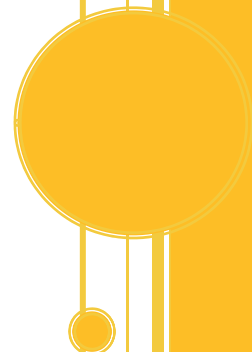
IBW FINANCIAL CORPORATION AND SUBSIDIARY

2016 FINANCIALS



IBW FINANCIAL CORPORATION
4812 GEORGIA AVE NW
WASHINGTON, DC 20011

Independent Auditors' Report

The Shareholders and Board of Directors
IBW Financial Corporation and Subsidiary
Washington, DC

We have audited the accompanying consolidated financial statements of IBW Financial Corporation and Subsidiary (the "Company") which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IBW Financial Corporation and Subsidiary as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements
The 2015 consolidated financial statements of the Company were audited by Stegman & Company, certain of whose directors joined Dixon Hughes Goodman LLP as of June 1, 2016. Their report, dated March 17, 2016 expressed an unmodified opinion on those consolidated statements.

Dixon Hughes Goodman LLP

Baltimore, Maryland
October 24, 2017

CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

(dollars in thousands)

	2016	2015
ASSETS		
Cash and due from banks	$ 3,791	$ 5,858
Interest-bearing deposits in other banks	16,236	11,424
Total cash and cash equivalents	20,027	17,282
Securities available-for-sale, at fair value	57,266	72,212
Restricted stock, at cost	775	1,607
Loans held for sale	1,136	403
Loans receivable, net of unearned income and deferred fees	289,096	284,330
Less: Allowance for loan losses	(4,288)	(4,071)
Net loans	284,808	280,259
Premises and equipment, net	5,076	4,099
Real estate owned (REO)	155	-
Net deferred income tax	1,738	1,088
Bank owned life insurance (BOLI)	8,957	8,704
Other assets	3,337	3,394
Total assets	**$ 383,275**	**$ 389,048**
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	$ 92,130	$ 83,583
Interest bearing deposits	238,698	226,923
Total deposits	330,828	310,506
Short-term borrowings	15,903	37,363
Accounts payable and accrued expenses	1,570	1,299
Total liabilities	348,301	349,168
SHAREHOLDERS' EQUITY		
Preferred stock $1 par value per share; (500,000 voting and 500,000 nonvoting) authorized; 20,000 Series A nonvoting, issued and outstanding, stated liquidation value	500	500
Preferred stock $1 par value; 1,000,000 issued and 1,000 outstanding stated liquidation value	-	5,971
Common stock, $1 par value; 1,000,000 shares authorized, 600,302 issued and outstanding for 2016 and 599,927 for 2015	600	600
Additional paid-in-capital	3,285	2,977
Retained earnings	30,062	28,370
Accumulated other comprehensive income	527	1,462
Total shareholders' equity	34,974	39,880
Total liabilities and shareholders' equity	**$ 383,275**	**$ 389,048**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2016 and 2015

(dollars in thousands)	2016	2015
Interest income:		
Interest and fees on loans	$ 15,317	$ 14,906
Interest on investment securities	1,902	1,874
Interest on interest-bearing deposits	130	65
Total interest income	17,349	16,845
Interest expense:		
Interest on deposits	815	828
Interest on short-term borrowings	93	18
Total interest expense	908	846
Net interest income	16,441	15,999
Provision for loan losses	500	550
Net interest income after provision for loan losses	15,941	15,449
Noninterest income:		
Gain on sale of securities	541	527
Gain on sale of loans	304	475
Loss on sale of REO	(7)	-
Service charges and other fees on deposits	1,470	1,477
Other fee income	457	547
Other income	1,281	1,446
Total non-interest income	4,046	4,472
Noninterest expense:		
Salaries and benefits	9,636	10,055
Occupancy	1,581	1,636
Furniture and equipment	901	803
Data processing	1,287	1,063
Office expense	692	739
Professional fees	1,293	1,044
Security	402	381
FDIC insurance assessment	336	314
Lending expense	267	246
Other	1,194	1,382
Total non-interest expense	17,589	17,663
Income before income taxes	2,398	2,258
Provision for income taxes:		
Current	871	330
Deferred	(386)	398
	485	728
Net income	**1,913**	**1,530**
Preferred stock dividends	(160)	(145)
Discount on preferred stock redemption	361	-
Net income available to common shareholders	**$ 2,114**	**$ 1,385**
Basic and diluted net income per common share	$ 3.52	$ 2.30
Dividend per common share	$ 0.10	$ 0.13
Weighted average number of common shares outstanding	600,405	601,320

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2016 and 2015

	2016	2015
Net income	1,913	1,530
Other comprehensive income before tax:		
Unrealized holding losses on available-for-sale securities	(440)	(344)
Reclassification adjustment for realized gains	(541)	(527)
Other comprehensive income before tax	(981)	(871)
Income tax benefit (expense) effect	46	296
Other comprehensive income, net of tax	(935)	(575)
Comprehensive income	$ 978	$ 955

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2016 and 2015

(dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2015	$ 6,471	$ 601	$ 3,023	$ 27,063	$ 2,037	$ 39,195
Net income	—	—	—	1,530	—	1,530
Retirement of common stock	—	(1)	(46)	—	—	(47)
Cash dividends paid:						
Preferred stock -						
Series A - $1.25 per share	—	—	—	(25)		(25)
Series D - $.20 per share	—	—	—	(120)	—	(120)
Common stock - $.13 per share	—	—	—	(78)	—	(78)
Change in other comprehensive income	—	—	—	—	(575)	(575)
Balance December 31, 2015	$ 6,471	$ 600	$ 2,977	$ 28,370	$ 1,462	$ 39,880
Net income	—	—	—	1,913	—	1,913
Retirement of common stock	—	(3)	(104)	—	—	(107)
Net proceeds from issuance of shares of common stock	—	3	51	—	—	54
Redemption of 1,000 shares of preferred stock - Series D - pursuant to CDCI/TARP	(5,971)	—	361	—	—	(5,610)
Cash dividends paid:						
Preferred stock -						
Series A - $1.25 per share	—	—	—	(25)		(25)
Series D - $.20 per share	—	—	—	(135)	—	(135)
Cash dividends declared:						
Common stock - $.10 per share	—	—	—	(61)	—	(61)
Change in other comprehensive income	—	—	—	—	(935)	(935)
Balance December 31, 2016	$ 500	$ 600	$ 3,285	$ 30,062	$ 527	$ 34,974

