VSB Bancorp, Inc. Second Quarter 2018 Results of Operations

STATEN ISLAND, NY / ACCESSWIRE / July 10, 2018 / VSB Bancorp, Inc. (OTCQX: VSBN) reported net income of $694,032 for the second quarter of 2018, a decrease of $198,521, or 22.2%, from the second quarter of 2017. The following unaudited figures were released today. Pre-tax income was $938,228 in the second quarter of 2018, compared to $1,373,321 for the second quarter of 2017. Net income for the quarter was $694,032, or basic income of $0.39 per common share, compared to net income of $892,553 or $0.50 basic net income per common share, for the quarter ended June 30, 2017. Return on average assets decreased from 0.79% in the second quarter of 2017 to 0.77% in the second quarter of 2018, while return on average equity decreased from 8.98% to 8.47%.

The $198,521 decrease in net income was due to a decrease in net interest income of $211,877, a $147,183 increase in non-interest expense, and a decrease in non-interest income of $76,033. We did not record a provision for loan loss in the second quarter as we had net recoveries of loans previously charged off of $62,000 in 2018. The decrease in net income was partially offset by a $236,572 decrease in the provision for income taxes, due to the decrease in federal income tax rates,

The $211,877 decrease in net interest income for the second quarter of 2018 occurred primarily because our interest income decreased by $141,322, while our cost of funds increased by $70,555. The drop in interest income resulted from a $246,519 decrease in income from loans. The year to year decline in income on loans was principally due to $187,143 in past-due interest that we received in the second quarter of 2017 on non-performing or charged-off loans. In addition, we had a 27 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 decreased slightly as the payoff of some of our construction loans primarily offset our new originations. Income from investment securities increased by $137,494, as the average loan yields between the period increased by 11 basis point and the average balance of investment securities increased by $33.7 million, as we deployed lower-yielding overnight investments into higher-yielding investment securities. The 2017 period included $139,622 of interest due to prepayment of interest on a FNMA security.

Interest income from other interest earning assets (principally overnight investments) decreased by $32,297 due to a $28.7 million decrease in the average balance partially offset by a 79 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. However, since the overnight investment yield was still below the yield we were able to earn on investment securities, we deployed a portion of the cash funding overnight investments into investment securities with higher yields. Overall, average interest-earning assets increased by $4.9 million from the second quarter of 2017 to the second quarter of 2018.

The increase in interest expense was principally due to a $63,446 increase in the cost of time accounts, due primarily to a 48 basis point increase in average cost. There was a $35,090 increase in interest on NOW accounts, as the average cost increased by 17 basis points while the average balance between periods increased by $13.8 million. 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 $26,178 decrease in interest expense of money market accounts, as the average cost decreased by 8 basis points and the average balance decreased by $8.7 million. Our overall average cost of interest-bearing liabilities increased by 14 basis points. The Federal Reserve once again increased the benchmark federal funds rate by 25 basis points in June 2018, which may result in additional upward pressure on deposit rates generally.

Average demand deposits, an interest free source of funds for us to invest, remained stable at $143.0 million and represented approximately 43% of average total deposits for the second quarter of 2018. Average interest-bearing deposits increased by $3.4 million, resulting in an overall $3.5 million increase in average total deposits from the second quarter of 2017 to the second quarter of 2018.

The average yield on earning assets rose by 9 basis points while the average cost of funds rose by 14 basis points. The increase in the yield on assets was principally due the shift in mix away from overnight investments in favor of investment securities. The receipt of $326,765 in non-recurring interest income from loans and investment securities in the second quarter of 2017, as discussed above, created upward distortion in reported yields in the 2017 period. Without the non-recurring income in 2017, our average yield increased by 14 basis points from the 2017 period to the same period in 2018. Our interest rate margin increased by 1 basis point from 3.21% to 3.22% when comparing the second quarter of 2018 to the same quarter in 2017, while our interest rate spread decreased by 5 basis points from 2.97% to 2.92% in the same period. We estimate that without the 2017 non-recurring income, the spread would have not have changed between the periods.

The margin, adjusted for the 2017 non-recurring interest income, increased because of a combination of factors. Our average investment securities portfolio increased by $33.7 million, our average balance of lower yielding other interest earning assets decreased by $28.7 million and we continue to have an increase in earnings from assets funded by non-interest bearing demand deposits and capital as our average yield increases. However, while our current cost of deposits has risen, additional increases in the federal funds rate this year has increased competition for deposits, as more banks raise their interest rates to attract new deposits, which may necessitate further increases in future deposit rates.

