Royal Financial, Inc. Announces Preliminary Fiscal Year 2019 Fourth Quarter and Year End Earnings Results

CHICAGO, July 26, 2019 (GLOBE NEWSWIRE) -- Royal Financial, Inc. (the “Company”) (OTCQX: RYFL), incorporated under the laws of Delaware on December 15, 2004, for the purpose of serving as the holding company of Royal Savings Bank (the “Bank”), announces the preliminary earnings results and statement of condition for the fiscal year ended 2019.

Net income for the fourth quarter of fiscal 2019 was $874,000, or $0.34 per share, compared to $1.2 million, or $0.50 per share, for the same period in 2019. Net income for the year ended June 30, 2019, was $3.7 million, or $1.46 per share, compared to $1.7 million, or $0.69 per share in 2019.

The Company also reported total assets of $404.9 million and stockholders’ equity of $39.8 million as of June 30, 2019. As of the same date, the Company’s book value per share was $15.65 and tangible book value per share was $14.64.

Comparison of Results of Operations for the Quarters Ended June 30, 2019 and June 30, 2018

Net income for the quarter ended June 30, 2019 was $874,000 or $0.34 per share, a decrease in net income of $371,000 (30%) from June 30, 2018.

Net interest income decreased by $196,000 (5%) from the quarter ended June 30, 2018. The decrease in net interest income was the result of an increase in loan income by $286,000 (7%) to $4.3 million, offset by an increase in deposit and borrowings cost of funds of $432,000 (58%) to $1.2 million.

Total non-interest income increased $11,000 (5%) to $235,000, from the same period last year. The Company recognized an increase in rental income of $16,000 (44%) as a result of the rental of unused office space at the branches.

The Company did not fund the allowance for loan losses for the quarter ended June 30, 2019.

Total non-interest expense increased $64,000 (3%) compared to the same period last year. The increase in non-interest expense was driven by increases in data processing of $41,000 (22%) to $232,000, professional services of $60,000 (57%) to $167,000 and acquisition expense of $49,000 (149%) to $16,000. These increases were offset by decreases in occupancy and equipment of $104,000 (21%) to $401,000 and FDIC insurance expense of $11,000 (24%) to $36,000.

During the quarter ended June 30, 2019, the Company increased the State of Illinois Deferred Tax Asset (“DTA”) valuation allowance by $100,000, for a total valuation allowance of $300,000. The Company increased the valuation allowance based on the fiscal 2019 performance and updated forecasting.

Comparison of Results of Operations for the Fiscal Years Ended June 30, 2019 and 2018

Net income for the fiscal year ended June 30, 2019 was $3.7 million, an increase of $1.9 million (113%) from June 30, 2018. Net interest income for the fiscal year ended 2019 increased $847,000 (6%) to $14.0 million. The primary driver for the increase in net interest income was a $2.7 million (19%) increase in loan interest income and fees. The increase in interest income was offset by a $1.4 million (74%) increase in interest expense on deposits and a $212,000 (37%) increase in interest expense on borrowings due to rising cost of funds.

The provision for loan losses in 2019 decreased $495,000 (69%) from the prior year. In 2018, the Company increased the provisions for the allowance for loan losses to provide for the increased growth in the loan portfolio due to the purchase of one-to-four family participation loans.

Non-interest income for the year ended 2019 was $984,000, an increase of $111,000 (13%) from the previous year. The increase in non-interest income was primarily a result of the increase in service charges of $84,000 (14%) to $676,000, secondary mortgage market income of $32,000 (26%) to $155,000, and rental income of $14,000 (10%) to $151,000. Services charges increased as the result of an increase in fees and rental income increased as the Company rented out unused space in the Bank’s branches. Non-interest income for the year ended 2018 included $36,000 of net losses on the sale of securities available for sale which the Company did not incur in fiscal 2019.

Non-interest expense decreased $267,000 (3%) for fiscal year 2019. The decrease in non-interest expense is primarily due to a decrease of $624,000 (93%) in acquisition expenses and a decrease of $39,000 (59%) in foreclosed asset expense, offset by increases in occupancy and equipment of $86,000 (5%) as the result of two additional branches to maintain, an increase in data processing of $55,000 (7%) is the result of the increase in customer base from the recent acquisition and additional users of the Company’s online banking platform, as well as improvements to the Company’s banking products and technology, and an increase in professional services of $186,000 (43%) related to an increase in audit fees, an increase in legal services, ongoing outside consultant work related to marketing and information technology (IT), and an increase in supervisory exam fees.

For the fiscal year ended 2019, the provision for income taxes was $1.7 million compared to $1.9 million for the same period in 2018.

Comparison of Financial Condition at June 30, 2019 and June 30, 2018

The Company’s total assets decreased $8.2 million (2%), to $404.9 million at June 30, 2019, from $413.2 million at June 30, 2018.

Securities available for sale decreased $3.6 million (8%), to $39.3 million at June 30, 2019 from $42.9 million at June 30, 2018. The decrease is the result of a $5.0 million agency bond maturing, offset by the increase of $1.3 million in the unrealized gain in the portfolio.

