



**SOURCE: VSB Bancorp**

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## VSB Bancorp, Inc. Third Quarter 2017 Results of Operations

STATEN ISLAND, NY--(Marketwired - Oct 10, 2017) - VSB Bancorp, Inc. (OTCQX: [VSBN](#)) reported net income of \$724,213 for the third quarter of 2017, an increase of \$157,046, or 27.7%, from the third quarter of 2016. The following unaudited figures were released today. Pre-tax income was \$1,114,097 in the third quarter of 2017, compared to \$872,525 for the third quarter of 2016. Net income for the quarter was \$724,213, or basic income of \$0.41 per common share, compared to net income of \$567,167, or \$0.32 basic net income per common share, for the quarter ended September 30, 2016. Return on average assets increased from 0.66% in the third quarter of 2016 to 0.77% in the third quarter of 2017, while return on average equity increased from 7.28% to 8.66%.

The \$157,046 increase in net income was due to an increase in net interest income of \$321,877 and a decrease in the provision for loan loss of \$30,000. We did not record a provision for loan loss in the third quarter as we recovered, in 2017, over \$160,000 on three loans that were previously charged off. The increase in net income was partially offset by a \$76,679 increase in non-interest expense, a \$84,526 increase in the provision for income taxes, due to the increase in pre-tax income, and a decrease in non-interest income of \$33,626.

The \$321,877 increase in net interest income for the third quarter of 2017 occurred primarily because our interest income increased by \$323,917. Our cost of funds increased \$2,040 in the same period. The rise in interest income resulted from a \$148,733 increase in income from loans as we had a \$13.4 million increase in average loan balance between the periods, partially offset by a 17 basis point decrease in yield between the periods, as we booked new loans at lower rates due to a more competitive environment. The average balance of loans increased by 11.0% as we implemented our strategy to increase our loan portfolio, which helped improve our earnings. Income from investment securities increased by \$90,199, due to an increase of \$10.1 million in average investment securities and a 5 basis point increase in yield between the periods.

Interest income from other interest earning assets (principally overnight investments) increased by \$84,985 due to a \$6.1 million increase in the average balance and an 80 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 \$29.5 million from the third quarter of 2016 to the third quarter of 2017.

The modest increase in interest expense was principally due to a \$13,183 increase in interest on NOW accounts, as the average cost increased by 4 basis points while the average balance between periods increased by \$13.8 million partially offset by a \$9,148 decrease in the cost of time accounts, due to a 3 basis point decrease in average cost and to a \$3.7 million decrease in the average balance. Our overall average cost of interest-bearing liabilities decreased by 3 basis points. We anticipate that recent increases in the federal funds rate may result in an upward pressure on deposit rates in the foreseeable future.

Average demand deposits, an interest free source of funds for us to invest, increased \$15.6 million from the third quarter of 2016 and represented approximately 42% of average total deposits for the third quarter of 2017. Average interest-bearing deposits increased by \$12.6 million, resulting in an overall \$28.4 million increase in average total deposits from the third quarter of 2016 to the third quarter of 2017.

The average yield on earning assets rose by 8 basis points while the average cost of funds fell by 3 basis points. The increase in the yield on assets was principally due to increases in the average balance of loans by 11%, the average balance of investment securities by 6% and the yield on other interest earning assets by 80 basis points. Our interest rate margin increased by 10 basis points from 3.09% to 3.19% when comparing the third quarter of 2017 to the same quarter in 2016, while our interest rate spread increased by 11 basis points from 2.86% to 2.97% in the same period. The margin increased because of a combination of factors. Our average loan balance increased by \$13.4 million and we continue to have an increase in earnings from assets funded by non-interest bearing demand deposits and capital. However, while our current cost of deposits has not risen, additional increases in the federal funds rate later this year may increase competition for deposits, as more banks raise their interest rates to attract new deposits, and may necessitate an increase in future deposit rates.

Non-interest income decreased by \$33,626 to \$605,398 in the third quarter of 2017, compared to \$639,024 in the same quarter in 2016. The decrease was mainly a result of a \$27,181 reduction in service charges on deposits, which consist mainly of fees on items being presented for payment against insufficient funds, which are inherently volatile.