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

(dollars in thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 1,913**	**$ 1,530**
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	514	527
Provision for loan losses	500	550
Deferred income taxes	(1,186)	398
Net amortization of investments	708	807
Bank owned life insurance (BOLI)	(253)	(222)
Gain on sale of loans	(304)	(475)
Originations of loans held for sale	(14,969)	(11,904)
Proceeds from sales of loans held for sale	14,540	13,454
Gain on sale of investment securities	(541)	(527)
Loss on sale of REO	7	—
Decrease (Increase) in accrued interest receivable	316	(296)
(Increase) decrease in other assets	(310)	1,862
Increase (decrease) in other liabilities	271	(588)
Net cash provided by operating activities	**1,206**	**5,116**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in loans receivable, net	(5,385)	(25,203)
(Increase) decrease in interest-bearing deposits in banks	(4,812)	8,336
Purchases of securities available-for-sale	(11,595)	(27,269)
Purchase of restricted stock	(832)	(469)
Proceeds received from maturity and sales of available-for-sale securities	27,629	20,885
Purchases of premises and equipment	(1,491)	(598)
Proceeds from sale of real estate owned	174	—
Net cash provided by (used in) investing activities	**3,688**	**(24,318)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in total deposits	20,322	6,551
Net increase (decrease) in short-term borrowing	(21,460)	13,989
Dividend payments	(160)	(223)
Discount from redemption of preferred stock	361	—
Redemption of preferred stock, net	(5,971)	—
Proceeds from sale of common stock	54	—
Retirement of common stock	(107)	(47)
Net cash (used in) provided by financing activities	**(6,961)**	**20,270**
Net (decrease) increase in cash and cash equivalents	(2,067)	1,068
Cash and cash equivalents at beginning of year	5,858	4,790
Cash and cash equivalents at end of year	**$ 3,791**	**$ 5,858**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:		
Cash paid during the year for:		
Interest on deposits and other borrowings	$ 899	$ 846
Income taxes	329	(25)
Noncash information:		
Transfer of loans to real estate owned	$ 336	$ —
Change in unrealized gain on available-for-sale investment securities	(935)	(575)
Dividend declared	61	—

See Notes to Consolidated Financial Statements.

1. Summary Of Significant Accounting Policies

IBW Financial Corporation (the "Company") is a one bank holding company for its wholly owned subsidiary, Industrial Bank, (the "Bank"). The accounting and reporting policies of IBW Financial Corporation and subsidiary (the "Company") conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The following summarizes the significant accounting policies. We have evaluated subsequent events for possible disclosure through the date of the audit report date.

Consolidation – The consolidated financial statements include the accounts of the Company and the Bank. All significant inter-company transactions and balances have been eliminated.

Nature of Business – The principal business of the Company is to make loans and other investments and to accept time and demand deposits. The Company's primary market areas are in the District of Columbia and surrounding areas, although the Company's business development efforts generate business outside of these areas. The Company offers a broad range of banking products, including a full line of business and personal savings and certificates of deposit, and other banking services. The Company funds a variety of loan types including commercial term loans and residential real estate loans, and lines of credit, consumer loans, and letters of credit. The Company's customers are primarily individuals and small businesses.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In addition, there are inherent risks and uncertainties related to the operation of a financial institution, such as credit and interest rate risk. The possibility exists that because of changing economic conditions; unforeseen changes could occur and have an adverse effect on the Company's financial position.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is sufficient to address the risks in the current loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Other material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the valuation of foreclosed real estate, deferred income taxes and other than temporary impairment of investment securities.

Investment Securities – The Company may segregate its investments securities into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose of reselling them within a short period of time. Their unrealized gains and losses are included in earnings. Securities classified as held-to-maturity are accounted for at amortized cost, and require the Company to have both positive intent and ability to hold these securities to maturity. Securities not classified as either trading or held-to-maturity are considered to be available-for-sale. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported, net of deferred taxes, as accumulated other comprehensive income, a separate component of shareholders' equity. Premiums are amortized and discounts accreted using the level yield method.

Purchases and sales of securities are recorded on a trade date basis. Realized gains or losses on the sale of investment securities are reported in earnings and determined using the adjusted cost of the specific security sold. Investment in Federal Reserve Bank and Federal Home Loan Bank stock are considered restricted as to marketability. Because no ready market exists for these stocks, the Bank's investment is carried at cost. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Non-Marketable Equity Investments -
The Company invested $800,000 in a bank holding company in 2015 resulting in an approximate 3% stake at the time the investment was made. The bank holding company's stock is not publically traded and there is no readily determinable fair value. The Company carries this investment using the cost method of accounting and it is included in Other Assets in the consolidated balance sheets. As conditions warrant, we review our investment for impairment and will adjust the carrying value of the investment if it is deemed to be impaired. During 2016, the bank holding company continued to experience deterioration in its financial condition as it made some changes to its business model. In discussions with management of the bank holding company and review of strategic objectives and actions of the bank holding company, we determined that the value of the investment was not impaired as of December 31, 2016.

Loans – Loans are reported at the principal amount outstanding net of deferred fees and costs and the allowance for loan losses. Interest on loans is accrued at the contractual rate based upon the principal amount outstanding. Loans fees and related direct loan origination costs are deferred and recognized as a part of interest income over the life of the loan as an adjustment to the loan yield. Loans are placed on non-accrual status when management deems the collectability of interest is doubtful. Interest ultimately collected is recorded in the period received as a reduction of the principal loan balance. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest.

