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M&F Bancorp, Inc. Announces Fourth Quarter and Annual 2020 Results

DURHAM, N.C.-- M&F Bancorp, Inc. (“Company”) (OTC Pink: MFBP), the parent company of M&F Bank (“Bank”), announced unaudited consolidated financial results for the fourth quarter and full year ended December 31, 2020.

James H. Sills III, President and CEO of the Company, commented, “We experienced a strong fourth quarter in 2020. I am pleased to report that the Company experienced a 16.42% or \$43.6 million increase in total asset growth in 2020 over 2019. Given the pandemic, we were focused on maintaining credit quality and finished the year with a 0.61% delinquency rate. Our delinquency rate has been significantly under 1.00% for the past three years, and overall charge-offs have been negative during the same periods. During the quarter, we received significant interest from the four largest banks in the U.S., which have announced various programs to make equity investments in and partner with Minority Depository Institutions to help the communities that we serve foster a more inclusive recovery and help the banks become stronger. In October, we received an equity investment from Bank of America, and we are planning to announce other significant investments in the first quarter of 2021. It’s very apparent that these large financial institutions are committed to support the mission of the Company to provide access to capital to small and medium size businesses in urban communities.”

The Company recorded net income of \$752,000 and \$378,000 for the quarters ended December 31, 2020 and 2019, respectively. Diluted income per common share was \$0.36 and \$0.19 for the three months ended December 31, 2020 and 2019, respectively.

The Company recorded net income for the year ended December 31, 2020 of \$1.1 million compared to \$1.0 million for the same period of 2019. Diluted income per common share was \$0.51 and \$0.50 for the year ended December 31, 2020 and 2019, respectively.

The Company produced net interest income of \$2.4 million during the three months ended December 31, 2020, which was up \$94,000 from the \$2.3 million generated for the same period of 2019. Interest income decreased \$155,000 or 5.86% to \$2.5 million for the three months ended December 31, 2020 as compared to the same period of the prior year. The decrease was attributable to lower yields on earning assets such as loans and investments. Interest expense decreased to \$137,000 for the three months ended December 31, 2020 compared to \$386,000 for the same period in 2019. The decrease was primarily driven by an overall decrease in cost of funds, especially brokered-deposits, which are rate sensitive.

The Company produced net interest income of \$9.2 million during the year ended December 31, 2020, which was up \$418,000 from the \$8.8 million generated for the same period in 2019. Interest income decreased \$285,000 or 2.74% to \$10.1 million for the year ended December 31, 2020 as compared to the same period of the prior year. The decrease was primarily attributable to lower yields on earning assets. Interest expense decreased to \$958,000 for the year ended December 31, 2020 compared to \$1.7 million for the same period in 2019. The decrease was primarily driven by an overall decrease in cost of funds, especially brokered-deposits, which are rate sensitive.

The provision for (reversal of) loan losses totaled \$(280,000) and \$43,000 during the quarters ended December 31, 2020 and 2019, respectively.

The provision for (reversal of) loan losses totaled \$700,000 and \$(189,000) during the years ended December 31, 2020 and 2019, respectively.

Excluding \$12,000 net gains on sales of investment securities available-for-sale during the three months ended December 31, 2020 and a \$4,000 realized net loss on the disposal of bank premises and equipment, noninterest income increased \$270,000 or 42.79% to \$901,000 during the three months ended December 31, 2020 as compared to the same period in 2019. The increase was primarily attributable to a \$287,000 increase in money service business income.

Excluding a \$203,000 and \$44,000 Bank Enterprise Award (“BEA”) recognized during the years ended December 31, 2020 and 2019, respectively, and a \$25,000 realized net gain on the sale of investment securities during the year ended December 31, 2020 along with realized net gain (loss) on disposal of bank premises and equipment of \$(4,000) and \$48,000 during 2020 and 2019 respective periods, noninterest income increased \$898,000 or 43.01% to \$3.0 million during the year ended December 31, 2020 as compared to the same period in 2019. The increase was primarily driven by \$871,000 in money service business income. The BEA, awarded by the U.S. Treasury, reflects M&F Bank’s commitment to low and moderate income areas within its footprint.

