Colombo Bank Implements “Commercial Bank” Charter, Reports $174,000 Profit for 1st Quarter 2017

Colombo Bank continues its positive momentum in changing Bank charters. Effective close of Friday June 26, 2017, Colombo Bank filed Articles of Incorporation with the State of Maryland, changing its Charter to a Commercial Bank, from a Federal Savings Bank. This was a strategic decision management pursued to enhance the profile and earnings of the Bank.

Gilbert F. Kennedy, III, President and CEO of Colombo Bank stated, “I am excited about this Banking Charter change. It marks a milestone in the evolution and growth of Colombo Bank. The thrift charter served us well, but limited our experienced staff in expanding corporate and business banking relationships.” Mr. Kennedy goes on to say that “our staff of Commercial Professionals at the Executive and Lending levels has extensive experience in providing solution based services and products to the markets we serve.”

Further compounding this success, Colombo Bank reported a net income of $174,000 for the first quarter of 2017, compared with $81,000 for the first quarter of 2016. The $93,000 improvement in net income was driven by a significant reduction in operating expenses. Furthermore, the Bank recognized the recapture of legal and other fees from a problem credit demonstrating continued work on the Bank’s legacy problem assets.

Mr. Kennedy commented, “We are very pleased with our overall improvement in earnings and being relieved from our Consent Order in July of last year. The extraneous costs associated with the “order” were onerous and we shall continue to see improvement in overall operating expenses.”

He further stated, “Our primary focus is profitability, and a very close second is changing our deposit mix to improve our overall core deposit base. We have made tremendous strides as evidenced by our $6.1 million or 4.19% increase in deposits during the first quarter of 2017. This was achieved while allowing a 22.30% reduction in legacy brokered deposits.”

Net Interest Income

Net interest income declined $46,000 or 2.63% for the first quarter of 2017 versus the same period in 2016. The decline was driven by higher interest expense. Interest expense on time deposits and virtually all deposit categories increased when comparing the first quarter of 2017 to the first quarter of 2016. This was the result of two rate hikes during 2016 coupled with retail “deposit specials” strategically aimed at increasing core deposits while reducing the level of brokered and internet deposits.

The net interest margin declined 13 basis points from 3.53% for the quarter ended March 31, 2016 to 3.41% for the most recent quarter ended in 2017. While overall loan yields increased slightly from 4.96% in the first quarter of 2016 to 5.02% in the first quarter of 2017, overall average loan balances declined approximately $1.0 million. Concurrently, average deposit balances increased approximately $5.0 million and the overall cost of interest bearing deposits increased 13 basis points to equal a respectable 0.79%. Excess deposits were maintained in short-term, liquid interest bearing balances which evidenced an approximate $9.0 million increase over this time frame.

Provision for Loan Losses

The Company recorded no loan loss provision for the first quarter of 2017 versus a negative $150,000 provision for first quarter of 2016. The negative provision in the first quarter of 2016 as well as no provision in the first quarter of 2017 was precipitated by continued improvement in overall loan quality combined with excess reserves in 2016 that had accumulated over prior years as classified assets continued to be successfully resolved. Asset quality metrics continue to remain sound and the current loan loss reserve is considered adequate solid at 1.79% of total loans. Loan quality will be presented in greater detail in the *Asset Quality* section of this press release.

Noninterest Income

Non-interest income increased approximately $31,000 when comparing the first quarter of 2017 with the same quarter the prior year. During the first quarter of 2017, the Bank received a $52,000 recovery of past legal fees and other costs associated with a loan charged off in prior years (and subsequently recovered). This more than off-sets a $20,000 or 34.25% decline in service charge income over the same time frame. The majority of this decline was due to the closure of accounts after the first quarter of 2016 which were habitually overdrawn.

Noninterest Expense

Non-interest expenses declined approximately $259,000 or 13.47% when comparing the first quarter of 2017 with the first quarter of 2016. The most notable change was evidenced in personnel expenses. Salaries and Benefits declined approximately $208,000 or 18.39% to aggregate $921,000 for the first quarter of 2017. In February, the Bank had a significant staff realignment (made possible by being relieved of the Consent Order) reducing overhead. Other positions were combined or eliminated over the remainder of the year affording more expense reductions.