Loans are considered impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal and interest payments are past due more than 90 days and they are placed on non-accrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogenous credits such as residential real estate, consumer installment loans, and commercial leases, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (usually ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based upon the present value of future cash flows discounted at the loan's effective interest rate, except that as a practical alternative, the Company may measure impairment based on a loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The Company recognizes interest income on impaired loans on a cash basis if the borrower demonstrates the ability to meet the contractual obligation and collateral is sufficient. If there is doubt regarding the borrower's ability to make payments or the collateral is not sufficient, payments received are accounted for as reduction in principal.

Loans Held for Sale – Loans originated for sale are carried at the lower of aggregate cost or market.

Market value is based on commitments from investors. Gains and losses on sales are determined using the specific identification method.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level management believes to be adequate to absorb probable losses inherent in the loan portfolio. The calculation is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries or geographical areas, these events would include unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly or more often if deemed necessary.

The allowance for loan losses consists of a specific component and a nonspecific component. The components of the allowance for loan losses represent an estimation done pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 450 *Contingencies* and ASC Topic 310 *Receivables*. The specific component of the allowance for loan losses reflects expected losses resulting from analysis developed through credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal grading of loans charged-off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The specific component of the allowance for loan losses also includes management's determination of the amounts necessary for concentrations and changes in portfolio mix and volume.

The nonspecific portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the nonspecific allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. Historical loss experience data used to establish estimates may not precisely correspond to the current portfolio. The uncertainty surrounding the strength and timing of economic cycles, including management's concerns over the effects of the prolonged economic downturn and also losses used in the migration analysis may not be representative of actual losses inherent in the portfolio that have not yet been realized.

Bank Premises and Equipment – Properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from three to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and 10 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 15 years; and leasehold improvements amortized over the lesser of their estimated useful lives, or the stated duration of the lease plus the optional renewal period, if

applicable. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the estimated remaining life of the asset.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in the circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis.

Advertising Costs – Advertising costs are generally expensed as incurred. Advertising expenses totaled $159,000 and $197,000 for the years ended December 31, 2016 and 2015, respectively.

Other Real Estate Owned– Other real estate owned represents properties acquired through foreclosures or other proceedings in satisfaction of indebtedness. At the date of acquisition such property is recorded at the fair value less estimated costs to sell. Write-down to fair value, less estimated costs to sell, at the date of acquisition is charged to the allowance for loan losses. Subsequent declines in fair value, operating expenses, and gains or losses on the disposition of other real estate are reported in noninterest expense. The amounts the Company will ultimately realize on disposition of these properties could differ from management's current estimates.

Transfer of Financial Assets – Transfer of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements – The Company follows the guidance of ASC Topic 825, *Financial Instruments* and ASC Topic 820, *Fair Value Measurements*. ASC Topic 825 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic 820, fair value measurements are not adjusted for transaction costs. ASC topic 820 establishes a fair value hierarchy that prioritizes unadjusted quoted prices in active markets for identical financial assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements).

Earnings Per Share ("EPS") – Net income (loss) available to common shareholders is adjusted to give effect to dividends on preferred stock. Net income available to common shareholders for basic and diluted EPS purposes is $2,114 and $1,385 for the years ended December 31, 2016 and 2015, respectively. EPS is computed based on the weighted average number of common shares outstanding during the year (600,405 for 2016 and 601,320 for 2015). Basic and diluted EPS are the same, as the Company had no dilutive common stock equivalents outstanding as of December 31, 2016 or 2015 and for the years then ended.

Income Taxes – The Company and its wholly owned subsidiary file a consolidated federal income tax return. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax bases of assets and liabilities that will results in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are

established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is based upon the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Company remains subject to examination for income tax returns ending after December 31, 2012.

Cash and Cash Equivalents – For purposes of the consolidated statement of cash flows, cash equivalents are highly liquid investments with original maturities of three months or less. Included in cash and due from banks were required deposits at the Federal Reserve Bank of approximately $457,000 for 2016 and $556,000 for 2015.

Bank owned life insurance - The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income.

Comprehensive income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Valuation of long-lived assets - The Company accounts for the valuation of long-lived assets under ASC Topic 360 *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Compensating Balances - Compensating balance arrangements exist with various correspondent banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to $250,000 and $984,000 at December 31, 2016 and 2015, respectively.

2. Investment Securities

At December 31, 2016 and 2015, the amortized cost and estimated fair value of securities available-for-sale are summarized as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016:				
U.S. Government Agencies	$ 10,945	$ 438	$ (82)	$ 11,301
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	13,805	161	(171)	13,795
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	21,133	376	(181)	21,328
Private label mortgage-backed securities	2,000	-	(232)	1,768
Municipal securities	8,455	548	-	9,003
Total debt securities	56,338	1,523	(666)	57,195
Marketable equity securities	128	-	(57)	71
Total equity securities	128	-	(57)	71
Total	$ 56,466	$ 1,523	$ (723)	$ 57,266
December 31, 2015:				
U.S. Government Agencies	$ 9,613	$ 594	$ (45)	$ 10,162
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA and FHLMC	14,101	207	(27)	14,281
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	29,972	828	(83)	30,717
Private label mortgage-backed securities	2,000	-	(367)	1,633
Municipal securities	14,181	1,195	-	15,376
Total debt securities	69,867	2,824	(522)	72,169
Marketable equity securities	126	-	(83)	43
Total equity securities	126	-	(83)	43
Total	$ 69,993	$ 2,824	$ (605)	$ 72,212

2 Investment Securities (continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	Estimated Fair Value	Less than 12 Months	12 months or More	Total Unrealized Losses
December 31, 2016:				
U.S. Government Agencies	$ 5,323	$ 51	$ 31	$ 82
Collateralized mortgage obligations	20,512	310	42	352
Private label mortgage-backed securities	1,768	-	232	232
Municipal securities	-	-	-	-
Marketable equity securities	71	-	57	57
	$ 27,674	$ 361	$ 362	$ 723
December 31, 2015:				
Collateralized mortgage obligations	$ 17,995	$ 110	$ -	$ 110
Private label mortgage-backed securities	1,633	-	367	367
Municipal securities	4,022	45	-	45
Marketable equity securities	43	-	83	83
	$ 23,693	$ 155	$ 450	$ 605

The available-for-sale investment portfolio has a fair value of approximately $58 million of which approximately $28 million of the securities have some unrealized losses from their purchase price. The securities representing the unrealized losses in the available-for-sale portfolio all have modest duration risk, high credit risk, and represents 50% of the carrying value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase and credit deterioration.

