M&F Bancorp, Inc.

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M&F Bancorp Sees Third Quarter Loss, Cleaner Balance Sheet Going Forward

DURHAM, N.C.-- M&F Bancorp, Inc. ("Company"), the parent company of M&F Bank ("Bank"), announced unaudited financial results for the third quarter of 2016 today.

James H. Sills III, President and CEO of the Company, commented, "Over the past 24 months, we have committed to improving our asset quality ratios to be more in line with our peer banks in North Carolina. On September 30, 2014, our delinquency ratio was over 8.00% for our entire loan portfolio. In the most recent quarter, the Bank decreased its overall delinquency percentage to 2.75% as of September 30, 2016. The Company's improvement in this metric has been profound with a reduction of over 65.00% for this very important ratio. Given this direction, the third quarter was the right time for us to sell $10.5 million in loans, which were not originated by the Company, but assumed during a 2008 Bank acquisition. The high operating costs of servicing those loans, and the delinquency rates associated with them, have had a negative impact on our overall performance. The immediate impact of this loan sale contributed to an earnings loss; however, the long-term result is that our balance sheet is cleaner. While we believe that the Bank is sound, healthy and continues to be well-capitalized, we view the actions taken during this quarter as a positive step to further the overall condition of this Company. Now, with the changes implemented during the previous and most recent quarters, we are better positioned for long-term growth in loan volume, earnings, and operating efficiencies."

The Company recorded a quarterly net loss for the third quarter of 2016 of $3.7 million compared to net income of $276,000 for the third quarter of 2015, a decrease of $4.0 million. Net loss available to common shareholders for the third quarter of 2016 was $3.8 million compared to net income available to common stockholders of $217,000 for the third quarter of 2015, a decrease of $4.0 million. Diluted income (loss) per common share decreased $1.97 to $(1.86) for the third quarter of 2016 compared to $0.11 in the third quarter of 2015. During the quarter, the Company realized a loss of $4.7 million loss on the sale of certain 1-4 family residential loans; the loss was recorded through the allowance for loan losses when the loans were transferred to held for sale.

The Company recorded a net loss for the nine months ended September 30, 2016 of $3.8 million compared to net income of $425,000 for the same period of 2015, a decrease of $4.2 million. Net loss available to common shareholders for the nine months ended September 30, 2016 was $3.9 million compared to net income available to common stockholders of $248,000 for the same period of 2015, a decrease of $4.2 million. Diluted income (loss) per common share decreased $2.05 to $(1.93) for the nine months ended September 30, 2016 compared to $0.12 in the same period of 2015. As stated previously, the Company realized a loss of $4.7 million loss on the sale of certain 1-4 family residential loans; the loss was recorded through the allowance for loan losses when the loans were transferred to held for sale.

The Company produced net interest income of $2.1 million during the three months ended September 30, 2016, which was down $462,000 from the $2.6 million generated for the same period of 2015. Interest income decreased $429,000 or 15.61% to $2.3 million for the three months ended September 30, 2016 as compared to the same period of the prior year. The decrease was primarily attributable to a decline in loan volume. Interest expense increased to $193,000 for the three months ended September 30, 2016 compared to $160,000 for the same period in 2015.

The Company produced net interest income of $6.6 million during the nine months ended September 30, 2016, which was $833,000 lower than the $7.5 million generated for the same time of 2015. The decrease was primarily caused by lower interest income, which decreased $770,000 or 9.66% to $7.2 million for the nine months ended September 30, 2016 as compared to the same period of the prior year. The decrease in interest income was primarily attributable to a decline in loan volume. Interest expense increased to $560,000 for the nine months ended September 30, 2016 compared to $497,000 for the same period in 2015.

The provision for loan losses totaled $4.5 million for the three months ended September 30, 2016 as compared to none during the comparable 2015 quarter. The increase in provision primarily reflects the transfer of certain 1-4 family residential mortgage loans to held for sale. For the nine months ended the provision for loan losses was $4.6 million as compared to none during the same period of 2015. The increase in provision primarily reflects the loss on the transfer of certain 1-4 family residential mortgage loans to held for sale.

