

M&F Bancorp, Inc.

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ANNUAL REPORT

2022 Annual Report

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This annual report 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. Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements.

M&F Bancorp, Inc.

Chairman and President's Letter

To Our Fellow Shareholders:

We are pleased with our results for 2022, which exceeded our expectations entering the year. M&F Bancorp, Inc. (the "Company") achieved increased earnings available to stockholders of \$4.3 million, a 60.9% increase over 2021. The Company achieved a 1.0% return on assets, which is the standard for bank profitability in the industry. Further good news, in 2022, our share price increased in value by over 192%. Our strong performance allowed us to invest in our business, our communities, and our associates, and we ended the year with more capital than in any other time in the history of the Company. We are one of the strongest bank holding companies in North Carolina with a Tier 1 Leverage Ratio of 27.6%.

As you may recall, 2021 was the "year of capital" for the Company, and we continued this theme into 2022. In June 2022, we received \$80.0 million in new capital from the U.S. Treasury through the Emergency Capital Investment Program ("ECIP"). We believe that this investment will be transformational for the Company enabling it to become stronger and more profitable. The goal is to continue our mission to provide needed capital to reduce the wealth gap in the communities we serve across North Carolina. This new capital is additive to the \$17.5 million injected into the Company in 2021 by the four largest banks in the U.S. (JP Morgan, Bank of America, Wells Fargo, and Citi Bank).

We are incredibly proud of how the Company and M&F Bank (the "Bank") have continued to improve over the past three years in a pandemic environment. The Bank is stronger, growing, and we believe well-positioned for the future. Our associates continued to operate our branch locations with excellence; we have invested in technology, products, people, and new capabilities to meet the needs of our customers through a period of rapid change.

We are pleased to report that we delivered earnings available to common shareholders of \$4.3 million in 2022 versus \$2.7 million in 2021. This is the highest earnings in the Company's history. We were successful in executing our strategic plan to provide access to capital to small- and medium-size businesses in all the markets we serve. We are pleased to report that we generated over \$79.0 million in loans to the communities that we serve. Our credit quality remains strong, and we prudently built our reserve levels in this uncertain economic environment. The Bank's delinquency rate was 0.45% in 2022 and has been significantly under 1.0% for the past five years.

Some key highlights from the past year:

- Total assets increased 23.5%, or \$85.9 million, in 2022 over 2021 (including the ECIP funding)
- We paid four dividends to shareholders with a planned one cent per share increase in 2023
- Money Service Business gross non-interest income was \$2.2 million
- JP Morgan Empower Share Class Fund has over \$1.1 billion in assets under management, which generated \$830 thousand in fee income for the Bank
- Our customers have access to over 44 thousand no surcharge ATMs with our Big Bank Partners

As noted above, we had several major highlights in 2022. Total loans were \$246.9 million as of December 31, 2022 versus \$231.9 million in 2021. Total deposits were \$327.4 million as of December 31, 2022 versus \$317.0 million as of December 31, 2021. Total assets as of December 31, 2022, were \$451.0 million versus \$365.1 million as of December 31, 2021. We finished the year with \$118.1 million in capital versus \$42.9 million in 2021.

In closing, 2022 was great year for the Company in terms of earnings performance, increased capital, share price appreciation, and dividend performance. Finally, we are extremely proud of our associates, management team, and Board of Directors for all their efforts this past year.

Thank you for your continued support.

Sincerely,



James A. Stewart
Chairman of the Board



James H. Sills, III
President and Chief Executive Officer

Independent Auditor's Report

To the Board of Directors and Shareholders
M&F Bancorp, Inc. and Subsidiary
Durham, North Carolina

Opinion

We have audited the consolidated financial statements of M&F Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Elliott Davis, PLLC

Raleigh, North Carolina
March 3, 2023

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2022	December 31, 2021
<i>(Dollars in thousands except for share and per share data)</i>		
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 12,667	\$ 16,799
Interest-bearing cash	76,800	24,499
Total cash and cash equivalents	89,467	41,298
Interest-bearing time deposits	3,701	3,201
Investment securities available-for-sale, at fair value	67,092	72,326
Investment securities held-to-maturity (fair value of \$24,740 in 2022 and \$0 in 2021)	25,141	-
Other invested assets	205	177
Loans, net of unearned income and deferred fees	246,909	231,908
Allowance for loan losses ("ALLL")	(2,863)	(2,272)
Loans, net	244,046	229,636
Interest receivable	1,324	870
Bank premises and equipment, net	2,612	2,302
Cash surrender value of bank-owned life insurance	10,066	9,782
Deferred tax assets and taxes receivable, net	3,608	2,149
Operating lease right-of-use ("ROU") asset	1,444	946
Other assets	2,291	2,376
TOTAL ASSETS	\$ 450,997	\$ 365,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 222,175	\$ 210,363
Noninterest-bearing deposits	105,220	106,658
Total deposits	327,395	317,021
Other borrowings	76	130
Operating lease liabilities	1,479	985
Other liabilities	3,989	4,025
Total liabilities	332,939	322,161
COMMITMENTS AND CONTINGENCIES (Note 17)		
Stockholders' equity:		
Series C Junior Participating Preferred Stock- \$0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Series D Noncumulative Perpetual Preferred Stock- \$0.01 par value, 20,000 authorized at December 31, 2022 and 2021, respectively; 17,302 shares issued and outstanding at December 31, 2022 and 2021, respectively	17,302	17,302
Series E Noncumulative Perpetual Preferred Stock- \$0.01 par value, 80,000 authorized at December 31, 2022 and none at December 31, 2021, respectively; 80,000 shares issued and outstanding at December 31, 2022 and none at December 31, 2021, respectively	80,000	-
Common stock, no par value, 10,000,000 shares authorized at December 31, 2022 and 2021; issued and outstanding: 1,979,975 at December 31, 2022 and 2021, respectively	8,866	8,823
Retained earnings	23,005	18,910
Accumulated other comprehensive loss	(11,115)	(2,133)
Total stockholders' equity	118,058	42,902
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 450,997	\$ 365,063

See notes to consolidated financial statements.

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(Dollars in thousands except for share and per share data)</i>	For the Years Ended December 31,	
	2022	2021
Interest income:		
Loans, including fees	\$ 11,959	\$ 10,748
Investment securities, including dividends		
Taxable	1,555	735
Tax-exempt	91	13
Interest-bearing time deposits	57	74
Other	1,604	47
	15,266	11,617
Interest expense:		
Deposits	358	331
Borrowings	1	1
	359	332
Net interest income	14,907	11,285
Less provision for (reversal of) loan losses	699	(373)
Net interest income after provision for (reversal of) loan losses	14,208	11,658
Noninterest income:		
Service charges on deposit accounts	842	822
Other service charges, commissions and fees	637	642
Money service business income	2,189	2,072
Commissions from sales of financial products	848	240
Rental income	-	4
Cash surrender value of life insurance	284	274
Net realized gain on disposal of Bank premises and equipment	31	-
Gains on sales of repossessed assets	-	29
Other income	387	94
Total noninterest income	5,218	4,177
Noninterest expense:		
Salaries and employee benefits	7,098	6,863
Occupancy and equipment	1,360	1,427
Directors compensation	228	153
Money service business expenses	680	578
Marketing	331	264
Professional fees	967	663
Information technology	1,475	1,290
FDIC deposit insurance	107	82
Other real estate owned ("OREO") expenses, net	1	1
Delivery expenses	146	131
Interchange expenses	324	309
Other	975	465
Total noninterest expense	13,692	12,226
Income before income tax expense	5,734	3,609
Income tax expense	1,222	826
Net income	4,512	2,783
Preferred stock dividends	(180)	(90)
Net income available to common stock holders	\$ 4,332	\$ 2,693
Basic and diluted income per share of common stock:		
Basic	2.19	1.36
Diluted	2.18	1.36
Weighted average shares of common stock outstanding:		
Basic	1,979,975	1,975,418
Diluted	1,984,640	1,975,418

See notes to consolidated financial statements.

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>(Dollars in thousands)</i>	For the Years Ended December 31,	
	2022	2021
Net income	\$ 4,512	\$ 2,783
Other comprehensive loss:		
Investment securities:		
Unrealized holding losses on investment securities available-for-sale	(11,609)	(1,405)
Tax effect	2,668	322
Net of tax amount	(8,941)	(1,083)
Defined benefit pension plans:		
Net actuarial gains (losses)	(53)	567
Tax effect	12	(130)
Net of tax amount	(41)	437
Other comprehensive loss, net of tax	(8,982)	(646)
Comprehensive income (loss)	\$ (4,470)	\$ 2,137

See notes to consolidated financial statements

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2022 and 2021

(Dollars in thousands except for share data)

	Number of Shares	Common Stock	Preferred Stock-Series D	Preferred Stock-Series E	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances as of December 31, 2020	1,940,375	\$ 8,614	\$ -	\$ -	\$ 16,336	\$ (1,487)	\$ 23,463
Net income	-	-	-	-	2,783	-	2,783
Issuance of common stock	39,600	198	-	-	-	-	198
Issuance of preferred stock-Series D	-	-	17,302	-	-	-	17,302
Stock-based compensation	-	11	-	-	-	-	11
Other comprehensive loss, net of tax	-	-	-	-	-	(646)	(646)
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(90)	-	(90)
Dividends declared on common stock (\$0.06 per share)	-	-	-	-	(119)	-	(119)
Balances as of December 31, 2021	1,979,975	\$ 8,823	\$ 17,302	\$ -	\$ 18,910	\$ (2,133)	\$ 42,902
Net income	-	-	-	-	4,512	-	4,512
Issuance of preferred stock-Series E	-	-	-	80,000	-	-	80,000
Stock-based compensation	-	43	-	-	-	-	43
Other comprehensive loss, net of tax	-	-	-	-	-	(8,982)	(8,982)
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(180)	-	(180)
Dividends declared on common stock (\$0.12 per share)	-	-	-	-	(237)	-	(237)
Balances as of December 31, 2022	1,979,975	\$ 8,866	\$ 17,302	\$ 80,000	\$ 23,005	\$ (11,115)	\$ 118,058

See notes to consolidated financial statements

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
<i>(Dollars in thousands)</i>	2022	2021
Cash flows from operating activities:		
Net income	\$ 4,512	\$ 2,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) loan losses	699	(373)
Depreciation and amortization	401	441
Gains on dispositions of repossessed assets	-	(29)
Amortization of discounts/premiums on investment securities available-for-sale, net	268	586
Amortization of discounts/premiums on investment securities held-to-maturity, net	(67)	-
Increase in cash surrender value of bank-owned life insurance	(284)	(274)
Net gains on disposal of Bank premises and equipment	(31)	-
Stock-based compensation	43	11
Net changes in:		
Accrued interest receivable and other assets	479	840
Other liabilities	280	603
Net cash provided by operating activities	6,300	4,588
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Principal collections	7,832	14,530
Purchases	(14,475)	(31,830)
Activity in held-to-maturity securities:		
Purchases	(25,261)	-
Principal collections	187	-
Proceeds from maturities of interest-bearing time deposits	1,229	1,974
Purchases of interest-bearing time deposits	(1,729)	(986)
Federal Home Loan Bank ("FHLB") stock purchases	(28)	-
FHLB stock redemptions	-	85
Net increase in loans	(15,109)	(44,412)
Purchases of Bank premises and equipment	(711)	(154)
Proceeds from sale of Bank premises and equipment	31	-
Proceeds from dispositions of repossessed assets	-	29
Net cash used in investing activities	(48,034)	(60,764)
Cash flows from financing activities:		
Net increase in deposits	10,374	36,280
Proceeds from other borrowings	5,390	498
Repayments of other borrowings	(5,444)	(572)
Issuance of Series D preferred stock, net of issuance costs	-	17,302
Issuance of Series E preferred stock, net of issuance costs	80,000	-
Issuance of common stock	-	198
Cash dividends	(417)	(209)
Net cash provided by financing activities	89,903	53,497
Net increase (decrease) in cash and cash equivalents	48,169	(2,679)
Cash and cash equivalents as of the beginning of the period	41,298	43,977
Cash and cash equivalents as of the end of the period	\$ 89,467	\$ 41,298

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	For the Years Ended	
	December 31,	
<i>(Dollars in thousands)</i>	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during period for:		
Interest	\$ 311	\$ 351
Income taxes	1	(242)
Noncash Transactions:		
Net unrealized losses on investment securities available-for-sale, net of deferred income tax	(8,941)	(1,083)
Adjustments related to defined benefit plans, net of deferred income tax	(41)	437

See notes to consolidated financial statements.

M&F BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - M&F Bancorp, Inc. (the “Company”) is a bank holding company, and the parent company of Mechanics and Farmers Bank (the “Bank”), a state chartered commercial bank incorporated in North Carolina (“NC”) in 1907, which began operations in 1908. The Bank has seven branches in NC: two in Durham, two in Raleigh, and one each in Charlotte, Greensboro and Winston-Salem. The Company, headquartered in Durham, operates as a single business segment and offers a wide variety of consumer and commercial banking services and products almost exclusively in NC.