Comparing the third quarter of 2017 with the same quarter in 2016, non-interest expense increased by \$76,679, totaling \$2.3 million for the third quarter of 2017. Non-interest expense increased for various business reasons including: (i) a \$44,781 increase in salary and benefit costs due to accrual for severance and a higher level of staff; (ii) a \$37,108 increase in professional fees due principally to recruitment fees; and (iii) a \$19,592 increase in legal fees due to higher litigation and collection costs. The increases were partially offset by an \$11,078 decrease in other expenses.

Total assets increased to \$364.8 million at September 30, 2017, an increase of \$31.7 million, or 9.5%, from December 31, 2016. The latest components of this increase were a \$24.7 million increase in investment securities, as we redeployed cash, and a \$9.9 million increase in loans, partially offset by a \$2.6 million decrease in cash and other liquid assets. Our non-performing loans decreased from \$1.8 million at December 31, 2016 to \$1.3 million at September 30, 2017, due primarily to the payoff of \$580,370 in non-performing loans in 2017. Total OREO stood at \$51,000 at September 30, 2017. Total deposits, including escrow deposits, increased to \$330.4 million, an increase of \$29.5 million, or 9.8% during 2017. The increase was primarily attributable to increases of \$16.6 million in demand and checking deposits, \$11.4 million in NOW accounts, \$2.5 million in saving accounts, and \$2.1 million in money market accounts, partially offset by a \$3.6 million decrease in time deposits.

Our total stockholders' equity increased by \$2.1 million, principally due to \$1.8 million in retained earnings, \$281,547 in additional paid in capital, and \$75,094 of amortization of our ESOP loan, partially offset by increased treasury shares of \$54,165. VSB Bancorp's Tier 1 capital ratio was 8.97% at September 30, 2017. Book value per common share increased from \$16.72 at year end 2016 to \$17.84 at September 30, 2017.

For the first nine months of 2017, pre-tax income increased to \$3.4 million from \$2.6 million for the first nine months of 2016, an improvement of \$862,750, or 33.5%. Net income for the nine months ended September 30, 2017 was \$2.2 million, or basic net income of \$1.26 per common share, as compared to net income of \$1.7 million, or basic net income of \$0.96 per common share, for the nine months ended September 30, 2016. The increase in net income for the nine months ended September 30, 2017 compared to the same period in 2016 was attributable principally to a \$1.2 million increase in net interest income (due to higher average loan balances in 2017 and \$331,219 of non-recurring income representing the receipt of interest on a loan previously charged off and prepayment penalties collected on a mortgage-backed security), a \$301,995 increase in the provision for income taxes, and a \$210,000 reduction in the provision for loan loss. These increases were partially offset by a \$404,887 increase in non-interest expenses and an \$118,752 decrease in other income.

The increase in non-interest expense of \$404,887 was due primarily to (i) a \$221,743 increase in salary and benefit costs due to the acceleration of stock option expenses as a result of a director resignation, severance paid to departing employees and a higher level of staff; (ii) a \$103,410 increase in legal expenses due to an increase in collection and litigation; (iii) a \$98,803 increase in professionals fees because we hired our new human resource manager and a business development officer through a recruitment agency, and we retained a third party to review some of our bank secrecy act compliance systems; and (iv) a \$36,590 increase in occupancy expenses due principally to the payment of partial rent on a proposed new branch. The increases were partially offset by a \$51,425 decrease in other expenses. The net interest margin increased by 13 basis points to 3.23% for the nine months ended September 30, 2017 from 3.10% in the same period in 2016, primarily due to the combined effect of the receipt of \$326,765 in non-recurring interest income from loans and investment securities in the second quarter of 2017, and an increase in the average balance of our loans by 14%. Without the effect of the non-recurring income, the net interest margin would have increased by 4 basis points. Average interest earning assets for the nine months ended September 30, 2017 increased by \$33.0 million, or 10.5%, from the same period in 2016.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "Our year over year earnings results show robust growth. We are continuing to evaluate different ways to increase our loan portfolio while maintaining our underwriting standards. We are deploying more cash into higher yielding assets." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "We are focused on increasing value to our stockholders. We paid our fortieth consecutive cash dividend and our book value per share has now reached \$17.84. We have stayed true to our philosophy of delivering the best in personal service to our customers."

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 \$32.7 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, 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.

