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M&F Bancorp, Inc. Announces First Quarter 2020 Results

DURHAM, N.C.-- M&F Bancorp, Inc. (“Company”) (OTC Pink: MFBP), the parent company of M&F Bank (“Bank”), announced unaudited financial results for the first quarter of 2020 today.

James H. Sills III, President and CEO of the Company, commented, “We started 2020 on a positive note, we hosted a grand reopening of our newly renovated 113 year old Parrish Street location in downtown Durham on February 26, 2020. This event was a great success and allowed the Bank to generate some brand awareness and attract new customers. During the latter part of the quarter, like all banks, we started to see some financial impacts from COVID -19. Based on regulatory guidance, all banks were encouraged to offer assistance to all customers related loan deferments and waving of service fees in a safe and prudent manner. Based on a projection of a deteriorating economy and projected higher unemployment, we decided to increase our allowance for loan losses (“ALLL”), which reduced our net income for the quarter. Going forward, we expect slower loan demand and lower yield on loans and pressure on net interest income in the near term. On a positive note, we have participated in the Paycheck Protection Program, which will help some of our customers stabilize in the near term. Finally, we cannot predict the future of the economy. There has been massive government intervention, and we will continue to monitor the situation and impacts on our customers very closely.”

The Company recorded a net income of \$38,000 for the first quarter of 2020 compared to \$174,000 for the comparable quarter of 2019. Diluted income per common share was \$0.02 and \$0.09 for the first quarters of 2020 and 2019, respectively.

The Company produced net interest income of \$2.3 million during the three months ended March 31, 2020, which was up \$90,000 from the \$2.2 million generated for the same period of 2019. Interest income increased \$11,000 or 0.42% to \$2.6 million for the three months ended March 31, 2020 as compared to the same period of the prior year. The increase was attributable to an increase in loans outstanding and increased yields on loans. Interest expense decreased \$79,000 to \$341,000 for the three months ended March 31, 2020 compared to \$420,000 for the same period in 2019. The decrease was primarily attributable to lower rates on wholesale time-deposits.

The provision for (reversal of) loan losses totaled \$108,000 and \$(35,000) for the three months ended March 31, 2020 and 2019, respectively.

Noninterest income increased \$125,000 or 26.94% to \$589,000 during the quarter ended March 31, 2020 as compared to the same period in 2019. The increase was primarily driven by increases in the money service business product offering.

Noninterest expense increased \$225,000 or 9.10% to \$2.7 million for the quarter ended March 31, 2020 compared to \$2.5 million for the same period of 2019, primarily driven by an \$116,000 increase in salaries and employee benefits due to increased retail staffing, \$76,000 increase in professional fees, primarily related to increased activities in the money service business product offering, and a \$76,000 increase in other expenses, partially offset by a \$99,000 decrease in information technology expenses due to using flex credits to offset certain data processing costs during the remaining life of the contract.

Total assets as of March 31, 2020 were \$264.6 million, down 0.34% or \$905 thousand from \$265.5 million at December 31, 2019. During the three months ended March 31, 2020, loans decreased to \$179.9 million, down 0.92% or \$1.7 million from \$181.6 million at December 31, 2019, while investment securities decreased \$1.5 million to \$42.1 million at March 31, 2020 from \$43.7 million at December 31, 2019. Cash and cash equivalents increased by \$2.4 million to \$20.7 million at March 31, 2020 as compared to \$18.3 million at December 31, 2019.

The ALLL was \$2.1 and \$2.0 million at March 31, 2020 and December 31, 2019, respectively, which represented 1.18% and 1.08%, respectively, of loans outstanding. The Company estimates its ALLL based upon a 5-year historical lookback at loan losses along with certain qualitative factors such as unemployment, collateral values and loan delinquencies among others. Qualitative factors were increased

by approximately 20 basis points during the first quarter ended March 31, 2020 due to economic challenges the Company's borrowers may encounter as a result of the ongoing COVID-19 pandemic.

Total liabilities as of March 31, 2020 were \$241.6 million, down 0.71% or \$1.7 million from \$243.3 million as of December 31, 2019. Decreases in total deposits were primarily attributable to temporary fluctuations in a couple of the Company's largest commercial deposit accounts. Interest-bearing deposits, including CDARS®, decreased \$161,000 or 0.09% to \$180.2 million at March 31, 2020 from \$180.4 million December 31, 2019. Noninterest-bearing deposits decreased \$1.6 million or 2.84% to \$56.0 million at March 31, 2020 from \$57.6 million at December 31, 2019. Operating lease liabilities totaled \$1.3 million and \$1.1 million at March 31, 2020 and December 31, 2019, respectively. Other liabilities decreased \$95,000 to \$3.5 million at March 31, 2020 from \$3.6 million at December 31, 2019, primarily due to decreases in miscellaneous payables.