Basis of Presentation - The Consolidated Financial Statements include the accounts and transactions of the Company and the Bank, the wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - The cash and cash equivalents are comprised of highly liquid short-term investments that are carried at cost, which approximates market value, and cash held at the Federal Reserve Bank of Richmond (“FRB”). The Board of Governors of the Federal Reserve (the “Federal Reserve”) and banking laws in NC require banks to maintain average balances in relation to specific percentages of their customers' deposits as a reserve. As of December 31, 2022 and 2021, the Bank, held deposits as shown:

<i>(Dollars in thousands)</i>	Federal Reserve	Bank				
	Required Average	Excess	Federal Funds Sold	Core Deposits	Total	
December 31, 2022	\$ -	\$ 76,738	\$ -	\$ 12,729	\$ 89,467	
December 31, 2021	\$ -	\$ 24,469	\$ -	\$ 16,829	\$ 41,298	

Interest-bearing Time Deposits in Banks - Interest-bearing time deposits in banks mature within five years and are carried at cost.

Investment Securities - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as “held-to-maturity securities” and reported at amortized cost. Debt securities that are bought and held principally for the purpose of selling in the near term are classified as “trading securities” and reported at fair value with unrealized gains and losses included in consolidated earnings. Debt securities not classified as either held-to-maturity securities or trading securities are classified as “available-for-sale securities” and reported at fair value with unrealized gains and losses excluded from consolidated earnings and reported as a separate component of consolidated stockholders' equity and as an item of other comprehensive income (loss). The unrealized gain or loss of a security is identified and removed from other comprehensive income (loss) when a security is sold, matured, or called. Equity securities are reported at fair value and changes in fair value are included in consolidated earnings. The initial classification of securities is determined at the date of purchase. Gains and losses on investment securities, computed based on specific identification of the adjusted cost of each security, are included in noninterest income. Premiums and discounts on debt securities are recognized in interest income using the interest method over the period to maturity, or when the debt securities are called.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their costs that are other-than-temporary result in write-downs of the individual securities to their respective fair value. There were no credit write-downs in consolidated earnings as realized losses. Transfers of securities between classifications, of which there were none in 2022 or 2021, are accounted for at fair value. No securities were classified as trading as of December 31, 2022 and 2021.

Other Invested Assets – Other invested assets are investments in FHLB stock carried at historical cost, as adjusted for any other-than-temporary impairment loss. As of December 31, 2022 and 2021, the Company’s investments in FHLB stock were \$205 thousand and \$177 thousand, respectively.

Loans – Loans are stated at the amount of unpaid principal, net of deferred loan origination fees and costs. Loans (net) are reduced by the ALLL. Nonrefundable loan fees associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan using the effective interest method. Interest on loans is accrued on the daily balances of unpaid principal outstanding. Interest income is accrued and credited to income only if deemed collectable. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded in income when collected.

Non-Performing Loans and Leases – Generally, all classes of loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more as to principal or interest (unless loans are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, regardless of class, the accrued and unpaid interest receivable is reversed, and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. Loans may be returned to accrual status when all principal and interest amounts contractually due (including any arrearages) are reasonably assured of repayment within a reasonable period, the borrower has demonstrated payment performance for a minimum of six months in accordance with the original or revised contractual terms of the loan, and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a

M&F BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For closed-end consumer loans, the entire outstanding balance of the loan is charged-off during the month that the loan becomes 120 days past due as to principal or interest. Consumer loans with non-real estate collateral are written down to the value of the collateral, less estimated costs to sell, if repossession of collateral is assured and in process. For residential mortgage and home equity loan classes, a partial charge-off is recorded at 120 days past due as to principal or interest for the amount that the loan balance exceeds the fair value of the collateral less estimated costs to sell.

Impaired Loans – A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan, including scheduled interest payments. Impaired loans include all classes of commercial non-accruing loans and Troubled Debt Restructurings (“TDRs”).

For all classes of commercial loans, a quarterly evaluation of specific individual commercial borrowers with identified weaknesses is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk.

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs and unamortized premiums or discounts), impairment is recognized by creating or adjusting an existing allocation of the ALLL, or by recording a partial charge-off of the loan to its estimated fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified as a TDR – Loans are considered to have been modified as a TDR when the Company makes certain concessions to a borrower experiencing financial difficulty. Concessions to the borrower at modification may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period.

Generally accepted accounting principles (“GAAP”) does not provide specific guidance on when a loan may be returned to accrual status. Federal banking regulators have provided guidance that interest on impaired loans, including TDRs, should only be recorded when there has been a sustained period of repayment performance, the loan is well secured, and collection under any revised terms is assessed as probable. The Company follows this Federal banking regulatory guidance.

No loans coded as TDR were charged-off or removed from TDR status during the years ended December 31, 2022 and 2021. Factors influencing the decision to remove the TDR status following an underwriting and loan modification subsequent to the initial TDR determination date included: 1) the borrowers are no longer experiencing financial difficulties, and 2) the terms of the loan are similar to market interest rates for new debt with similar credit risk and characteristics, and 3) the terms are no less favorable to the Company than those it would offer for such new debt, i.e., no concession granted. See note 6 for additional details on TDRs.

Income Recognition on Impaired and Non-accrual Loans – Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity, or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as non-accrual. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if full repayment of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and the borrower has demonstrated payment performance for a minimum of six months in accordance with the contractual terms involving payments of cash or cash equivalents.

In the case where a non-accrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the remaining loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charged off balances have been fully recovered.

Reserve for Credit Losses – The Company's reserve for credit losses is comprised of two components, the allowance for loan losses and the reserve for unfunded commitments (the “Unfunded Reserve”).

Allowances for Loan Losses – The ALLL is a valuation allowance, which is established through a provision for loan losses charged to expense. When management believes that the collectability of the principal is unlikely, loans are charged against the ALLL. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is management's estimate of probable losses that are inherent in the loan portfolio. The ALLL is based on regular quarterly assessments. The methodologies for measuring the appropriate level of the ALLL include the combination of a quantitative historical loss history by loan type and a qualitative analysis for loans not classified as impaired or TDRs, and a specific allowance method for impaired and TDR loans. The qualitative analysis is patterned after the guidelines provided under the Securities Exchange Commission (“SEC”) Staff

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Accounting Bulletin 102 and the Federal Financial Institutions Examination Council (“FFIEC”) Interagency Policy Statement on the Allowance for Loan and Lease Losses and include the following:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national economic and business conditions and developments and the effect of unemployment on African Americans, who are the majority of our customers;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in trends of the volume and severity of past due and classified loans; and changes in trends in the volume of non-accrual loans, troubled debt restructurings and classified loans;
- Changes in the quality of the loan review system and the degree of oversight by the Bank’s Board of Directors;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of external factors such as competition and legal and regulatory requirements.

Management has developed, from historical loan and economic information, quantitative drivers for certain qualitative factors. Management has identified which factors, by nature, are subjective, such as lending policies, competition, and regulatory requirements. The quantitative drivers, to which different weights are assigned based on management’s judgment, are reviewed and updated quarterly. The quantitative loss history was based on a five-year rolling look back period at December 31, 2022 and 2021.

A specific ALLL is established for loans identified as impaired or TDRs, based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by Accounting Standards Codification (“ASC”) 310, *Receivables*. Loans identified as impaired are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan’s effective interest rate; (ii) the loan’s observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. A loan is considered impaired when it is probable that not all amounts due (principal and interest) will be collectable according to the original contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls are considered on a loan-by-loan basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

For commercial business, faith-based non-profit, real estate and certain consumer loans, the measurement of loan impairment is based on the present value of the expected future cash flows, discounted at the loan’s effective interest rate, or on the fair value of the loan’s collateral if the loan is collateral dependent. Most consumer loans are smaller balance and homogeneous, and are evaluated for impairment on a collective basis, applying the quantitative loss history and the qualitative factors. Impairment losses are included in the ALLL through a charge to the provision for loan losses.

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company’s risk rating system was developed to aid in the risk management process by grouping credits with similar risk profiles into pass, special mention, substandard or doubtful categories. Credit risk ratings are applied individually to all classes of loans and leases. Internal credit reviews and external contracted credit review examinations are used to determine and validate loan risk grades. The credit review system takes into consideration factors such as: borrower’s background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, market value and volatility of the market value of collateral; lien position; and the financial strength of guarantors.

The process of assessing the adequacy of the ALLL is necessarily subjective. Further, and particularly in periods of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management’s current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management’s current estimate of what constitutes a reasonable ALLL.

The Company and the Bank are subject to periodic examination by their federal and state regulators and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

Reserve for Unfunded Commitments – The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unfunded loans with available balances, new commitments to lend that are not yet funded, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the ALLL, as adjusted for estimated funding probabilities and historical five-year rolling look back quantitative loan loss factor at December 31, 2022 and 2021. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense. The balances of \$43 thousand and \$21 thousand for December 31, 2022 and 2021, respectively, were reflected in other liabilities on the Consolidated Balance Sheets.

Bank Premises and Equipment, Net – Premises and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation and amortization are computed by the straight-line method and are charged to operations over the estimated useful lives of the assets, which range from 30-50 years for premises; generally 6-10 years for furniture and equipment, and 3-5 years for information technology equipment and software. Leasehold improvements are amortized over the terms of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to operations as incurred. The Bank reviews

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long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected cash flows attributable to an asset is less than the stated amount of the asset, an impairment loss is recognized in the current period and charged to operations. Upon disposition, the asset and related accumulated depreciation and/or amortization are relieved, and any gains or losses are reflected in operations.

Cash Surrender Value of Life Insurance – The Bank maintains life insurance on certain current and former officers and directors, of which the Bank is owner and beneficiary. The cash surrender value of the policies at December 31, 2022 and 2021 was \$10.1 million and \$9.8 million, respectively. Income from the policies and changes in the net cash surrender value, excluding additional purchases or withdrawals, are recorded in noninterest income.

OREO – OREO, which represents real estate acquired through foreclosure, or the transfer of the deed in lieu of foreclosure in satisfaction of commercial and consumer real estate collateralized loans, is initially recorded at fair value less estimated holding and selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of the foreclosure are charged to the ALLL. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to non-interest income or non-interest expense. Valuations are periodically performed by management, and any subsequent write-downs due to the carrying value of a property exceeding its estimated fair value less estimated costs to sell are charged against other non-interest expense. As of December 31, 2022 and 2021, there were no foreclosed properties included in OREO on the Consolidated Balance Sheets. OREO excludes bank-owned property held for Company use. At December 31, 2022, there were no loans collateralized by residential real estate in the process of foreclosure.

Leases – The Company determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities on our Consolidated Balance Sheets. Finance leases are included in bank premises and equipment and other borrowings on our consolidated balance sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, the Company may account for the lease and non-lease components as a single lease component.

Revenue from Contracts with Customers – All of the Company’s revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company’s sources of noninterest income for the years ended December 31, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	For the Years Ended	
	December 31,	
	2022	2021
Noninterest income:		
Service charges on deposit accounts	\$ 842	\$ 822
Other service charges, commission and fees	637	642
Money service business income	2,189	2,072
Commissions from sales of financial products	848	240
Cash surrender value of life insurance (1)	284	274
Realized net gain (loss) on disposal of Bank premises and equipment	31	-
Gains on sales of repossessed assets	-	29
Other income (2)	387	98
Total noninterest income	\$ 5,218	\$ 4,177

(1) Not within the scope of ASC 606

(2) Portions within the scope of ASC 606, but not material

There were no impairment losses recognized on any receivables or contract assets arising from the Company’s contracts with customers during the years ended December 31, 2022 and 2021. While the Company has noninterest income related to rental income, changes in cash surrender value of life insurance and sales of investments, these are not within the scope of ASC 606.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in

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the related service charge. Based on the Company's analysis, there are no fees generated for opening account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

The Company earns referral commissions for financial products such as annuities and equity investments. Commissions are earned upon the issuance of the financial product. The Company's performance obligation does not extend beyond the referral.

As of December 31, 2022 and 2021, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered. In addition, during the years ended December 31, 2022 and 2021, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of December 31, 2022 and 2021, the nature of the performance obligations within the contracts generating service charges on deposit, including money service business, and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there are no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2022 and 2021.

Advertising Costs – Advertising is expensed as incurred.

Income Taxes – Provisions for income taxes are based on amounts reported in the Consolidated Statements of Operations (after exclusion of non-taxable income such as interest on state and municipal securities) and include changes in deferred income taxes. Deferred tax asset and liability balances reflect temporary differences at the tax rate expected to be in effect when taxes will become payable or receivable. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years. The effect of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation process, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income. The Company does not have an accrual for uncertain tax positions as of December 31, 2022 and 2021, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on tax law. The Company's federal and state income tax returns are subject to review and examination by government authorities.

