



**VSB Bancorp**

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Companies Mentioned:

Primary Exchange: OTCQX

Under the Symbol: VSBN

# VSB Bancorp, Inc. Third Quarter 2019 Results of Operations Quarterly Earnings up over 84%

*Wednesday, October 9, 2019 4:15 PM*

**STATEN ISLAND, NY / ACCESSWIRE / October 9, 2019 /** VSB Bancorp, Inc. (OTCQX:VSBN) reported net income of \$1,179,828 for the third quarter of 2019, an increase of \$538,892, or 84.1%, from the third quarter of 2018. The increase in net income was primarily attributable to the recognition of \$370,000 in net tax benefit in the third quarter of 2019, due to recapture of our deferred tax allowance and the re-establishment of deferred taxes for state and local income taxes, which resulted in a dollar for dollar increase in net income. We also reported a \$260,818 gain in pre-tax income for the 2019 period. The following unaudited figures were released today. Pre-tax income was \$1,127,295 in the third quarter of 2019, compared to \$866,477 for the third quarter of 2018. Net income for the quarter was \$1,179,828, or basic income of \$0.65 per common share, compared to net income of \$640,936 or \$0.36 basic net income per common share, for the quarter ended September 30, 2018. Return on average assets increased from 0.62% in the third quarter of 2018 to 1.13% in the third quarter of 2019, while return on average equity increased from 6.82% to 11.71%. These increases primarily reflect the recognition of the net tax benefit as described above.

The \$538,892 increase in net income was due to a decrease in the provision for income taxes of \$278,074, an increase in net interest income of \$194,714, a \$94,018 decrease in non-interest expense and an increase in non-interest income of \$17,086, partially offset by an increase in provision for loan losses of \$45,000. The provision for loan losses in the third quarter reflects the growth of the loan portfolio in 2019.

The \$194,714 increase in net interest income for the third quarter of 2019 occurred primarily because our interest income increased by \$338,122, while our cost of funds increased by \$143,408. The rise in interest income resulted from a \$338,520 increase in income from loans. The year to year increase in income on loans was principally due to the growth of \$28.2 million in the average loan portfolio between the periods. Loans, our highest yielding asset category, increased from 35.7% of earning assets in the 2018 quarter to 42.5% of earning assets in the 2019 quarter. The volume increase was partially offset by a 20 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 loan participations added to our new loan originations. Income from investment securities decreased by \$54,542. The average balance of investment securities decreased by \$27.0 million, as we deployed the cash flow from lower-yielding investments into higher-yielding loans. The average investment yields between the periods increased by 4 basis point.

Interest income from other interest earning assets (principally overnight investments) increased by \$54,144 due to a \$7.7 million increase in the average balance coupled with a 19 basis point increase in the average yield. This average yield increase corresponded to the Federal Reserve's gradual increase in the target federal funds rate between the periods. Overall, average interest-earning assets increased by \$8.9 million from the third quarter of 2018 to the third quarter of 2019.

The \$143,408 increase in interest expense was principally due to a \$84,064 increase in interest on NOW accounts, as the average cost increased by 43 basis points while the average balance between periods increased by \$8.3 million; a \$22,494 increase in the cost of time accounts, due primarily to a 21 basis point increase in average cost while the average balance between periods decreased by \$1.9 million and a \$64,720 increase in the cost of short term borrowing, due to the \$10.3 million in average advances in the third quarter of 2019. The advances were obtained at the end of the second quarter of 2019 to help fund the anticipated withdrawal from a large depositor. We anticipate that this borrowing will be fully repaid in the beginning of the fourth quarter 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 previously increased. These increases in deposit costs were partially offset by a \$27,096 decrease in interest expense of money market accounts, as the average cost decreased by 11 basis points and the average balance decreased by \$9.4 million. Our overall average cost of interest-bearing liabilities increased by 27 basis points. The target fed funds rate was 25 basis points higher for most of the third quarter of 2019 than during the same quarter in 2018, but on September 18, 2019, the Federal Reserve lowered the fed funds rate, which may ease upward pressure on deposit rates.

Average demand deposits, an interest free source of funds for us to invest, increased by \$1.1 million to \$149.8 million in the third quarter of 2019. Average demand deposits were approximately 45% of average total deposits for the third quarter of 2019. Average interest-bearing deposits decreased by \$3.7 million, while overall average total deposits decreased by \$2.5 million from the third quarter of 2018 to the third quarter of 2019.

The average yield on earning assets rose by 19 basis points while the average cost of funds rose by 27 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 4 basis points from 3.27% to 3.31% when comparing the third quarter of 2019 to the same quarter in 2018, while our interest rate spread decreased by 8 basis points from 2.93% to 2.85% in the same period.

The margin increased because of a combination of factors. Our average loan portfolio increased by \$28.2 million, while our average balance of lower yielding other interest earning assets increased by \$7.7 million, and we continue to experience an increase in earnings from assets funded by non-interest bearing demand deposits and capital as our average yield increases. While our current cost of deposits has risen, reductions in the federal funds rate this year should exert downward pressure on average deposit rates despite increased competition.