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer and (3) structure of the security. An impairment loss is recognized in earnings only when (1) the Company intends to sell the debt security; (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining loss recognized in shareholder's equity as a component of other comprehensive income, net of deferred taxes, losses in the available-for-sale portfolio are temporary.

2 Investment Securities (continued)

The following is a summary of the amortized cost and estimated fair value of debt and equity securities available-for-sale by contractual maturity as of December 31, 2016 and 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2016		2015	
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Government Agency maturing				
Due after 1 year through 5 years	$ 5,717	$ 5,821	$ 896	$ 881
Due after 5 years through 10 years	5,227	5,481	8,717	9,280
Due after 10 years	-	-	-	-
Mortgage-backed securities maturing				
Due in 1 year or less	1,973	1,983	6,449	6,467
Due after 1 year through 5 years	29,043	29,100	21,980	22,454
Due after 5 years through 10 years	3,124	3,218	15,644	16,078
Due after 10 years	799	822	-	-
Private label mortgage-backed security maturing				
Due after 1 year through 5 years	2,000	1,768	2,000	1,633
Municipal securities maturing				
Due after 1 year through 5 years	6,911	7,337	11,073	11,930
Due after 5 years through 10 years	1,544	1,665	3,108	3,446
Due after 10 years	-	-	-	-
Equity investments	128	71	126	43
Total	$ 56,466	$ 57,266	$ 69,993	$ 72,212

Proceeds from the sale of securities available-for-sale were $10,930 and $4,197 million for the years ended December 31, 2016 and 2015, respectively, and resulted in net realized gains of $541,000 for 2016 and realized gains of $527,000 for 2015.

Securities of $34,043 and $43,738 million at December 31, 2016 and 2015 were pledged as collateral for public deposits and for other purposes required by law. At December 31, 2016 and 2015, carrying value of securities underlying repurchase agreements were $7,005 and $7,976 million, respectively.

3. Loans Receivable

Loans receivable and allowance for loan losses consist of the following at December 31, 2016 and 2015:

(dollars in thousands)	2016	2015
Real estate - construction and land development	$ 37,243	$ 32,510
Real estate mortgage:		
Commercial properties	121,982	121,644
Residential properties	101,657	101,573
Total real estate mortgage	260,882	255,727
Commercial and industrial	28,251	27,893
Consumer	1,329	2,048
Total gross loans	290,462	285,668
Less unearned income and deferred fees, net	(1,366)	(1,338)
Loans, net	289,096	284,330
Allowance for loan/lease losses	(4,288)	(4,071)
Loans, net of allowance	$ 284,808	$ 280,259

Major loan concentrations are as follows:

(dollars in thousands)	2016	2015
Church loans collateralized by real estate	$ 54,503	$ 53,911
Commercial loans to churches	164	672
Total loans to churches	$ 54,667	$ 54,583

Substantially all of the Bank's loans have been made to borrowers within the Washington, DC metropolitan area. Accordingly, the ability of the Bank's borrowers to repay their loans is dependent upon the economy in the Washington, DC metropolitan area.

The Company's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2016, the real estate loan portfolio constituted 90% of the total loan portfolio. This can be broken down further into the following categories: 13% construction and land development, 42% commercial real estate and 35% residential real estate loans, as a percent of total loans.

3. Loans Receivable (continued)

The Company's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.40 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 10% of the loan portfolio at December 31, 2016. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

3. Loans Receivable (continued)

A summary of transactions in the allowance for loan losses is as follows for the years ended December 31, 2016 and 2015 (dollars in thousands). The beginning balances and provision amounts have changed to more closely reflect the underlying calculation of the allowance for loan losses:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, beginning of year 2016	$ 253	$ 1,197	$ 1,492	$ 1,074	$ 55	$ 4,071
Provision charged to operations	266	264	(295)	129	136	500
Loans charged off	-	(89)	(14)	(355)	(159)	(617)
Recoveries	-	146	110	42	36	334
Balance, end of year 2016	$ 519	$ 1,518	$ 1,293	$ 890	$ 68	$ 4,288
Ending balance:						
Individually evaluated for impairment	-	-	209	76	-	285
Collectively evaluated for impairment	519	1,518	1,084	814	68	4,003
Total	$ 519	$ 1,518	$ 1,293	$ 890	$ 68	$ 4,288
Loans:						
Individually evaluated for impairment	1,497	4,032	5,665	1,397	-	12,591
Collectively evaluated for impairment	35,746	117,950	97,128	26,854	1,329	279,007
Total	$ 37,243	$ 121,982	$ 102,793	$ 28,251	$ 1,329	$ 291,598
Balance, beginning of year 2015	$ 264	$ 900	$ 1,942	$ 1,541	$ 85	$ 4,732
Provision charged to operations	186	137	149	102	(24)	550
Loans charged off	(197)	-	(780)	(604)	(57)	(1,638)
Recoveries	-	160	181	35	51	427
Balance, end of year 2015	$ 253	$ 1,197	$ 1,492	$ 1,074	$ 55	$ 4,071
Ending balance:						
Individually evaluated for impairment	-	-	200	452	-	652
Collectively evaluated for impairment	253	1,197	1,292	622	55	3,419
Total	$ 253	$ 1,197	$ 1,492	$ 1,074	$ 55	$ 4,071
Loans:						
Ending balance:						
Individually evaluated for impairment	-	2,340	6,466	1,812	-	10,618
Collectively evaluated for impairment	32,510	119,304	95,107	26,081	2,048	275,050
Total	$ 32,510	$ 121,644	$ 101,573	$ 27,893	$ 2,048	$ 285,668

Impairment is based on estimated collateral values for loans individually evaluated for impairment.

