On Friday, January 12, 2018 at 4:26 PM ET

VSB Bancorp, Inc. Fourth Quarter 2017 Results of Operations

STATEN ISLAND, NY / ACCESSWIRE / January 12, 2018 / VSB Bancorp, Inc. (OTCQX: VSBN) reported net income of $321,536 for the fourth quarter of 2017, a decrease of $261,723, or 44.9%, from the fourth quarter of 2016. The reduction in net income was a directly attributable to the recognition of $463,933 in deferred tax expense in the fourth quarter of 2017. The following unaudited figures were released today. Pre-tax income was $1,208,644 in the fourth quarter of 2017, compared to $897,380 for the fourth quarter of 2016. Net income for the quarter was $321,536, or basic income of $0.18 per common share, compared to net income of $583,259, or $0.33 basic net income per common share, for the quarter ended December 31, 2016. Return on average assets decreased from 0.67% in the fourth quarter of 2016 to 0.28% in the fourth quarter of 2017, while return on average equity decreased from 7.48% to 3.03%.

The $261,723 decrease in net income was due to an increase in income tax expense of $572,987, due principally to the federal tax rate reduction and an increase in pre-tax income. The recently enacted federal tax law ("The Tax Cuts and Jobs Act of 2017") dropped the corporate tax rate to 21% from 35% for 2018. This resulted in a revaluation of our deferred tax asset, as it had to be recalculated at the lower federal tax rate of 21% in 2017, the year that the federal tax law was enacted. Non-interest expenses increased by $164,223. The decrease in net income was partially offset by an increase in net interest income of $431,428 and a decrease in the provision for loan loss of $40,000. We did not record a provision for loan loss in the fourth quarter as we recovered over $160,000 in 2017 on three loans that were previously charged off.

The $431,428 increase in net interest income for the fourth quarter of 2017 occurred primarily because our interest income increased by $430,186 and our cost of funds decreased $1,242 in the same period. The rise in interest income resulted from a $202,845 increase in income from loans as we had an $8.2 million increase in average loan balance between the periods, and a 12 basis point increase in yield between the periods, as we booked new loans at slightly higher rates. The average balance of loans increased by 6.6% as we continued to implement our strategy to increase our loan portfolio, which helped improve our earnings. Income from investment securities increased by $192,060, due to an increase of $25.7 million in average investment securities and a 6 basis point increase in yield between the periods.

Interest income from other interest earning assets (principally overnight investments) increased by $35,281 due to a 74 basis point increase in the average yield partially offset by a $12.7 million decrease 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 $21.2 million from the fourth quarter of 2016 to the fourth quarter of 2017.

The modest decrease in interest expense was principally due to a $10,566 decrease in interest on time accounts, as the average cost decreased by 3 basis points and the average balance between periods decreased by $4.8 million and a $3,581 decrease in interest on money market accounts, as the average cost decreased by 1 basis point and the average balance between periods decreased by $1.38 million. These decreases were partially offset by an $11,950 increase in the cost of NOW accounts, due to a 5 basis point increase in average cost and a $10.1 million increase in the average balance. Our overall average cost of interest-bearing liabilities decreased by 2 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 $11.5 million from the fourth quarter of 2016 and represented approximately 43% of average total deposits for the fourth quarter of 2017. Average interest-bearing deposits increased by $5.8 million, resulting in an overall $17.4 million increase in average total deposits from the fourth quarter of 2016 to the fourth quarter of 2017.

The average yield on earning assets rose by 23 basis points while the average cost of funds fell by 2 basis points. The increase in the yield on assets was principally due to increases in the average balance of loans by 6.6% and the 12 basis point increase in loan yield, the average balance of investment securities by 15.7% and the yield on other interest earning assets by 74 basis points. Our interest rate margin increased by 24 basis points from 3.04% to 3.28% when comparing the fourth quarter of 2017 to the same quarter in 2016, while our interest rate spread increased by 25 basis points from 2.81% to 3.06% in the same period. The margin increased because of a combination of factors. Our average loan balance increased by $8.2 million and our average investment securities balance increased by $25.7 million. 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 increased slightly by $4,059 to $659,629 in the fourth quarter of 2017, compared to $655,570 in the same quarter in 2016. The increase was mainly a result of $35,912 increase in net rental income due to the early termination of a sublease, a $26,779 increase in loan fees due to increased prepayments on certain loans, partially offset by a $41,372 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 fourth quarter of 2017 with the same quarter in 2016, non-interest expense increased by $164,223, totaling $2.4 million for the fourth quarter of 2017. Non-interest expense increased for various business reasons including: (i) $66,411 increase in other expenses due to ongoing litigation matters; (ii) a $44,756 increase in occupancy expenses due to the rental expense associated with our planned new branch; (iii) a $15,838 increase in legal fees due to higher litigation and collection costs; (iv) a $18,970 increase in professional fees due principally to recruitment fees; and (v) a $9,667 increase in salary and benefit costs.