**VSB Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**September 30, 2017**  
(unaudited)

|  | <u>September 30,</u><br><u>2017</u> | <u>December 31,</u><br><u>2016</u> |
|--|-------------------------------------|------------------------------------|
| <b>Assets:</b>                               |                                     |                                    |
| Cash and cash equivalents                    | \$ 34,615,010                       | \$ 37,240,361                      |
| Investment securities, available for sale    | 44,675,541                          | 42,588,960                         |
| Investment securities, held to maturity      | 141,567,803                         | 118,979,809                        |
| Loans receivable                             | 136,097,863                         | 126,196,441                        |
| Allowance for loan loss                      | (1,558,746)                         | (1,374,567)                        |
| Loans receivable, net                        | 134,539,117                         | 124,821,874                        |
| Bank premises and equipment, net             | 1,157,485                           | 1,418,054                          |
| Accrued interest receivable                  | 822,161                             | 756,277                            |
| Bank owned life insurance                    | 5,404,484                           | 5,316,199                          |
| Other assets                                 | 1,970,038                           | 1,951,425                          |
| <b>Total assets</b>                          | <u>\$ 364,751,639</u>               | <u>\$ 333,072,959</u>              |
| <b>Liabilities and stockholders' equity:</b> |                                     |                                    |
| Liabilities:                                 |                                     |                                    |
| Deposits:                                    |                                     |                                    |

|                                       |    |                           |    |                           |
|---------------------------------------|----|---------------------------|----|---------------------------|
| Demand and checking                   | \$ | 140,208,367               | \$ | 123,572,468               |
| NOW                                   |    | 52,891,921                |    | 41,489,564                |
| Money market                          |    | 57,799,889                |    | 55,644,761                |
| Savings                               |    | 25,284,858                |    | 22,774,931                |
| Time                                  |    | 53,519,862                |    | 57,146,886                |
| Total Deposits                        |    | <u>329,704,897</u>        |    | <u>300,628,610</u>        |
| Escrow deposits                       |    | 701,507                   |    | 244,784                   |
| Accounts payable and accrued expenses |    | 1,672,467                 |    | 1,627,210                 |
| <b>Total liabilities</b>              |    | <u><u>332,078,871</u></u> |    | <u><u>302,500,604</u></u> |

Stockholders' equity:

|  |    |                           |    |                           |
|--|----|---------------------------|----|---------------------------|
| Common stock, (\$.0001 par value, 10,000,000 shares authorized 2,092,926 issued, 1,831,715 outstanding at September 30, 2017 and 2,086,509 issued, 1,828,298 outstanding at December 31, 2016) |    | 209                       |    | 209                       |
| Additional paid in capital   |    | 10,551,001                |    | 10,269,454                |
| Retained earnings  |    | 25,578,840                |    | 23,769,564                |
| Treasury stock, at cost (261,211 shares at September 30, 2017 and 258,211 shares at December 31, 2016)   |    | (2,771,293)               |    | (2,717,128)               |
| Unearned ESOP shares   |    | (659,156)                 |    | (734,250)                 |
| Accumulated other comprehensive loss, net of taxes of \$14,449 and \$8,343, respectively   |    | <u>(26,833)</u>           |    | <u>(15,494)</u>           |
| <b>Total stockholders' equity</b>  |    | <u><u>32,672,768</u></u>  |    | <u><u>30,572,355</u></u>  |
| <b>Total liabilities and stockholders' equity</b>  | \$ | <u><u>364,751,639</u></u> | \$ | <u><u>333,072,959</u></u> |