3. Loans Receivable (continued)

Credit quality indicators as of December 31, 2016 and 2015 are as follows:

Internally assigned grade:

Pass – loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention – loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard – loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current soundness and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful – loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and trending serious losses. The possibility of loss is extremely high; however, because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until a more exact status may be determined.

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Loan portfolio credit exposure - Credit risk profile by internally assigned grade:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2016					
Construction and land development	$ 35,746	$ -	$ -	$ 1,497	$ 37,243
Commercial real estate	116,810	44	5,128	-	121,982
Residential properties	99,842	-	1,815	-	101,657
Commercial and industrial	23,838	1,120	3,293	-	28,251
Consumer	1,329	-	-	-	1,329
Total	$ 277,565	$ 1,164	$ 10,236	$ 1,497	$ 290,462

	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2015					
Construction and land development	$ 30,170	$ -	$ 2,340	$ -	$ 32,510
Commercial real estate	117,833	2,292	1,519	-	121,644
Residential properties	99,114	-	2,459	-	101,573
Commercial and industrial	23,534	-	4,359	-	27,893
Consumer	2,048	-	-	-	2,048
Total	$ 272,699	$ 2,292	$ 10,677	$ -	$ 285,668

Information on impaired loans for the years ended December 31, 2016 and 2015 is as follows:

(dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016							
Construction and land development	$ 1,497	$ 1,497	$ -	$ 1,497	$ -	$ 2,093	$ 158
Commercial real estate	4,032	4,032	-	4,032	-	3,870	146
Residential real estate	5,665	3,325	2,340	5,665	209	5,870	167
Commercial and industrial	1,397	1,120	277	1,397	76	1,605	13
Consumer	-	-	-	-	-	-	-
Total	$ 12,591	$ 9,974	$ 2,617	$ 12,591	$ 285	$ 13,438	$ 484
December 31, 2015							
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate	2,340	2,340	-	2,340	-	2,179	170
Residential real estate	6,466	-	6,466	6,466	200	8,400	173
Commercial and industrial	1,812	-	1,812	1,812	452	1,437	32
Consumer	2	2	-	2	-	-	-
Total	$ 10,620	$ 2,342	$ 8,278	$ 10,620	$ 652	$ 12,016	$ 375

The following table presents, by class of loan, an aging analysis and the recorded investments in loans past due as of December 31, 2016 and 2015.

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Greater than 90 Days and Still Accruing
December 31, 2016							
Construction and land development	$ -	$ -	$ -	$ -	$ 37,243	$ 37,243	$ -
Commercial real estate	1,596	-	5,033	6,629	115,353	121,982	651
Residential real estate	5,047	407	2,191	7,645	94,012	101,657	375
Commercial and industrial	596	1,146	1,051	2,793	25,458	28,251	-
Consumer	75	178	-	253	1,076	1,329	-
Total	$ 7,314	$ 1,731	$ 8,275	$ 17,320	$ 273,142	$ 290,462	$ 1,026
December 31, 2015							
Construction and land development	$ -	$ -	$ -	$ -	$ 32,510	$ 32,510	$ -
Commercial real estate	289	-	3,154	3,443	118,201	121,644	2,712
Residential real estate	6,225	977	2,970	10,172	91,401	101,573	507
Commercial and industrial	441	5	3,796	4,242	23,651	27,893	2,427
Consumer	28	-	86	114	1,934	2,048	86
Total	$ 6,983	$ 982	$ 10,006	$ 17,971	$ 267,697	$ 285,668	$ 5,732

The following table presents Information on performing and nonaccrual loans as of December 31, 2016 and 2015.

(dollars in thousands)		December 31, 2016
Impaired performing loans:		
Construction and land development	$	1,497
Commercial real estate		-
Residential real estate		-
Commercial and industrial		-
Consumer		-
Troubled debt restructurings:		
Construction and land development		-
Commercial real estate		-
Residential real estate		3,849
Commercial and industrial		-
Consumer		-
Total impaired performing loans	$	5,346
Impaired nonperforming loans (nonaccrual):		
Construction and land development	$	-
Commercial real estate		4,032
Residential real estate		1,398
Commercial and industrial		1,397
Consumer		-
Troubled debt restructurings:		
Construction and land development		-
Commercial real estate		-
Residential real estate		418
Commercial and industrial		-
Consumer		-
Total impaired nonperforming loans (nonacc		7,245
Total impaired loans	$	12,591

(dollars in thousands)		December 31, 2015
Impaired performing loans:		
Construction and land development	$	-
Commercial real estate		2,340
Residential real estate		-
Commercial and industrial		-
Consumer		-
Troubled debt restructurings:		
Construction and land development		-
Commercial real estate		-
Residential real estate		4,007
Commercial and industrial		-
Consumer		-
Total impaired performing loans	$	6,347
Impaired nonperforming loans (nonaccrual):		
Construction and land development	$	-
Commercial real estate		-
Residential real estate		2,339
Commercial and industrial		1,812
Consumer		2
Troubled debt restructurings:		
Construction and land development		-
Commercial real estate		-
Residential real estate		120
Commercial and industrial		-
Consumer		-
Total impaired nonperforming loans (nonacc		4,273
Total impaired loans	$	10,620

The following tables present Information on troubled debt restructurings for the years ended December 31, 2016 and 2015.

(dollars in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
December 31, 2016			
Troubled debt restructurings:			
Residential real estate	3	$1,067	$1,031
December 31, 2015			
Troubled debt restructurings:			
Residential real estate	4	$610	$437

Year	Number Modified	Amount	Number Defaults	Amount Defaults
2016	3	$1,067	2	$287
2015	4	$610	2	$120

All of the modifications and defaults in years ended 2016 and 2015 were residential loans.