Earnings Per Share Amounts – Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, excluding unvested shares of stock options. Diluted earnings per common share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. For the periods presented, the Company's potentially dilutive common stock issuances related to unvested shares of stock options under the Company's equity-based plans.

In computing diluted earnings per common share, adjustments are made to the computation of basic earnings per common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. If any of the potentially dilutive common stock issuances have an anti-dilutive effect, the potentially dilutive common stock issuance is disregarded.

Comprehensive Income (Loss) - Comprehensive income (loss) is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive loss are comprised of net unrealized gains and losses on certain investments in debt securities and post-retirement plans. Information concerning the

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Company's other comprehensive income and accumulated comprehensive loss as of and for the years ended December 31, 2022 and 2021 are presented in the Consolidated Statements of Comprehensive Income.

Fair Values of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Company's assumptions (unobservable inputs). GAAP requires fair value measurements to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets.

Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The Company did not have any changes in leveling inputs in 2022.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U.S. Treasury ("U.S. Treasuries") U.S. Government agency securities ("U.S. Agencies"), U.S. Government sponsored residential mortgage backed securities ("MBS") and State and Municipal Bonds ("Municipals").

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change in the near term relate to the determination of the ALLL and the provision for loan losses, the evaluation of other-than-temporary impairment of investment securities, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other accounting for incentive compensation, and post-retirement benefits. Actual results could differ from those estimates.

Reclassification of Prior Year Presentation – No prior year amounts have been reclassified for consistency with the current year presentation.

Significant Group Concentrations - Most of the Bank's activities are with customers located within the state of NC. The Bank does have concentrations with respect to loans to and deposits from faith-based non-profit organizations as outlined in Note 6 to the Consolidated Financial Statements.

Emergency Capital Investment Program ("ECIP") – On June 27, 2022, the U.S. Department of the Treasury ("Treasury") awarded the Company a capital investment from the Treasury under ECIP in the amount of \$80 million in the form of non-dilutive Tier 1 senior perpetual preferred stock. By accepting the investment from the Treasury, the Company is required to fulfill certain conditions established by the Treasury and is subject to certain restrictions, the terms of which are set forth in a series of legal agreements provided by the Treasury. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low-and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

New Accounting Pronouncements –

In June 2016, the FASB issued guidance Accounting Standards Update ("ASU" 2016-13) to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption was permitted beginning in first quarter 2019, the Company did not elect that option. The Company has evaluated

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the impact of the ASU on its consolidated financial statements. The Company expects the ASU will result in an increase in the quantitative portion of the recorded allowance for loan losses and unfunded commitments given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. The majority of the increase results from longer duration portfolios. The Company has estimated a significant reduction in the qualitative factors component of the allowance for loan losses as the CECL model better captures overall risks than the incurred loss model currently being used. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on held-to-maturity debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). The guidance is to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. In October of 2019, the FASB approved a proposal to defer implementation of the CECL model by smaller reporting companies to January 1, 2023. The Company currently qualifies for this deferral and has elected to defer adoption but has also taken steps to effect implementation of the guidance including: (1) forming a CECL Committee; (2) engaging a third-party vendor to develop models and model assumptions; (3) established initial framework for portfolio segmentation for application of the models; and (4) received preliminary results for consideration and evaluation. The Company will continue to calibrate and validate its approach during the period of deferral.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on CECL. The new effective dates will be for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

The Company will adopt CECL on January 1, 2023. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings. Future adjustments to the credit loss expectations will be recorded through the income statement as charges or credits to earnings. At this time, the Company expects its allowance for credit losses will decrease by approximately \$6 thousand upon adoption and that its reserve for unfunded commitments will increase by \$313 thousand. The Company does not anticipate a reserve for held-to-maturity securities upon adoption.

In August 2018, the FASB amended the Compensation – Retirement Benefits – Defined Benefit Plan Topic of the ASC. The amendments remove, modify, and add certain disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement plan. The amendments are effective for fiscal years ending after December 15, 2020. The amendments did not have a material effect on the Company's consolidated financial statements.

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 including interim periods within those years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the CECL guidance issued in 2016. The amendments related to conforming amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 31, 2019. For the amendments related to ASU 2016-13, the effective date is during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to opening retained earnings in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. These amendments did not have a material effect on the Company's financial statements.

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of ASC 310-20-35-33 for each reporting period. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The adoption did not have a material effect on the Company's financial statements.

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In October 2020, the FASB issued amendments to clarify the Accounting Standards Codification and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for any annual or interim period for which financial statements are available to be issued. The adoption did not have a material effect on the Company's financial statements.

In November 2021, the FASB added a topic to the Accounting Standards Codification, Government Assistance, to require certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2021. The adoption did not have a material effect on the Company's financial statements.

In March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022 including interim periods withing those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2022, the FASB issued amendments to clarify the guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2022, the FASB issued amendments to extend the period of time prepares can use for the reference rate reform relief guidance under ASC Topic 848 from December 31, 2022 to December 31, 2024, to address the fact that all London Interbank Offered Rate, commonly called LIBOR, tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. INVESTMENT SECURITIES

The main objectives of the Company's investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. The Company's investment policy permits investments in various types of securities, certificates of deposit and federal funds sold in compliance with various restrictions in the policy. As of December 31, 2022, investments were classified as either available-for-sale or held-to-maturity; as of December 31 2021, all investment securities were classified as available-for-sale.

The Company's investment securities totaled \$92.2 million and \$72.3 million at December 31, 2022 and 2021, respectively. Available-for-sale securities totaled \$67.1 million and \$72.3 million as of December 31, 2022 and 2021, respectively. Held-to-maturity securities totaled \$25.1 million at December 31, 2022. There were no securities classified as held-to-maturity at December 31, 2021. In the normal course of business, the Company pledges securities to the FRB and to public housing authorities in NC and the NC Department of State Treasurer ("State Treasurer") as collateral for public deposits. The following table shows the amounts pledged:

<i>(Dollars in thousands)</i>	December 31, 2022	December 31, 2021
Pledged to FRB	\$ 898	\$ 1,022
Pledged to public housing authorities	1,065	1,460
Pledged to the State Treasurer	27,065	34,073

The Company's investment portfolio consists of the following securities:

- U.S. Treasury securities ("U.S. Treasuries")
- U.S. Government agency securities ("U.S. Agencies")
- U.S. Government sponsored residential mortgage backed securities ("MBS"), and
- Municipal securities ("Municipals")

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The amortized cost, gross unrealized gains and losses and fair values of investment securities at December 31, 2022 and 2021 were:

	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>								
December 31, 2022								
U.S. Treasuries	\$ 1,935	\$ -	\$ (237)	\$ 1,698	\$ 18,181	\$ -	\$ (199)	\$ 17,982
U.S. Agencies	6,500	-	(1,242)	5,258	2,000	-	(1)	1,999
MBS	58,424	-	(8,489)	49,935	3,639	-	(159)	3,480
Municipals	12,685	-	(2,484)	10,201	1,321	-	(42)	1,279
Total	\$ 79,544	\$ -	\$ (12,452)	\$ 67,092	\$ 25,141	\$ -	\$ (401)	\$ 24,740
December 31, 2021								
U.S. Treasuries	\$ 1,922	\$ -	\$ (7)	\$ 1,915	\$ -	\$ -	\$ -	\$ -
U.S. Agencies	6,500	-	(248)	6,252	-	-	-	-
MBS	54,041	212	(639)	53,614	-	-	-	-
Municipals	10,706	43	(204)	10,545	-	-	-	-
Total	\$ 73,169	\$ 255	\$ (1,098)	\$ 72,326	\$ -	\$ -	\$ -	\$ -

There were no sales of available-for-sale or held-to-maturity securities during the years ended December 31, 2022 or 2021.

The amortized cost and estimated market values of securities as of December 31, 2022 and 2021 by contractual maturities with the exception of MBS, which reflects projected cash flow streams, are shown below. Actual maturities may differ, because borrowers may have the right to call or prepay MBS, collateralized mortgage obligations, agency securities, and municipal bonds with or without call or prepayment penalties. Certain mortgage-backed securities have adjustable interest rates and will reprice within the various maturity ranges. These repricing schedules are not reflected in the following table.

	As of December 31, 2022			
	Available-for-Sale		Held-to-Maturity	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
<i>(Dollars in thousands)</i>				
U.S. Treasuries				
Due within one year	\$ -	\$ -	\$ 1,951	\$ 1,961
Due after one year through five years	-	-	16,031	16,220
Due after five years through ten years	1,698	1,935	-	-
Total U.S. Treasuries	\$ 1,698	\$ 1,935	\$ 17,982	\$ 18,181
U.S. Agencies				
Due after one year through five years	\$ -	\$ -	\$ 1,999	\$ 2,000
Due after five years through ten years	5,258	6,500	-	-
Total U.S. Agencies	\$ 5,258	\$ 6,500	\$ 1,999	\$ 2,000
MBS				
Due after one year through five years	\$ 12,258	\$ 13,456	\$ 1,695	\$ 1,793
Due after five years through ten years	37,677	44,968	1,785	1,846
Total MBS	\$ 49,935	\$ 58,424	\$ 3,480	\$ 3,639
Municipals				
Due within one year	\$ 501	\$ 507	\$ -	\$ -
Due after five years through ten years	6,141	7,695	-	-
Due after ten years	3,559	4,483	1,279	1,321
Total Municipals	\$ 10,201	\$ 12,685	\$ 1,279	\$ 1,321

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(Dollars in thousands)

	December 31, 2021	
	Available-for-Sale	
	Fair Value	Amortized Cost
U.S. Treasuries		
Due after five years through ten years	\$ 1,915	\$ 1,922
Total U.S. Treasuries	\$ 1,915	\$ 1,922
U.S. Agencies		
Due after five years through ten years	\$ 6,252	\$ 6,500
Total U.S. Agencies	\$ 6,252	\$ 6,500
MBS		
Due after one year through five years	\$ 43,563	\$ 43,771
Due after five years through ten years	10,051	10,270
Total MBS	\$ 53,614	\$ 54,041
Municipals		
Due after one year through five years	\$ 532	\$ 518
Due after five years through ten years	5,431	5,546
Due after ten years	4,582	4,642
Total Municipals	\$ 10,545	\$ 10,706

As of December 31, 2022 and 2021, the fair value of securities with gross unrealized losses by length of time that the individual securities have been in an unrealized loss position is as follows:

(Dollars in thousands)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	December 31, 2022					
U.S. Treasuries	\$ 17,982	\$ (199)	\$ 1,698	\$ (237)	\$ 19,680	\$ (436)
U.S. Agencies	1,999	(1)	5,258	(1,242)	7,257	(1,243)
MBS	28,705	(3,442)	24,710	(5,206)	53,415	(8,648)
Municipals	5,653	(817)	5,827	(1,709)	11,480	(2,526)
Total	\$ 54,339	\$ (4,459)	\$ 37,493	\$ (8,394)	\$ 91,832	\$ (12,853)

(Dollars in thousands)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	December 31, 2021					
U.S. Treasuries	\$ 1,915	\$ (7)	\$ -	\$ -	\$ 1,915	\$ (7)
U.S. Agencies	6,252	(248)	-	-	6,252	(248)
MBS	33,162	(639)	-	-	33,162	(639)
Municipals	7,348	(204)	-	-	7,348	(204)
Total	\$ 48,677	\$ (1,098)	\$ -	\$ -	\$ 48,677	\$ (1,098)

All securities owned as of December 31, 2022 and 2021 were investment grade. The Company evaluates securities for other-than-temporary impairment, at least on a quarterly basis. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and extent to which the fair value has been less than cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2022 and 2021, the Company held 106 and 44 investment positions, respectively, with unrealized losses of \$12.9 million and \$1.1 million, respectively. These investments were in U.S. Treasuries, U.S. Agencies, MBS and municipals. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of available-for-sale securities are not other-than-temporary and will not be likely required to sell.

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3. FHLB STOCK

To be a member of the FHLB System, the Bank is required to maintain an investment in capital stock of the FHLB. Periodically, the FHLB recalculates the Bank's required level of holdings, and the Bank either buys more stock or redeems a portion of the stock at cost. The carrying value of FHLB stock, which is included in other invested assets, as of December 31, 2022 and 2021 was \$205 thousand and \$177 thousand, respectively. No ready market exists for the FHLB stock, and it has no quoted market value; however, management believes that the cost approximates the market value as of December 31, 2022 and 2021. Management has reviewed its investment in FHLB stock for impairment and does not believe it is impaired as of December 31, 2022 or 2021. The FHLB of Atlanta in which the Company owns stock has been profitable in each of the years ended December 31, 2022 and 2021.

4. RECONCILIATIONS OF BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

Earnings Per Share - Earnings per share are calculated on the basis of the weighted average number of shares of common stock outstanding for the purpose of computing the basic earnings per share and the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents, such as stock options, for the purpose of computing diluted earnings per share.

