17,589
Net Income before Income Taxes	(59)	373	1,041	1,582	2,398
Income Taxes*	(72)	120	72	448	484
Net Income	13	253	969	1,134	1,914
Preferred Dividends	6	7	51	25	145
Net Income Available for Shareholders	7	246	918	1,109	1,769
Weighted Avg. Shares Outstanding	600,013	600,032	600,032	600,027	600,405
Earnings per Share (\$)	0.01	0.41	1.53	1.85	2.95

* To more accurately reflect the operating net income performance of the Company, the tax expense adjustment of \$467,000 relating to the deferred tax asset, as required by the 2018 tax bill, has been added back to income tax expense. In the absence of this adjustment, the net income, using the reported income tax expense of \$395,000, would have equaled a loss of \$454,000 for 4Q 2017 and a profit of \$667,000 for Y 2017.

Supplementary Information (Amounts in \$000)	4Q 2017	3Q 2017	4Q 2016	Y 2017	Y 2016
Interest Income					
Interest and Fees on Loans	4,058	3,916	3,936	15,524	15,317
Income from Investments	455	446	454	1,634	1,902
Other Interest Income	63	46	27	176	130
Total Interest Income	4,576	4,408	4,417	17,334	17,349
Interest Expense					
Interest on Deposits	206	182	209	738	815
Interest on Borrowings	114	42	12	204	93
Total Interest Expense	320	224	221	942	908
Non-Interest Income					
Service Charges on Deposit Accounts	418	415	321	1,504	1,320
Gain on Sale of Loans and Other Assets	76	69	123	904	304
Other Non-Interest Income	556	514	456	2,021	1,880
Total Non-Interest Income	1,050	998	900	4,429	3,504
Non-Interest Expense					
Compensation & Benefits	2,439	2,639	2,409	10,014	9,637
Premises & Fixed Assets	625	593	611	2,420	2,482
Other Non-Interest Expenses	2,151	1,427	1,427	6,305	5,470
Total Non-Interest Expense	5,215	4,659	4,447	18,739	17,589

About IBW Financial Corporation

IBW Financial Corporation (OTC-PINK: IBWC), a Washington DC based bank holding company for Industrial Bank, offers a 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, investors can access the Company website: www.industrial-bank.com.

Disclaimer on Forward Looking Statements

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.

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