Colombo Bank reports net income of $302,000 third quarter of 2017, $668,000 for the first nine months of 2017

RESULTS OF OPERATIONS

Net income was $302,000 for the third quarter of 2017, compared with $62,000 for the third quarter of 2016. The $240,000 or 389.5% improvement for this time frame was driven by a $276,000 or 17.3% improvement in net interest income.

Net income for the first nine months of 2017 was $668,000, compared with $187,000 for the same period in 2016. The $481,000 or 257.3%, improvement in earnings year-over-year was the result of a $493,000 or 9.0% improvement in overhead expenses.

President and CEO Gilbert F. Kennedy commented, "I am very pleased with our improvement in earnings during third quarter of this year. We continue to improve asset quality while enhancing profitability. Furthermore, we have done a terrific job at restructuring our deposit base to include a better mix of core funding."

Kennedy added, "We were successful in resolving two problem nonaccrual loans during the quarter, which afforded us a substantial boost in fee income and recaptured interest income. We also continued to allow non-core funding to roll off our balance sheet. Through September 30, $12.1 million of non-core funding was replaced with $13.2 million of retail core deposits."

Net Interest Income

Quarter versus Quarter

Net interest income increased $276,000 or 17.27% for the third quarter of 2017 versus the same period in 2016. This was aided by a $266,000 increase in loan interest and fee income, coupled with a $29,000 improvement in interest income associated with Interest Bearing Bank Balances (IBB's). The aforementioned improvements more than offset a $26,000 or 5.19% increase in interest expense over the same time period. Interest expense related to Savings accounts increased $24,000 as the Bank ran a special during the first nine months of 2017.

The net interest margin improved 41 basis points from 3.14% for the quarter ended September 30, 2016, to 3.65% for the most recent quarter ended in 2017. Average loan balances increased $10.49 million over this time frame, and the bank's overall loan yield improved 32 basis points to 5.32% for the quarter ended September 30, 2017. Loan yields were enhanced in the third quarter of 2017 with the recognition significant loan fees and accrued interest associated with two problem credits being resolved.

Average deposit balances increased $2.0 million over this time frame and the cost of all interest bearing funds increased six basis points to 1.25% for the third quarter of 2017. To fund the aforementioned increase in average loans, average IBB's declined $6.30 million to$22.6 million for the third quarter of 2017,providing ample liquidity for the Bank.

Year-over-year

Net interest income improved $253,000 or 5.00% for the first nine months of 2017 versus the same period in 2016. Interest and fee income on loan increased 301,000 or 4.98% which, coupled with improvements in IBB's, more than off-set an $112,000 increase in interest expense. While all deposit categories' interest expense increased, the most significant by category was evidenced in Savings accounts, which increased $39,000 or 991.45% over this time frame. The overall increase in interest expense was precipitated by interest rate hikes and successful retail deposit specials.

The net interest margin increased 10 basis points from 3.37% for the nine months ended September 30, 2016 to 3.47% for the nine months ended September 30, 2017. The improvement in the margin year-over-year was driven primarily by a $5.7 million increase in average loan balances, coupled with a nine basis point improvement in overall loans yields. Along with higher yields on other earning assets, this drove the overall yield on interest earning assets up 16 basis points to equal 4.43%. These improvements more than offset higher interest expense. Average interest bearing liabilities grew $3.7 million and the overall cost interest bearing liabilities increased seven basis points to equal 1.24% for the first nine months of 2017.

Provision for Loan Losses

The Bank recorded no loan loss provision for the third quarter of 2017 and a negative $150,000 provision for the third quarter of 2016. Likewise, there was no provision for loan losses recorded for the nine months of 2017, while the Bank recorded negative provisions aggregating $300,000 during the first nine months of 2016. The negative provisions in the first three quarters of 2016 were precipitated by continued improvement in overall loan quality, combined with excess reserves in 2016 that had accumulated over prior years as classified assets were successfully resolved. Asset quality metrics continue to remain solid and the current loan loss reserve is considered solid at 1.90% of total loans. Loan quality will be presented in greater detail in the *Asset Quality* section of this press release.

Noninterest Income

Quarter versus Quarter

Non-interest income increased $43,500 or 67.81% when comparing the third quarter of 2017 with the third quarter of the prior year. During the third quarter of 2016, the Bank had losses on Other Real Estate Owned approximating $20,500 versus nominal losses in the same quarter of 2017. Furthermore, other income increased $22,800 or 52.77% quarter-over-quarter which was driven by a $14,000 recapture of health insurance premiums.

