ATTENTION: News Director /Assignment Editor

HEADLINE: VSB Bancorp, Inc. Third Quarter 2018 Results of Operations

STATEN ISLAND, NY / ACCESSWIRE / October 11, 2018 / VSB Bancorp, Inc. (OTCQX: VSBN) reported net income of $640,936 for the third quarter of 2018, a decrease of $83,277, or 11.5%, from the third quarter of 2017. The following unaudited figures were released today. Pre-tax income was $866,477 in the third quarter of 2018, compared to $1,114,097 for the third quarter of 2017. The primary cause of the 2018 decline was the recording of $226,000 in expenses related to the conversion of our core software system to a new service provider in August 2018. Net income for the quarter was $640,936, or basic income of $0.36 per common share, compared to net income of $724,213, or $0.41 basic net income per common share, for the quarter ended September 30, 2017. Return on average assets decreased from 0.77% in the third quarter of 2017 to 0.62% in the third quarter of 2018, while return on average equity decreased from 8.66% to 6.82%.

The $83,277 decrease in net income was due to a $418,539 increase in non-interest expense, partially offset by a $164,343 decrease in the provision for income taxes, due to the reduced federal income tax rate, an increase in net interest income of $127,901 and a $43,018 increase in in non-interest income. We did not record a provision for loan loss in the third quarter as we recovered, in 2018, over $66,000 on loans that were previously charged off and the loan portfolio balance decreased $11.6 million compared to the prior period.

The $127,901 increase in net interest income for the third quarter of 2018 occurred primarily because our interest income increased by $223,957. Our cost of funds increased $96,056 in the same period. The rise in interest income resulted from an increase in income from investment securities of $295,561, due to an increase of $27.1 million in average investment securities and a 30 basis point increase in yield between the periods. This increase was partially offset by a $69,813 decrease in income from loans as we had a $6.3 million decrease in average loan balance between the periods, partially offset by a 5 basis point increase in yield between the periods. The decrease in average balance was principally driven by significant payoffs in our construction loan portfolio between the periods.

Interest income from other interest earning assets (principally overnight investments) decreased slightly as the average balance decreased by $13.8 million, which was substantially offset by a 69 basis point increase in the average yields. 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 $7.0 million from the third quarter of 2017 to the third quarter of 2018.

The increase in interest expense was principally due to a 60 basis point increase in average cost and a $2.8 million increase in the average balance, which combined to cause a $90,073 increase in interest expense. We also had a $32,971 increase in interest on NOW accounts, as the average cost increased by 20 basis points while the average balance between periods increased by $5.5 million. These increases were partially offset by a $25,325 decrease in interest on money market accounts as the average balance decreased by $9.2 million and the average cost decreased by 6 basis points. Our overall average cost of interest-bearing liabilities increased by 21 basis points, which we believe was caused principally by the increased in market interest rates generally. We anticipate that recent increases in the federal funds rate may result in further upward pressure on deposit rates in the foreseeable future.

Average demand deposits, an interest free source of funds for us to invest, increased $9.5 million from the third quarter of 2017 and represented approximately 44% of average total deposits for the third quarter of 2018. Average interest-bearing deposits decreased by $3.7 million, resulting in an overall $5.9 million increase in average total deposits from the third quarter of 2017 to the third quarter of 2018.

The average yield on earning assets rose by 17 basis points while the average cost of funds rose by 21 basis points. The increase in the yield on assets was principally due to increases in the average balance of investment securities of 15%, 69 basis point increase in the yield on other interest earning assets and the 5 basis point increase the average yield on loans. Our interest rate margin increased by 8 basis points from 3.19% to 3.27% when comparing the third quarter of 2018 to the same quarter in 2017, while our interest rate spread decreased by 4 basis points from 2.97% to 2.93% in the same period. The margin increased because of a combination of factors. The margin increased despite the decrease in spread because of the increase in the level of non-interest bearing funding sources and the fact that as general market interest rates increase, we can earn higher yields on assets funded by demand deposits and capital. Although our cost of deposits has risen in recent periods, additional pressure from increases in the federal funds rate, and competition for deposits from banks in our marketplace, may cause us to increase the interest rates we pay in order to remain competitive and to attract new deposits.

Non-interest income increased by $43,018 to $648,416 in the third quarter of 2018, compared to $605,398 in the same quarter in 2017. The increase was mainly a result of a $39,765 in loan fees, as we a higher level of pre-payment penalties in 2018.