Loans, net of allowance for loan losses, decreased $3.5 million (1%), to $319.3 million at June 30, 2019, from $322.9 million at June 30,

2018. The decrease was the result of pay downs in the mortgage loan portfolio, offset by increased lending in the commercial loan portfolio.

The allowance for loan losses was $2.6 million, or 0.82% of total loans, at June 30, 2019, as compared to $2.4 million, or 0.73% of total loans, at June 30, 2018. In addition to the allowance for loan losses, net purchase discount on acquired loans was $772,000 at June 30, 2019 compared to $1.0 million at June 30, 2018. Individual loan discounts are being accreted into interest income over the life of the loan; however, they can offset loan losses upon loan default. Nonperforming loans totaled $1.2 million, or 0.37% of outstanding loans, at June 30, 2019 compared to $899,000, or 0.28%, at June 30, 2018.

Other real estate owned (OREO) decreased $8,000 to $297,000 at June 30, 2019, from $305,000 at June 30, 2018. The property is recorded at fair value, less estimated costs to sell.

The DTA decreased by $2.0 million (20%) from $10.4 million on June 30, 2018, to $8.4 million on June 30, 2019. The Company increased the valuation allowance for State of Illinois DTA during the quarter ended June 30, 2019 an additional $100,000 based on the fiscal 2019 performance and updated forecasting. The valuation allowance as of June 30, 2019 is $300,000.

The Core Deposit Intangibles ("CDI") held by the Company decreased $324,000 (28%) as of June 30, 2019. The decrease was the result of a full year of amortization of the CDI of $141,000 and due to the fair value re-measurement of the acquisition Washington Federal Bank for Savings deposits which decreased the CDI by $183,000 and increased Goodwill by $183,000 to $1.8 million.

Total deposits increased $6.6 million (2%), to $347.9 million at June 30, 2019 from $341.3 million at June 30, 2018. The increase was primarily due to the increase in money market accounts, offset by a decrease in time deposits.

As of June 30, 2019, the Company had no Federal Home Loan Bank advances outstanding.

Notes payable decreased by $2.3 million (17%) to $11.3 million as of June 30, 2019. In October, the loan was restructured from two separate notes payable into one note. The new note will amortize in full over eight years with quarterly payments of $375,000 in principal reduction and interest at the rate of 0.15% below the Wall Street Journal Prime Rate.

Total stockholders' equity increased $5.3 million (15%), to $39.8 million at June 30, 2019 from $34.5 million at June 30, 2018. The increase is primarily a result of net income of $3.7 million (29%) and an increase in unrealized gain in equity of $1.3 million (122%).

For the fiscal year ended June 30, 2019, the Bank paid cash dividends of $4.5 million to the Company. The upstream of funds enabled the Company to make debt and interest payments on its notes payable, as well as pay general business expenses and retain cash for fiscal 2020.

To meet the minimum requirement to be well capitalized under prompt corrective action regulations, the Bank is required to maintain regulatory capital sufficient to meet Tier 1 capital leverage ratio, and risk-based ratios for Common Equity Tier 1 capital, Tier 1 capital and Total capital of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. At June 30, 2019, the Bank exceeded each of its capital requirements with ratios of 9.93%, 15.04%, 15.04% and 16.06%, respectively.

At June 30, 2019, the book value per common share, shares outstanding of 2,545,052, was $15.65 compared to the book value per common share of $13.77 at June 30, 2018, for shares outstanding of 2,507,112. The tangible book value per share was $14.64 at June 30, 2019, compared to tangible book value per share of $12.69 at June 30, 2018.

The audited consolidated financial statements for 2018 and 2017 are available at www.royal-bank.us. We expect the audited consolidated financial statements for 2019 to be available early September 2019.

About Royal Financial, Inc.

Royal Savings Bank offers a range of checking and savings products and a full line of home and commercial lending solutions. Royal Savings Bank has been operating continuously in the south and southeast communities of Chicago since 1887, and currently has nine branches in Chicagoland and lending centers in Homewood and St. Charles, Illinois. Visit Royal Financial, Inc. and Royal Savings Bank at www.royalbankweb.com.

Safe–Harbor

Forward Looking Statements: This press release may include forward-looking statements. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ materially from those predicted in such forward-looking statements. Factors that could have a material adverse effect on the operations and future prospects of the Company and the Bank include, but are not limited to, changes in interest rates; the economic health of the local real estate market; general economic conditions; continued credit deterioration in our loan portfolio that would cause us to further increase our allowance for loan losses; legislative/regulatory changes; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality or composition of the loan and securities portfolios; demand for loan products in our market areas; deposit flows; competition; demand for financial services in our market areas; and changes in accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements.