	For the Years Ended December 31,					
	2022			2021		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<i>(Dollars in thousands except share and per share amounts)</i>						
Basic EPS:						
Basic EPS per common share	\$ 4,332	1,979,975	\$ 2.19	\$ 2,693	1,975,418	\$ 1.36
Effect of dilutive securities	-	4,665		-	-	
Diluted EPS per common share	\$ 4,332	1,984,640	\$ 2.18	\$ 2,693	1,975,418	\$ 1.36

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive loss and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

For the Years Ended December 31, 2022 and 2021

(Dollars in thousands)

	Unrealized Losses on Available-for- Sale Securities	Defined Benefit Pension Plans	Total
Balance as of December 31, 2020	\$ 433	\$ (1,920)	\$ (1,487)
Other comprehensive income (loss) before reclassifications	(1,083)	437	(646)
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive income (loss)	(1,083)	437	(646)
Balance as of December 31, 2021	\$ (650)	\$ (1,483)	\$ (2,133)
Balance as of December 31, 2021	\$ (650)	\$ (1,483)	\$ (2,133)
Other comprehensive loss before reclassifications	(8,941)	(41)	(8,982)
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive loss	(8,941)	(41)	(8,982)
Balance as of December 31, 2022	\$ (9,591)	\$ (1,524)	\$ (11,115)

All amounts are net of tax.

There were no reclassification adjustments from accumulated other comprehensive loss during the years ended December 31, 2022 and 2021.

6. LOANS AND ALLL

The ALLL is management's estimate of losses inherent in the loan portfolio. The provision for loan losses is the amount charged against earnings to establish an adequate ALLL. Loan losses and recoveries are charged to or credited to the ALLL, rather than reported as a direct expense or recovery. The loan portfolio is segmented into three parts for the ALLL calculation: impaired commercial loans and smaller

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balance homogeneous loans in the process of foreclosure, TDRs (collectively referred to as "impaired loans"), and all other loans.

For all classes of commercial loans, a quarterly evaluation of specific individual borrowers is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk through the loan classification process. The ALLL attributed to impaired loans and TDRs considers all available evidence based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by ASC 310. The loans identified as impaired and TDRs are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. Factors considered by management in determining impairment include payment status, collateral value, alternate use of special purpose real estate which could adversely impact resale, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls are considered on a loan-by-loan basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Most consumer loans are evaluated for impairment on a collective basis, because these loans are for smaller balances and are homogeneous. Any loans, including commercial loans, not specifically identified as impaired or TDRs, are collectively evaluated and segmented by loan type, applying two factors: the quantitative loss history by loan type for the previous five year periods at December 31, 2022 and 2021 compared to average loans outstanding for the same period (the "quantitative factor"), and a qualitative factor that is comprised of quantitatively-driven calculations based on historical data, and subjective factors (the "qualitative factors"). The quantitative portion of the ALLL is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance.

The quantitative factor by loan type is applied against the unimpaired loan balances and smaller-balance homogeneous impaired loans not in the process of foreclosure for which there is no specific reserve to determine the quantitative reserve. The qualitative factors, including (i) policy underwriting, charge-off and collection, (ii) national and local economic conditions, (iii) nature and volume of the portfolio, (iv) experience, ability, and depth of lending team, (v) trends of past due, classified loans, and restructurings, (vi) quality of loan review and board oversight, (vii) existence, levels, and effect of loan concentrations and (viii) effects of external factors such as competition and regulatory oversight, are adjusted quarterly based on historical information for any quantifiable factors and qualitative judgments for subjective factors (those considered subjective are policy, underwriting, experience, ability and depth of lending team, quality of loan review and board oversight, and effects of external factors), and applied in total to each loan balance by loan type. The Company continues to enhance its modeling of the portfolio and underlying risk factors through quarterly analytical reviews with the goal of ensuring it captures all pertinent factors contributing to risk of loss inherent in the loan portfolio. Under ASC 310, the non-homogeneous impaired loans, homogeneous small balance real estate secured loans in process of foreclosure for which the value is less than the loan principal balance, and TDRs, are reviewed individually for impairment.

The process of assessing the adequacy of the ALLL is inherently subjective. Further, and particularly in terms of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for loan losses.

The Company and the Bank are subject to periodic examination by their federal and state banking regulators and may be required by their regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

Loans are generally placed on non-accrual status when the scheduled payments reach 90 days past due. Loans are charged-off, with Board of Directors' approval, when the Chief Credit Officer and his staff determine that all reasonable means of collection of the outstanding balances, except foreclosure, have been exhausted. The Company continues its collection efforts subsequent to charge-off, which historically has resulted in some recoveries each year.

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The composition of the loan portfolio, net of deferred fees and costs, by loan classification as of December 31, 2022 and 2021:

<i>(Dollars in thousands)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Commercial	\$ 57,724	\$ 63,777
Commercial real estate:		
Construction	7,148	3,899
Owner occupied	35,527	36,906
Other	29,988	28,275
Faith-based non-profit:		
Construction	-	1,622
Owner occupied	52,071	53,059
Other	308	351
Residential real estate:		
First mortgage	25,368	22,215
Multifamily	30,837	16,118
Home equity	6,329	4,527
Consumer	1,576	1,111
Other loans	33	48
Loans, net of deferred fees	<u>246,909</u>	<u>231,908</u>
ALLL	<u>(2,863)</u>	<u>(2,272)</u>
Loans, net of ALLL	<u>\$ 244,046</u>	<u>\$ 229,636</u>

The Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) created the PPP to provide certain small businesses with liquidity to support their operations during the COVID-19 pandemic. Entities were required to meet certain eligibility requirements to receive PPP loans, and they had to maintain specified levels of payroll and employment to have the loans forgiven. The conditions are subject to audit by the U.S. government, but entities that borrow less than \$2 million (together with any affiliates) will be deemed to have made the required certification concerning the necessity of the loan in good faith.

Under the PPP, eligible small businesses could apply to SBA approved lender for a loan that does not require collateral or personal guarantees. The loans have a 1% fixed interest rate. Loans issued prior to June 5, 2020 are due in two years unless otherwise modified, and loans issued after June 5, 2020 are due in five years. However, they are eligible for forgiveness (in full or in part, including any accrued interest) under certain conditions. For loans (or parts of loans) that are forgiven, the lender will collect the forgiven amount from the U.S. government.

In response to the COVID-19 pandemic, the Company took several actions to offer various forms of support to its customer, employees and communities that have experienced impacts from this development. The Company worked with customers impacted by the economic downturn, including securing loans for its customers under the PPP.

On December 27, 2020, the Economic Aid Act was signed into law, which included another round of PPP funding administered by the U.S. Small Business Administration (“SBA”). The Company began originating the new round of PPP loans in January 2021. During the year ended December 31, 2021, the Company funded \$34.6 million in PPP loans, while also processing \$25.7 million and \$22.5 million during the years ended December 31, 2022 and 2021, respectively, in forgiveness payments related to both 2020 and 2021 PPP loan originations.

Under the PPP, small businesses and other entities and individual could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Company is a participating lender in the PPP. The PPP opened on April 3, 2020 intending to provide American small businesses with eight weeks of cash-flow assistance through 100% federally guaranteed loans through the SBA. In late April 2020, the PPP and Health Care Enhancement Act added another \$310 billion in funding, while the PPP Flexibility Act made certain changes to the program, by allowing for more time to spend the funds, and making it easier to get a loan fully forgiven. On December 27, 2020, the Economic Aid Act was signed into law, which included another round of PPP funding administered by the SBA. As of December 31, 2022 and 2021, the Company had 10 and 263, respectively, commercial PPP loans outstanding with a total balance of \$962 thousand and \$26.0 million, respectively, and none and four, respectively, faith-based non-profit other PPP loans outstanding with a total balance of none and \$62 thousand, respectively. As these loans are 100% guaranteed through the SBA, there is no ALLL recorded on them. During 2022 and 2021, the Company received 238 and 525, respectively, forgiveness applications and had submitted these to the SBA through the SBA Forgiveness portal. Upon notification of forgiveness, the Company ceases to accrue interest and reclassifies the loan balance from “Loans” to an “SBA Receivable.” As of December 31, 2022 and 2021, the Company had received forgiveness on 238 and 525, respectively, applications totaling \$25.7 million and \$22.5 million, respectively. Interest and fees on loans included \$994 thousand and \$1.5 million for the years ended December 31, 2022 and 2021, respectively, related to the accretion of loan fees on PPP loans. As of December 31, 2022 and 2021, the Company had \$22 thousand and \$863 thousand, respectively, of remaining unaccreted net fees related to PPP loans.

The Bank has a concentration of loans to faith-based non-profit organizations, in which the Bank has specialized lending experience. At December 31, 2022, the percentage of loans in this segment, which included construction, owner occupied real estate secured and other loans, comprised 21.21% of the total loan portfolio. The reserve allocated for these loans at December 31, 2022 was 28.89% of the total ALLL. Historically the Bank has experienced low levels of loan losses in this segment; however, repayment of these loans is generally dependent on

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voluntary contributions, some of which had been adversely affected during the economic downturn.

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ALLL. The following tables present the reported investment in loans, net of deferred fees and costs, by portfolio segment and based on impairment method and related ALLL as of December 31, 2022 and 2021, respectively:

December 31, 2022								
<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Faith Based Non- Profit	Residential Real Estate	Consumer	Other Loans	Unallocated	Total
ALLL:								
Ending ALLL balance attributable to loans:								
Individually evaluated for impairment	\$ -	\$ -	\$ 305	\$ -	\$ -	\$ -	\$ -	\$ 305
Collectively evaluated for impairment	453	813	522	729	30	11	-	2,558
Total ending ALLL balance	\$ 453	\$ 813	\$ 827	\$ 729	\$ 30	\$ 11	\$ -	\$ 2,863
Loans:								
Loans individually evaluated for impairment	\$ -	\$ -	\$ 7,365	\$ -	\$ -	\$ -	\$ -	\$ 7,365
Loans collectively evaluated for impairment	57,724	72,663	45,014	62,534	1,576	33	-	239,544
Total ending loans balance	\$ 57,724	\$ 72,663	\$ 52,379	\$ 62,534	\$ 1,576	\$ 33	\$ -	\$ 246,909

December 31, 2021								
<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Faith Based Non- Profit	Residential Real Estate	Consumer	Other Loans	Total	
ALLL:								
Ending ALLL balance attributable to loans:								
Individually evaluated for impairment	\$ -	\$ -	\$ 370	\$ -	\$ 49	\$ -	\$ -	\$ 419
Collectively evaluated for impairment	220	675	493	433	17	15	-	1,853
Total ending ALLL balance	\$ 220	\$ 675	\$ 863	\$ 433	\$ 66	\$ 15	\$ -	\$ 2,272
Loans:								
Loans individually evaluated for impairment	\$ -	\$ -	\$ 7,566	\$ -	\$ 49	\$ -	\$ -	\$ 7,615
Loans collectively evaluated for impairment	63,777	69,080	47,466	42,860	1,062	48	-	224,293
Total ending loans balance	\$ 63,777	\$ 69,080	\$ 55,032	\$ 42,860	\$ 1,111	\$ 48	\$ -	\$ 231,908

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For the Year Ended December 31, 2022

(Dollars in thousands)

	Commercial	Commercial Real Estate	Faith- Based Non- Profit	Residential Real Estate	Consumer	Other Loans	Unallocated	Total
ALLL:								
Total ending ALLL balances as of December 31, 2021	\$ 220	\$ 675	\$ 863	\$ 433	\$ 66	\$ 15	\$ -	\$ 2,272
For the year ended December 31, 2022								
Charge-offs	(3)	-	-	(27)	(67)	(28)	-	(125)
Recoveries	1	-	-	9	3	4	-	17
Provision for (reversal of) loan losses	235	138	(36)	314	28	20	-	699
Total ending ALLL balances as of December 31, 2022	<u>\$ 453</u>	<u>\$ 813</u>	<u>\$ 827</u>	<u>\$ 729</u>	<u>\$ 30</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 2,863</u>

For the Year Ended December 31, 2021

(Dollars in thousands)

	Commercial	Commercial Real Estate	Faith- Based Non- Profit	Residential Real Estate	Consumer	Other Loans	Total
ALLL:							
Total ending ALLL balances as of December 31, 2020	\$ 236	\$ 1,005	\$ 953	\$ 448	\$ 20	\$ 11	\$ 2,673
For the year ended December 31, 2021							
Charge-offs	-	-	-	-	(15)	(21)	(36)
Recoveries	-	-	-	1	1	6	8
Provision for (reversal of) loan losses	(16)	(330)	(90)	(16)	60	19	(373)
Total ending ALLL balances as of December 31, 2021	<u>\$ 220</u>	<u>\$ 675</u>	<u>\$ 863</u>	<u>\$ 433</u>	<u>\$ 66</u>	<u>\$ 15</u>	<u>\$ 2,272</u>

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The following tables show impaired loans with and without valuation allowances as of December 31, 2022 and 2021:

December 31, 2022					
	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Interest Earned For the Year	Average Recorded Investment
<i>(Dollars in thousands)</i>					
With no related allowance recorded:					
Faith based non-profit:					
Owner occupied	\$ 197	\$ 197	\$ -	\$ 2	\$ 172
Impaired loans with no allowance recorded	\$ 197	\$ 197	\$ -	\$ 2	\$ 172
With an allowance recorded:					
Faith based non-profit:					
Owner occupied	\$ 7,169	\$ 7,185	\$ 305	\$ 372	\$ 7,368
Consumer	-	-	-	-	6
Impaired loans with allowance recorded	\$ 7,169	\$ 7,185	\$ 305	\$ 372	\$ 7,374
Total impaired loans	\$ 7,366	\$ 7,382	\$ 305	\$ 374	\$ 7,546

December 31, 2021					
	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Interest Earned For the Year	Average Recorded Investment
<i>(Dollars in thousands)</i>					
With no related allowance recorded:					
Residential real estate:					
Multifamily	\$ -	\$ -	\$ -	\$ -	\$ 2
Home equity	-	-	-	-	11
Impaired loans with no allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ 13
With an allowance recorded:					
Faith based non-profit:					
Owner occupied	\$ 7,566	\$ 7,584	\$ 370	\$ 393	\$ 7,825
Consumer	49	49	49	-	6
Impaired loans with allowance recorded	\$ 7,615	\$ 7,633	\$ 419	\$ 393	\$ 7,831
Total impaired loans	\$ 7,615	\$ 7,633	\$ 419	\$ 393	\$ 7,844

The recorded investment in loan balance includes the outstanding loan balance (net of any charge-offs), accrued interest, deferred fees and costs, and unamortized premium or discount, where applicable.

