On Wednesday, July 10, 2019 at 4:15 PM ET

VSB Bancorp, Inc. Second Quarter 2019 Results of Operations

STATEN ISLAND, NY / ACCESSWIRE / July 10, 2019 / VSB Bancorp, Inc. (OTCQX: VSBN) reported net income of $869,365 for the second quarter of 2019, an increase of $175,333, or 25.3%, from the second quarter of 2018. The following unaudited figures were released today. Pre-tax income was $1,114,556 in the second quarter of 2019, compared to $938,228 for the second quarter of 2018. Net income for the quarter was $869,365, or basic income of $0.48 per common share, compared to net income of $694,032 or $0.39 basic net income per common share, for the quarter ended June 30, 2018. Return on average assets increased from 0.77% in the second quarter of 2018 to 0.81% in the second quarter of 2019, while return on average equity increased from 8.47% to 9.03%.

The $175,333 increase in net income was due to an increase in net interest income of $368,829 and an increase in non-interest income of $57,068, partially offset by a $169,569 increase in non-interest expense and an increase in provision for loan losses of $80,000. The provision for loan loss in the second quarter reflects the growth of the loan portfolio in 2019. The provision for income taxes remained relatively stable at $245,191.

The $368,829 increase in net interest income for the second quarter of 2019 occurred primarily because our interest income increased by $509,117, while our cost of funds increased by $140,288. The rise in interest income resulted from a $385,983 increase in income from loans. The year to year increase in income on loans was principally due to the growth of $26.9 million in the average loan portfolio between the periods. This was partially offset by a 10 basis point decrease in average loan yields between the periods, as we booked new loans at lower rates due to a more competitive environment. The average balance of loans increased as the purchase of participation loans added to our new loan originations. Income from investment securities increased by $11,205, as the average investment yields between the period increased by 14 basis points, while the average balance of investment securities decreased by $11.9 million, as we deployed the expected cash flow from lower-yielding investments into higher-yielding loans. We did not sell any investment securities.

Interest income from other interest earning assets (principally overnight investments) increased by $111,929 due to a $13.6 million increase in the average balance coupled with a 58 basis point increase in the average yield. This average yield increase corresponded to the Federal Reserve's increase in the target federal funds rate between the periods. Overall, average interest-earning assets increased by $28.6 million from the second quarter of 2018 to the second quarter of 2019.

The $140,288 increase in interest expense was principally due to a $78,040 increase in interest on NOW accounts, as the average cost increased by 43 basis points while the average balance between periods increased by $4.2 million; a $52,859 increase in the cost of time accounts, due primarily to a 35 basis point increase in average cost while the average balance between periods increased by $2.0 million and a $35,596 increase in the cost of short term borrowing, due to the $20 million advanced to fund the anticipated withdrawal from a large depositor, who transferred $43 million in demand deposits in early June 2019, to another financial institution due to their merger. We anticipate that this borrowing will be repaid gradually during the second half of 2019 using the proceeds of new deposits and regular expected cash flows from investment securities. The rates on time deposits and NOW accounts increased as the Federal Reserve's target federal funds rate increased, resulting in higher general market interest rate conditions. These increases in deposit costs were partially offset by a $26,083 decrease in interest expense of money market accounts, as the average cost decreased by 9 basis points and the average balance decreased by $9.3 million. Our overall average cost of interest-bearing liabilities increased by 29 basis points. The Federal Reserve has indicated that they may be poised to lower fed funds rate, which may ease the upward pressure on deposit rates generally.

Average demand deposits, an interest free source of funds for us to invest, increased by $26.4 million to $169.4 million as a large depositor had increased their balances pending the withdrawal of their account in early June

2019, due to their merger. Average demand deposits were approximately 48% of average total deposits for the second quarter of 2019. Average interest-bearing deposits decreased by $4.5 million, but overall average total deposits increased by $21.9 million from the second quarter of 2018 to the second quarter of 2019.

The average yield on earning assets rose by 22 basis points while the average cost of funds rose by 29 basis points. The increase in the yield on assets was principally due the shift in mix away from investments in favor of loans. Our interest rate margin increased by 10 basis points from 3.22% to 3.32% when comparing the second quarter of 2019 to the same quarter in 2018, while our interest rate spread decreased by 7 basis points from 2.92% to 2.85% in the same period.

The margin increased because of a combination of factors. Our average loan portfolio increased by $26.9 million, while our average balance of lower yielding other interest earning assets increased by $13.6 million, and we continue to have an increase in earnings from assets funded by noninterest bearing demand deposits and capital as our average yield increases. However, while our current cost of deposits has risen, reductions in the federal funds rate this year may decrease the cost of deposits despite increased competition.

Non-interest income increased to $622,876 in the second quarter of 2019, compared to $565,808 in the same quarter in 2018. The increase was a result of a $48,804 increase in loan fee income, as we collected prepayment income and exit fees on loans that were repaid ahead of maturity in the 2019 period, and a $14,989 rise in other income due to increased fee income from our debit card processor.