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Royal Financial, Inc. and Subsidiary

Consolidated Statements of Operations
Quarters and Year Ended June 30, 2019 and 2018
(Unaudited)

	Quarters Ended June 30,		Years Ended June 30,	
	2019	2018	2019	2018
Interest income				
Loans, including fees	$ 4,276,352	$ 3,990,242	$ 16,958,011	$ 14,250,158
Securities	248,811	353,806	1,050,924	1,197,494
Federal funds sold and other	73,047	17,523	137,360	220,046
Total interest income	4,598,210	4,361,571	18,146,295	15,667,698
Interest expense				
Deposits	1,024,957	507,908	3,331,098	1,911,337
Borrowings	151,101	235,879	781,926	570,116
Total interest expense	1,176,058	743,787	4,113,024	2,481,453
Net interest income	3,422,153	3,617,784	14,033,271	13,186,245
Provision for loan losses	-	75,000	225,000	720,000
Net interest income after provision for loan losses	3,422,153	3,542,784	13,808,271	12,466,245
Non-interest income				
Service charges on deposit accounts	161,150	162,311	676,538	592,389
Secondary mortgage market fees	23,224	26,402	155,203	123,466
Rental income	50,493	34,987	151,232	137,443
Gain on sale of other real estate owned	-	-	-	5,442
Loss on sale of investment securities	-	-	-	(36,067)
Other	267	257	1,082	55,934
Total non-interest income	235,135	223,957	984,055	878,607
Non-interest expense				
Salaries and employee benefits	1,078,460	1,070,409	4,452,645	4,427,479
Occupancy and equipment	401,329	505,747	1,933,001	1,846,528
Data processing	231,535	190,349	807,035	752,162
Professional services	166,836	106,507	618,623	433,016
Director fees	52,800	45,000	196,800	172,000
Marketing	9,816	11,623	43,158	49,824
FDIC insurance expense	36,412	47,794	152,049	155,595
Insurance premiums	21,308	23,994	97,396	101,098
Foreclosed Asset expense	7,732	4,882	27,478	71,697
Acquisition Expense	16,242	(33,132)	49,772	673,968
Core Deposit Intangibles Amortization	35,207	35,207	140,827	123,412
Other	237,447	223,148	911,832	890,877
Total non-interest expense	2,295,125	2,231,528	9,430,615	9,697,656
Income before income taxes	1,362,162	1,535,213	5,361,711	3,647,196
Income tax expense	488,000	289,831	1,657,530	1,909,195
Net Income	$ 874,162	$ 1,245,382	$ 3,704,181	$ 1,738,001
Basic earnings per share	$ 0.34	$ 0.50	$ 1.46	$ 0.69
Diluted earnings per share	$ 0.34	$ 0.49	$ 1.43	$ 0.68

This report has not been prepared in accordance with Securities and Exchange Commission ("SEC") rules applicable to SEC registrant companies and is not intended to comply with such rules.

Royal Financial, Inc. and Subsidiary
Consolidated Statements of Financial Condition
Fiscal Years Ending June 30, 2019 and 2018
(Unaudited)

		June 30, 2019		June 30, 2018
Assets				
Cash and non-interest bearing balances in financial institutions	$	3,092,057	$	2,825,543
Interest bearing balances in financial institutions		11,242,481	$	11,357,538
Federal funds sold		271,189	$	45,159
Total cash and cash equivalents	$	14,605,727	$	14,228,240
Investment certificates of deposit	$	1,840,000	$	1,844,000
Securities available for sale		39,310,395		42,863,407
Loans Receivable, net of Allowance for loan losses		319,325,977		322,859,548
of $2,645,045 at June 30, 2019, $2,388,428 at June 30, 2018				
Federal Home Loan Bank Stock		836,300		724,100
Premises and equipment, net		14,856,772		14,810,797
Accrued interest receivable		1,464,514		1,354,267
Other real estate owned		297,544		305,311
Deferred tax asset		8,359,005		10,406,528
Core deposit intangibles		819,833		1,143,504
Goodwill		1,755,189		1,572,344
Other assets		1,516,378		1,116,626
Total Assets	**$**	**404,987,634**	**$**	**413,228,672**
Liabilities & Stockholders Equity				
Deposits	$	347,897,715	$	341,320,935
Advances from borrowers for taxes and insurance		4,777,979		3,691,202
Federal Home Loan Bank advances		-		19,000,000
Notes payable		11,250,000		13,500,000
Accrued interest payable and other Lliabilities		1,225,537		1,298,479
Total Liabilities	$	365,151,231	$	378,810,616
Stockholder's Equity				
Preferred Stock, $0.01 par value per share, authorized				
1,000,000 shares, no issues are outstanding	$	-	$	-
Common Stock, $0.01 par value per share, authorized 5,000,000				
shares, 2,645,000 shares issued at June 30, 2019 and 2018		26,450		26,450
Additional Paid-In Capital		23,676,229		24,012,821
Retained Earnings		16,313,278		12,609,097
Treasury Stock, 99,948 shares in 2019 and				
137,888 shares in 2018, at cost		(424,384)		(1,012,925)
Unrealized G/L in Equity		244,830		(1,104,337)
Total Capital	$	39,836,403	$	34,531,106
Total Liabilities and Stockholder's Equity	**$**	**404,987,634**	**$**	**413,228,672**

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