Non-interest income decreased to $565,808 in the second quarter of 2018, compared to $641,841 in the same quarter in 2017. The decrease was a result of a $51,523 decrease in loan fee income, as we collected prepayment income and exit fees on loans that were repaid ahead of maturity in the 2017 period, and a $18,577 reduction in net rental income, as we are no longer renting one of our properties in 2018.

Comparing the second quarter of 2018 with the same quarter in 2017, non-interest expense increased by $147,183, totaling $2.5 million for the second quarter of 2018. Non-interest expense increased for various business reasons including: (i) an $101,083 increase in salary and benefit costs due to a higher level of staff; (ii) a $35,855 increase in occupancy expenses due principally to the commencement of rent payments on our new branch that is under construction; and (iii) a $31,506 increase in other expenses for various reasons including increased insurance costs for construction and increased franchise tax.

Total assets increased to $368.8 million at June 30, 2018, an increase of $19.0 million, or 5.4%, from December 31, 2017. The largest components of this increase were a $14.2 million increase in investment securities, as we redeployed cash from new deposits, and a $10.4 million increase in cash and other liquid assets, partially offset by a $6.7 million decrease in loans. Our non-performing loans increased from $593,000 at December 31, 2017 to $1.4 million at June 30, 2018, due primarily to the addition of $815,000 in non-performing loans in 2018 principally loans secured by mortgages on real estate in Staten Island. There was no OREO at June 30, 2018. Total deposits, including escrow deposits, increased to $333.3 million, an increase of $17.7 million, or 5.6% during 2018. The increase was primarily attributable to increases of $11.6 million in demand and checking deposits, $9.7 million in NOW accounts, and $3.8 million in time deposits, partially offset by $6.9 million decrease in money market accounts.

Our total stockholders' equity increased by $1.0 million, principally due to $1.3 million in retained earnings, $117,863 in additional paid in capital and $50,062 of amortization of our ESOP loan, partially offset by a $436,488 decrease in other comprehensive income as the market value of our investment portfolio dropped as market yields increased. VSB Bancorp's Tier 1 capital ratio was 9.29% at June 30, 2018. Book value per common share increased from $17.82 at year end 2017 to $18.37 at June 30, 2018.

For the first six months of 2018, pre-tax income decreased to $2.1 million from $2.3 million for the first six months of 2018, a reduction of $230,011, or 9.9%. Net income for the six months ended June 30, 2018 was $1.6 million, or basic net income of $0.90 per common share, as compared to net income of $1.5 million, or basic net income of $0.85 per common share, for the six months ended June 30, 2017. The increase in net income for the six months ended June 30, 2018 compared to the same period in 2017 was attributable principally to a $315,452 decrease in the provision for income taxes, a $30,574 increase in net interest income, a $15,000 reduction in the provision for loan loss. These increases were partially offset by an $160,781 increase in non-interest expenses and an $114,804 decrease in other income.

The increase in non-interest expense of $160,781 was due primarily to (i) an $88,532 increase in salary and benefit costs due to a higher level of staff; (ii) a $74,188 increase in occupancy expenses due principally to the payment of partial rent on our new branch under construction; and (iii) a $51,707 increase in other expenses for various reasons. The increases were partially offset by a $26,532 decrease in professional fees because as we did not have recruitment agency fees in 2018 and a $25,723 decrease in legal fees as we had lower legal collection costs. The net interest margin increased by 6 basis points to 3.27% for the six months ended June 30, 2018 from 3.21% in the same period in 2017, as the average balance of our investment securities grew by 18% and the average balance of other interest earning assets decreased by 58% during the periods. Without the effect of the non-interest income, the net interest margin increased by 3 basis points. Average interest earning assets for the six months ended June 30, 2018 increased by $5.2 million, or 1.5%, from the same period in 2017.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "Excluding the effect of non-recurring income in 2017, we had a 4% growth in net interest income. Our loan growth has been hampered by the payoff of our larger construction loans, but management continues to work to increase our loan portfolio." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "We increased our cash dividend by 10% this quarter and we are now paying, on a quarterly basis, 11 cents per share. We paid our forty-third consecutive cash dividend and our book value per share has now reached $18.37. Our continued success is a direct result 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 $33.6 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 Meiers Corners section of Staten Island, in 2018, as we have received both regulatory and building department approvals.

