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VSB Bancorp, Inc.

VSB Bancorp, Inc. Fourth Quarter 2019 Results of Operations

STATEN ISLAND, NY / ACCESSWIRE / January 17, 2020 / VSB Bancorp, Inc. (OTCQX:VSBN) reported net income of $723,305 for the fourth quarter of 2019, a decrease of $294,508, or 28.9%, from the fourth quarter of 2018. The decrease in net income was primarily attributable to a decline in loan yield and a decline in average earning assets, which manifested itself in a reduction in the average volume of investment securities. The following unaudited figures were released today. Pre-tax income was $984,630 in the fourth quarter of 2019, compared to $1,330,838 for the fourth quarter of 2018. Net income for the quarter was $723,305, or basic income of $0.40 per common share, compared to net income of $1,017,813 or $0.57 basic net income per common share, for the quarter ended December 31, 2018. Return on average assets decreased from 0.75% in the fourth quarter of 2018 to 0.72% in the fourth quarter of 2019, while return on average equity decreased from 8.32% to 6.96%.

The $294,508 decrease in net income represents the combined effect of a decrease in net interest income of $348,076, a decrease in non-interest income of $44,597, and a $28,535 increase in non-interest expense, partially offset by a decrease in the provision for loan losses of $75,000 and a decrease in the provision for income taxes of $51,700.

The $348,076 decrease in net interest income for the fourth quarter of 2019 occurred primarily because our interest income decreased by $258,244, while our cost of funds increased by $89,832. The drop in interest income resulted from two principal factors - a decline in average loan yields and a decline in the average balance of interest-earning assets, reflected in a decline in the average balance of investment securities. The average loan yield declined by 52 basis points from 6.16% to 5.64% between the quarters. The decline in average loan yields was caused principally by the combined effect of increased competition to originate loans, the purchase of loan participations and lower rates to maintain or increase average loan volume. Although the loan participations were purchased with a net yield lower than the yield on loans we originated, the participations were at substantially higher yields than investment securities and overnight investments. The average loan portfolio was $31.8 million higher in the 2019 quarter than the 2018 quarter, due principally to the purchase of a large loan participation in the first quarter of 2019. We experienced a $237,159 decrease in income from investment securities, as the average balance of investment securities decreased by $48.3 million. The average investment yields between the period increased by 3 basis points.

The decline in the average balance of investments securities resulted from our deployment of the cash flow from lower-yielding investments into higher-yielding loans, combined with a reduction in average deposits due to the expected withdrawal of deposits from the bank's largest depositor as that depositor was acquired by another entity. We were aware in advance that the accounts would be closed and we elected to fund some of the withdrawal by applying the proceeds from the payment on or maturity of investment securities. The growth of loan income in 2019 quarter loan was offset by the recognition of $383,855, in the fourth quarter of 2018, of past due interest income on the payoff of two non-accrual commercial real estate loans, with no similar payoffs in the 2019 quarter. Loans, our highest yielding asset category, increased from 34.7% of earning assets in the 2018 quarter to 44.8% of earning assets in the 2019 quarter. The volume increase was partially offset by the 52 basis point decrease in average loan yields.

Interest income from other interest earning assets (principally overnight investments) decreased by $27,383 due to a 56 basis point decrease in the average yield, partially offset by a $4.4 million increase in the average balance. This average yield decrease corresponded to the Federal Reserve's gradual decrease in the target federal funds rate between the periods. Overall, average interest-earning assets decreased by $12.2 million from the fourth quarter of 2018 to the fourth quarter of 2019.

The $89,832 increase in interest expense was principally due to a $85,567 increase in interest on NOW accounts, as the average cost increased by 47 basis points while the average balance between periods increased by $7.3 million; a $27,829 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 $689,013 and a $2,381 increase in the cost of short term borrowing, due to the $380,435 in average advances in the fourth quarter of 2019. The advances were obtained at the end of the second quarter of 2019 to help fund the anticipated withdrawal from our largest depositor, as discussed above. This borrowing was fully repaid in the beginning of the fourth quarter of 2019 using the proceeds of new deposits and regular cash flows from investment securities. The rates on time deposits and NOW accounts increased because the Federal Reserve's target federal funds rate had previously increased and there was a lag in recognizing the effect of the Federal Reserve's policy reversal, and the related decline in the target federal funds rate in 2019. These increases in deposit costs were partially offset by a $26,257 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 21 basis points. The target fed funds rate was 75 basis points lower for most of the fourth quarter of 2019 than during the same quarter in 2018.