Noninterest expense increased \$259,000 or 11.26% to \$2.6 million for the quarter ended December 31, 2020 compared to \$2.3 million for the same period of 2019, primarily driven by a \$127,000 increase in salaries and employee benefits, a \$121,000 increase in information technology, and a \$104,000 increase in money service business expenses.

Noninterest expense increased \$525,000 or 5.35% to \$10.3 million for the year ended December 31, 2020 compared to \$9.8 million for the same period of 2019, primarily driven by a \$319,000 increase in salaries and employee benefits, a \$268,000 increase in money service business expenses and a \$114,000 increase marketing expenses, partially offset by a \$224,000 decrease in other miscellaneous primarily driven by lower costs associated with other net periodic benefits.

Total assets as of December 31, 2020 were \$309.1 million, up 16.42% or \$43.6 million from \$265.5 million at December 31, 2019. During the year ended December 31, 2020, loans increased to \$187.5 million, up 3.27% or \$5.9 million from \$181.6 million at December 31, 2019, while investment securities increased \$13.3 million to \$57.0 million at December 31, 2020 from \$43.7 million at December 31, 2019. Cash and cash equivalents increased by \$25.7 million to \$44.0 million at December 31, 2020 as compared to \$18.3 million at December 31, 2019.

The allowance for loan losses (“ALLL”) was \$2.7 million and \$2.0 million at December 31, 2020 and 2019, respectively, which represented 1.43% and 1.08%, respectively, of loans outstanding. The Company estimates its ALLL based upon a five-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 60 basis points during the nine-month period ended September 30, 2020 due to economic challenges the Company’s borrowers may encounter as a result of the ongoing COVID-19 pandemic.

Total liabilities as of December 31, 2020 were \$285.6 million, 17.38% or \$42.3 million from \$243.3 million as of December 31, 2019. Increases in total deposits were attributable to deposits stemming from Paycheck Protection Program (“PPP”) loans, individuals and businesses interested in supporting a minority depository institution, core deposit growth due to business development and temporary increases in deposits due to lower household spending as a result of COVID-19. Interest-bearing deposits, including CDARS®, increased \$8.0 million or 4.44% to \$188.4 million at December 31, 2020 from \$180.4 million December 31, 2019. Noninterest-bearing deposits increased \$34.8 million or 60.20% to \$92.4 million at December 31, 2020 from \$57.6 million at December 31, 2019. Operating lease liabilities totaled \$1.1 million at December 31, 2020 and December 31, 2019. Other liabilities totaled \$3.5 million and \$3.6 million at December 31, 2020 and December 31, 2019.

Total stockholders' equity as of December 31, 2020 was \$23.5 million as compared to total stockholders' equity at December 31, 2019 of \$22.2 million. Accumulated other comprehensive loss decreased to \$1.5 million at December 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

	December 31, 2020	December 31, 2019
	<i>(Unaudited)</i>	
<i>(Dollars in thousands except for share)</i>		
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 20,297	\$ 8,379
Interest-bearing cash	23,680	9,946
Total cash and cash equivalents	<u>43,977</u>	<u>18,325</u>
Interest-bearing time deposits	4,189	4,436
Investment securities available-for-sale, at fair value	57,017	43,655
Other invested assets	262	254
Loans, net of unearned income and deferred fees	187,524	181,594
ALLL	<u>(2,673)</u>	<u>(1,960)</u>
Loans, net	<u>184,851</u>	<u>179,634</u>
Interest receivable	867	679
Bank premises and equipment, net	2,589	2,606
Cash surrender value of bank-owned life insurance	9,508	9,243
Deferred tax assets and taxes receivable, net	3,025	4,013
Operating lease right-of-use asset	1,116	1,062
Other assets	<u>1,665</u>	<u>1,575</u>
TOTAL ASSETS	<u>\$ 309,066</u>	<u>\$ 265,482</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 188,385	\$ 180,379
Noninterest-bearing deposits	<u>92,356</u>	<u>57,649</u>
Total deposits	280,741	238,028
Other borrowings	204	587
Operating lease liabilities	1,148	1,085
Other liabilities	<u>3,510</u>	<u>3,609</u>
Total liabilities	<u>285,603</u>	<u>243,309</u>
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, shares authorized: 9,813,960 and 10,000,000 at December 31, 2020 and December 31, 2019; issued and outstanding: 1,940,375 and 2,031,337 at December 31, 2020 and December 31, 2019, respectively	8,614	8,732
Retained earnings	16,336	15,286
Accumulated other comprehensive loss	<u>(1,487)</u>	<u>(1,845)</u>
Total stockholders' equity	<u>23,463</u>	<u>22,173</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 309,066</u>	<u>\$ 265,482</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for share and per share data)