Loans serviced for others and not reflected in the balance sheets are $1,377 and $1,008 at December 31, 2016 and 2015, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. There were no mortgage servicing rights capitalized during 2016 and 2015.

Troubled debt restructuring modifications during the years ended December 31, 2016 and 2015 consisted of reductions in principal, changes in interest rates and maturity extensions. Troubled debt restructurings are considered as part of the qualitative and quantitative analysis in the determining the adequacy of the allowance for loan losses.

Performing TDRs were in compliance with their modified terms and there are no further commitments associated with these loans.

Consumer mortgage loans collateralized by residential real estate property that are in process of foreclosure totaled $184,000 as of December 31, 2016. At December 31, 2016, there was one residential property held in REO totaling $155,000. As of December 31, 2015, there were no consumer residential real estate properties in process of foreclosure and there were no residential properties held in REO.

4. Bank Premises And Equipment

The major categories of bank premises and equipment are as follows:

(dollars in thousands)	2016	2015
Bank premises	$ 7,560	$ 6,364
Furniture, fixtures and equipment	9,417	9,123
Total	16,977	15,487
Accumulated depreciation and amortization	(11,901)	(11,388)
Premises and equipment, net	$ 5,076	$ 4,099

Depreciation expense for the years ended December 31, 2016 and 2015 was $514,000 and $527,000, respectively.

5. Deposits

At December 31, 2016 and 2015, certificates of deposit of $250,000 or more totaled $58 million and $57 million, respectively. These deposits include certificates of deposit held through the Certificate of Deposit Account Registry Service (CDARS) program which totaled $44 and $46 million at December 31, 2016 and 2015, respectively. At December 31, 2016 the scheduled maturities of certificates of deposit are as follows:

(dollars in thousands)	
2017	$ 93,231
2018	15,721
2019	2,828
2020	126
2021 and thereafter	-
	$ 111,906

6. Short-Term Borrowing

The following table summarizes information for short-term borrowings for the years ended December 31:

	2016		2015	
(dollars in thousands)	**Amount**	**Rate**	**Amount**	**Rate**
At year end:				
Federal Home Loan Bank advances	$ 10,000	0.67%	$ 30,000	0.31%
Retail repurchase agreements	5,903	0.20%	7,363	0.20%
Total	$ 15,903		$ 37,363	0.30%
Average for the year:				
Federal Home Loan Bank advances	$ 22,333	0.36%	$ 6,634	0.21%
Retail repurchase agreements	6,393	0.20%	7,238	0.20%
Total	$ 28,726		$ 13,872	0.30%
Maximum month end balance:				
Federal Home Loan Bank advances	$ 35,000		$ 30,000	
Retail repurchase agreements	7,695		8,944	
Total	$ 42,695		$ 38,944	

Securities sold under agreements to repurchase are securities sold to customers, at the customers' request under a "roll-over" contract that matures in one business day. The underlying securities sold are Government agency securities, which are segregated in the Bank's custodial accounts from other investment securities.

The Bank periodically borrows under a secured line of credit from the Federal Home Loan Bank to meet short-term liquidity needs. Advances from the Federal Home Loan Bank are secured by a blanket lien on the Bank's qualifying residential mortgages. The total credit available to the Bank at December 31, 2016 and 2015 was $55 and $45 million, respectively, based on qualifying collateral of $63 and $36 million, respectively. The Bank normally borrows in short term increments of 90 day or less maturities at fixed rates; however, varied rates and term products are available to the Bank.

The Bank also had an unsecured line of credit with a correspondent available for overnight borrowing during 2016. There were no amounts drawn on the line of credit during 2016 or at December 31, 2016.

7. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements by the federal banking agencies. 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 and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and its classification under the regulatory framework for prompt corrective action are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital, as defined in the regulations, to risk-weighted assets, as defined, and of Tier 1 Capital, as defined, to average assets, as defined. Management believes, as of December 31, 2016 and 2015, that the Company and Bank meet all the capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios, as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and the Bank's required and actual capital amounts and ratios at December 31, 2016 and 2015, are set forth in the following table:

	Actual		Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
CET1 (to risk-weighted assets)						
Corporation	$ 34,013	12.42%	$ 14,037	5.125%	$ N/A	N/A
Bank	33,729	12.32%	14,027	5.125%	17,790	6.50%
Total capital (to risk-weighted assets)						
Corporation	37,447	13.67%	23,624	8.625%	N/A	N/A
Bank	37,161	13.58%	23,606	8.625%	27,369	10.00%
Tier 1 capital (to risk-weighted assets)						
Corporation	34,013	12.42%	18,146	6.625%	N/A	N/A
Bank	33,729	12.32%	18,132	6.625%	21,896	8.00%
Tier 1 capital (to average assets)						
Corporation	34,013	8.70%	19,537	5.000%	N/A	N/A
Bank	33,729	8.64%	$ 19,527	5.000%	19,527	5.00%
As of December 31, 2015:						
CET1 (to risk-weighted assets)						
Corporation	$ 38,418	14.56%	11,878	4.50%	$ N/A	N/A
Bank	36,464	13.78%	11,904	4.50%	17,194	6.50%
Total capital (to risk-weighted assets)						
Corporation	41,727	15.81%	21,116	8.00%	N/A	N/A
Bank	39,780	15.04%	21,162	8.00%	26,453	10.00%
Tier 1 capital (to risk-weighted assets)						
Corporation	38,418	14.56%	10,558	4.00%	N/A	N/A
Bank	36,464	13.78%	10,581	4.00%	15,872	6.00%
Tier 1 capital (to average assets)						
Corporation	38,418	10.19%	15,084	4.00%	N/A	N/A
Bank	36,464	9.69%	$ 15,076	4.00%	13,226	5.00%

8. Income Taxes

The provision for income taxes consists of the following (in thousands) for the years ended December 31:

