VSB Bancorp

Company Website (https://www.victorystatebank.com)

Companies Mentioned:

Primary Exchange: OTCQX
Under the Symbol: VSBN

VSB Bancorp, Inc. Fourth Quarter 2018 Results of Operations

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Annual Earnings Increase by 27%

STATEN ISLAND, NY / ACCESSWIRE / January 9, 2019 / VSB Bancorp, Inc. (OTCQX: VSBN) reported net income of $1,017,813 for the fourth quarter of 2018, an increase of $696,277, or 216.6%, from the fourth quarter of 2017. The following unaudited figures were released today. Pre-tax income was $1,330,838 in the fourth quarter of 2018, compared to $1,208,644 for the fourth quarter of 2017. In the 2018 quarter, we recognized $383,855 of past due interest income on the payoff of two non-accrual loans when two non-accrual commercial real estate mortgage loans were repaid on the sale of the collateral. Net income for the quarter was $1,017,813, or basic income of $0.57 per common share, compared to net income of $321,536, or $0.18 basic net income per common share, for the quarter ended December 31, 2017. Return on average assets increased from 0.28% in the fourth quarter of 2017 to 0.75% in the fourth quarter of 2018, while return on average equity increased from 3.03% to 8.32%.

The $696,277 increase in net income was due to an increase in net interest income of $432,403 and a $574,083 decrease in the provision for income taxes, due to the reduced federal income tax rate. These two positive factors were partially offset by a $201,404 increase in non-interest expense, and a $125,000 increase in the provision for loan losses in the fourth quarter of 2018, as we increased our loan allowance factors. We increased the provision because of an increase in historical loan loss experience due to the charge-off of two commercial loans in 2018.

The $432,403 increase in net interest income for the fourth quarter of 2018, when compared to the fourth quarter of 2017, was driven principally by the past due interest recovery of $383,855. Our cost of funds increased $91,091 between the two periods. The rise in interest income resulted from an increase in income from investment securities of $229,282, due to a 30 basis point increase in average yield and a $18.6 million increase in average investment securities between the periods. We also had a $209,122 increase in income from loans, as we had an 11 basis point increase in average yield, which was partially offset by a $5.3 million decrease in average loan balance between the periods. If we had not received the $383,855 past due interest recovery, our average yield would have been 5.86%. The decrease in average balance was principally driven by payoffs in our construction loan portfolio between the periods. Although market interest rates have increased due to action by the Federal Reserve, competition in our market for loans, coupled with interest rate floors on many of our loans, has reduced the positive effect of market rate increases on our average loan yields.

Interest income from other interest earning assets (principally overnight investments) increased by $85,090, as there was a 90 basis point increase in the average yield and a $3.6 million increase in the average balance. 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 $16.9 million from the fourth quarter of 2017 to the fourth quarter of 2018.

The increase in interest expense was principally due to a 21 basis point increase in average cost of deposits, partially offset by a $3.3 million decrease in the average balance, which combined to cause a $91,091 increase in interest expense. We also had a $93,543 increase in interest on time accounts, as the average cost increased by 63 basis points while the average balance between periods increased by $3.8 million. Interest on NOW accounts also rose, as the average cost increased by 16 basis points while the average balance between periods increased by $5.7 million. These increases were partially offset by a $28,755 decrease in interest on money market accounts as the average balance decreased by $10.5 million and the average cost decreased by 7 basis points, as some of these deposits migrated to time accounts. We believe that the increase in the average cost of interest-bearing liabilities was caused principally by the general increase in market interest rates due to action by the Federal Reserve. 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 $19.5 million from the fourth quarter of 2017 and represented approximately 47% of average total deposits for the fourth quarter of 2018. Average interest-bearing deposits decreased $3.3 million, resulting in an overall $16.2 million increase in average total deposits from the fourth quarter of 2017 to the fourth quarter of 2018.

The average yield on earning assets rose by 15 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 10%, a 90 basis point increase in the yield on other interest earning assets and the 11 basis point increase the average yield on loans principally due to the recovery of the past due interest discussed above. Our interest rate margin increased by 8 basis points from 3.28% to 3.36% when comparing the fourth quarter of 2018 to the same quarter in 2017, while our interest rate spread decreased by 6 basis points from 3.06% to 3.00% 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. 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 further increase the interest rates we pay in order to remain competitive and to attract new deposits.