Comparing the third quarter of 2018 with the same quarter in 2017, non-interest expense increased by $418,539, totaling $2.7 million for the third quarter of 2018. Non-interest expense increased for various business reasons including: (i) a $224,060 in computer expenses due to charges associated with our core system conversion in August 2018; (ii) a $114,445 increase in salary and benefit costs due to a higher level of staff and overtime expenses related to the core system conversion; (iii) a $59,652 increase in other expenses due to additional insurance expense for the construction of the new branch and other expenses related to the core system conversion; and (iv) a $51,250 increase in occupancy expense due rental expense on our new branch that is under construction. We converted our core computer system to better position ourselves to upgrade our system generally and to provide advanced technological services to our customers. The increases were partially offset by a $23,000 decrease in FDIC assessments and a $13,675 decrease in professional fees, due principally to recruitment fees incurred in the 2017 period.

Total assets increased to $370.7 million at September 30, 2018, an increase of $20.9 million, or 6.0%, from December 31, 2017. The latest components of this increase were a $16.4 million increase in cash and other liquid assets and a $14.8 million increase in investment securities, partially offset by an $11.6 million decrease in loans, as we have seen large payoffs in our construction loan portfolio. Our non-performing loans increased from $592,757 at December 31, 2017 to $1.1 million at September 30, 2018, due primarily to the addition of a $645,000 non-performing loan in 2018. There was no OREO at September 30, 2018. Total deposits, including escrow deposits, increased to $334.6 million, an increase of $19.0 million, or 6.0% during 2018. The increase was primarily attributable to increases of $21.8 million in demand and checking deposits, $3.7 million in NOW accounts, and $4.2 million increase in time deposits partially offset by decreases of $9.7 million in money market accounts and $1.4 million in saving accounts,

Our total stockholders' equity increased by $1.4 million, principally due to $1.7 million in retained earnings, $198,154 in additional paid in capital, and $75,094 of amortization of our ESOP loan, partially offset by increase in accumulated other comprehensive loss of $557,647 due to the effect of increased general interest rate conditions on the fair value of our investment securities portfolio. VSB Bancorp's Tier 1 capital ratio was 9.37% at September 30, 2018. Book value per common share increased from $17.84 at year end 2017 to $18.59 at September 30, 2018.

For the first nine months of 2018, pre-tax income decreased to $3.0 million from $3.4 million for the first nine months of 2017, a reduction of $477,631, or 13.9%. Net income for the nine months ended September 30, 2018 and 2017 was $2.2 million, or basic net income of $1.26 per common share. The stability in net income for the nine months ended September 30, 2018 compared to the same period in 2017 was attributable principally to a number of offsetting factors. On the positive side, we had a $479,795 decrease in income tax expense and $158,475 increase in net interest income (due to higher average investment securities balances in 2018). These items were partially offset by $579,320 increase in non-interest expenses and a $71,786 decrease in other income.

The increase in non-interest expense of $579,320 was due primarily to: (i) a $214,158 in computer expenses due to charges associated with our core system conversion in August 2018; (ii) a $202,977 increase in salary and benefit costs due to a higher level of staff and additional overtime expenses associated with the core system conversion; (iii) a $111,359 increase in other expenses due to additional insurance expense for the construction of the new branch and other expenses related to the core system conversion; and (iv) a $125,438 increase in occupancy expense due rental expense on our new branch that is under construction. The increases were partially offset by a $21,000 decrease in FDIC assessments and a $22,575 decrease in professional fees, due principally to recruitment fees incurred in the 2017 period. The net interest margin increased by 4 basis points to 3.27% for the nine months ended September 30, 2018 from 3.23% in the same period in 2017, primarily due to the increase in the average balance of our investment securities by 17%.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "We have deployed our new core system this quarter, which will deliver a better overall experience to our customers. We had to record conversion expenses associated with this change in core systems, which dampened our earnings. The level of construction loan payoffs has increased, and it will take time to replenish those loans." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "Our ability to harness customer relationships has translated into growth in our demand deposit accounts. We paid our forty-fourth consecutive cash dividend and our book value per share has now reached $18.59. We remain true to our original 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 $34.0 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.