Noninterest income decreased $8,000 or 1.96% to $401,000 during the quarter ended September 30, 2016 as compared to the same period in 2015. The decrease was primarily attributable to $9,000 decrease in service charge income.

Noninterest income increased $352,000 or 29.24% to $1.6 million during the nine months ended September 30, 2016 as compared to the same period of 2015. The increase was primarily associated with the realization of $321,000 gains on the sales of investment securities during the nine months ended September 30, 2016 compared to $29,000 for the same period in 2015.

Noninterest expense increased $600,000 or 22.55% to $3.3 million for the quarter ended September 30, 2016 compared to $2.7 million for the same period of 2015, primarily driven by a $315,000 increase on net other real estate owned ("OREO") expenses, $181,000 increase in foreclosure expenses for 1-4 family residential mortgages, $74,000 increase in information technology and $56,000 increase in professional fees.

Noninterest expense increased $679,000 or 8.33% to $8.8 million during the nine months ended September 30, 2016 compared to $8.1 million for the same period of 2015, primarily driven by $112,000 increase in salary and employee benefits, $200,000 increase in information technology, $256,000 increase in OREO expenses and $116,000 increase in foreclosure expenses for 1-4 family residential mortgages.

Total assets as of September 30, 2016 were $310.3 million, up 4.04% or $12.0 million from $298.3 million as of December 31, 2015. During the nine months ended September 30, 2016, loans decreased to $146.5 million, down 11.14% or $18.4 million from $164.9 million as of December 31, 2015. Cash and cash equivalents increased by $32.8 million to $61.1 million as of September 30, 2016. The increase was primarily attributable to $5.8 million proceeds received from the sale of 1-4 family residential mortgage loans, $16.8 million fluctuation in state public funds and calls, maturities and sales of the Company's available-for-sale investment securities, which decreased $4.0 million to $75.9 million at September 30, 2016, compared to $79.9 million at December 31, 2015.

The allowance for loan losses was $2.5 million and $3.4 million as of September 30, 2016 and December 31, 2015, respectively, which represented 1.70% and 2.08%, respectively, of total loans outstanding. The decrease in allowance for loan losses primarily reflects historical net losses a rolling five-year look back OREO totaled $2.1 million and $2.8 million at September 30, 2016 and December 31, 2015, respectively. The decrease has been driven by significant effort to dispose of nonperforming assets and to write-down OREO to current net realizable values.

Total liabilities as of September 30, 2016 were $277.5 million, up 5.91% or $15.5 million from $262.0 million as of December 31, 2015. Increases in total deposits were primarily attributable to the increases in noninterest-bearing deposits. Noninterest-bearing deposits increased $18.7 million or 41.64% from $44.9 million at December 31, 2015 to $63.6 million at September 30, 2016. Interest-bearing deposits, including Certificates of Deposit Account Registry Service ("CDARS"), decreased $1.3 million or 0.61% from $209.8 million December 31, 2015 to $208.5 at September 30, 2016. The swings in deposit balances primarily represent seasonality and volatility with the Company's commercial customer base, public funds and CDARS accounts. Other liabilities decreased $1.8 million to $4.6 million at September 30, 2016 from $6.4 million at December 31, 2015. The decrease primarily represents the purchase of loans during 2015, which did not settle until the first quarter of 2016.

Total stockholders' equity as of September 30, 2016 was $32.8 million as compared to total stockholders' equity at December 31, 2015 of $36.2 million. Accumulated other comprehensive loss decreased from $2.1 million at December 31, 2015 to $1.6 million as of September 30, 2016, driven by an increase in the market value of the Company's available-for-sale investment securities and pension plans during the period partially offset by preferred dividends and accretion of $177,000 and a year-to-date net loss of $3.8 million.

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of M&F Bancorp, Inc. (the "Company") and M&F Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and M&F 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 M&F Bank undertakes an obligation to update any forward-looking statements.