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, 2018
(unaudited)

	June 30, 2018	**December 31, 2017**
Assets:		
Cash and cash equivalents	$ 23,342,552	$ 12,920,547
Investment securities, available for sale	41,642,006	46,080,113
Investment securities, held to maturity	164,449,301	145,853,876
Loans receivable	130,408,101	137,180,384
Allowance for loan loss	(1,377,591)	(1,564,698)
Loans receivable, net	129,030,510	135,615,686
Bank premises and equipment, net	1,017,666	1,086,569
Accrued interest receivable	922,726	888,936
Bank owned life insurance	5,488,586	5,433,064
Other assets	2,937,049	1,929,175
Total assets	$368,830,396	$349,807,966
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$142,897,403	$131,300,711
NOW	62,807,504	53,070,471
Money market	47,971,402	54,894,238
Savings	23,094,530	23,715,892
Time	56,126,736	52,297,151
Total Deposits	332,897,575	315,278,463
Escrow deposits	393,732	281,505
Accounts payable and accrued expenses	1,927,971	1,647,658
Total liabilities	335,219,278	317,207,626

Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,092,926 issued, 1,829,465 outstanding at June 30, 2018 and at December 31, 2017)	209	209
Additional paid in capital	10,708,420	10,590,557
Retained earnings	27,001,808	25,722,467
Treasury stock, at cost (263,461 shares at June 30, 2018 and at December 31, 2017)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(584,063)	(634,125)
Accumulated other comprehensive loss, net of taxes of $208,260 and $142,754, respectively	(701,603)	(265,115)
Total stockholders' equity	33,611,118	32,600,340
Total liabilities and stockholders' equity	$368,830,396	$349,807,966

VSB Bancorp, Inc.
Consolidated Statements of Operations
June 30, 2018
(unaudited)

	Three months ended June 30, 2018	**Three months ended June 30, 2017**	**Six months ended June 30, 2018**	**Six months ended June 30, 2017**
Interest and dividend income:				
Loans receivable	$ 1,871,049	$ 2,117,568	$ 3,823,955	$ 3,998,314
Investment securities	1,188,832	1,051,338	2,254,251	1,922,849
Other interest earning assets	95,338	127,635	171,110	221,171
Total interest income	3,155,219	3,296,541	6,249,316	6,142,334
Interest expense:				
NOW	66,783	31,693	118,769	55,022
Money market	87,558	113,736	178,895	225,812
Savings	11,895	13,698	24,853	26,424
Time	135,139	71,693	214,396	153,247
Total interest expense	301,375	230,820	536,913	460,505
Net interest income	2,853,844	3,065,721	5,712,403	5,681,829
Provision for loan loss	-	-	-	15,000
Net interest income after provision for loan loss	2,853,844	3,065,721	5,712,403	5,666,829
Non-interest income:				
Loan fees	7,554	59,077	129,681	123,044
Service charges on deposits	474,400	479,575	913,950	986,585
Net rental income	(561)	18,016	(17,306)	28,817
Other income	84,415	85,173	169,896	172,579
Total non-interest income	565,808	641,841	1,196,221	1,311,025
Non-interest expenses:				
Salaries and benefits	1,292,751	1,191,668	2,522,173	2,433,641
Occupancy expenses	385,822	349,967	759,454	685,266
Legal expense	72,620	80,298	144,370	170,093

Professional fees	109,190	114,972	215,819	242,351
Computer expense	102,809	106,476	200,403	210,305
Director fees	63,754	61,888	126,578	120,067
FDIC and NYSBD assessments	45,000	51,000	82,000	80,000
Other expenses	409,478	377,972	760,942	709,235
Total non-interest expenses	2,481,424	2,334,241	4,811,739	4,650,958
Income before income taxes	938,228	1,373,321	2,096,885	2,326,896
Provision (benefit) for income taxes:				
Current	217,334	477,281	519,904	845,636
Deferred	26,862	3,487	(20,833)	(31,113)
Total provision for income taxes	244,196	480,768	499,071	814,523
Net income	$ 694,032	$ 892,553	$ 1,597,814	$ 1,512,373
Basic net income per common share	$ 0.39	$ 0.50	$ 0.90	$ 0.85
Diluted net income per share	$ 0.39	$ 0.50	$ 0.89	$ 0.85
Book value per common share	$ 18.37	$ 17.51	$ 18.37	$ 17.51

SOURCE: VSB Bancorp, Inc.