Year-over-year

Non-interest income increased $34,600 or 11.24% for the first nine months of 2017 versus the same period in 2016. Other income increased $92,600 or 74.34% when comparing these periods. The increase in other income in the first nine months of 2017(versus that of the same period in 2016) was the result of a large recovery of legal and other fees related to a previously charged off loan, coupled with the recapture of insurance premiums noted above.

Noninterest Expense

Quarter versus Quarter

Non-interest expenses declined $70,700 or 4.04% when comparing the third quarter of 2017 with the third quarter of 2016. The most notable changes were evidenced in personnel, occupancy, and other operating expenses. Salaries and Benefits declined approximately $24,800 or 2.47% to aggregate $980,500 for the third quarter of 2017. In February of 2016, the Bank had a significant staff realignment (made possible by being relieved of the Consent Order) reducing overhead. Certain other positions were combined or eliminated over the remainder of the year, affording more expense reductions. Occupancy expense improved $26,000 over the same time frame. This was the result of subleasing our 9th Street branch location in Washington D.C. in December of 2016.

Other operating expenses declined $18,200 or 4.30%. The reductions in other operating expenses were primarily centered in three categories: Director and Committee Fees, FDIC Insurance, and Regulatory assessment charges. Director fee expense declined $14,500 from fewer committee meetings for the quarter ended September 30, 2017 versus the same period in the prior year. FDIC Insurance expense declined approximately $17,100 to equal $34,900 for the three months ended September 30, 2017. This was the direct result of being relieved from the OCC's Consent Order on July of 2016. Regulatory assessment charges declined $17,000 due to surcharges paid in all 2016 related to the Consent Order.

Year-over-year

Non-interest expenses declined $493,100 or 9.00% when comparing the first nine months of 2017 with the same period in 2016. The most notable changes were evidenced in personnel and other operating expenses. Salaries and Benefits declined approximately $314,000 or 9.90% over this time frame. As mentioned previously, major staff realignment was done in early 2016, made possible by the lift of the OCC's Consent Order.

Other operating expenses declined $142,100 or 10.51%. The reductions in other operating expenses were primarily centered in two categories: FDIC Insurance and Regulatory assessment expenses. FDIC Insurance expense and Regulatory assessment expenses declined $88,000 and $33,000 respectively over this time frame. These improvements were a direct result of the lift of the OCC's Consent Order.

FINANCIAL CONDITION

Total assets increased $1.96 million, or 0.97%, to $202.9 million at September 30, 2017 from December 31, 2016. Total loans were $161.5 million at September 30, 2017, declining $905,000 or 0.56% from December 31, 2016. The Bank's investment portfolio declined $1.3 million over this time frame. The Bank had a $1.7 million security called during the third quarter which with normal amortization more than offset the $2.0 million purchase in the second quarter of 2017. The Bank had cash and cash equivalents of $24.4 million and $19.9 million at September 30, 2017 and December 31, 2016, respectively. The higher cash level was the result solid deposit growth coupled with a decline in loan volume.

Overall deposit balances grew during the first nine months of 2017 as management continued to aggressively pursue a more stable core deposit base. Demand deposit balances increased $2.1 million or 14.05% during the first nine months of 2017. Interest bearing deposits at September 30, 2017 were $129.7 million, a decline of $838,000 from December 31, 2016. NOW account balances and MMDA balances increased modestly, while Savings account balances increased $8.96 million or 87.84% during the first nine months of 2017. This growth was slightly offset by a $9.65 million or 10.21% reduction in time deposits during the first nine months of 2017. Thisdecline in was a strategic move to allow brokered and internet time deposits to mature.

Asset Quality

Non-accrual loans (classified loans) were $2.24 million at September 30, 2017, declining $1.78 million or 44.26% since December 31, 2016. The reduction in non-accrual loans was primarily evidenced in legacy residential mortgages. Criticized loans, however increased $3.47 million from year-end to aggregate $3.95 million. The increased level of criticized loans was primarily the result of downgrading three credits of which management is actively working, and does not anticipate further downgrades.

The Bank had net recoveries of approximately $113,000 for the first nine months of 2017, versus net charge-offs of approximately $84,000 for the entire year of 2016. The loan loss reserve equaled a solid 1.90% of total loans at September 30, 2017 and 1.82% at December 31, 2016, respectively.

With respect to other asset quality metrics, the allowance for loan losses equaled 136.42% of non-accrual loans at September 30, 2017, compared with 73.24% at December 31, 2016. Likewise, the ratio of the allowance for loan losses to total nonperforming assets was 136.42% at September 30, 2017, compared with 71.56% at December 31, 2016. The ratio of nonperforming assets to loans and other real estate was 1.39% at September 30, 2017, compared with 2.53% at December 31, 2016.