Non-interest income increased by $16,195 to $675,824 in the fourth quarter of 2018, compared to $659,629 in the same quarter in 2017. The increase was mainly a result of a $60,303 in loan fees, as we earned a higher level of pre-payment fees in 2018, and a $12,531 increase in service charges on deposits. These increases were partially offset by a $61,811 decrease in net rental income as we repurposed one of our rental properties into a business service center for the Bank's own use.

Comparing the fourth quarter of 2018 with the same quarter in 2017, non-interest expense increased by $201,404, totaling $2.6 million for the fourth quarter of 2018. Non-interest expense increased for various business reasons including: (i) an $147,570 increase in salary and benefit costs due to a higher level of staff and benefit costs; (ii) an $89,684 in computer expenses due to charges associated with our core system conversion in 2018; (iii) a $23,308 increase in occupancy expense due to rental expense on our new branch that is under construction; and (iv) an $18,497 increase in legal fees due to ongoing litigation. The increases were partially offset by a $56,227 decrease in other expenses, due to the establishment of a contingency reserve in the 2017 period, and a $15,000 decrease in FDIC assessments.

Total assets increased to $373.8 million at December 31, 2018, an increase of $24.0 million, or 6.9%, from December 31, 2017. The largest components of this increase were a $16.3 million increase in cash and other liquid assets and a $14.6 million increase in investment securities, partially offset by a $9.1 million decrease in loans, as we have experienced large payoffs in our construction loan portfolio in 2018. When these loans repay, they tend to repay in full, but when we originate new construction loans, the initial balances are normally relatively low, with the loan balance increasing gradually to the full loan amount as construction progresses. Our non-performing loans increased from $593,000 at December 31, 2017 to $748,000 at December 31, 2018, due primarily to the addition of a $645,000 non-performing loan in 2018. There was no OREO at December 31, 2018. Total deposits, including escrow deposits, increased to $336.0 million, an increase of $20.8 million, or 6.6% during 2018. The increase was primarily attributable to increases of $22.0 million in demand and checking deposits, $5.5 million in NOW accounts, and $4.0 million in time deposits partially offset by decreases of $9.2 million in money market accounts and $1.6 million in saving accounts.

Our total stockholders' equity increased by $2.4 million, to $35.0 million at December 31, 2018 from $32.6 million at December 31, 2017, principally due to $2.5 million in retained earnings, net of cash dividends, $238,863 in additional paid in capital, and $100,125 of amortization of our ESOP loan. These were partially offset by an increase in accumulated other comprehensive loss of $432,502 due to the effect of increased market interest rate conditions on the fair value of our investment securities portfolio. VSB Bancorp's Tier 1 capital ratio was 9.43% at December 31, 2018. Book value per common share increased from $17.82 at year end 2017 to $19.13 at December 31, 2018.

For the year ended 2018, pre-tax income decreased by $355,437 to $4.3 million when compared to 2017. Net income for the year ended December 31, 2018 increased by $698,441, or 27.3%, to $3.3 million, or basic net income of $1.83 per common share compared to $2.6 million, or basic net income of $1.44 per common share in the 2017 period. The $698,441 increase in net income for the year ended December 31, 2018 was attributable to a number of factors. On the positive side, we had a $1,053,878 decrease in income tax expense and $590,878 increase in net interest income (due to higher average investment securities balances in 2018). These items were partially offset by $780,724 increase in non-interest expenses and a $55,591 decrease in other income.

The increase in non-interest expense of $780,724 was due primarily to: (i) a $350,547 increase in salary and benefit costs due to a higher level of staff and overtime expenses associated with the core system conversion; (ii) $303,842 in computer expenses due to charges associated with our core system conversion in August 2018; (iii) a $148,746 increase in occupancy expense due primarily to rental expense on our new branch that is under construction; and (iv) a $55,132 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. We converted our core computer system in 2018 to better position ourselves to upgrade our system generally and to provide advanced technology services to our customers. The increases were partially offset by a $49,525 decrease in professional fees, due principally to recruitment fees incurred in 2017, and a $36,000 decrease in FDIC assessments. The net interest margin increased by 8 basis points to 3.37% for the year ended December 31, 2018 from 3.29% in the same period in 2017, primarily due to the increase in the average balance of our investment securities by 15%.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "We were able to collect past due interest on two loans that were previously non-accrual status. This helped to boost our quarterly earnings. As construction loan payoffs continue to repay, we will seek additional avenues to replenish those loans that meet our underwriting criteria." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "Our year over year net income increased by 27%. We paid our forty-fifth consecutive cash dividend, raised our quarterly cash dividend by 2 cents per common share in 2018, and our book value per share now stands at $19.13. By delivering the best in personal service to our customers, we continue to find opportunities to increase earnings and shareholder value."