Non-interest income increased to \$665,502 in the third quarter of 2019, compared to \$648,416 in the same quarter in 2018. The increase was a result of an increases in service charges on deposits of \$96,051, which are inherently volatile, and a \$17,403 rise in other income due to increased fee income from our debit card processor. These positive factors were partially offset by a \$70,862 decrease in loan fee income, as we collected prepayment income and exit fees on loans that were repaid ahead of maturity in the 2018 period and a \$25,506 decrease in net rental income as we collected accelerated rent on a terminated lease in 2018, neither of which occurred to the same extent in the 2019 quarter.

Comparing the third quarter of 2019 with the same quarter in 2018, non-interest expense decreased by \$94,018, totaling \$2.6 million for the third quarter of 2019. Non-interest expense decreased for various business reasons including a \$152,473 decrease in computer expenses due to one-time charges associated with our core system conversion in August 2018 and a \$64,509 decrease in other expenses for various reasons including decreased franchise tax and ATM fees. These decreases were partially offset by an \$112,814 increase in occupancy expenses due principally to the adoption of the new ASC 842 lease accounting standard for our bank branches and increased occupancy expenses for our new branch in Meiers Corners. We also had a \$26,290 increase in legal fees due to increased collection costs.

Total assets increased to \$375.7 million at September 30, 2019, an increase of \$1.9 million, or 0.5%, from December 31, 2018. The significant component of this increase was a \$29.1 million net increase in loans, or 22.7%, a \$9.5 million increase in cash and interest bearing bank balances, 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 \$2.2 million at September 30, 2019 from \$861,727 at year end 2018, due the migration of five loan relationships to non-accrual. Four of the five are making payments in accordance with their stipulations under modified terms and conditions. We owned no OREO at September 30, 2019. Total deposits, including escrow deposits, decreased to \$325.3 million, a decrease of \$11.1 million, or 3.3%, during 2019. The decrease was primarily attributable to decreases of \$8.2 million in demand and checking deposits, a \$9.3 million decrease in money market accounts and a \$1.2 million decrease in time deposits, partially offset by an \$7.8 million increase in NOW accounts.

Our total stockholders' equity increased by \$3.1 million during 2019, principally due to \$2.0 million in retained earnings, a \$670,629 increase in other comprehensive income as the market value of our investment portfolio rose as market yields decreased, a \$315,444 increase in additional paid in capital and \$75,094 of amortization of our ESOP loan. VSB Bancorp's Tier 1 capital ratio was 9.81% at September 30, 2019. Book value per common share increased from \$19.13 at year end 2018 to \$20.60 at September 30, 2019.

For the first nine months of 2019, pre-tax income increased to \$3.1 million from \$3.0 million for the first nine months of 2018, an increase of \$105,886, or 3.6%. Net income for the nine months ended September 30, 2019 was \$2.7 million, or basic net income of \$1.50 per common share, as compared to net income of \$2.2 million, or basic net income of \$1.26 per common share, for the nine months ended September 30, 2018. The increase in net income for the nine months ended September 30, 2019 compared to the same period in 2018 was attributable principally to a \$736,445 increase in net interest income and \$344,558 decrease in the provision for income taxes. These increases were partially offset by a \$397,561 increase in non-interest expenses, a \$175,000 increase in the provision for loan losses and a \$57,998 decrease in other income.

The increase in non-interest expense of \$397,561 was due primarily to (i) a \$307,948 increase in occupancy expenses due primarily to the adoption of the new lease accounting standard; (ii) a \$234,142 increase in salary and benefit costs due to a higher level of staff; and (iii) a \$39,755 increase in legal expenses due to increased collection costs. The increases were partially offset by a \$165,076 decrease in other expenses principally due to increased deferred loan costs, franchise taxes and reduced ATM fees. The net interest margin increased by 7 basis points to 3.34% for the nine months ended September 30, 2019 from 3.27% in the same period in 2018, as the average balance of our loan portfolio grew by \$18.5 million or 14.1%. The average balance of other interest earning assets increased by \$11.1 million with the associated yield growing by 52 basis points during the periods. Average interest earning assets for the nine months ended September 30, 2019 increased by \$20.4 million, or 5.8%, from the same period in 2018.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "We have shown growth in our net interest income. We are now paying income taxes at the state and local level, which required the Bank to recognize a deferred tax asset as well as the recapture of the deferred tax allowance that we established in 2017." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "We have opened our sixth branch this quarter, in Meiers Corners. This will increase our reach and provide us another outlet to deliver our unique brand of personal service. We continue to build value for our stockholders, and our book value per share is now at \$20.60."

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 \$38.1 million primarily through the retention of earnings. The Bank operates six 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), Bay Street (Rosebank) and we just opened our sixth branch on Victory Boulevard (Meiers Corners).