Total assets increased to $349.8 million at December 31, 2017, an increase of $16.7 million, or 5.01%, from December 31, 2016. The largest components of this increase were a $30.4 million increase in investment securities, as we redeployed cash, and an $11.0 million increase in loans, partially offset by a $24.3 million decrease in cash and other liquid assets. Our non-performing loans decreased from $1.8 million at December 31, 2016 to $593,000 at December 31, 2017, due primarily to the payoff of $1.3 million in non-performing loans in 2017. Total OREO stood at $43,000 at December 31, 2017. Total deposits, including escrow deposits, increased to $315.6 million, an increase of $14.7 million, or 4.9% during 2017. The increase was primarily attributable to increases of $11.6 million in NOW accounts, $7.7 million in demand and checking deposits, and $940,961 in saving accounts, partially offset by a $4.8 million decrease in time deposits and $750,523 decrease in money market accounts.

Our total stockholders' equity increased by $2.0 million, principally due to $2.0 million in retained earnings, $321,103 in additional paid in capital, and $100,125 of amortization of our ESOP loan, partially offset by an increase in accumulated other comprehensive loss of $249,621 and increased treasury shares of $96,525. VSB Bancorp's Tier 1 capital ratio was 9.12% at December 31, 2017. Book value per common share increased from $16.72 at year end 2016 to $17.82 at December 31, 2017.

For the year ending 2017, pre-tax income increased to $4.6 million from $3.5 million for the year ending 2016, an improvement of $1.2 million, or 33.8%. Net income for the year ended December 31, 2017 was $2.6 million, or basic net income of $1.44 per common share, as compared to net income of $2.3 million, or basic net income of $1.29 per common share, for the year ended December 31, 2016. The increase in net income for the year ended December 31, 2017 compared to the same period in 2016 was attributable principally to a $1.6 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 mortgage-backed securities), and a $250,000 reduction in the provision for loan loss. These increases were partially offset by an $874,982 increase in the provision for income taxes ($463,933 representing the increase in deferred federal tax expense resulting from the 2017 enactment of the new tax law), a $569,110 increase in non-interest expenses and a $114,693 decrease in other income.

The increase in non-interest expense of $569,110 was due primarily to (i) a $231,410 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 $119,248 increase in legal expenses due to an increase in collection and litigation; (iii) a $117,773 increase in professional 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 $81,346 increase in occupancy expenses due principally to the payment of partial rent on our planned new branch. The net interest margin increased by 20 basis points to 3.29% for the year ended December 31, 2017 from 3.09% 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 12%. Without the effect of the non-recurring income, the net interest margin would have increased by 10 basis points. Average interest earning assets for the year ended December 31, 2017 increased by $30.0 million, or 9.4%, from the same period in 2016.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "Our net income in 2017 was adversely affected by the recognition of additional deferred federal tax expense resulting from the new federal tax law. This should substantially reverse in 2018 as our federal current tax expense will be calculated at the lower rate of 21%." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "Although the growth of our net income was constrained in 2017, pre-tax income showed a 34% increase over 2016. We paid our forty-first consecutive cash dividend, increased our quarterly cash dividend to $0.10 per share and our book value per share has climbed to $17.82. We remain committed to 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 $32.6 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
December 31, 2017
(unaudited)

