Colombo Bank reports $191,136 profit for the second quarter of 2017, and $365,436 for the first six months of 2017

RESULTS OF OPERATIONS

Net income was $191,136 for the second quarter of 2017, compared with $44,256 for the second quarter of 2016. The $146,880 or 331.89% improvement for this time frame was fueled by a $163,782 or 9.05% improvement in operating expenses.

Net income for the first six months of 2017 was $365,436 compared with $125,085 for the first six months of 2016. Like the quarterly analysis mentioned above, the $240,350 or 192.15%, improvement in earnings year-over-year was the result of a $422,397 or 11.33% improvement in overhead expenses.

President and CEO Gilbert F. Kennedy commented, "Our team is pleased with our increase in core operating profit quarter over quarter, and we will continue to move forward. While increasing earnings, we have also been able to restructure our deposit base, allowing legacy brokered and other non-core deposits to mature while increasing core deposits."

Kennedy added, "While core profits are our number one priority, changing our funding structure is extremely high on the list. We have allowed $6.9 million of non-core funding to run-off while still growing our overall deposit base $4.9 million this year. In essence, we have evidenced an $11.8 million or 9.76% growth in core deposits during the first half of the year."

Net Interest Income

<u>Quarter versus Quarter</u>

Net interest income increased $22,887 or 1.34% for the second quarter of 2017 versus the same period in 2016. The increase was aided by a $42,166 increase in loan interest income, coupled with a $28,471 improvement in interest income associated with Interest Bearing Bank Balances. The aforementioned improvements more than offset a $40,604 or 8.44% increase in interest expense over the same time period. Interest expense within all deposit categories increased when comparing the second quarter of 2017 with the second quarter of 2016. This was the result of three interest rate hikes since December of 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 12 basis points from 3.49% for the quarter ended June 30, 2016, to 3.37% for the most recent quarter ended in 2017. Average loan balances increased $3.3 million over this time frame while overall loan yields remained steady at 5.05%. Average deposit balances increased $7.3 million over this time frame and the cost of all interest bearing funds increased seven basis points to 1.23% for the second quarter of 2017. Excess deposits were maintained in short-term, liquid interest bearing balances which evidenced an approximate $8.8 million increase over this time frame.

<u>Year-over-year</u>

Net interest income declined $23,141 or 0.67% for the first six months of 2017 versus the same period in 2016. The decline was driven primarily by higher interest expense. Interest expense on virtually all deposit categories increased when comparing the first half of 2017 to the first half of 2016. As previously mentioned, the increase in interest expense was precipitated by interest rate hikes and retail deposit specials.

The net interest margin declined 10 basis points from 3.49% for the six months ended June 30, 2016 to 3.39% for the six months ended June 30, 2017. The decline in the margin was driven by an increase in deposit cost coupled with overall deposit growth which was re-invested in loans and lower yielding interest bearing bank balances. Average loan balances increased $3.2 million while average interest bearing bank balances grew $6.4 million over this time frame. Average interest bearing deposit balances grew $5.8 million and the overall cost interest bearing liabilities increased seven basis points to equal 1.23% for the first six months of 2017.

Provision for Loan Losses

The Bank recorded no loan loss provision for the second quarter of 2017 and no provision for the second quarter of 2016. Likewise, there was no provision for loan losses recorded for the first six months of 2017 while the Bank recorded a negative $150,000 provision for first six months of 2016. The negative provision in the first half of 2016 was 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 1.86% of total loans. Loan quality will be presented in greater detail in the *Asset Quality* section of this press release.

Noninterest Income

<u>Quarter versus Quarter</u>
Non-interest income declined $39,789 or 28.23% when comparing the second quarter of 2017 with the second quarter of the prior year. During the second quarter of 2016, the Bank sold securities netting a gain of $64,782 which was the primary driver for the decline quarter over quarter. This more than offset $13,599 and $11,394 increases in service charge income and other income, respectively.

<u>Year-over-year</u>
Non-interest income declined a modest $8,906 or 3.65% for the first six months of 2017 versus the same period in 2016. The securities gains noted above, coupled with small decline in service charge income and a nominal gain in Other Real Estate Owned (OREO), more than offset a $69,869 or 85.76% increase in other income. The increase in other income in the first half of 2017 versus the same period in 2016 was the result of a large recovery of legal and other fees related to a previously charged off loan.