The Bank modifies certain loans and provides a concession such as a reduced rate, extended terms, or reduction of principal and/or interest, in a TDR where the borrowers are experiencing financial difficulties. These concessions typically result from loss mitigation recommendations developed by the Bank's problem loan team. Concessions could include reductions in below market interest rates, payment extensions, forbearance or other actions. TDRs are generally classified as nonperforming at the time of restructuring and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six

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months.

When loans are modified as TDRs, the Bank evaluates each loan for any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the repayment source is expected to be the liquidation of underlying collateral, in which cases the Bank uses the fair value of the collateral less selling costs, instead of discounted cash flows. If the Bank determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance allocation or a charge-off to the allowance.

The Bank completed no new TDRs during the years ended December 31, 2022 or 2021. Based upon financial analysis and the fair value of collateral, the Bank allocated \$305 thousand and \$370 thousand of specific reserves for TDRs at December 31, 2022 and 2021, respectively.

There were no loans modified as a TDR with a payment default occurring within 12 months of the restructure date, during the years ended December 31, 2022 or 2021.

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2022 and 2021:

	<u>Non-accrual</u>	<u>Number</u>	90 Days or More Past Due Still	
			<u>Accruing</u>	<u>Number</u>
December 31, 2022				
<i>(Dollars in thousands)</i>				
Faith-based non-profit:				
Owner occupied	\$ 885	2	-	-
Total	<u>\$ 885</u>	<u>2</u>	<u>\$ -</u>	<u>-</u>
December 31, 2021				
<i>(Dollars in thousands)</i>				
Faith-based non-profit:				
Owner occupied	\$ 775	1	-	-
Consumer	49	1	-	-
Total	<u>\$ 824</u>	<u>2</u>	<u>\$ -</u>	<u>-</u>

Non-accrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Loans from which principal or interest is in default for 90 days or more are classified as a non-accrual unless they are well secured and in process of collection. Loans past due over 90 days still accruing were matured loans that were well secured and in process of collection. Borrowers have continued to make payments on these loans while administrative and legal due processes are proceeding which will enable the Bank to extend or modify maturity dates.

Unrecognized income on non-accrual loans for the years ended December 31, 2022 and 2021 was \$10 thousand and \$3 thousand, respectively.

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The following tables present loans not past due, and the aging of past due loans as of December 31, 2022 and 2021 by class of loans:

December 31, 2022 <i>(Dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total
Commercial	\$ 202	\$ 15	\$ -	\$ 217	\$ 57,507	\$ 57,724
Commercial real estate:						
Construction	-	-	-	-	7,148	7,148
Owner occupied	-	-	-	-	35,527	35,527
Other	-	-	-	-	29,988	29,988
Faith-based non-profit:						
Owner occupied	-	-	197	197	51,874	52,071
Other	-	-	-	-	308	308
Residential real estate:						
First mortgage	-	-	-	-	25,368	25,368
Multifamily	-	-	-	-	30,837	30,837
Home equity	-	-	-	-	6,329	6,329
Consumer	-	3	-	3	1,573	1,576
Other loans	-	-	-	-	33	33
Total	\$ 202	\$ 18	\$ 197	\$ 417	\$ 246,492	\$ 246,909

December 31, 2021 <i>(Dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total
Commercial	\$ 55	\$ -	\$ -	\$ 55	\$ 63,722	\$ 63,777
Commercial real estate:						
Construction	-	-	-	-	3,899	3,899
Owner occupied	19	-	-	19	36,887	36,906
Other	-	-	-	-	28,275	28,275
Faith-based non-profit:						
Construction	-	-	-	-	1,622	1,622
Owner occupied	198	-	-	198	52,861	53,059
Other	-	-	-	-	351	351
Residential real estate:						
First mortgage	-	9	-	9	22,206	22,215
Multifamily	-	-	-	-	16,118	16,118
Home equity	17	-	-	17	4,510	4,527
Consumer	25	8	49	82	1,029	1,111
Other loans	-	-	-	-	48	48
Total	\$ 314	\$ 17	\$ 49	\$ 380	\$ 231,528	\$ 231,908

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The following tables display all non-accrual loans and loans 90 or more days past due and still on accrual for the periods ended December 31, 2022 and 2021.

December 31, 2022

(Dollars in thousands)

	<u>Amount</u>	<u>Number</u>
Loans past due over 90 days still on accrual	\$ -	-
Non-accrual loans past due		
Less than 30 days	\$ 688	1
30-59 days	-	-
60-89 days	-	-
90+ days	197	1
Non-accrual loans	<u>\$ 885</u>	<u>2</u>

December 31, 2021

(Dollars in thousands)

	<u>Amount</u>	<u>Number</u>
Loans past due over 90 days still on accrual	\$ -	-
Non-accrual loans past due		
Less than 30 days	\$ 775	1
30-59 days	-	-
60-89 days	-	-
90+ days	49	1
Non-accrual loans	<u>\$ 824</u>	<u>2</u>

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans for reserves according to the loan's classification as to credit risk. This analysis includes homogeneous loans, such as commercial, commercial real estate and faith based non-profit entities, and mortgage loans in process of foreclosure for which the loan to value does not support repayment in full. This analysis is performed on at least a quarterly basis. The Company uses the following definitions for risk ratings:

- **Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. These loans exhibit a moderate likelihood of some loss related to those loans and leases that are considered special mention.
- **Substandard.** Loans classified as substandard are inadequately protected by the current sound financial repayment capacity and service coverage of the debtor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that may jeopardize the liquidation of or repayment according to the original terms of the debt. In addition to commercial and faith-based non-profit loans with identified weaknesses, substandard loans include loans within the mortgage and consumer portfolio segments that are past due 90 days or more as to principal or interest if the loan to value does not support full repayment. Substandard loans are evaluated for impairment on an individual loan basis unless the substandard loan is a smaller balance homogeneous loan that is not a TDR and is not in the process of foreclosure. These loan exhibits a distinct possibility that the company will sustain some loss if the deficiencies related to the loans is not corrected in a timely manner.
- **Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- **Pass.** Loans are classified as pass in all classes within the commercial, faith-based non-profit, mortgage, consumer, and other portfolio segments that are not identified as special mention, substandard, or doubtful, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. These loans exhibit a low likelihood of loss related to loans that are considered pass.

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As of December 31, 2022, the risk category of loans by class of loans was as follows:

December 31, 2022 <i>(Dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial	\$ 57,724	\$ -	\$ -	\$ -	\$ 57,724
Commercial real estate:					
Construction	7,148	-	-	-	7,148
Owner occupied	35,527	-	-	-	35,527
Other	29,521	-	467	-	29,988
Faith-based non-profit:					
Owner occupied	46,728	3,263	2,080	-	52,071
Other	308	-	-	-	308
Residential real estate:					
First mortgage	25,368	-	-	-	25,368
Multifamily	30,824	13	-	-	30,837
Home equity	6,329	-	-	-	6,329
Consumer	1,568	-	8	-	1,576
Other loans	33	-	-	-	33
Total	<u>\$ 241,078</u>	<u>\$ 3,276</u>	<u>\$ 2,555</u>	<u>\$ -</u>	<u>\$ 246,909</u>

As of December 31, 2021, the risk category of loans by class of loans was as follows:

December 31, 2021 <i>(Dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial	\$ 63,693	\$ 84	\$ -	\$ -	\$ 63,777
Commercial real estate:					
Construction	3,899	-	-	-	3,899
Owner occupied	36,906	-	-	-	36,906
Other	27,750	525	-	-	28,275
Faith-based non-profit:					
Construction	1,622	-	-	-	1,622
Owner occupied	48,436	198	4,425	-	53,059
Other	351	-	-	-	351
Residential real estate:					
First mortgage	22,206	9	-	-	22,215
Multifamily	16,102	16	-	-	16,118
Home equity	4,527	-	-	-	4,527
Consumer	1,060	-	51	-	1,111
Other loans	48	-	-	-	48
Total	<u>\$ 226,600</u>	<u>\$ 832</u>	<u>\$ 4,476</u>	<u>\$ -</u>	<u>\$ 231,908</u>

7. BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment, net as of December 31, 2022 and 2021:

<i>(Dollars in thousands)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Land	\$ 312	\$ 308
Buildings and leasehold improvements	5,135	5,121
Furniture and equipment	2,882	2,841
Finance leases	215	260
Construction in progress	578	1
Bank premises and equipment	9,122	8,531
Less: accumulated depreciation and amortization	(6,510)	(6,229)
Bank premises and equipment, net	<u>\$ 2,612</u>	<u>\$ 2,302</u>

Total depreciation expense was \$401 thousand and \$441 thousand for the years ended December 31, 2022 and 2021.

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8. DEPOSITS

Deposits are the Bank's primary source of funds for making loans and purchasing investments. The Bank offers a variety of deposit account products to commercial and consumer customers. The total deposits that were re-classified to loans due to overdrafts were \$18 thousand and \$31 thousand at December 31, 2022 and 2021, respectively. The Bank has a concentration of deposits related to the faith-based industry. At December 31, 2021 and 2020, faith-based deposits totaled \$30.4 million and \$27.1 million, respectively.

The following shows the maturity schedule of all time deposits:

<i>(Dollars in thousands)</i>	Amount
2023	\$ 58,766
2024	3,778
2025	1,758
2026	631
2027	83
Thereafter	302
Total	<u>\$ 65,318</u>

Principal maturities of time deposits of \$250,000 or more as of December 31, 2022 and 2021 were as follows:

<i>(Dollars in thousands)</i>	December 31, 2022		December 31, 2021	
	Amount	Average Rate	Amount	Average Rate
Three months or less	\$ 2,945	0.23 %	\$ 2,100	0.21 %
Over three months to six months	4,017	0.21	4,780	0.19
Over six months to twelve months	8,521	0.28	14,061	0.20
Over one year to five years	3,044	0.34	2,085	0.33
Total	<u>\$ 18,527</u>	<u>0.26 %</u>	<u>\$ 23,026</u>	<u>0.21 %</u>

For the years ended December 31, 2022 and 2021, the Bank had \$45 thousand and \$75 thousand, respectively, in interest expense for time deposits greater than \$250,000.

In the normal course of business, certain directors and executives of the Company and the Bank, including their immediate families and companies in which they have an interest, are deposit customers. These relationships had aggregate deposits of \$2.0 million and \$1.8 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Bank had two deposit relationships with balances in excess of five percent of total deposits totaling \$71.6 million compared to one deposit relationship at December 31, 2021 totaling \$20.0 million.

9. LEASES

As of December 31, 2022, the Company had operating and finance leases for facilities, land and equipment. Leases have remaining lease terms of 0.6 years to 16.5 years, some of which include options to extend the leases for up to an additional 5 years.

The components of lease expense are as follows:

<i>(Dollars in thousands)</i>	For the Years Ended December 31,	
	2022	2021
Lease Cost:		
Finance lease cost:		
Amortization of ROU asset	\$ 64	\$ 72
Interest on lease liabilities	1	1
Operating lease cost	221	218
Variable lease cost	1	-
Total lease cost	<u>\$ 287</u>	<u>\$ 291</u>

ROU asset totaled \$1.4 million and \$946 thousand at December 31, 2022 and 2021, respectively.