	For the Three Months Ended December 31,		For the Years Ended December 31,	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019
Interest income:				
Loans, including fees	\$ 2,305	\$ 2,346	\$ 9,242	\$ 8,983
Investment securities available-for-sale, including dividends				
Taxable	155	228	720	1,016
Interest-bearing time deposits	23	25	96	81
Other	7	46	72	335
Total interest income	2,490	2,645	10,130	10,415
Interest expense:				
Deposits	136	377	955	1,649
Borrowings	1	9	3	12
Total interest expense	137	386	958	1,661
Net interest income	2,353	2,259	9,172	8,754
Less provision for (reversal of) loan losses	(280)	43	700	(189)
Net interest income after provision for (reversal of) loan losses	2,633	2,216	8,472	8,943
Noninterest income:				
Service charges on deposit accounts	216	253	850	1,036
Other service charges, commissions and fees	138	112	472	454
Money service business income	458	171	1,087	216
Rental income	2	2	8	4
Cash surrender value of life insurance	67	65	265	258
Realized gain on sale of PPP loans	-	-	186	-
Net realized gains on sales of investment securities available-for-sale	12	-	25	-
Net realized gain (loss) on disposal of Bank premises and equipment	-	(4)	(4)	48
Other income	20	28	321	164
Total noninterest income	913	627	3,210	2,180
Noninterest expense:				
Salaries and employee benefits	1,348	1,221	5,528	5,209
Occupancy and equipment	320	314	1,268	1,241
Directors' fees	37	35	140	149
Money service business expenses	142	38	318	50
Marketing	102	39	293	179
Professional fees	99	144	578	550
Information technology	333	212	1,124	1,100
FDIC deposit insurance	36	8	143	82
Other real estate owned expenses (income), net	(87)	-	(86)	2
Delivery expenses	28	26	121	116
Other	202	264	911	1,135
Total noninterest expense	2,560	2,301	10,338	9,813
Income before income tax expense	986	542	1,344	1,310
Income tax expense	234	164	294	304
Net income	\$ 752	\$ 378	\$ 1,050	\$ 1,006
Basic and diluted income per share of common stock:				
Basic and Diluted	\$ 0.36	\$ 0.19	\$ 0.51	\$ 0.50
Weighted average shares of common stock outstanding:				
Basic and Diluted	2,094,060	2,031,337	2,047,623	2,031,337

SELECTED QUARTERLY FINANCIAL RATIOS*(Unaudited)*

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	1.00%	0.42%	(0.08%)	0.06%	0.57%
Return on average common stockholders' equity (1)(3)	12.78%	5.52%	(1.03%)	0.68%	6.87%
Tangible book value per share	\$ 12.09	\$ 11.11	\$ 11.30	\$ 11.32	\$ 10.92
Net interest margin (1)	3.47%	3.26%	3.59%	3.71%	3.76%
Net interest income to average assets (1)	3.12%	2.98%	3.26%	3.39%	3.43%
Efficiency ratio (4)	78.67%	80.82%	81.76%	94.57%	79.73%
Nonperforming assets to total assets	0.28%	0.28%	0.35%	0.35%	0.36%

(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.