Noninterest Expense

<u>Quarter versus Quarter</u>
Non-interest expenses declined $163,782 or 9.05% when comparing the second quarter of 2017 with the second quarter of 2016. The most notable changes were evidenced in personnel and other operating expenses. Salaries and Benefits declined approximately $81,690 or 7.87% to aggregate $956,936 for the second 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.

Other operating expenses declined $88,368 or 19.26%. The reductions in other operating expenses were primarily centered in three categories; consulting expenses, FDIC Insurance and OREO expenses. Consulting expenses declined $14,467 for the quarter ended June 30, 2017 versus the same period in the prior year. The majority of the improvement was related to the annual meeting which was held in the first quarter of 2017 versus the second quarter of 2016. FDIC Insurance expense declined approximately $37,192 to equal $36,205 for the three months ended June 30, 2017. This was the direct result of being relieved from the OCC's Consent Order on July of 2016. Lastly, the OREO expenses declined $12,273 as our last parcel of Other Real Estate Owned was sold shortly after the end of the second quarter of 2017.

<u>Year-over-year</u>
Non-interest expenses declined $422,397 or 11.33% when comparing the first half of 2017 with the first half of 2016. The most notable changes were evidenced in personnel and other operating expenses. Salaries and Benefits declined approximately $289,237 or 13.35% over this time frame. As stated above, major staff realignment was done in early 2016, made possible by being lifted from the OCC's Consent Order.

Other operating expenses declined $123,962 or 13.34%. The reductions in other operating expenses were primarily centered in three categories, legal collection fees, FDIC Insurance and OCC assessment expenses. Legal collection expenses declined $36,639 for the six months ended June 30, 2017 versus the same period in the prior year. Lower collection expenses were the result of continued improvement in overall asset quality. FDIC Insurance expense and

OCC assessment expenses declined $70,956 and $16,019, respectively over this time frame. These improvements were a direct result of being relieved from the OCC's Consent Order.

FINANCIAL CONDITION

Total assets increased $5.33 million, or 2.65%, to $206.3 million at June 30, 2017 from December 31, 2016. Total loans were $161.1 million at June 30, 2017, declining $1.23 million, or 0.76% from December 31, 2016. The Bank's investment portfolio increased $993,000 over this time frame as management purchased approximately $2.0 million in agency mortgage-backed securities in June. This was done to replenish the investment portfolio from normal amortization. The Bank had cash and cash equivalents of $25.6 million and $19.9 million at June 30, 2017, and December 31, 2016, respectively. The higher cash level was the result solid deposit growth and a decline in loan volume.

Overall deposit balances grew during the first half of 2017 as management continued to aggressively pursue a more stable core deposit base. Demand deposit balances increased $1.7 million or 11.46% during the first six months of 2017. Interest bearing deposits at June 30, 2017 were $133.7 million, an increase of $3.24 million from December 31, 2016. NOW account balances increased $1.22 million or 19.96%, MMDA increased $1.48 million or 7.50% and Savings Deposit balances increased $5.96 million or 58.43% during the first quarter of 2017. This growth more than off-set a $5.42 million or 5.73% reduction in time deposits during the first half of 2017. The decline in time deposits was a strategic move to allow brokered and internet time deposits to mature. During the first six months of 2017, management allowed an aggregate of $6.87 million in brokered and internet time deposit to roll off. The significant increase in Savings account balances was due to a successful promotional campaign.

Asset Quality

Non-accrual loans were $2.69 million at June 30, 2017, declining $1.34 million or 33.28% since December 31, 2016. Overall asset quality showed improvement with respect to the level of classified loans. Classified loans declined $1.28 million from December 31, 2016 to aggregate $2.74 million at June 30, 2017. The reduction in Non-accruals and Classified Loans was primarily evidenced in legacy residential mortgages. Criticized loans, however increased $4.09 million from year-end to aggregate $4.56 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. OREO balances remained the same from year end to June 30, 2017 and reduced to $0 in July, 2017.

The Bank had net recoveries of approximately $44,000 for the first six months of 2017 versus net charge-offs of approximately $84,000 for the entire year of 2016. The loan loss reserve equaled a solid 1.86% of total loans at June 30, 2017 and 1.82% at December 31, 2016, respectively.

With respect to other asset quality metrics, the allowance for loan losses equaled 111.41% of nonaccrual loans at June 30, 2017, compared with 73.24% at December 31, 2016. The ratio of the allowance for loan losses to total nonperforming assets was 107.63% at June 30, 2017, compared with 71.56% at December 31, 2016. The ratio of nonperforming assets to loans and other real estate was 1.72% at June 30, 2017 compared with 2.53% at December 31, 2016.