Source: M&F Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	**September 30, 2016**	**December 31, 2015**
	(Unaudited)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 2,263	$ 2,181
Interest-bearing cash	58,822	26,081
Federal funds sold	-	11
Total cash and cash equivalents	61,085	28,273
Interest-bearing time deposits	6,665	6,665
Investment securities available-for-sale, at fair value	75,851	79,941
Other invested assets	298	298
Loans, net of unearned income and deferred fees	146,489	164,849
Allowance for loan losses	(2,493)	(3,435)
Loans, net	143,996	161,414
Interest receivable	633	785
Bank premises and equipment, net	4,665	4,412
Cash surrender value of bank-owned life insurance	8,417	8,228
OREO	2,116	2,764
Deferred tax assets and taxes receivable, net	5,453	4,264
Other assets	1,132	1,206
TOTAL ASSETS	$ 310,311	$ 298,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	$ 208,537	$ 209,817
Noninterest-bearing deposits	63,572	44,883
Total deposits	272,109	254,700
Other borrowings	827	938
Other liabilities	4,574	6,388
Total liabilities	277,510	262,026
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Series B Preferred Stock- $1,000 liquidation value per share, 11,735 shares authorized, issued and outstanding	11,732	11,731
Series C Junior Participating Preferred Stock- $0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Common stock, no par value, 10,000,000 shares authorized; 2,031,337 shares issued and outstanding	8,732	8,732
Retained earnings	13,968	17,895
Accumulated other comprehensive loss	(1,631)	(2,134)
Total stockholders' equity	32,801	36,224
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 310,311	$ 298,250

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for share and per share data) *(Unaudited)*	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Interest income:				
Loans, including fees	$ 1,899	$ 2,354	$ 5,827	$ 6,847
Investment securities available-for-sale, including dividends				
Taxable	355	323	1,084	967
Tax-exempt	-	33	83	51
Interest-bearing time deposits	28	23	85	57
Other	38	16	125	52
Total interest income	2,320	2,749	7,204	7,974
Interest expense:				
Deposits	191	158	554	491
Borrowings	2	2	6	6
Total interest expense	193	160	560	497
Net interest income	2,127	2,589	6,644	7,477
Less provision for loan losses	4,461	-	4,632	-
Net interest income after provision for loan losses	(2,334)	2,589	2,012	7,477
Noninterest income:				
Service charges	281	290	808	846
Rental income	55	58	163	144
Cash surrender value of life insurance	63	59	189	174
Net realized gains on sales of investment securities available-for-sale	-	-	321	29
Other income	2	2	75	11
Total noninterest income	401	409	1,556	1,204
Noninterest expense:				
Salaries and employee benefits	1,341	1,320	4,079	3,967
Occupancy and equipment	339	361	989	1,045
Directors' fees	45	40	144	155
Marketing	58	50	193	145
Professional fees	188	132	484	472
Information technology	303	229	864	664
FDIC deposit insurance	138	139	413	424
OREO expenses, net	358	43	515	259
Delivery expenses	26	37	94	111
Other	465	310	1,051	905
Total noninterest expense	3,261	2,661	8,826	8,147
Income (loss) before income tax (benefit)	(5,194)	337	(5,258)	534
Income tax (benefit)	(1,474)	61	(1,508)	109
Net income (loss)	(3,720)	276	(3,750)	425
Less preferred stock dividends and accretion	(59)	(59)	(177)	(177)
Net income (loss) available to common stockholders	$ (3,779)	$ 217	$ (3,927)	$ 248
Basic and diluted income (loss) per share of common stock:	$ (1.86)	$ 0.11	$ (1.93)	$ 0.12
Weighted average shares of common stock outstanding:				
Basic and diluted	2,031,337	2,031,337	2,031,337	2,031,337

SELECTED QUARTERLY FINANCIAL RATIOS

(Unaudited)

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	(5.11%)	(0.01%)	(0.18%)	(0.18%)	0.29%
Return on average common stockholders' equity (1)(3)	(61.21%)	(0.14%)	(2.26%)	(2.21%)	3.51%
Net interest margin (1)	3.09%	3.22%	3.28%	3.49%	3.69%
Net interest income to average assets (1)	2.87%	3.00%	3.05%	3.26%	3.45%
Efficiency ratio	129.00%	103.88%	102.48%	102.97%	88.26%
Nonperforming assest to total assets	1.91%	2.30%	2.36%	2.73%	3.47%

(1) Annualized

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

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