	2016	2015
Current income tax expense (benefit):		
Federal income tax	$ 683	$ 261
Local income tax	188	69
Total current income tax expense	871	330
Deferred income tax expense (benefit):		
Federal income tax	$ (155)	$ 316
Local income tax	(231)	82
Total deferred income tax expense	(386)	398
Total income tax expense	$ 485	$ 728

The components of the deferred tax benefit resulting from net temporary differences are as follows (in thousands) for the years ended December 31:

	2016	2015
Income before taxes	$ 2,399	$ 2,247
Federal income tax rate	34%	34%
Tax expense at statutory rate	816	764
Differences resulting from:		
Local tax expense, net of federal tax effect	109	103
Bank owned life insurance	(80)	(81)
Tax-exempt interest	(74)	(81)
Nondeductible expenses	34	-
Rate change	(204)	-
True ups and other	(116)	23
Provision for income taxes	$ 485	$ 728
Effective tax rate	20%	32%

The major components of deferred tax assets and (liabilities) are summarized at December 31, 2016 and 2015, as follows (in thousands):

	2016	2015
Allowance for loan losses	$ 1,364	$ 1,070
Accrued bonus	72	-
Deferred loan costs	260	218
AMT credit	478	607
Nonaccrual interest income	149	147
Depreciation	(266)	(270)
Unrealized loss on available-for sale-securities	(319)	(684)
Net deferred tax asset	$ 1,738	$ 1,088

9. Profit Sharing Plan

The Company has a profit sharing plan, qualifying under Section 401(k) of the Internal Revenue Code, for those employees who meet the eligibility requirements set forth in the plan. The plan does not require the Company to match the participants' contributions. The Company contributions to the plan were $217,000 and $237,000 for 2016 and 2015, respectively.

10. Employee Stock Ownership Plan

In 1986, the Bank implemented an Employee Stock Ownership Plan ("ESOP") that covers substantially all full-time employees. No contributions were made in 2016 or 2015. During 2006, the ESOP was terminated and rolled into the existing 401K plan thus becoming a KSOP. Shares held by the participants totaled 15,358 or 2.56% of the Company's stock at December 31, 2016.

11. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit, which are not shown in the accompanying consolidated financial statements (dollars in thousands). The Company does not anticipate any material losses as a result of these transactions. At December 31, 2016 and 2015 the Bank had commitments to fund loans outstanding for approximately $19,751 and $24,540, respectively. The Bank also had standby letters of credit outstanding at December 31, 2016 and 2015 in the amount of $914 and $1,097 respectively. Such commitments and standby letters of credit are subject to the Bank's normal underwriting standards. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

At December 31, 2016, the Bank was committed for future minimum annual payments under non-cancelable long-term lease agreements for the rental of office space as follows (dollars in thousands):

2017	$	507
2018		446
2019		389
2020		367
2021		230
Later years		-
Total minimum lease payments	$	1,939

Rent expense for years ended December 31, 2016 and 2015 was $622,000 and $627,000, respectively.

12. Fair Value Measurements And Estimated Fair Value of Financial Instruments

The Company has adopted FASB ASC Topic 820, "Fair Value Measurements " and FASB ASC Topic 825, "the Fair Value Option for Financial Assets and Financial Liabilities" which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. FASB ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of

observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale and loans held for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and REO. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value.

These hierarchy levels are:

Level 1 Valuation for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for Market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by FASB ASC Topic 820, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations and certain physical commodities.

Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 3 is for positions that are not traded in actual markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on

management's review and analysis. Appraised and reported values may be based upon knowledge changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market based appraisals and other available market information, less cost to sell, that may be reduced further based on market expectations or an executed sales agreement. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2016 and 2015:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
December 31, 2016				
Assets:				
Investments securities available-for-sale :				
U.S. Government Agency	$ -	$ 11,301	$ -	$ 11,301
Mortgage-Backed Securities	-	13,795	-	13,795
Collateralized Mortgage Obligations	-	21,328	-	21,328
Private label mortgage-backed securities	-	1,768	-	1,768
Municipal securities	-	9,003	-	9,003
Equity securities	71	-	-	71
Loans held for sale	-	1,136	-	1,136
Total	$ 71	$ 58,331	$ -	$ 58,402
December 31, 2015				
Assets:				
Investments securities available-for-sale :				
U.S. Government Agency	$ -	$ 10,162	$ -	$ 10,162
Mortgage-Backed Securities	-	14,281	-	14,281
Collateralized Mortgage Obligations	-	30,717	-	30,717
Private label mortgage-backed securities	-	1,633	-	1,633
Municipal Securities	-	15,376	-	15,376
Equity securities	43	-	-	43
Loans held for sale	-	403	-	403
Total	$ 43	$ 72,572	$ -	$ 72,615

During 2016, management re-evaluated the process utilized in the measurement of the fair value of private label mortgage-backed securities and loans held for sale and believe they are better reflected as

Level 2 inputs. The 2015 presentation of these assets has been reclassified from Level 3, as previously reported, to Level 2.

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2016 and 2015:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
December 31, 2016				
Assets:				
Impaired loans :				
Construction and land development	$ -	$ -	$ 1,497	$ 1,497
Commercial real estate	-	-	4,032	4,032
Residential real estate	-	-	5,456	5,456
Commercial and industrial	-	-	1,321	1,321
Consumer	-	-	-	-
Real estate owned	-	-	155	155
Total	$ -	$ -	$ 12,461	$ 12,461
December 31, 2015				
Assets:				
Impaired loans :				
Construction and land development	$ -	$ -	$ 834	$ 834
Commercial real estate	-	-	2,082	2,082
Residential real estate	-	-	9,754	9,754
Commercial and industrial	-	-	3,104	3,104
Consumer	-	-	216	216
Total	$ -	$ -	$ 15,990	$ 15,990

The Company has determined the fair value of its financial instruments using the following assumptions:

Cash and Cash Equivalents, Interest-Bearing Deposits, Accrued Interest Receivable and Payable, and Repurchase Agreements – The fair value was estimated to equal the carrying value due to the short-term nature of these financial instruments.