Capital Requirements

The Bank's ratio of total risk-based capital was 15.89% at June 30, 2017 compared with 15.76% and 17.27% at December 31, 2016 and June 30, 2016, respectively. The tier 1 risk-based capital ratio was 14.64% at June 30, 2017 compared with 14.52% and 16.02% at December 31, 2016 and June 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 9.73% at June 30, 2017 compared with 9.81% and 9.95% at December 31, 2016 and June 30, 2016, respectively. All capital ratios exceed regulatory minimums and the Bank is to be considered well capitalized.

Colombo Bank
Statement of Income

	6/30/16	6/30/17	6/30/16	6/30/17
	QTR vs. QTR		YTD vs. YTD	
Interest Income:				
Interest and Fees on Loans	2,043,850	2,086,015	4,105,235	4,140,370
Interest on Investments:				
Federal Funds Sold & D/F Banks	22,157	50,628	35,475	85,207
Investments Available for Sale	103,056	87,354	217,139	179,140
FHLB & Other Investments	24,415	32,972	48,660	64,702
Total Interest on Investments	149,628	170,954	301,274	329,049
Total Interest Income	2,193,478	2,256,969	4,406,508	4,469,420
Interest Expense:				
Interest on Deposits:				
Transaction Accounts	2,973	4,743	6,871	7,418
Savings Accounts	1,312	14,115	2,620	18,045
Money Market Accounts	16,747	27,645	29,547	51,289
Certificate of Deposits	205,332	220,770	398,004	449,562
Total Interest on Deposits	226,365	267,273	437,042	526,314
Interest on Repurchase Agreements	304	-	432	10
Interest on other borrowings	-	-	-	-
Interest on FHLB Advances	254,576	254,576	509,153	506,355
Total Interest Expense	481,245	521,849	946,626	1,032,679
Net Interest Income	1,712,233	1,735,120	3,459,882	3,436,741
Provision for Loan Loss	-	-	(150,000)	-
Net Interest Income After Provision for Loan Loss	1,712,233	1,735,120	3,609,882	3,436,741
Non-Interest Income:				
Service Charges on Deposit Accounts	31,496	45,094	90,163	83,666
Gain/Loss on Sale of Loans	-	-	-	-
Gain/Loss on Sale of Investment Securities	64,782	-	64,782	-
Gain/Loss on Sale of Real Estate Owned	-	-	7,496	-
Other Income	44,663	56,057	81,475	151,344
Total Non-Interest Income	140,940	101,151	243,916	235,010
Non-Interest Expense:				
Salaries and Benefits	1,038,626	956,936	2,167,023	1,877,786
Occupancy	201,033	190,868	411,677	380,591
Equipment	110,479	126,919	220,508	242,395
Other Expense	458,779	370,412	929,505	805,543
Total Non-Interest Expense	1,808,917	1,645,135	3,728,712	3,306,315
Net Income Before Taxes	44,256	191,136	125,085	365,436
Income Taxes	-	-	-	-
Net Income	44,256	191,136	125,085	365,436

Colombo Bank
Statement of Condition
(dollars in thousands)

	6/30/17	12/31/16
Assets		
Cash and Due From Banks	21,949	16,135
Interest Bearing Deposits & Federal Funds Sold	3,681	3,812
FHLB & Other Stock	1,781	1,783
Investment Securities - Available For Sale	17,848	16,855
Loans Receivable	161,137	162,370
Less: Allowance for Loan Losses	(2,991)	(2,947)
Net Loans Receivable	158,146	159,423
Premises and Equipment - Net	685	752
Other Real Estate Owned	94	94
Other Assets	2,071	2,076
Total Assets	206,255	200,929
Liabilities and Stockholder's Equity		
Demand Deposits	16,538	14,837
NOW Accounts	7,304	6,088
Money Market Accounts	21,239	19,757
Savings Deposits	16,152	10,195
Certificates of Deposit	89,057	94,472
Total Deposits	150,289	145,348
Repurchase Agreements	-	74
Other Borrowed Money	35,000	35,000
Accrued Expenses and Other Liabilities	380	375
Total Liabilities	185,669	180,797
Common Stock	3,442	3,442
Additional Paid-In Capital - Common Stock	28,591	28,591
Unrealized Gains/(Losses) on AFS Securities	(55)	(143)
Retained Earnings	(11,393)	(11,758)
Total Stockholder's Equity	20,586	20,132
Total Liabilities and Stockholder's Equity	206,255	200,929