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Supplemental balance sheet information related to leases are as follows:

<i>(Dollars in thousands)</i>	For the Years Ended December 31,	
	2022	2021
Finance Leases:		
Finance leases	\$ 215	\$ 260
Accumulated depreciation	(145)	(138)
Finance leases, net	\$ 70	\$ 122
Other Borrowings:		
Total finance lease liabilities	\$ 76	\$ 130
Weighted Average Remaining Lease Terms:		
Finance leases	2.1 years	2.4 years
Operating leases	9.3 years	11.3 years
Weighted Average Discount Rates:		
Finance leases	0.92%	0.53%
Operating leases	3.85%	3.16%

Estimated lease payments for the Company's operating leases with the initial term of one year or more as of December 31, 2022 were as follows:

<i>(Dollars in thousands)</i>	Estimated Amortization Expense
2023	\$ 235
2024	232
2025	226
2026	233
2027	240
Thereafter	634
Total estimated lease payments	1,800
Less effect of discounting	(321)
Present value of estimated lease payments (lease liability)	\$ 1,479

Estimated lease payments for the Company's finance leases with the initial term of one year or more as of December 31, 2022 were as follows:

<i>(Dollars in thousands)</i>	Estimated Depreciation Expense
2023	\$ 47
2024	15
2025	12
2026	2
2027	1
Thereafter	-
Total estimated lease payments	77
Less effect of discounting	(1)
Present value of estimated lease payments (lease liability)	\$ 76

The minimum lease payments do not include common area maintenance ("CAM") charges or real estate taxes, which are also required contractual obligations under our operating leases. CAM charges and real estate taxes are not fixed and are subject to fluctuation. Total CAM charges for the years ended December 31, 2022 and 2021 were \$76 thousand and \$75 thousand, respectively.

10. BORROWINGS

Borrowings as of December 31, 2022 and 2021 consisted of finance leases of \$76 thousand and \$130 thousand, respectively, with weighted average interest rates of 0.92% and 0.53%, respectively. See Note 9 for details on leases. Interest expense on advances from FHLB for the years ended December 31, 2022 and 2021 was none. The maximum FHLB advances outstanding at any month end during the year ended December 31, 2022 and 2021 was none. As of December 31, 2022 and 2021, the Bank had the borrowing availability of an additional \$16.8 million and \$19.8 million, respectively, from the FHLB. Pursuant to collateral agreements with the FHLB, advances are secured by FHLB stock, and qualifying loans totaling \$16.8 million and \$19.8 million as of December 31, 2022 and 2021, respectively.

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The Company has federal funds lines of credit with correspondent banks totaling \$26.0 million at December 31, 2022 and 2021. No borrowings were outstanding on these lines of credit at December 31, 2022 or 2021. The Company periodically tests its federal funds lines of credit with its correspondent banks. These lines were tested quarterly during the year ended December 31, 2022.

11. INCOME TAXES

The components of the income tax expense for the years ended December 31, 2022 and 2021 were as follows:

<i>(Dollars in thousands)</i>	2022	2021
Income tax expense		
Current	\$ 19	\$ 5
Deferred	1,203	821
Total	\$ 1,222	\$ 826

A reconciliation of reported income tax expense for the years ended December 31, 2022 and 2021 to the amount of tax expense computed by multiplying income before income taxes by the statutory federal income tax rate follows:

<i>(Dollars in thousands)</i>	2022	2021
Statutory federal income tax rate	21%	21%
Tax provision at statutory rate	\$ 1,204	\$ 758
Increase in income taxes resulting from:		
State income taxes net of federal benefit	89	72
Tax exempt interest income	(19)	-
Change in deferred tax valuation allowance	(1)	4
Cash surrender value of life insurance	(60)	(58)
Other	9	50
Total	\$ 1,222	\$ 826

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The tax effect of the cumulative temporary differences and carry forwards that gave rise to the deferred tax assets and liabilities as of December 31, 2022 and 2021 within the Consolidated Balance Sheets were as follows:

(Dollars in thousands)

	December 31,	
	2022	2021
Deferred tax assets:		
Adjustments, defined benefit plans	\$ 454	\$ 442
Excess book over tax provision for loan loss expense	668	527
Federal net operating loss carryforward	52	852
State net economic loss carryforward	157	208
Premises and equipment	222	202
Unrealized losses on securities available for sale, net	2,861	193
Other, net	68	186
Total deferred tax assets	4,482	2,610
Valuation allowance for deferred tax assets	(123)	(124)
Net of valuation allowance deferred tax asset	4,359	2,486
Deferred tax liabilities:		
Accrued pension	(309)	(297)
Deferred loan fees	(437)	(52)
Other	(6)	(7)
Total deferred tax liabilities	(752)	(356)
Net deferred tax assets	3,607	2,130
Tax receivable, net	1	19
Deferred tax assets and taxes receivable, net	\$ 3,608	\$ 2,149

The Company measures deferred income tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The Company has federal net operating loss carry-forwards of approximately \$242 thousand at December 31, 2022, which can be used to offset future taxable income, subject to certain Section 382 limitations. Management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant objective piece of positive evidence is that the Company is passing the 3-year cumulative income test, because of profits during 2022, 2021 and 2020. Additional positive evidence includes projected future net income and the federal loss carry-forwards do not start to expire until 2027. Management has evaluated all positive and negative evidence regarding the deferred tax assets and determined that it was more likely than not they will realize the deferred tax assets. A valuation allowance is not needed as of December 31, 2022, except for amounts pertaining to the Company's state net operating losses. Accordingly, a valuation allowance has been established for these state loss carry-forward amounts.

The last tax year audited by the Internal Revenue Service was 2006; tax years 2019 – present are open for audit under the statute of limitations. The Company has analyzed the tax position taken or expected to be taken in its tax returns and has concluded it has no uncertain tax positions.

12. EMPLOYEE BENEFIT PLANS

The Bank sponsors a noncontributory defined benefit cash balance pension plan (the "Cash Balance Plan"), covering all employees who qualify under length of service and other requirements. Under the Cash Balance Plan, retirement benefits are based on years of service and average earnings. The Bank's funding policy is to contribute amounts to the Cash Balance Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), plus such additional amounts as the Bank may determine to be appropriate. No contributions were made to the Cash Balance Plan during the years ended December 31, 2022 and 2021. The Cash Balance Plan was fully funded as of December 31, 2022. The measurement date for the Cash Balance Plan is December 31 and prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants.

It is expected that the Bank will not contribute to the Cash Balance Plan during 2023.

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The following table shows the type of assets held in the Cash Balance Plan:

Asset Category	As of December 31,	
	2022	2021
Equity securities	55.6%	57.5%
Debt securities	42.1%	41.2%
All other assets	2.3%	1.3%
Total	<u>100.0%</u>	<u>100.0%</u>

The Bank sponsors a nonqualified Supplemental Executive Retirement Plan (“SERP”). The SERP, which is unfunded, provides certain individuals with pension benefits, outside the Bank’s noncontributory defined-benefit Cash Balance Plan, based on average earnings, years of service and age at retirement. Participation in the SERP is at the discretion of the Bank’s Board of Directors. The Company and Bank purchased bank owned life insurance (“BOLI”) in 2002 in the aggregate amount of approximately \$12.9 million face value covering all the participants in the SERP. Increases in the cash surrender value of BOLI policies totaled \$0.3 million for the years ended December 31, 2022 and 2021. The cash surrender value of the BOLI owned by the Bank was \$10.1 million and \$9.8 million as of December 31, 2022 and 2021, respectively. The Bank has the ability and the intent to keep this life insurance in force indefinitely. The insurance proceeds may be used, at the sole discretion of the Bank, to fund the benefits payable under the SERP.

Since there are no assets in the SERP, contributions are equal to the benefits paid. It is expected that \$154 thousand will be paid in benefits during 2023.

The SERP and the Cash Balance Plan service cost components of the net periodic benefit cost reflected in salaries and employee benefits expense and the remaining net periodic benefit cost components reflected in other expenses for the years ended December 31, 2022 and December 31, 2021 were:

	Cash Balance Plan		SERP		Total	
	2022	2021	2022	2021	2022	2021
<i>(Dollars in thousands)</i>						
Components of Net Periodic Pension Cost:						
Service cost	\$ 97	\$ 108	\$ -	\$ -	\$ 97	\$ 108
Interest cost	132	107	41	34	173	141
Expected return on plan assets	(506)	(479)	-	-	(506)	(479)
Amortization of prior service cost and recognized net actuarial gain	304	112	49	54	353	166
Net periodic pension cost	<u>\$ 27</u>	<u>\$ (152)</u>	<u>\$ 90</u>	<u>\$ 88</u>	<u>\$ 117</u>	<u>\$ (64)</u>

The following table shows the change in the projected benefit obligations and plan assets for the years ended December 31, 2022 and 2021:

	Cash Balance Plan		SERP		Total	
	2022	2021	2022	2021	2022	2021
<i>(Dollars in thousands)</i>						
Change in Projected Benefit Obligations:						
Benefit obligation at beginning of year	\$ 6,323	\$ 6,509	\$ 1,876	\$ 2,030	\$ 8,199	\$ 8,539
Service cost	97	107	-	-	97	107
Interest cost	132	107	41	34	173	141
Actuarial gain	(831)	(135)	(268)	(34)	(1,099)	(169)
Settlements	(711)	-	-	-	(711)	-
Benefits and expenses paid	(268)	(265)	(154)	(154)	(422)	(419)
Benefit obligation at end of year	<u>4,742</u>	<u>6,323</u>	<u>1,495</u>	<u>1,876</u>	<u>6,237</u>	<u>8,199</u>
Change in Plan Assets:						
Fair value of plan assets at beginning of year	7,691	7,245	-	-	7,691	7,245
Actual return on plan assets	(999)	711	-	-	(999)	711
Employer contributions	-	-	154	154	154	154
Settlements	(711)	-	-	-	(711)	-
Benefits and expenses paid	(268)	(265)	(154)	(154)	(422)	(419)
Fair value of plan assets at year end	<u>5,713</u>	<u>7,691</u>	<u>-</u>	<u>-</u>	<u>5,713</u>	<u>7,691</u>
Funded status	<u>\$ 971</u>	<u>\$ 1,368</u>	<u>\$ (1,495)</u>	<u>\$ (1,876)</u>	<u>\$ (524)</u>	<u>\$ (508)</u>

The Bank had a prepaid asset for the Cash Balance Plan of \$971 thousand and \$1.4 million at December 31, 2022 and 2021, respectively. The prepaid asset is carried in Other Assets within the Consolidated Balance Sheets. The accrued liability and accumulated benefits obligations for the

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SERP was \$1.5 million and \$1.9 million at December 31, 2022 and 2021, respectively. The balance is included in Other Liabilities within the Consolidated Balance Sheets.

The amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost were:

<i>(Dollars in thousands)</i>	Cash Balance Plan		SERP		Total	
	2022	2021	2022	2021	2022	2021
Unrecognized net actuarial loss	\$ 1,597	\$ 1,227	\$ 381	\$ 698	\$ 1,978	\$ 1,925
Unrecognized prior service cost	-	-	-	-	-	-
Total amount included in accumulated other comprehensive loss	\$ 1,597	\$ 1,227	\$ 381	\$ 698	\$ 1,978	\$ 1,925

Weighted average assumptions as of December 31:

Discount rate	4.75%	2.25%	4.75%	2.25%
Expected return on plan assets	7.00%	7.00%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	n/a	n/a

Amounts in accumulated other comprehensive loss expected to be recognized in net periodic costs in 2023:

<i>(Dollars in Thousands)</i>	Cash Balance Plan	SERP	Total
Net actuarial loss	\$ 141	\$ 24	\$ 165
Prior service cost	-	-	-
Total expected to be recognized	<u>\$ 141</u>	<u>\$ 24</u>	<u>\$ 165</u>
Assets expected to be returned to the Company in 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The estimated expected benefits payments for the Cash Balance Plan and SERP are:

(Dollars in thousands)

For the Years Ending December 31:

	Cash Balance Plan	SERP	TOTAL
2023	\$ 738	\$ 154	\$ 892
2024	354	150	504
2025	462	146	608
2026	316	141	457
2027	368	136	504
2028-2032	1,864	608	2,472
Total	<u>\$ 4,102</u>	<u>\$ 1,335</u>	<u>\$ 5,437</u>

Retirement Plan Assets— In general, the Cash Balance Plan's investment management organizations make reasonable efforts to control market fluctuations through appropriate techniques including, but not limited to, adequate diversification. The specific investment strategy adopted by the plan referred to as the Long-Term Growth of Capital Strategy, attempts to achieve long-term growth of capital with little concern for current income. Typical investors in this portfolio have a relatively aggressive investment philosophy, seeking long-term growth, and are not looking for current dividend income.

Prohibited investments include commodities and futures contracts, private placements, options, transactions which would result in unrelated business taxable income, and other investments prohibited by ERISA.