Occupancy expense declined approximately $21,000 or 9.93% to equal $190,000 for the first three months of 2017. This was primarily the result of leasing part of our 9th street location in the District of Columbia, which commenced in late December 2016. Other operating expenses declined $35,000 or 7.56%. The reductions in other operating expenses were primarily centered in three categories, legal collection expense, FDIC Insurance and the OCC assessment. Legal fees related to collection matters declined approximately $27,000 for the period ending March 31, 2017 versus the same period in the prior year. These reductions were the result of continued improvement in overall asset quality. FDIC Insurance expense declined approximately $34,000 to equal $41,000 for the three months ended march 31, 2017. This was the direct result of being relieved of the OCC's Consent Order on July of 2016. Lastly, the Bank's OCC assessment declined approximately $10,000 or 33.23% over this same time frame. The OCC assessment charge for the entire year of 2016 included a surcharge for the Consent Order.

These three reductions more than offset increased corporate legal fees. Corporate legal fees increased approximately $17,000 to aggregate $19,000 in the first quarter of 2017. These expenses were directly attributed to efforts in converting the Bank's charter to a commercial bank.

FINANCIAL CONDITION

Total assets increased $6.2 million, or 3.10%, to $207.2 million at March 31, 2017 from December 31, 2016. Total loans were $165.4 million at March 31, 2017, increasing $3.0 million or 1.87% from December 31, 2016. The Bank's investment portfolio remained steady, amortizing $553,000 or 3.28% during the quarter to equal $18.5 million. The Company had cash and cash equivalents of $23.5 million and $19.9 million at March 31, 2017, and December 31, 2016, respectively. The higher cash levels were partially the result solid deposit growth.

Overall deposit balances grew during the first quarter of 2017 as management continued to aggressively pursue a more stable core deposit base. Demand deposit balances increased $1.1 million or 7.14% during the first quarter of 2017. Interest bearing deposits at March 31, 2017 were $135.5 million, an increase of $5.0 million from December 31, 2016. MMDA increased $2.8 million or 14.08%, NOW account balances increased $2.8 million or 46.66%, and Savings Deposit balances increased $2.0 million or 19.73% during the first quarter of 2017. This more than off-set a $2.6 million or 2.76% reduction in time deposits during the first quarter. The decline in time deposits was a strategic move to allow brokered and internet time deposits to mature. During the first quarter of 2017, management allowed an aggregate of $3.6 million in brokered and internet time deposit to mature and exit the bank.

Asset Quality

Nonaccrual loans were $3.3 million at March 31, 2017, declining $706,000 or 17.54% since December 31, 2016. Non-accrual loans totaled $3.2 million at March 31, 2016 and the increase at December 31, 2016 was driven by three residential legacy mortgages of which management expected resolution to approximately 50% of the total nonaccrual loans by June 2017. Thus far, one loan was resolved as evidenced by the decline since year end 2016, noted above. Overall asset quality showed improvement with respect to the level of classified loans. Classified loans declined $647,000 December 31, 2016 to aggregate $3.4 million at March 31, 2017. Criticized loans, however increased $4.2 million from year end to aggregate $4.7 million. The increased level of criticized loans was primarily the result of two large credits being downgraded. Management is actively working these relationships and does not expect further deterioration. A reduction in criticized assets of approximately 28% is anticipated by June 30, 2017 with the balance resolving by year-end. OREO balances remained the same from year end to March 31, 2017.

The Bank had net recoveries of $9,000 for the first quarter of 2017 versus net charge-offs of $84,000 for the entire year of 2016. The loan loss reserve equaled a solid 1.79% of total loans at March 31, 2017 and 1.82% at December 31, 2016, respectively.

With respect to other asset quality metrics, the allowance for loan losses equaled 89.10% of nonaccrual loans at March 31, 2017, compared with 73.24% at December 31, 2016. The ratio of the allowance for loan losses to total nonperforming assets was 86.64% at March 31, 2017, compared with 71.56% at December 31, 2016. The ratio of nonperforming assets to loans and other real estate was 2.06% at March 31, 2017 compared with 2.56% at December 31, 2016.

Capital Requirements

The Company's ratio of total risk-based capital was 15.48% at March 31, 2017 compared with 15.76% and 16.41% at December 31, 2016 and March 31, 2016, respectively. The tier 1 risk-based capital ratio was 14.24% at March 31, 2017 compared with 14.52% and 15.16% at December 31, 2016 and March 31, 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 Company's tier 1 leverage ratio was 9.86% at March 31, 2017 compared with 9.81% and 10.03% at December 31, 2016 and March 31, 2016, respectively. All capital ratios exceed regulatory minimums and the Bank is to be considered well capitalized.