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VSB Bancorp, Inc.
Consolidated Statements of Financial Condition
September 30, 2018
(unaudited)

	September 30, 2018	**December 31, 2017**
Assets:		
Cash and cash equivalents	$ 29,356,559	$ 12,920,547
Investment securities, available for sale	39,741,850	46,080,113
Investment securities, held to maturity	166,946,503	145,853,876
Loans receivable	125,576,289	137,180,384
Allowance for loan loss	(1,381,677)	(1,564,698)
Loans receivable, net	124,194,612	135,615,686
Bank premises and equipment, net	1,048,959	1,086,569
Accrued interest receivable	955,150	888,936
Bank owned life insurance	5,516,160	5,433,064
Other assets	2,968,965	1,929,175
Total assets	$370,728,758	$349,807,966
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$153,119,521	$131,300,711
NOW	56,738,784	53,070,471
Money market	45,177,297	54,894,238
Savings	22,267,158	23,715,892
Time	56,542,753	52,297,151
Total Deposits	333,845,513	315,278,463
Escrow deposits	719,649	281,505
Accounts payable and accrued expenses	2,124,301	1,647,658
Total liabilities	336,689,463	317,207,626
Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,094,676 issued, 1,831,215 outstanding at September 30, 2018 and 2,092,926 issued, 1,829,465 outstanding at December 31, 2017)	209	209
Additional paid in capital	10,788,711	10,590,557
Retained earnings	27,445,821	25,722,467
Treasury stock, at cost (263,461 shares at September 30, 2018 and at December 31, 2017)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(559,031)	(634,125)
Accumulated other comprehensive loss, net of taxes of $232,061 and $142,754 respectively	(822,762)	(265,115)
Total stockholders' equity	34,039,295	32,600,340
Total liabilities and stockholders' equity	$370,728,758	$349,807,966

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

	Three months ended Sept. 30, 2018	Three months ended Sept. 30, 2017	Nine months ended Sept. 30, 2018	Nine months ended Sept. 30, 2017
Interest and dividend income:				
Loans receivable	$ 1,922,202	$ 1,992,015	$ 5,746,157	$ 5,990,329
Investment securities	1,243,605	948,044	3,497,856	2,870,893
Other interest earning assets	124,639	126,430	295,749	347,601
Total interest income	3,290,446	3,066,489	9,539,762	9,208,823
Interest expense:				
NOW	67,391	34,420	186,160	89,442
Money market	86,448	111,773	265,343	337,585
Savings	12,331	13,994	37,184	40,418
Time	164,057	73,984	378,453	227,231
Total interest expense	330,227	234,171	867,140	694,676
Net interest income	2,960,219	2,832,318	8,672,622	8,514,147
Provision for loan loss	-	-	-	15,000
Net interest income after provision for loan loss	2,960,219	2,832,318	8,672,622	8,499,147
Non-interest income:				
Loan fees	76,851	37,086	206,532	160,130
Service charges on deposits	464,295	470,691	1,378,245	1,457,276
Net rental income	27,256	15,972	9,950	44,789
Other income	80,014	81,649	249,910	254,228
Total non-interest income	648,416	605,398	1,844,637	1,916,423
Non-interest expenses:				
Salaries and benefits	1,333,902	1,219,457	3,856,075	3,653,098
Occupancy expenses	410,783	359,533	1,170,237	1,044,799
Legal expense	72,280	69,132	216,650	239,225
Professional fees	112,220	125,895	328,039	368,246
Computer expense	325,283	101,223	525,686	311,528
Director fees	62,317	59,658	188,895	179,725
FDIC and NYSBD assessments	28,000	51,000	110,000	131,000
Other expenses	397,373	337,721	1,158,315	1,046,956
Total non-interest expenses	2,742,158	2,323,619	7,553,897	6,974,577
Income before income taxes	866,477	1,114,097	2,963,362	3,440,993
Provision (benefit) for income taxes:				
Current	291,931	412,937	811,835	1,258,573
Deferred	(66,390)	(23,053)	(87,223)	(54,166)
Total provision for income taxes	225,541	389,884	724,612	1,204,407
Net income	$ 640,936	$ 724,213	$ 2,238,750	$ 2,236,586
Basic net income per common share	$ 0.36	$ 0.41	$ 1.26	$ 1.26
Diluted net income per share	$ 0.36	$ 0.40	$ 1.26	$ 1.25
Book value per common share	$ 18.59	$ 17.84	$ 18.59	$ 17.84

SOURCE: VSB Bancorp, Inc.