The target range of allocation percentages for each major category of plan assets was:

Asset Category	Target Weight	Minimum Weight	Maximum Weight
Cash	2%	0%	15%
Equities:			
US	49%	35%	63%
Non-US	6%	0%	12%
Fixed Income	43%	31%	59%

Equity investments must be listed on the New York, American, NASDAQ, or other similar stock exchanges traded in the over-the-counter

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market with the requirement that such stocks have adequate liquidity relative to the size of the investment.

Fixed income investments must have a credit rating of B or better from Standard and Poor's or Moody's. The fixed income portfolio should be constructed so as to have an average maturity not exceeding 10 years. No more than 5% of the fixed income portfolio should be invested in any one issuer. U.S. Treasury and Agency securities are exempt from this restriction.

Cash and equivalent instruments that are acceptable are repurchase agreements, bankers' acceptances, U.S. treasury bills, money market funds, and certificates of deposit.

The portfolio shall be structured to meet financial objectives over a period of 11 or more years. Over that time horizon, the total rate of return should equal at least 103% of the applicable blended benchmark returns and place in the top half of group performance. Benchmarks which may be used for portfolio performance comparison are as follows:

- U.S. Large Cap Equities: S&P 500, Russell 1000, Russell 1000 Value, Russell 1000 Growth, S&P 500/Citi Value, and S&P 500/Citi Growth
- U.S. Mid Cap Equities: S&P 400 Mid Cap, Russell Mid Cap Value, Russell Mid Cap Growth, S&P MidCap 400 Value, and S&P MidCap 400 Growth
- U.S. Small Cap Equities: Russell 2000, Russell 2000 Value, Russell 2000 Growth, S&P SmallCap 600, S&P SmallCap 600 Value, and S&P SmallCap 600 Growth
- Non-U.S. Equities: MSCI EAFE, and MSCI EM
- Fixed Income: Barclays Capital Intermediate Govt/Corp, Barclays Capital U.S. Aggregate Bond, Barclays Capital U.S. Govt. Intermediate, BarCap U.S. Corporate High Yield and ML Global Govt.
- Real Estate: FTSE NAREIT AII REITs
- Cash: U.S. 3-Month Treasury Bill

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels were:

December 31, 2022 <i>(Dollars in thousands)</i>	Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)	Level 2 Significant other Observable Inputs (Level 2)	Level 3 Significant Unobservable Inputs (Level 3)
Cash	\$ 100	\$ -	\$ -
Money market fund	-	32	-
Equity Securities:			
Large-Cap	1,565	-	-
Mid-Cap	770	-	-
Small-Cap	464	-	-
Global and International	372	-	-
Fixed Income-Bonds	-	1,377	-
Other	1,033	-	-
Total	\$ 4,304	\$ 1,409	\$ -

December 31, 2021 <i>(Dollars in thousands)</i>	Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)	Level 2 Significant other Observable Inputs (Level 2)	Level 3 Significant Unobservable Inputs (Level 3)
Cash	\$ 68	\$ -	\$ -
Money market fund	-	31	-
Equity Securities:			
Large-Cap	2,314	-	-
Mid-Cap	1,016	-	-
Small-Cap	644	-	-
Global and International	448	-	-
Fixed Income-Bonds	-	1,813	-
Other	1,357	-	-
Total	\$ 5,847	\$ 1,844	\$ -

401(k) Plan —The Bank sponsors a 401(k) plan. Participation in the 401(k) plan is voluntary. Employees become eligible after completing 90 days service and attaining age 21. Employees may elect to contribute up to 80% of their compensation to the 401(k) plan. The Bank matches 100% of each employee's contribution, up to a maximum of 6% of compensation. The Bank's contribution to the 401(k) plan was \$218

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thousand and \$199 thousand in each of the years ended December 31, 2022 and 2021.

Post-retirement Benefits —The Bank provides certain post-retirement benefits to select former executive officers. As of December 31, 2022 and 2021, the amount of the liability for these benefits was approximately \$0.1 million.

Split Dollar Benefits —In 2002, upon investing in BOLI policies, the Company granted certain executives a split dollar life benefit by which the beneficiaries of the executive would receive a portion of the non-cash surrender value death benefit of the BOLI upon the executive's demise. Thereafter, amounts are accrued by a charge to employee benefits. As of December 31, 2022 and 2021, \$0.2 million was recorded in Other Liabilities for the split dollar benefit.

13. STOCK-BASED COMPENSATION

On October 8, 2021, the Company granted 33,500 stock options to certain Bank officers at a fair market value of \$7.45 per share, which was the closing price of the Company's common stock on that date. The Company recorded total stock-based compensation expense of \$31 thousand and \$8 thousand for the years ended December 31, 2022 and 2021, respectively. The Company recognized \$7 thousand and \$2 thousand of income tax benefits related to stock-based compensation expense in the income statement for the years ended December 31, 2022 and 2021.

At December 31, 2022, the sole equity-based compensation plan for the Company was M&F Bancorp, Inc. Long-Term Stock Incentive Plan ("Incentive Plan"), which was approved by shareholders on June 1, 2021. As of December 31, 2022, the Incentive Plan had 116,000 shares remaining available for grants.

The Incentive Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Incentive Plan allows for grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity awards to employees have been in the form of stock options, which vest 25% per year beginning one year from date of grant. No vested options may be exercised more than 10 years after date of grant. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the Incentive Plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

In addition to employee equity awards, the Company's practice is to grant non-qualified options to non-employee directors. On October 8, 2021, the Company granted 13,000 non-qualified options to the Board of Directors at fair market value of \$7.45 per share, which was the closing price of the Company common stock on that date. The Company recorded total stock-based compensation expense of \$12 thousand and \$3 thousand for the years ended December 31, 2022 and 2021, respectively. There was no realized tax benefit related to the non-qualified options expense in the income statement for the years ended December 31, 2022 and 2021. The expense associated with the director grants is grouped with "Directors Compensation" on the Consolidated Statements of Operations.

The Company recognizes compensation expense for stock option and non-qualified options on a straight-line basis over the vesting service period for each incremental award. Compensation expense is based on the estimated number of stock awards that will ultimately vest.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations. The following table reflects input into the Black-Scholes options valuations:

	<u>2021</u>
Expected dividend yield	1.07%
Risk-free interest rate	1.20%
Expected life (in years)	6.2 - 6.3
Expected volatility	57.53%

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The following table presents information regarding the activity during the years ended December 31, 2022 and 2021 related to the Company's outstanding stock options.

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Contractual Term (years)</u>	<u>Average Intrinsic Value</u>
Outstanding at December 31, 2020	-	\$ -		
Granted	46,500	7.45		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2021	<u>46,500</u>	<u>\$ 7.45</u>		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2022	<u><u>46,500</u></u>	<u><u>\$ 7.45</u></u>	<u>8.78</u>	<u>\$ 639,375</u>
Exercisable at December 31, 2022	<u><u>11,625</u></u>	<u><u>\$ 7.45</u></u>	<u>8.78</u>	<u>\$ 159,844</u>

Total unrecognized compensation expense and unrecognized options expense recorded under director fees as of December 31, 2022 and 2021 amounted to \$85 thousand and \$33 thousand and \$116 thousand and \$45 thousand, respectively. The Company expects to record \$31 thousand and \$12 thousand of compensation expense and options expenses recorded under director compensation, respectively, during the next 12 months related to these nonvested awards that are outstanding at December 31, 2022.

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain of the Company's and Bank's directors and executive officers, including immediate family members and companies in which they have an interest, are loan customers. Those transactions do not involve more than the normal risk of collection, nor do they present any unfavorable features. Total loans to such groups totaled \$2.9 million and \$3.0 million as of December 31, 2022 and 2021, respectively. Unused lines available to be drawn were \$120 thousand and \$68 thousand as of December 31, 2022 and 2021, respectively.

<i>(Dollars in thousands)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Beginning Balance	\$ 2,987	\$ 1,960
Draws/Advances	175	1,304
Repayments	(269)	(277)
Ending Balance	<u>\$ 2,893</u>	<u>\$ 2,987</u>

The Bank leases land for one of its branch locations from a family of shareholders. Terms and conditions of the lease were based on market conditions. Lease payments totaled \$33 thousand during the years ended December 31, 2022 and 2021.

15. REGULATORY MATTERS AND RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may initiate certain mandatory and the possibility of additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Company and the Bank met all capital adequacy requirements to which they are subject. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leveraged ratios as set forth in the table below.

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December 31, 2022

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	\$ 132,042	50.08 %	\$ 21,091	8.00 %	n/a	n/a
Bank	66,646	25.31	21,064	8.00	\$ 26,330	10.00 %
Tier 1 (to risk weighted assets)						
Company	\$ 129,136	48.98 %	\$ 15,818	6.00 %	n/a	n/a
Bank	63,740	24.21	15,798	6.00	\$ 21,064	8.00 %
Common Equity Tier 1						
Company	\$ 31,834	12.07 %	\$ 11,864	4.50 %	n/a	n/a
Bank	63,740	24.21	11,849	4.50	\$ 17,115	6.50 %
Tier 1 (to average total assets)						
Company	\$ 129,136	27.60 %	\$ 18,714	4.00 %	n/a	n/a
Bank	63,740	14.20	17,950	4.00	\$ 22,437	5.00 %

December 31, 2021

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	\$ 46,673	21.20 %	\$ 17,616	8.00 %	n/a	n/a
Bank	46,190	20.97	17,625	8.00	\$ 22,031	10.00 %
Tier 1 (to risk weighted assets)						
Company	\$ 44,380	20.15 %	\$ 13,212	6.00 %	n/a	n/a
Bank	43,897	19.92	13,219	6.00	\$ 17,625	8.00 %
Common Equity Tier 1						
Company	\$ 27,078	12.30 %	\$ 9,909	4.50 %	n/a	n/a
Bank	43,897	19.92	9,914	4.50	\$ 14,320	6.50 %
Tier 1 (to average total assets)						
Company	\$ 44,380	11.96 %	\$ 14,843	4.00 %	n/a	n/a
Bank	43,897	11.83	14,842	4.00	\$ 18,553	5.00 %

Under Basel III standards and capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital standards require minimum ratios of “Common Equity Tier 1” capital to total risk-weighted assets, “Tier 1” capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common Equity Tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of Common Equity Tier 1 capital plus Additional Tier 1 Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is the ALLL. Risk-weighted assets refer to on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution’s composite ratings as determined by its regulators. Neither the Company nor the Bank has been advised of any requirement specifically applicable to it.

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16. HOLDING COMPANY CONDENSED FINANCIAL INFORMATION

The condensed financial data for the Company (holding company only) was:

Condensed Balance Sheets:

(Dollars in thousands)

Assets:

Cash and cash equivalents	\$	44,155	\$	541
Interest-bearing time deposits		988		-
Investment securities held-to-maturity (fair value of \$17,983 in 2022 and \$0 in 2021)		20,181		-
Investment in subsidiary bank		52,662		42,419
Other assets		199		69
Total Assets	\$	118,185	\$	43,029

		December 31,	
		2022	2021
	\$	44,155	\$ 541
		988	-
		20,181	-
		52,662	42,419
		199	69
	\$	118,185	\$ 43,029

Liabilities and Stockholders' Equity:

Total liabilities	\$	127	\$	127
Stockholders' equity		118,058		42,902
Total Liabilities and Stockholders' Equity	\$	118,185	\$	43,029

	\$	127	\$ 127
		118,058	42,902
	\$	118,185	\$ 43,029

Condensed Statements of Operations:

(Dollars in thousands)

Undistributed net income of subsidiary bank	\$	4,435	\$	2,968
Income		371		11
Expenses, net		(294)		(196)
Net income	\$	4,512	\$	2,783

		For the Years Ended December 31,	
		2022	2021
	\$	4,435	\$ 2,968
		371	11
		(294)	(196)
	\$	4,512	\$ 2,783

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Condensed Cash Flows:

(Dollars in thousands)

	For the Years Ended December 31,	
	2022	2021
Cash Flows from operating activities:		
Net income	\$ 4,512	\$ 2,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts/premiums on investment securities held to maturity, net	(67)	-
Undistributed net income of subsidiary	(4,435)	(2,968)
Net changes in:		
(Increase) decrease in other assets	(130)	130
Decrease in other liabilities	-	(153)
Net cash used in operating activities	(120)	(208)
Cash flows from investing activities:		
Activity in held to maturity securities:		
Purchases	(20,114)	-
Purchases of interest-bearing time deposits	(988)	-
Dividends from subsidiary	210	210
Capital contribution to subsidiary	(15,000)	(17,000)
Net cash used in investing activities	(35,892)	(16,790)
Cash flows from financing activities:		
Dividends paid	(417)	(209)
Stock-based compensation expense	43	11
Issuance of common stock	-	198
Issuance of preferred stock	80,000	17,302
Net cash provided by financing activities	79,626	17,302
Net increase in cash and cash equivalents	43,614	304
Cash and cash equivalents at beginning of year	541	237
Cash and cash equivalents at end of year	\$ 44,155	\$ 541

17. COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the Consolidated Balance Sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit losses in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank utilizes the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the counter parties. Collateral varies and may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk as of December 31, 2022 and 2021, respectively, are commitments to extend credit (including availability of lines of credit), and standby letters of credit. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral deemed necessary by the Bank is based on management's credit evaluation and underwriting guidelines for the particular loan.