Comparing the second quarter of 2019 with the same quarter in 2018, non-interest expense increased by $169,569, totaling $2.7 million for the second quarter of 2019. Non-interest expense increased for various business reasons including: (i) an $80,514 increase in occupancy expenses due principally to the adoption of the new lease standard ASC 842 for our bank branches; (ii) a $69,568 increase in computer expenses due to the increased costs associated with our new core system software (iii) a $65,638 increase in salary and benefit costs due to a higher level of staff; and (iv) a $9,819 increase in director fees due to a higher level of per meeting fees in the 2019 period. These increases were partially offset by a $49,103 decrease in other expenses for various reasons including decreased franchise tax and ATM fees.

Total assets increased to $391.1 million at June 30, 2019, an increase of $17.2 million, or 4.6%, from December 31, 2018. The significant component of this increase was a $26.5 million net increase in loans, or 20.9%, and a $6.0 million increase in bank premises and equipment due to the adoption of the new lease accounting standard and the construction of our new branch. Our non-performing loans increased to $1.6 million at June 30, 2019 from $861,727 at year end 2018, due the migration of three loan relationships to non-accrual. All three are now in payment stipulations and they have been performing under those conditions. We owned no OREO at June 30, 2019. Total deposits, including escrow deposits, decreased to $327.1 million, a decrease of $9.3 million, or 2.8%, during 2019. The decrease was primarily attributable to decreases of $11.6 million in demand and checking deposits, a $7.2 million decrease in money market accounts and a $1.7 million decrease in time deposits, partially offset by an $11.3 million increase in NOW accounts.

Our total stockholders' equity increased by $1.9 million, principally due to $1.1 million in retained earnings, a $616,078 increase in other comprehensive income as the market value of our investment portfolio rose as market yields decreased, $154,921 in additional paid in capital and $50,062 of amortization of our ESOP loan. VSB Bancorp's Tier 1 capital ratio was 9.14% at June 30, 2019. Book value per common share increased from $19.13 at year end 2018 to $20.09 at June 30, 2019.

For the first six months of 2019, pre-tax income decreased to $1.9 million from $2.1 million for the first six months of 2018, a reduction of $154,932, or 7.4%. Net income for the six months ended June 30, 2019 was $1.5 million, or basic net income of $0.84 per common share, as compared to net income of $1.6 million, or basic net income of $0.90 per common share, for the six months ended June 30, 2018. The decrease in net income for the six months ended June 30, 2019 compared to the same period in 2018 was attributable principally to a $491,579 increase in non-interest expenses, an $130,000 increase in the provision for loan losses and a $75,084 decrease in other income. These decreases were partially offset by a $541,731 increase in net interest income and $66,484 decrease in the provision for income taxes.

The increase in non-interest expense of $491,579 was due primarily to (i) a $232,065 increase in salary and benefit costs due to a higher level of staff; (ii) a $195,134 increase in occupancy expenses due primarily to the adoption of the new lease standard; and (iii) a $142,613 increase in computer expenses due to the costs of the new core system software. The increases were partially offset by a $100,567 decrease in other expenses due to increased deferred loan costs and reduced ATM fees among other items. The net interest margin increased by 5 basis points to 3.32% for the six months ended June 30, 2019 from 3.27% in the same period in 2018, as the average balance of our loan portfolio grew by 10%, and the average balance of other interest earning assets increased by $12.9 million with the associated yield growing by 71 basis points during the periods. Average interest earning assets for the six months ended June 30, 2019 increased by $26.2 million, or 7.5%, from the same period in 2018.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "Our net interest income has grown over 9% fueled by our loan growth. We look for additional opportunities to increase our loan portfolio that meet our underwriting criteria." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "We paid 13 cents per share in this quarter, which is an increase of 8.3% over the previous quarter. We paid our forty-seventh consecutive cash dividend and our book value per share has now reached $20.09. Our success is attributed to adhering to our strategic vision of delivering the best in personal service."

VSB Bancorp, Inc. is the one-bank holding company for Victory State Bank. Victory State Bank, a Staten Island based commercial bank, which commenced operations on November 17, 1997. The Bank's initial capitalization of $7.0 million was primarily raised in the Staten Island community. The Bancorp's total equity has increased to $36.9 million primarily through the retention of earnings. The Bank operates five full service locations in Staten Island: the main office in Great Kills, and branches on Forest Avenue (West Brighton), Hyatt Street (St. George), Hylan Boulevard (Dongan Hills) and on Bay Street (Rosebank). We are planning to open a sixth branch in the Meiers Corners section of Staten Island, in the third quarter of 2019, as we are waiting for the certificate of occupancy.