Capital Requirements

The Bank's ratio of total risk-based capital was 15.99% at September 30, 2017, compared with 15.76% and 16.85% at December 31, 2016 and September 30, 2016, respectively. The tier 1 risk-based capital ratio was 14.75% at September 30, 2017, compared with 14.52% and 15.60% at December 31, 2016 and September 30, 2016, respectively. (Please note that the tier 1 risk-based capital ratios mirror the common equity tier 1 capital ratio, as all equity in the Bank is Common). The Bank's tier 1 leverage ratio was 10.04% at September 30, 2017, compared with 9.81% and 9.87% at December 31, 2016 and September 30, 2016, respectively. All capital ratios exceed regulatory minimums and the Bank is to be considered well capitalized.

Colombo Bank
Statement of Income

	9/30/16	9/30/17	9/30/16	9/30/17
	QTR vs. QTR		YTD vs. YTD	
Interest Income:				
Interest and Fees on Loans	1,940,899	2,206,946	6,046,133	6,347,317
Interest on Investments:				
Federal Funds Sold & D/F Banks	34,523	63,599	69,998	148,806
Investments Available for Sale	94,939	94,279	312,078	273,419
FHLB & Other Investments	27,768	35,317	76,428	100,020
Total Interest on Investments	157,230	193,196	458,504	522,245
Total Interest Income	2,098,129	2,400,142	6,504,637	6,869,562
Interest Expense:				
Interest on Deposits:				
Transaction Accounts	2,428	3,999	9,299	11,417
Savings Accounts	1,344	25,222	3,964	43,268
Money Market Accounts	19,518	25,141	49,065	76,429
Certificate of Deposits	217,803	212,951	615,807	662,513
Total Interest on Deposits	241,093	267,313	678,135	793,627
Interest on Repurchase Agreements	333	-	765	10
Interest on other borrowings	-	-	-	-
Interest on FHLB Advances	257,374	257,374	766,526	763,729
Total Interest Expense	498,800	524,687	1,445,426	1,557,366
Net Interest Income	1,599,329	1,875,455	5,059,211	5,312,196
Provision for Loan Loss	(150,000)	-	(300,000)	-
Net Interest Inc After Provision for Loan Loss	1,749,329	1,875,455	5,359,211	5,312,196
Non-Interest Income:				
Service Charges on Deposit Accounts	41,505	42,006	131,669	125,672
Gain/Loss on Sale of Loans	-	-	-	-
Gain/Loss on Sale of Investment Securities	-	-	64,782	-
Gain/Loss on Sale of Real Estate Owned	(20,469)	(217)	(12,973)	(217)
Other Income	43,145	65,914	124,620	217,258
Total Non-Interest Income	64,181	107,703	308,097	342,712
Non-Interest Expense:				
Salaries and Benefits	1,005,338	980,466	3,172,361	2,858,251
Occupancy	209,374	182,798	621,051	563,389
Equipment	113,896	112,802	334,404	355,197
Other Expense	423,185	405,004	1,352,690	1,210,546
Total Non-Interest Expense	1,751,794	1,681,069	5,480,506	4,987,384
Net Income Before Taxes	61,717	302,089	186,802	667,524
Income Taxes	-	-	-	-
Net Income	61,717	302,089	186,802	667,524

Colombo Bank
Statement of Condition
(dollars in thousands)

	9/30/17	12/31/16
Assets		
Cash and Due From Banks	20,750	16,135
Interest Bearing Deposits & Federal Funds Sold	3,665	3,812
FHLB & Other Stock	1,781	1,783
Investment Securities - Available For Sale	15,521	16,855
Loans Held for Sale	-	-
Loans Receivable	161,465	162,370
Less: Allowance for Loan Losses	(3,060)	(2,947)
Net Loans Receivable	158,405	159,423
Premises and Equipment - Net	639	752
Other Real Estate Owned	-	94
Other Assets	2,127	2,076
Total Assets	202,888	200,929
Liabilities and Stockholder's Equity		
Demand Deposits	16,921	14,837
NOW Accounts	6,110	6,088
Money Market Accounts	19,589	19,757
Savings Deposits	19,151	10,195
Certificates of Deposit	84,824	94,472
Total Deposits	146,594	145,348
Repurchase Agreements	-	74
Other Borrowed Money	35,000	35,000
Accrued Expenses and Other Liabilities	422	375
Total Liabilities	182,017	180,797
Common Stock	3,442	3,442
Additional Paid-In Capital - Common Stock	28,591	28,591
Unrealized Gains/(Losses) on AFS Securities	(72)	(143)
Retained Earnings	(11,090)	(11,758)
Total Stockholder's Equity	20,871	20,132
Total Liabilities and Stockholder's Equity	202,888	200,929