**VSB Bancorp, Inc.**  
**Consolidated Statements of Operations**  
**September 30, 2017**  
**(unaudited)**

|   | <b>Three months<br/>ended<br/>Sept. 30, 2017</b> | <b>Three months<br/>ended<br/>Sept. 30, 2016</b> | <b>Nine months<br/>ended<br/>Sept. 30, 2017</b> | <b>Nine months<br/>ended<br/>Sept. 30, 2016</b> |
|---|--|--|---|---|
| Interest and dividend income:                     |  |  |   |   |
| Loans receivable                                  | \$ 1,992,015                                     | \$ 1,843,282                                     | \$ 5,990,329                                    | \$ 5,291,887                                    |
| Investment securities                             | 948,044  | 857,845  | 2,870,893                                       | 2,641,367                                       |
| Other interest earning assets                     | 126,430  | 41,445   | 347,601   | 106,957   |
| Total interest income                             | <u>3,066,489</u>                                 | <u>2,742,572</u>                                 | <u>9,208,823</u>                                | <u>8,040,211</u>                                |
| Interest expense:                                 |  |  |   |   |
| NOW   | 34,420   | 21,237   | 89,442  | 55,399  |
| Money market                                      | 111,773  | 115,505  | 337,585   | 355,314   |
| Savings   | 13,994   | 12,257   | 40,418  | 35,770  |
| Time  | 73,984   | 83,132   | 227,231   | 255,970   |
| Total interest expense                            | <u>234,171</u>                                   | <u>232,131</u>                                   | <u>694,676</u>                                  | <u>702,453</u>                                  |
| Net interest income                               | 2,832,318  | 2,510,441  | 8,514,147                                       | 7,337,758                                       |
| Provision for loan loss                           | -  | 30,000   | 15,000  | 225,000   |
| Net interest income after provision for loan loss | <u>2,832,318</u>                                 | <u>2,480,441</u>                                 | <u>8,499,147</u>                                | <u>7,112,758</u>                                |
| Non-interest income:                              |  |  |   |   |
| Loan fees   | 37,086   | 36,286   | 160,130   | 60,876  |
| Service charges on deposits                       | 470,691  | 497,872  | 1,457,276                                       | 1,525,789                                       |
| Net rental income                                 | 15,972   | 13,112   | 44,789  | 51,141  |
| Other income                                      | 81,649   | 91,754   | 254,228   | 397,369   |
| Total non-interest income                         | <u>605,398</u>                                   | <u>639,024</u>                                   | <u>1,916,423</u>                                | <u>2,035,175</u>                                |
| Non-interest expenses:                            |  |  |   |   |
| Salaries and benefits                             | 1,219,457  | 1,174,676  | 3,653,098                                       | 3,431,355                                       |
| Occupancy expenses                                | 359,533  | 360,051  | 1,044,799                                       | 1,008,209                                       |
| Legal expense                                     | 69,132   | 49,540   | 239,225   | 135,815   |
| Professional fees                                 | 125,895  | 88,787   | 368,246   | 269,443   |
| Computer expense                                  | 101,223  | 103,112  | 311,528   | 296,787   |
| Director fees                                     | 59,658   | 64,975   | 179,725   | 183,700   |
| FDIC and NYSBD assessments                        | 51,000   | 57,000   | 131,000   | 146,000   |

|                                       |                   |                   |                     |                     |
|---------------------------------------|-------------------|-------------------|---------------------|---------------------|
| Other expenses                        | 337,721           | 348,799           | 1,046,956           | 1,098,381           |
| Total non-interest expenses           | <u>2,323,619</u>  | <u>2,246,940</u>  | <u>6,974,577</u>    | <u>6,569,690</u>    |
| Income before income taxes            | <u>1,114,097</u>  | <u>872,525</u>    | <u>3,440,993</u>    | <u>2,578,243</u>    |
| Provision (benefit) for income taxes: |                   |                   |                     |                     |
| Current                               | 412,937           | 375,801           | 1,258,573           | 1,055,553           |
| Deferred                              | <u>(23,053)</u>   | <u>(70,443)</u>   | <u>(54,166)</u>     | <u>(153,141)</u>    |
| Total provision for income taxes      | 389,884           | 305,358           | 1,204,407           | 902,412             |
| Net income                            | <u>\$ 724,213</u> | <u>\$ 567,167</u> | <u>\$ 2,236,586</u> | <u>\$ 1,675,831</u> |
| Basic net income per common share     | <u>\$ 0.41</u>    | <u>\$ 0.32</u>    | <u>\$ 1.26</u>      | <u>\$ 0.96</u>      |
| Diluted net income per share          | <u>\$ 0.40</u>    | <u>\$ 0.32</u>    | <u>\$ 1.25</u>      | <u>\$ 0.96</u>      |
| Book value per common share           | <u>\$ 17.84</u>   | <u>\$ 16.58</u>   | <u>\$ 17.84</u>     | <u>\$ 16.58</u>     |

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## CONTACT INFORMATION

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