	December 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	$ 12,920,547	$ 37,240,361
Investment securities, available for sale	46,080,113	42,588,960
Investment securities, held to maturity	145,853,876	118,979,809
Loans receivable	137,180,384	126,196,441
Allowance for loan loss	(1,564,698)	(1,374,567)
Loans receivable, net	135,615,686	124,821,874
Bank premises and equipment, net	1,086,569	1,418,054
Accrued interest receivable	888,936	756,277
Bank owned life insurance	5,433,064	5,316,199
Other assets	1,884,885	1,951,425
Total assets	$349,763,676	$333,072,959
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$131,300,711	$123,572,468
NOW	53,070,471	41,489,564
Money market	54,894,238	55,644,761
Savings	23,715,892	22,774,931
Time	52,297,151	57,146,886
Total Deposits	315,278,463	300,628,610
Escrow deposits	281,505	244,784
Accounts payable and accrued expenses	1,603,368	1,627,210
Total liabilities	317,163,336	302,500,604
Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,092,926 issued, 1,829,465 outstanding at December 31, 2017 and 2,086,509 issued, 1,828,298 outstanding at December 31, 2016)	209	209
Additional paid in capital	10,590,557	10,269,454
Retained earnings	25,722,467	23,769,564
Treasury stock, at cost (263,461 shares at December 31, 2017 and 258,211 shares at December 31, 2016)	(2,813,653)	(2,717,128)
Unearned ESOP shares	(634,125)	(734,250)
Accumulated other comprehensive loss, net of taxes of $142,754 and $8,343, respectively	(265,115)	(15,494)
Total stockholders' equity	32,600,340	30,572,355
Total liabilities and stockholders' equity	$349,763,676	$333,072,959

VSB Bancorp, Inc.
Consolidated Statements of Operations
December 31, 2017
(unaudited)

	Three months ended Dec. 31, 2017	Three months ended Dec. 31, 2016	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
Interest and dividend income:				
Loans receivable	$ 2,057,153	$ 1,854,308	$ 8,047,482	$ 7,146,195
Investment securities	1,030,204	838,144	3,901,097	3,479,511
Other interest earning assets	93,234	57,953	440,835	164,910
Total interest income	3,180,591	2,750,405	12,389,414	10,790,616
Interest expense:				
NOW	35,741	23,791	125,183	79,190
Money market	109,388	112,969	446,973	468,283
Savings	13,087	12,160	53,505	47,930
Time	72,141	82,679	299,372	338,649
Total interest expense	230,357	231,599	925,033	934,052
Net interest income	2,950,234	2,518,806	11,464,381	9,856,564
Provision for loan loss	-	40,000	15,000	265,000
Net interest income after provision for loan loss	2,950,234	2,478,806	11,449,381	9,591,564
Non-interest income:				
Loan fees	72,503	45,724	232,633	106,600
Service charges on deposits	463,512	504,884	1,920,788	2,030,673
Net rental income	48,578	12,666	93,367	63,807
Other income	75,036	92,296	329,264	489,665
Total non-interest income	659,629	655,570	2,576,052	2,690,745
Non-interest expenses:				
Salaries and benefits	1,177,589	1,167,922	4,830,687	4,599,277
Occupancy expenses	369,097	324,341	1,413,896	1,332,550
Legal expense	73,503	57,665	312,728	193,480
Professional fees	115,100	96,130	483,346	365,573
Computer expense	110,643	108,463	422,171	405,250
Director fees	60,276	62,875	240,001	246,575
FDIC and NYSBD assessments	51,000	42,000	182,000	188,000
Other expenses	444,011	377,600	1,490,967	1,475,981
Total non-interest expenses	2,401,219	2,236,996	9,375,796	8,806,686
Income before income taxes	1,208,644	897,380	4,649,637	3,475,623
Provision (benefit) for income taxes:				
Current	434,217	362,229	1,692,790	1,417,782
Deferred	452,891	(48,108)	398,725	(201,249)
Total provision for income taxes	887,108	314,121	2,091,515	1,216,533
Net income	$ 321,536	$ 583,259	$ 2,558,122	$ 2,259,090
Basic net income per common share	$ 0.18	$ 0.33	$ 1.44	$ 1.29
Diluted net income per share	$ 0.18	$ 0.33	$ 1.43	$ 1.28
Book value per common share	$ 17.82	$ 16.72	$ 17.82	$ 16.72

SOURCE: VSB Bancorp, Inc.