#### 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.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 38,723,415	\$ 29,182,881
Investment securities, available for sale	32,052,818	38,296,615
Investment securities, held to maturity	131,471,028	168,272,336
Loans receivable	157,193,172	128,088,148
Allowance for loan loss	(1,722,042)	(1,472,191)
Loans receivable, net	155,471,130	126,615,957
Bank premises and equipment, net	3,764,690	2,622,898
Right-of-use assets	4,808,282	-
Accrued interest receivable	844,410	973,057
Bank owned life insurance	5,627,952	5,543,958
Other assets	2,940,309	2,330,936
<b>Total assets</b>	<u>\$ 375,704,034</u>	<u>\$ 373,838,638</u>
<b>Liabilities and stockholders' equity:</b>		
Liabilities:		
Deposits:		
Demand and checking	\$ 145,087,117	\$ 153,311,235
NOW	66,285,794	58,527,067
Money market	36,463,449	45,715,279
Savings	21,597,387	22,162,400
Time	55,099,717	56,266,841
Total Deposits	<u>324,533,464</u>	<u>335,982,822</u>
Escrow deposits	727,675	409,262
Short term borrowings	5,000,000	-
Lease liability	5,020,847	-

Accounts payable and accrued expenses	2,325,819	2,413,384
<b>Total liabilities</b>	<u>337,607,805</u>	<u>338,805,468</u>
Stockholders' equity:		
Common stock, (\$.0001 par value, 10,000,000 shares authorized 2,112,426 issued, 1,848,965 outstanding at September 30, 2019 and 2,094,676 issued, 1,831,215 outstanding at December 31, 2018)	211	209
Additional paid in capital	11,144,864	10,829,420
Retained earnings	30,250,701	28,248,811
Treasury stock, at cost (263,461 shares at September 30, 2019 and at December 31, 2018)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(458,906)	(534,000)
Accumulated other comprehensive loss, net of taxes of \$7,612 and \$196,764, respectively	(26,988)	(697,617)
<b>Total stockholders' equity</b>	<u>38,096,229</u>	<u>35,033,170</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 375,704,034</u>	<u>\$ 373,838,638</u>

**VSBC Bancorp, Inc.**  
**Consolidated Statements of Operations**  
**September 30, 2019**  
**(unaudited)**

	Three months ended Sept. 30, 2019	Three months ended Sept. 30, 2018	Nine months ended Sept. 30, 2019	Nine months ended Sept. 30, 2018
Interest and dividend income:				
Loans receivable	\$ 2,260,722	\$ 1,922,202	\$ 6,465,166	\$ 5,746,157
Investment securities	1,189,063	1,243,605	3,663,882	3,497,856
Other interest earning assets	178,783	124,639	575,693	295,749
Total interest income	<u>3,628,568</u>	<u>3,290,446</u>	<u>10,704,741</u>	<u>9,539,762</u>
Interest expense:				
NOW	151,455	67,391	430,750	186,160
Money market	58,542	86,448	181,157	265,343
Savings	12,367	12,331	35,951	37,184
Borrowings	64,720	-	100,316	-
Time	186,551	164,057	547,500	378,453
Total interest expense	<u>473,635</u>	<u>330,227</u>	<u>1,295,674</u>	<u>867,140</u>
Net interest income	3,154,933	2,960,219	9,409,067	8,672,622
Provision for loan loss	45,000	-	175,000	-
Net interest income after provision for loan loss	<u>3,109,933</u>	<u>2,960,219</u>	<u>9,234,067</u>	<u>8,672,622</u>
Non-interest income:				
Loan fees	5,989	76,851	57,077	206,532
Service charges on deposits	560,346	464,295	1,454,419	1,378,245

Other income	99,167	107,270	275,143	259,860
Total non-interest income	665,502	648,416	1,786,639	1,844,637
Non-interest expenses:				
Salaries and benefits	1,335,979	1,333,902	4,090,217	3,856,075
Occupancy expenses	523,597	410,783	1,478,185	1,170,237
Legal expense	98,570	72,280	256,405	216,650
Professional fees	110,690	112,220	330,723	328,039
Computer expense	172,810	325,283	515,826	525,686
Director fees	61,630	62,317	203,863	188,895
FDIC and NYSBD assessments	12,000	28,000	83,000	110,000
Other expenses	332,864	397,373	993,239	1,158,315
Total non-interest expenses	2,648,140	2,742,158	7,951,458	7,553,897
Income before income taxes	1,127,295	866,477	3,069,248	2,963,362
Provision (benefit) for income taxes:				
Current	581,837	291,931	956,202	811,835
Deferred	(634,370)	(66,390)	(576,148)	(87,223)
Total provision for income taxes	(52,533)	225,541	380,054	724,612
Net income	\$ 1,179,828	\$ 640,936	\$ 2,689,194	\$ 2,238,750
Basic net income per common share	\$ 0.65	\$ 0.36	\$ 1.50	\$ 1.26
Diluted net income per share	\$ 0.65	\$ 0.36	\$ 1.48	\$ 1.26
Book value per common share	\$ 20.60	\$ 18.59	\$ 20.60	\$ 18.59

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**SOURCE:** VSB Bancorp