Average demand deposits, an interest free source of funds for us to invest, decreased by $11.1 million to $148.3 million in the fourth quarter of 2019. Average demand deposits were approximately 45.2% of average total deposits for the fourth quarter of 2019 compared to 46.6% in the 2018 quarter. Average interest-bearing deposits decreased by $2.7 million, while overall average total deposits decreased by $14.0 million from the fourth quarter of 2018 to the fourth quarter of 2019.

The average yield on earning assets rose by 10 basis points while the average cost of funds rose by 21 basis points. The increase in the yield on assets was principally due the shift in mix away from investments in favor of higher-yielding loans. Our interest rate margin decreased by 2 basis points from 3.36% to 3.34% when comparing the fourth quarter of 2019 to the same quarter in 2018, while our interest rate spread decreased by 11 basis points from 3.00% to 2.89% in the same period.

The margin decreased principally because non-interest bearing checking accounts decreased from 46.6% of total deposits and borrowings in the fourth quarter of 2018 to 45.1% in the same quarter in 2019. While our current cost of deposits has risen, reductions in the federal funds rate in 2019 should exert downward pressure on average deposit rates despite increased competition.

Non-interest income decreased to $631,227 in the fourth quarter of 2019, compared to $675,824 in the same quarter in 2018. The decrease was a result of by a $111,225 decrease in loan fee income, as we had collected prepayment income and exit fees on loans that were repaid ahead of maturity in the 2018 period, with a lower level of similar collections] in the 2019 period. This decrease was partially offset by an increase in service charges on deposits of $45,310, which are inherently volatile, a $19,166 rise in other income due to increased fee income from our debit card processor, and a $14,857 increase in net rental income as we rented vacant space in 2019 and collected rent on it in the 2019 quarter.

Comparing the fourth quarter of 2019 with the same quarter in 2018, non-interest expense increased by $28,535, totaling $2.6 million for the fourth quarter of 2019. Non-interest expense increased for various business reasons including a $145,841 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; a $52,127 increase in professional fees due to the payment of merger related costs and a $30,675 increase in salaries and benefits due to normal raises and increased benefit costs. These increases were partially offset by a $94,194 decrease in other expenses for various reasons including decreased franchise tax and ATM fees, a $56,817 decrease in legal fees due to reduced collection costs, a $35,000 decrease in FDIC assessments because we received the benefit of a small bank assessment credit as the FDIC insurance fund reserve ratio exceeded 1.35% in 2019, and a $20,678 decrease in computer expenses due to one-time charges associated with our core system conversion in August 2018.

Total assets decreased to $368.4 million at December 31, 2019, a decrease of $5.5 million, or 1.5%, from December 31, 2018. Total assets declined of necessity because of the large deposit withdrawal we experienced from our largest depositor during the second quarter of 2019, a portion of which was replaced by new deposits by year end 2019. The decrease in deposits, and hence the decrease in funding sources, manifested itself in a $55.0 million decrease in investment securities portfolio, partially offset by the $31.9 million net increase in loans, or 24.9%, as we shifted our asset mix to increase yields, a $11.4 million increase in cash and interest bearing bank balances as we increased liquidity so that it would be available to fund additional loan growth, and a $5.8 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 $1.3 million at December 31, 2019 from $861,727 at year end 2018, due the migration of two loan relationships to non-accrual. Both are making payments in accordance with stipulations setting forth modified terms and conditions. We owned no OREO at December 31, 2019.

Total deposits, including escrow deposits, decreased to $322.6 million, a decrease of $13.7 million, or 4.1%, during 2019. The decrease was primarily attributable to a decrease of $6.5

million in demand and checking deposits, a $11.5 million decrease in money market accounts and a $2.3 million decrease in time deposits, partially offset by an $6.3 million increase in NOW accounts resulting from customer discretion in deciding upon account type.