FORWARD LOOKING STATEMENTS

This release contains forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to adverse changes in local, regional or national economic conditions, fluctuations in market interest rates, changes in laws or government regulations, weaknesses of other financial institutions, changes in customer preferences, and changes in competition within our market area. When used in this release or in any other written or oral statements by the Company or its directors, officers or employees, words or phrases such as "will result in," "management expects that," "will continue," "is anticipated," "estimate," "projected," or similar expressions, and other terms used to describe future events, are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). Readers should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date of the statement. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. This statement is included for the express purpose of protecting the Company under the PSLRA's safe harbor provisions.

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VSB Bancorp, Inc.
Consolidated Statements of Financial Condition
June 30, 2019
(unaudited)

	June 30, 2019	December 31, 2018
Assets:		
Cash and cash equivalents	$ 28,908,482	$ 29,182,881
Investment securities, available for sale	34,023,961	38,296,615
Investment securities, held to maturity	156,640,271	168,272,336
Loans receivable	154,800,379	128,088,148
Allowance for loan loss	(1,671,891)	(1,472,191)
Loans receivable, net	153,128,488	126,615,957
Bank premises and equipment, net	8,666,846	2,622,898
Accrued interest receivable	1,081,842	973,057
Bank owned life insurance	5,598,835	5,543,958
Other assets	3,039,482	2,330,936
Total assets	$ 391,088,207	$ 373,838,638
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$ 141,733,859	$ 153,311,235
NOW	69,862,898	58,527,067
Money market	38,552,285	45,715,279
Savings	21,907,867	22,162,400
Time	54,558,741	56,266,841
Total Deposits	326,615,650	335,982,822
Escrow deposits	490,581	409,262
Short term borrowings	20,000,000	-
Accounts payable and accrued expenses	7,069,465	2,413,384
Total liabilities	354,175,696	338,805,468
Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,100,676 issued, 1,837,215 outstanding at June 30, 2019 and 2,094,676 issued, 1,831,215 outstanding at December31, 2018)	210	209
Additional paid in capital	10,984,341	10,829,420
Retained earnings	29,307,090	28,248,811
Treasury stock, at cost (263,461 shares at June 30, 2019 and at December 31, 2018)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(483,938)	(534,000)
Accumulated other comprehensive loss, net of taxes of $22,9980 and $196,764, respectively	(81,539)	(697,617)
Total stockholders' equity	36,912,511	35,033,170
Total liabilities and stockholders' equity	$ 391,088,207	$ 373,838,638

VSB Bancorp, Inc.
Consolidated Statements of Operations
June 30, 2019
(unaudited)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Interest and dividend income:				
Loans receivable	$ 2,257,032	$ 1,871,049	$ 4,204,444	$ 3,823,955
Investment securities	1,200,037	1,188,832	2,474,819	2,254,251
Other interest earning assets	207,267	95,338	396,910	171,110
Total interest income	3,664,336	3,155,219	7,076,173	6,249,316
Interest expense:				
NOW	144,823	66,783	279,295	118,769
Money market	61,475	87,558	122,615	178,895
Savings	11,771	11,895	23,584	24,853
Borrowings	35,596	-	35,596	-
Time	187,998	135,139	360,949	214,396
Total interest expense	441,663	301,375	822,039	536,913
Net interest income	3,222,673	2,853,844	6,254,134	5,712,403
Provision for loan loss	80,000	-	130,000	-
Net interest income after provision for loan loss	3,142,673	2,853,844	6,124,134	5,712,403
Non-interest income:				
Loan fees	56,358	7,554	51,088	129,681
Service charges on deposits	467,675	474,400	894,073	913,950
Other income	98,843	83,854	175,976	152,590
Total non-interest income	622,876	565,808	1,121,137	1,196,221
Non-interest expenses:				
Salaries and benefits	1,358,389	1,292,751	2,754,238	2,522,173
Occupancy expenses	466,336	385,822	954,588	759,454
Legal expense	76,835	72,620	157,835	144,370
Professional fees	110,108	109,190	220,033	215,819
Computer expense	172,377	102,809	343,016	200,403
Director fees	73,573	63,754	142,233	126,578
FDIC and NYSBD assessments	33,000	45,000	71,000	82,000
Other expenses	360,375	409,478	660,375	760,942
Total non-interest expenses	2,650,993	2,481,424	5,303,318	4,811,739
Income before income taxes	1,114,556	938,228	1,941,953	2,096,885
Provision (benefit) for income taxes:				
Current	174,821	217,334	374,365	519,904
Deferred	70,370	26,862	58,222	(20,833)
Total provision for income taxes	245,191	244,196	432,587	499,071
Net income	$ 869,365	$ 694,032	$ 1,509,366	$ 1,597,814
Basic net income per common share	$ 0.48	$ 0.39	$ 0.84	$ 0.90
Diluted net income per share	$ 0.48	$ 0.39	$ 0.83	$ 0.89
Book value per common share	$ 20.09	$ 18.37	$ 20.09	$ 18.37

SOURCE: VSB Bancorp, Inc.