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 $35.0 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 in the first half of 2019, 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
December 31, 2018
(unaudited)

	December 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 29,182,881	$ 12,920,547
Investment securities, available for sale	38,296,615	46,080,113
Investment securities, held to maturity	168,272,336	145,853,876
Loans receivable	128,088,148	137,180,384
Allowance for loan loss	(1,472,191)	(1,564,698)
Loans receivable, net	126,615,957	135,615,686
Bank premises and equipment, net	1,295,719	1,086,569
Accrued interest receivable	973,057	888,936
Bank owned life insurance	5,543,958	5,433,064
Other assets	3,658,115	1,929,175
Total assets	$ 373,838,638	$ 349,807,966
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$ 153,311,235	$ 131,300,711
NOW	58,527,067	53,070,471
Money market	45,715,279	54,894,238
Savings	22,162,400	23,715,892
Time	56,266,841	52,297,151
Total Deposits	335,982,822	315,278,463
Escrow deposits	409,262	281,505
Accounts payable and accrued expenses	2,413,384	1,647,658
Total liabilities	338,805,468	317,207,626
Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,094,676 issued, 1,831,215 outstanding at December 31, 2018 and 2,092,926 issued, 1,829,465 outstanding at December 31, 2017)	209	209
Additional paid in capital	10,829,420	10,590,557
Retained earnings	28,248,811	25,722,467
Treasury stock, at cost (263,461 shares at December 31, 2018 and at December 31, 2017)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(534,000)	(634,125)
Accumulated other comprehensive loss, net of taxes of $196,764 and $142,754 respectively	(697,617)	(265,115)
Total stockholders' equity	35,033,170	32,600,340
Total liabilities and stockholders' equity	$ 373,838,638	$ 349,807,966

VSB Bancorp, Inc.
Consolidated Statements of Operations
December 31, 2018
(unaudited)

	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Interest and dividend income:				
Loans receivable	$ 2,266,275	$ 2,057,153	$ 8,012,432	$ 8,047,482
Investment securities	1,259,486	1,030,204	4,757,342	3,901,097
Other interest earning assets	178,324	93,234	474,073	440,835
Total interest income	3,704,085	3,180,591	13,243,847	12,389,414
Interest expense:				
NOW	63,346	35,741	249,506	125,183
Money market	80,633	109,388	345,976	446,973
Savings	11,785	13,087	48,969	53,505
Time	165,684	72,141	544,137	299,372
Total interest expense	321,448	230,357	1,188,588	925,033
Net interest income	3,382,637	2,950,234	12,055,259	11,464,381
Provision for loan loss	125,000	-	125,000	15,000
Net interest income after provision for loan loss	3,257,637	2,950,234	11,930,259	11,449,381
Non-interest income:				
Loan fees	132,806	72,503	339,338	232,633
Service charges on deposits	476,043	463,512	1,854,288	1,920,788
Net rental income (loss)	(13,233)	48,578	(3,283)	93,367
Other income	80,208	75,036	330,118	329,264
Total non-interest income	675,824	659,629	2,520,461	2,576,052
Non-interest expenses:				
Salaries and benefits	1,325,159	1,177,589	5,181,234	4,830,687
Occupancy expenses	392,405	369,097	1,562,642	1,413,896
Legal expense	105,782	115,100	433,821	483,346
Professional fees	92,000	73,503	308,650	312,728
Computer expense	200,327	110,643	726,013	422,171
Director fees	63,166	60,276	252,061	240,001
FDIC and NYSBD assessments	36,000	51,000	146,000	182,000
Other expenses	387,784	444,011	1,546,099	1,490,967
Total non-interest expenses	2,602,623	2,401,219	10,156,520	9,375,796
Income before income taxes	1,330,838	1,208,644	4,294,200	4,649,637
Provision (benefit) for income taxes:				
Current	298,130	434,217	1,109,965	1,692,790
Deferred	14,895	452,891	(72,328)	398,725
Total provision for income taxes	313,025	887,108	1,037,637	2,091,515
Net income	$ 1,017,813	$ 321,536	$ 3,256,563	$ 2,558,122

Basic net income per common share	$ 0.57	$ 0.18	$ 1.83	$ 1.44
Diluted net income per share	$ 0.56	$ 0.18	$ 1.81	$ 1.43
Book value per common share	$ 19.13	$ 17.82	$ 19.13	$ 17.82

SOURCE: VSB Bancorp, Inc.