Our total stockholders' equity increased by $3.8 million during 2019, principally due to $2.5 million in retained earnings, a $688,852 increase in other comprehensive income as the market value of our investment portfolio rose as market yields decreased, a $517,510 increase in additional paid in capital and $100,125 of amortization of our ESOP loan. VSB Bancorp's Tier 1 capital ratio was 10.37% at December 31, 2019. Book value per common share increased from $19.13 at year end 2018 to $20.81 at December 31, 2019.

For the year ended 2019, pre-tax income decreased to $4.1 million from $4.3 million for the year ended 2018, a decrease of $240,322, or 5.6%. Net income for the year ended December 31, 2019 was $3.4 million, or basic net income of $1.89 per common share, as compared to net income of $3.3 million, or basic net income of $1.83 per common share, for the year ended December 31, 2018. The increase in net income for the 2019 compared to 2018 was attributable principally to a $388,369 increase in net interest income and a $396,258 decrease in the provision for income taxes. These increases were partially offset by a $426,096 increase in non-interest expenses, a $100,000 increase in the provision for loan losses and a $102,595 decrease in other income.

The increase in non-interest expense of $426,096 was due primarily to (i) a $453,789 increase in occupancy expenses due primarily to the adoption of a new lease accounting standard; (ii) a $264,817 increase in salary and benefit costs due to a higher level of staff; and (iii) a $54,811 increase in professional fees due to the payment of merger related costs. The increases were partially offset by a $259,270 decrease in other expenses, principally due to increased deferred loan costs, lower franchise taxes and reduced ATM fees and accruals, a $62,000 decrease in FDIC assessments due to our assessment credit and a $30,538 decrease in computer expenses due to one-time charges in 2018 associated with our core system conversion. The net interest margin remained stable at 3.37% for the year ended December 31, 2019, the same as in 2018. The average balance of our loan portfolio grew by $21.8 million or 16.8%, while the average yield on that portfolio declined by 41 basis points. The average balance of other interest earning assets increased by $9.4 million with the associated yield growing by 21 basis points during the periods. Average interest earning assets for the year ended December 31, 2019 increased by $12.2 million, or 3.4%, from the same period in 2018.

On December 23, 2019, we announced that we had entered into a merger agreement with Northfield Bancorp, Inc. pursuant to which we will be acquired by Northfield. The merger consideration, subject to valuation procedures and limits, with be $33.30 in market value of Northfield common stock for each share of our common stock owned. The consummation of the transaction is subject to the approval of bank regulators and the affirmative vote of a majority of our stockholders, as well as other customary conditions. Our stockholders will receive detailed information about the proposed transaction before they have the opportunity to vote on whether to approve it.

Raffaele (Ralph) M. Branca, VSB Bancorp, Inc.'s President and CEO, stated, "We ended 2019 with strong earnings as our annual net income grew to $3.4 million. We increased loan portfolio by 25% in 2019, which helped drive our earnings higher and allowed us to increase our quarterly cash dividend to $0.15 per share." Joseph J. LiBassi, VSB Bancorp, Inc.'s Chairman, stated, "Our recent merger announcement with Northfield furthers our efforts to provide superior shareholder value. We are excited to become part of Northfield and for our customers to have access to more products and services than we currently offer."

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 $38.8 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. Furthermore, any forward-looking statements contained in this release are subject to uncertainties regarding the proposed merger transaction with Northfield Bancorp including, without limitation, the requirements for regulatory approval and approval by the Company's stockholders.

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, 2019
(unaudited)