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The Bank records a reserve for credit commitments that is adjusted through Other liabilities and Other expense in the Consolidated Balance Sheets and Consolidated Statements of Operations, respectively based on (i) the expected probability of funding and (ii) the loss history by loan type as determined in calculating the ALLL. The reserves included in Other liabilities as of December 31, 2022 and 2021 were \$43 thousand and \$21 thousand, respectively.

Commitments outstanding at December 31, 2022 are summarized in the following table:

<i>(Dollars in thousands)</i>	<u>Commercial letters of credit</u>	<u>Other loan commitments</u>	<u>Total commitments</u>
Less than one year	\$ 93	\$ 4,441	\$ 4,534
One to three years	-	2,131	2,131
Three to five years	-	5,500	5,500
More than five years	-	7,369	7,369
Total	<u>\$ 93</u>	<u>\$ 19,441</u>	<u>\$ 19,534</u>

18. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Company bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors.

Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U. S. Agencies, state and municipal bonds and MBS.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Assets and Liabilities Measured on a Recurring Basis:

Available-for-sale ("AFS") Investment Securities: Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury securities, and money market funds. Level 2 securities include U.S. Agencies, MBS issued by government sponsored entities, state and municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The Company did not hold any Level 1 or Level 3 AFS Investment

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Securities as of December 31, 2022 and 2021.

Assets measured at fair value on a recurring basis as of December 31, 2022 were as follows:

(Dollars in thousands)

<u>Description</u>	<u>December 31, 2022</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Recurring:				
U.S. Treasuries	\$ 1,698	\$ -	\$ 1,698	\$ -
U.S. Agencies	5,258	-	5,258	-
MBS	49,935	-	49,935	-
Municipals	10,201	-	10,201	-
Total	<u>\$ 67,092</u>	<u>\$ -</u>	<u>\$ 67,092</u>	<u>\$ -</u>

Assets measured at fair value on a recurring basis as of December 31, 2021 were as follows:

(Dollars in thousands)

<u>Description</u>	<u>December 31, 2021</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Recurring:				
U.S. Treasuries	\$ 1,915	\$ -	\$ 1,915	\$ -
U.S. Agencies	6,252	-	6,252	-
MBS	53,614	-	53,614	-
Municipals	10,545	-	10,545	-
Total	<u>\$ 72,326</u>	<u>\$ -</u>	<u>\$ 72,326</u>	<u>\$ -</u>

Assets and Liabilities Measured on a Nonrecurring Basis:

Impaired loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, and are carried at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans or net present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The value of business equipment, inventory, and accounts receivable collateral is based on net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's selling costs and other expenses. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. The Company records impaired loans as nonrecurring Level 3, because the Company believes the underlying collateral is less than the appraised value.

OREO: Foreclosed assets are adjusted to fair value, less estimated carrying costs and costs to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or the fair value, less estimated carry costs and costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. The Company records foreclosed assets as nonrecurring Level 3.

Assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021 were:

(Dollars in thousands)

<u>Description</u>	<u>December 31, 2022</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Nonrecurring:				
Impaired loans:				
Faith-based non-profit	\$ 7,077	\$ -	\$ -	\$ 7,077
Total	<u>\$ 7,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,077</u>

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(Dollars in thousands)

<u>Description</u>	<u>December 31, 2021</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Nonrecurring:				
Impaired loans:				
Faith-based non-profit	\$ 7,214	\$ -	\$ -	\$ 7,214
Total	<u>\$ 7,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,214</u>

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands)

<u>Description</u>	<u>December 31, 2022</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Significant Unobservable Input Value</u>
Nonrecurring:				
Impaired loans	\$ 7,077	discounted appraisals; PV of expected cash flows	discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	6-20%
Total	<u>\$ 7,077</u>			

(Dollars in thousands)

<u>Description</u>	<u>December 31, 2021</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Significant Unobservable Input Value</u>
Nonrecurring:				
Impaired loans	\$ 7,214	discounted appraisals; PV of expected cash flows	discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	6-20%
Total	<u>\$ 7,214</u>			

The Company discloses estimated fair values for its significant financial instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

The Company had no transfers between any of the three levels in 2022 or 2021.

Cash and Cash Equivalents: The carrying amount of cash, due from bank, and federal funds sold approximates fair value, and is therefore considered Level 1 input.

Loans (other than impaired), net of allowances for loan losses: Fair values are estimated for portfolios of loans with similar financial characteristics. The majority of the Company's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded.

The fair value of performing loans is calculated by discounting scheduled cash flows through their individual contractual maturity, using discount rates that reflect the credit risk, overhead expenses, interest rate earned and again, contractual maturity of each loan less credit component. The maturity is based on contractual maturities for each loan, modified as required by an estimate of the effect of historical prepayments and current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information, and are therefore considered a Level 3 input.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts and are therefore considered Level 1 input.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities and are therefore

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considered Level 2 input.

Borrowings: The fair value of borrowings is based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings and are therefore considered Level 3 input.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non-fee producing variable rate commitments, the Company has determined they do not have a distinguishable fair value.

As of December 31, 2022 and December 31, 2021, the carrying amounts and associated estimated fair value of financial assets and liabilities of the company are as follows:

<i>(Dollars in thousands)</i>	December 31, 2022				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash, cash equivalents and interest-bearing time deposits	\$ 93,168	\$ 93,168	\$ 93,168	\$ -	\$ -
Investment securities available-for-sale	67,092	67,092	-	67,092	-
Investments held-to-maturity	25,141	24,740	-	24,740	-
Loans, net of allowances for loan losses	244,046	242,565	-	-	242,565
Accrued interest receivable	1,324	1,324	1,324	-	-
Liabilities:					
Non-maturity deposits	\$ 262,077	\$ 262,077	\$ 262,077	\$ -	\$ -
Maturity deposits	65,318	63,701	-	63,701	-
Other borrowings	76	71	-	-	71
Accrued interest payable	66	66	66	-	-

<i>(Dollars in thousands)</i>	December 31, 2021				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash, cash equivalents and interest-bearing time deposits	\$ 44,499	\$ 44,499	\$ 44,499	\$ -	\$ -
Investment securities available-for-sale	72,326	72,326	-	72,326	-
Loans, net of allowances for loan losses	229,636	230,916	-	-	230,916
Accrued interest receivable	870	870	870	-	-
Liabilities:					
Non-maturity deposits	\$ 240,065	\$ 240,065	\$ 240,065	\$ -	\$ -
Maturity deposits	76,956	76,761	-	76,761	-
Other borrowings	130	129	-	-	129
Accrued interest payable	18	18	18	-	-

19. PREFERRED STOCK

SERIES C JUNIOR PARTICIPATING PREFERRED STOCK

On September 23, 2014, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's common stock, to purchase from the Company one one-hundredth of a share of Series C Junior Participating Preferred Stock, par value \$0.01 per share, of the Company at a price of \$10.00 per one one-hundredth of a share of preferred stock, subject to adjustment as provided in the associated rights agreement. There were no shares issued or outstanding at December 31, 2022 or 2021.

SERIES D NON-CUMULATIVE PERPETUAL PREFERRED STOCK

Series D Preferred Stock has a stated value of \$1,000.00 and is redeemable after five years at the sole option of the Company, carries no voting rights other than those limited voting rights mandated by North Carolina law and has non-cumulative dividend rights that entitle the holder to share in any dividends declared and paid to common shareholders calculated based on a reference price of \$11.538 per share of Common Stock. These passive investments represent a commitment to support economic growth in African American communities by investing in Black-owned banks, which provide consumer and commercial credit along with other banking services to historically underserved communities. In the ongoing pandemic, communities of color have been disproportionately impacted, and these investments are part of the effort to generate a more inclusive recovery.

M&F BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

SERIES E NON-CUMULATIVE PERPETUAL PREFERRED STOCK

On June 22, 2022, the Company issued 80,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of \$1,000 per share (the "Series E Preferred Stock"), to the U.S. Department of the Treasury under the Treasury's ECIP for an aggregate purchase price of \$80.0 million. The Series E Preferred Stock, which qualifies as Tier 1 capital for regulatory purposes, has limited voting rights, no maturity date and ranks senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding-up of the Company. The Series E Preferred Stock does not have any mandatory redemption and/or conversion features, and is redeemable after five years at the sole option of the Company. No dividends are payable on the Series E Preferred Stock during years 1 and 2. Thereafter, noncumulative dividends are payable at a rate 0.50% to 2.00%, with the actual rate determined during years 3-10 based on the Bank's annual qualified lending amount and thereafter fixed at a rate based on the Bank's average qualified lending amount. Established by the Consolidated Appropriations Act of 2021, the ECIP was created to encourage low- and moderate-income community financial institutions to enhance their support of small businesses and consumers in their communities.

20. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after that date. Management has reviewed events occurring through March 3, 2023, the date the financial statements were available to be issued, and noted no additional subsequent events requiring accrual or disclosure.

**BOARDS OF DIRECTORS &
OFFICERS**

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Chair
Broker/Consultant
Stewart Investment
Properties Inc.
Durham, NC

Connie J. White
Vice Chair
Retired Management Consultant
Durham, NC

Willie T. Closs Jr., CPA
Financial Consultant
Durham, NC

Michael L. Lawrence, CPA
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual
Insurance Company
Graham, NC

James H. Sills, III
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

**M&F Bank
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Stewart Investment
Properties Inc.
Durham, NC

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Retired Management Consultant
Durham, NC

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State Farm Insurance
Charlotte, NC

Allen Chan
Managing Director
Diversified Search Group
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Financial Consultant
Durham, NC

Michael L. Lawrence*, CPA
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual
Insurance Company
Graham, NC

Cedric L. Russell
Funeral Director and General
Manager
Russell Funeral Home
Winston-Salem, NC

James H. Sills, III*
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

*Executive Committee Member

Corporate Officers

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President and CEO
Durham, NC

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Executive Vice President/Chief
Financial Officer & Chief Operations
Officer
Durham, NC

Valerie M. Quiett, Esq.
Senior Vice President/Chief Legal
Officer/Corporate Secretary
Durham, NC

Bank Officers

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President and CEO
Durham, NC

Randall C. Hall, CPA, CGMA
Executive Vice President/Chief
Financial Officer & Chief Operations
Officer
Durham, NC

Percy W. "Pete" Williams
Senior Vice President/Chief Credit
Officer
Durham, NC

Travis C. Rouse
Senior Vice President/Chief Sales
and Lending Officer
Durham, NC

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Senior Vice President/Chief Legal
Officer/Corporate Secretary
Durham, NC

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Senior Vice President/Business
Development Officer
Winston-Salem, NC

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Durham, NC

Lorenzo Hardy
Senior Vice President/Senior
Commercial Lender
Charlotte, NC

Soberina F. Traywick
Senior Vice President/Commercial
Banking Team Lead
Raleigh, NC

Patricia S. "Patty" Quattromini
Senior Vice President/Retail Banking
Operations
Durham, NC

Daniel L. Bellamy
Vice President/Senior Commercial
Banker
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David C. Ekstrom
Vice President/ IT Director
Durham, NC

Damien Gorham
Vice President/Senior Commercial
Lender
Greensboro, NC

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Donald Liles
Vice President/Senior Portfolio
Underwriter
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Manager
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Keira A. Silver
Vice President/Data Analytics and
Insights
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Tamica Smith
Vice President/Loan Operations
Manager
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Cathy C. Beasley, CPA
Assistant Vice President/Assistant
Controller
Durham, NC

Ryan Witte, SPHR, SHRM-SCP
Assistant Vice President/Human
Resources Director
Durham, NC

Internal Audit & Risk Management

Ingrid Nelson, CCBCO
Vice President/MSB Compliance
Officer
Durham, NC

Shelia Winston-Graves
Assistant Vice President/Compliance
and Training Manager
Raleigh, NC

SHAREHOLDERS' INFORMATION

Annual Meeting

M&F Bancorp, Inc., a North Carolina Corporation, will hold its annual meeting of shareholders on Tuesday, June 6, 2023 at 10:00 a.m. local time. At this time, we intend to conduct a virtual meeting, and shareholder participation will be virtual (online) only. Additional meeting updates and instructions on how to participate virtually will be provided on the M&F Bank website, www.mfbonline.com in advance of the annual meeting.

Requests for Information

Requests for information should be directed to Ms. Valerie M. Quiett, Senior Vice President/Chief Legal Officer at M&F Bancorp, Inc., 2634 Durham Chapel Hill Blvd., Suite 101, Durham, NC 27707.

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5410 Trinity Road, Suite 320
Raleigh, North Carolina 27607

Stock Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue, 3rd Floor
Brooklyn, New York 11219
877-777-0800

General Counsel

Brooks, Pierce, McLendon,
Humphrey & Leonard, LLP

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