Securities – The fair value was estimated based on quoted market prices, dealer quotes and prices obtained from independent pricing services.

Loans – The fair value was estimated by discounting the estimated future cash flows using current rates on loans with similar credit risks and terms. It was assumed that no prepayments would occur due to the short-term nature of the portfolio (five years or less) and based upon the Company's historical experience.

Deposits – The fair value of demand and savings deposits was estimated to equal the carrying value due to the short-term nature of the financial instruments. The fair value of time deposits was estimated by discounting the estimated future cash flows using current rates on time deposits with similar maturities.

Commitments to Fund Loans and Stand by Letters of Credit – The majority of the Bank's commitments to grant loans and standby letters of credit are generally unassignable by either the bank or the borrower; they only have value to the Bank and the borrower.

The fair value estimates presented are based on pertinent information available as of December 31, 2016 and 2015. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market transaction. The use of different methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Company's financial instruments at December 31, 2016 and 2015 are as follows:

	2016		2015	
(dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial Assets:				
Cash and cash equivalents	$ 3,791	$ 3,791	$ 5,858	$ 5,858
Interest-bearing deposits	16,236	16,236	11,424	11,424
Investment securities	57,266	57,266	72,212	72,212
Loans held for sale	1,136	1,136	403	403
Loans, net	284,808	288,346	280,259	278,735
Accrued interest receivable	1,215	1,215	1,531	1,531
Financial Liabilities:				
Deposits	330,828	319,623	310,506	310,655
Short-term borrowings	15,903	15,903	37,363	37,329
Accrued interest payable	125	125	144	144

13. Related Party Transactions

In the normal course of banking business, loans are made to officers and directors on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with non-related parties and do not involve more than normal risk of collectability or present other unfavorable features. The following table presents an analysis of activity for loans to related parties at December 31, 2016 and 2015:

(dollars in thousands)	2016	2015
Balance, beginning of year	$ 4,367	$ 4,749
Principal additions	-	648
Principal payments	(165)	(1,030)
Balance, end of year	$ 4,202	$ 4,367

At December 31, 2016 and 2015, related party deposits totaled $651,949 and $431,643, respectively.

14. Other Noninterest Expense

Other expenses in the Consolidated Statements of Income include the following:

(dollars in thousands)	2016	2015
Loan expense	$ 267	$ 475
Bank security	402	385
Director fees	171	175
Other	1,023	974
	$ 1,863	$ 2,009

15. Parent Company Financial Information

The condensed financial statements of IBW Financial Corporation (parent company only) for the years ended December 31, 2016 and 2015, is as follows (dollars in thousands):

BALANCE SHEETS

	Years ended December 31, 2016	Years ended December 31, 2015
ASSETS:		
Cash on deposit with subsidiary bank	$ 90	$ 1,185
Securities available-for-sale	71	43
Investment in subsidiary, Industrial Bank	34,729	38,591
Other assets	192	138
Total assets	**$ 35,082**	**$ 39,957**
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Other liabilities	$ 108	$ 77
Total liabilities	108	77
SHAREHOLDERS' EQUITY :		
Preferred stock	500	6,471
Common stock	600	600
Additional paid in capital	3,285	2,977
Retained earnings	30,062	28,370
Accumulated other comprehensive income	527	1,462
Total shareholders' equity	34,974	39,880
Total liabilities and shareholders' equity	**$ 35,082**	**$ 39,957**

STATEMENTS OF INCOME

	Years Ended December 31, 2016	Years Ended December 31, 2015
Dividends from subsidiary and other income	$ 4,620	$ 571
Expenses	-	-
Income before undistributed earnings of subsidiary	4,620	571
Applicable taxes	-	-
Equity in undistributed net earnings of subsidiary	(2,707)	959
Net Income	**1,913**	**1,530**
Preferred stock dividends	(160)	(145)
Discount on preferred stock redemption	361	-
Net income available to common shareholders	**$ 2,114**	**$ 1,385**

See Notes to Consolidated Financial Statements.

16. Parent Company Financial Information (continued)

STATEMENTS OF CASH FLOWS

(dollars in thousands)	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,913	$ 1,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(2,707)	(1,007)
(Increase) decrease in other assets	871	51
Increase (decrease) in other liabilities	31	-
Net cash provided by operating activities	108	574
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in subsidiary	-	-
Net cash provided by (used for) investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend received from subsidiary	4,620	-
Dividends payments on preferred stock	(160)	(145)
Dividends payments on common stock	-	(78)
Proceeds from the issuance of common stock	54	-
Retirement of common stock	(107)	(47)
Redemption of Series D preferred stock - CDCI/TARP	(5,610)	-
Net cash provided by financing activities	(1,203)	(270)
Net increase (decrease) in cash and cash equivalents	(1,095)	304
Cash and cash equivalents at beginning of year	1,185	881
Cash and cash equivalents at end of year	**$ 90**	**$ 1,185**

17. Preferred Stock

On March 13, 2009, pursuant to the TARP Capital Purchase Program established by the United States Department of the Treasury under the Emergency Economic Stabilization Act of 2008, the Company issued 6,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $1.00 per share to the Treasury for aggregate consideration of $6,000,000. The Series B Preferred Stock paid a cumulative preferred dividend of 5% per annum per $1,000 of liquidation amount. On September 3, 2010, the Series B preferred stock was cancelled and exchanged for Series D preferred stock under the CDCI program. In the exchange, the dividend payment was reduced from 5% per annum to 2% per annum. The Series B and Series D Preferred Stock were treated as Tier 1 capital without limitation.

On December 30, 2016, the Company redeemed all 6,000 shares outstanding of the Series D preferred stock at a discount. During 2016, the United States Department of the Treasury (the “Treasury”), offered all financial institutions who had participated in the Community Development Capital Initiative (“CDCI”) to submit bids for early redemption. The funds for the redemption came from existing financial resources of the Bank and the Company. The discounted redemption had a positive impact on shareholder value and going forward will reduce the drain on capital that occurred as a result of the dividend payments.