	December 31, 2019	December 31, 2018
Assets:		
Cash and cash equivalents	$ 40,608,998	$ 29,182,881
Investment securities, available for sale	29,863,312	38,296,615
Investment securities, held to maturity	121,736,935	168,272,336
Loans receivable	160,020,731	128,088,148
Allowance for loan loss	(1,612,967)	(1,472,191)
Loans receivable, net	158,407,764	126,615,957
Bank premises and equipment, net	3,726,726	2,622,898
Right-of-use assets	4,667,218	-
Accrued interest receivable	889,157	973,057
Deferred taxes	1,339,059	878,730
Bank owned life insurance	5,656,866	5,543,958
Other assets	1,485,044	1,452,206
Total assets	$ 368,381,079	$ 373,838,638
Liabilities and stockholders' equity:		
Liabilities:		
Deposits:		
Demand and checking	$ 146,809,596	$ 153,311,235
NOW	64,797,211	58,527,067
Money market	34,220,288	45,715,279
Savings	22,497,048	22,162,400
Time	53,968,740	56,266,841
Total Deposits	322,292,883	335,982,822
Escrow deposits	355,768	409,262
Lease liability	4,904,241	-
Accounts payable and accrued expenses	2,038,141	2,413,384
Total liabilities	329,591,033	338,805,468
Stockholders' equity:		
Common stock, ($.0001 par value, 10,000,000 shares authorized 2,127,426 issued, 1,863,965 outstanding at December 31, 2019 and 2,094,676 issued, 1,831,215 outstanding at December 31, 2018)	213	209

Additional paid in capital	11,346,930	10,829,420
Retained earnings	30,699,196	28,248,811
Treasury stock, at cost (263,461 shares at December 31, 2019 and 2018)	(2,813,653)	(2,813,653)
Unearned ESOP shares	(433,875)	(534,000)
Accumulated other comprehensive loss, net of taxes of $2,472 and $196,764, respectively	(8,765)	(697,617)
Total stockholders' equity	38,790,046	35,033,170
Total liabilities and stockholders' equity	$ 368,381,079	$ 373,838,638

VSB Bancorp, Inc.
Consolidated Statements of Operations
December 31, 2019
(unaudited)

	Three months ended Dec. 31, 2019	**Three months ended Dec. 31, 2018**	**Year ended Dec. 31, 2019**	**Year ended Dec. 31, 2018**
Interest and dividend income:				
Loans receivable	$ 2,272,573	$ 2,266,275	$ 8,737,739	$ 8,012,432
Investment securities	1,022,327	1,259,486	4,686,209	4,757,342
Other interest earning assets	150,941	178,324	726,634	474,073
Total interest income	3,445,841	3,704,085	14,150,582	13,243,847
Interest expense:				
NOW	148,913	63,346	579,663	249,506
Money market	54,376	80,633	235,533	345,976
Savings	12,097	11,785	48,048	48,969
Borrowings	2,384	3	102,700	3
Time	193,510	165,681	741,010	544,134
Total interest expense	411,280	321,448	1,706,954	1,188,588
Net interest income	3,034,561	3,382,637	12,443,628	12,055,259
Provision for loan loss	50,000	125,000	225,000	125,000
Net interest income after provision for loan loss	2,984,561	3,257,637	12,218,628	11,930,259
Non-interest income:				
Loan fees	21,581	132,806	78,658	339,338
Service charges on deposits	521,353	476,043	1,975,772	1,854,288

Other income	88,293	66,975	363,436	326,835
Total non-interest income	631,227	675,824	2,417,866	2,520,461
Non-interest expenses:				
Salaries and benefits	1,355,834	1,325,159	5,446,051	5,181,234
Occupancy expenses	538,246	392,405	2,016,431	1,562,642
Legal expense	35,183	92,000	291,588	308,650
Professional fees	157,909	105,782	488,632	433,821
Computer expense	179,649	200,327	695,475	726,013
Director fees	69,747	63,166	273,610	252,061
FDIC and NYSBD assessments	1,000	36,000	84,000	146,000
Other expenses	293,590	387,784	1,286,829	1,546,099
Total non-interest expenses	2,631,158	2,602,623	10,582,616	10,156,520
Income before income taxes	984,630	1,330,838	4,053,878	4,294,200
Provision (benefit) for income taxes:				
Current	287,107	298,130	1,243,309	1,109,965
Deferred	(25,782)	14,895	(601,930)	(72,328)
Total provision for income taxes	261,325	313,025	641,379	1,037,637
Net income	$ 723,305	$ 1,017,813	$ 3,412,499	$ 3,256,563
Basic net income per common share	$ 0.40	$ 0.57	$ 1.89	$ 1.83
Diluted net income per share	$ 0.39	$ 0.56	$ 1.88	$ 1.81
Book value per common share	$ 20.81	$ 19.13	$ 20.81	$ 19.13

SOURCE: VSB Bancorp