Colombo Bank
Statement of Income

	QTR		
	Mar-17	**Mar-16**	**Dec-16**
Interest Income:			
Interest and Fees on Loans	2,025,272	2,014,421	1,932,030
Fees on loans	29,083	46,964	18,470
	2,054,355	**2,061,385**	**1,950,499**
Interest on Investments:			
Federal Funds Sold & D/F Banks	34,580	13,318	24,133
Investments Available for Sale	91,786	114,083	88,471
FHLB & Other Investments	31,730	24,245	29,672
Total Interest on Investments	**158,096**	**151,645**	142,276
Total Interest Income	**2,212,451**	**2,213,031**	**2,092,775**
Interest Expense:			
Interest on Deposits:			
Transaction Accounts	2,675	3,898	2,115
Savings Accounts	3,930	1,308	1,324
Money Market Accounts	23,644	12,799	22,336
Certificate of Deposits	228,792	192,672	238,899
Total Interest on Deposits	259,041	210,677	264,674
			-
Interest on Repurchase Agreements	10	128	64
Interest on other borrowings	-	-	-
Interest on FHLB Advances	251,779	254,576	257,374
			-
Total Interest Expense	**510,830**	**465,381**	**522,112**
Net Interest Income	1,701,621	1,747,649	1,570,663
Provision for Loan Loss	-	(150,000)	(30,000)
			-
Net Interest Income after Provision for Loan Loss	1,701,621	1,897,649	1,600,663
Non-Interest Income:			
Service Charges on Deposit Accounts	38,572	58,668	36,423
Gain/Loss on Sale of Loans	-	-	-
Gain/Loss on Sale of Investment Securities	-	-	-
Gain/Loss on Sale of Real Estate Owned	-	7,496	(7,172)
Other Income	95,287	36,812	49,930
Total Non-Interest Income	133,858	102,976	79,181
			-
Non-Interest Expense:			-
Salaries and Benefits	920,849	1,128,397	943,575
Occupancy	189,723	210,644	202,069
Equipment	115,477	110,029	107,340
Other Expense	435,131	470,726	389,407
Total Non-Interest Expense	1,661,180	1,919,795	1,642,391
Net Income Before Taxes	174,300	80,830	37,453
Income Taxes	-	-	-
Net Income	**174,300**	**80,830**	**37,453**

COLOMBO BANK
Statement of Condition
(dollars in thousands)

	Mar-17	Mar-16	Dec-16
Assets			
Cash and Due From Banks	19,779	15,277	16,135
Interest Bearing Deposits & Federal Funds Sold	3,889	1,817	3,812
FHLB & Other Stock	1,781	1,783	1,783
Investment Securities - Available For Sale	16,302	20,131	16,855
Loans Receivable	165,400	160,857	162,370
Less: Allowance for Loan Losses	(2,956)	(3,363)	(2,947)
Net Loans Receivable	162,443	157,494	159,423
Premises and Equipment - Net	713	825	752
Other Real Estate Owned	94	253	94
Other Assets	2,157	2,040	2,076
Total Assets	207,157	199,619	200,929
Liabilities and Stockholder's Equity			
Demand Deposits	15,896	15,838	14,837
NOW Accounts	8,929	7,495	6,088
Money Market Accounts	22,539	17,672	19,757
Savings Deposits	12,206	10,175	10,195
Certificates of Deposit Under $100,000	46,602	36,101	46,666
Certificates of Deposit Over $100,000	45,263	56,574	47,806
Total Deposits	151,435	143,854	145,348
Repurchase Agreements	0	199	74
Other Borrowed Money	35,000	35,000	35,000
Accrued Expenses and Other Liabilities	410	391	375
Total Liabilities	186,845	179,443	180,797
Common Stock	3,442	3,442	3,442
Additional Paid-In Capital - Common Stock	28,591	28,591	28,591
Unrealized Gains/(Losses) on AFS Securities	(138)	44	(143)
Retained Earnings	(11,584)	(11,901)	(11,758)
Total Stockholder's Equity	20,312	20,176	20,132
Total Liabilities and Stockholder's Equity	207,157	199,619	200,929