Total stockholders' equity as of March 31, 2020 was \$23.0 million as compared to total stockholders' equity at December 31, 2019 of \$22.2 million. Accumulated other comprehensive loss decreased to \$1.1 million at March 31, 2020 from \$1.8 million at December 31, 2019, driven by an increase in the market value of the Company's available-for-sale investment securities during the period.

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and the Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Effects of COVID-19 may negatively impact significant estimates and exacerbate a vulnerability due of certain concentrations (e.g., business concentration in a market or geographical area severely affected by effects of COVID-19). Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements. Source: M&F Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,
	2020	2019
	<i>(unaudited)</i>	
<i>(Dollars in thousands except for share)</i>		
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 6,045	\$ 8,379
Interest-bearing cash	14,668	9,946
Total cash and cash equivalents	20,713	18,325
Interest-bearing time deposits	4,436	4,436
Investment securities available-for-sale, at fair value	42,149	43,655
Other invested assets	262	254
Loans, net of unearned income and deferred fees	179,926	181,594
ALL	(2,116)	(1,960)
Loans, net	177,810	179,634
Interest receivable	689	679
Bank premises and equipment, net	2,598	2,606
Cash surrender value of bank-owned life insurance	9,308	9,243
Deferred tax assets and taxes receivable, net	3,771	4,013
Operating lease right-of-use asset	1,252	1,062
Other assets	1,589	1,575
TOTAL ASSETS	\$ 264,577	\$ 265,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 180,218	\$ 180,379
Noninterest-bearing deposits	56,013	57,649
Total deposits	236,231	238,028
Other borrowings	563	587
Operating lease liabilities	1,277	1,085
Other liabilities	3,514	3,609
Total liabilities	241,585	243,309
Stockholders' equity:		
Series C Junior Participating Preferred Stock- \$0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Common stock, no par value, 10,000,000 shares authorized; 2,031,337 shares issued and outstanding	8,732	8,732
Retained earnings	15,324	15,286
Accumulated other comprehensive loss	(1,064)	(1,845)
Total stockholders' equity	22,992	22,173
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 264,577	\$ 265,482

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended	
	March 31,	
	2020	2019
<i>(Dollars in thousands except for share and per share data)</i>		
<i>(unaudited)</i>		
Interest income:		
Loans, including fees	\$ 2,308	\$ 2,189
Investment securities available-for-sale, including dividends		
Taxable	223	277
Interest-bearing time deposits	24	15
Other	50	113
Total interest income	<u>2,605</u>	<u>2,594</u>
Interest expense:		
Deposits	340	419
Borrowings	1	1
Total interest expense	<u>341</u>	<u>420</u>
Net interest income	2,264	2,174
Less provision for (reversal of) loan losses	<u>108</u>	<u>(35)</u>
Net interest income after provision for (reversal of) loan losses	<u>2,156</u>	<u>2,209</u>
Noninterest income:		
Service charges on deposit accounts	361	257
Other service charges, commissions and fees	133	116
Rental income	2	-
Cash surrender value of life insurance	65	63
Other income	28	28
Total noninterest income	<u>589</u>	<u>464</u>
Noninterest expense:		
Salaries and employee benefits	1,426	1,310
Occupancy and equipment	323	306
Directors' fees	39	45
Marketing	76	35
Professional fees	202	126
Information technology	238	337
FDIC deposit insurance	39	34
Other real estate owned expenses, net	-	1
Delivery expenses	28	28
Other	327	251
Total noninterest expense	<u>2,698</u>	<u>2,473</u>
Income before income tax expense	47	200
Income tax expense	<u>9</u>	<u>26</u>
Net income	<u>\$ 38</u>	<u>\$ 174</u>
Basic and diluted income per share of common stock:	\$ 0.02	\$ 0.09
Weighted average shares of common stock outstanding:		
Basic and diluted	2,031,337	2,031,337

SELECTED QUARTERLY FINANCIAL RATIOS*(Unaudited)*

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	0.06%	0.57%	0.50%	0.19%	0.26%
Return on average common stockholders' equity (1)(3)	0.68%	6.87%	6.13%	2.39%	3.47%
Tangible book value per share	\$ 11.32	\$ 10.92	\$ 10.76	\$ 10.52	\$ 10.20
Net interest margin (1)	3.71%	3.76%	3.57%	3.52%	3.51%
Net interest income to average assets (1)	3.39%	3.43%	3.31%	3.26%	3.25%
Efficiency ratio (4)	94.57%	79.73%	90.57%	95.75%	93.75%
Nonperforming assets to total assets	0.35%	0.36%	0.35%	0.37%	0.46%

(1) Annualized

(2) Calculated by dividing annualized net income available to common shareholders by average assets

(3) Calculated by dividing annualized net income available to common shareholders by average common equity

(4) Calculated by dividing total noninterest expense by the sum of federally taxable equivalent net interest income and noninterest income excluding securities gains (losses), if applicable.