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

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

James H. Sills III, President and CEO of the Company, commented, “During the third quarter of 2020, we continued to see significant increases in deposits due to all the social unrest happening in the U.S. I am pleased to report that local small and medium sized businesses, corporations, nonprofits and consumers are committed to having a relationship with the Company to help recycle dollars into the communities served. It’s very apparent that these firms want to support the mission of the Bank to provide access to capital to urban communities. The health and safety of our associates and customers continues to be top priority. Most of the administrative associates have been working remotely since the last week of March 2020. We have not identified any issues in operating efficiencies due to these emergency arrangements. Our customers have adapted well to digital appointments, electronic signatures and leveraging our various digital banking capabilities. Further, since the beginning of the year, our on-line banking, mobile banking and ATM usage is up over 30%. We continue to take a conservative approach related to our loan portfolio in terms of increasing our allowance for loan losses (“ALLL”) percentage from 1.08% at December 31, 2019 to 1.56% at September 30, 2020. The Company has added \$980,000 to the ALLL during the nine months ended September 30, 2020 as a precautionary measure against potential deterioration of asset quality in certain loan segments. Overall, our loan portfolio continues to perform better than peer banks and the overwhelming majority of the loans have returned to normal payment structures. Finally, we continue to monitoring the COVID-19 situation and impacts on our associates and customers very closely.”

The Company recorded net income of \$319,000 and 330,000 for the quarters ended September 30, 2020 and 2019, respectively. Diluted income per common share was \$0.16.

The Company recorded net income for the nine months ended September 30, 2020 of \$298,000 compared to \$628,000 for the same period of 2019. Diluted income per common share was \$0.15 and \$0.31 for the nine months ended September 30, 2020 and 2019, respectively.

The Company produced net interest income of \$2.3 million during the three months ended September 30, 2020, which was up \$93,000 from the \$2.2 million generated for the same period of 2019. Interest income decreased \$134,000 or 5.15% to \$2.5 million for the three months ended September 30, 2020 as compared to the same period of the prior year. The decrease was attributable to a decrease in lower yields on earning assets such as loan and investments. Interest expense decreased to \$201,000 for the three months ended September 30, 2020 compared to \$428,000 for the same period in 2019. The decrease was primarily driven by an overall decrease in cost of funds, especially brokered-deposits, which are rate sensitive.

The Company produced net interest income of \$6.8 million during the nine months ended September 30, 2020, which was up \$324,000 from the \$6.5 million generated for the same period in 2019. Interest income decreased \$130,000 or 1.67% to \$7.6 million for the nine months ended September 30, 2020 as compared to the same period of the prior year. The decrease was primarily attributable to a lower yields on earning assets. Interest expense decreased to \$821,000 for the nine months ended September 30, 2020 compared to \$1.3 million for the same period in 2019. The decrease was primarily driven by an overall decrease in cost of funds, especially brokered-deposits, which are rate sensitive.

The provision for (reversal of) loan losses totaled \$250,000 and \$(162,000) during the quarters ended September 30, 2020 and 2019, respectively.

The provision for (reversal of) loan losses totaled \$980,000 and \$(232,000) during the nine months ended September 30, 2020 and 2019, respectively.

Excluding a \$203,000 and \$44,000 Bank Enterprise Award (“BEA”) recognized during the third quarters of 2020 and 2019, respectively, and a \$13,000 realized gain on the sale of investment securities during the third quarter of 2020, noninterest income increased \$218,000 or 43.08% to \$724,000 during the quarter ended September 30, 2020 as compared to the same period in 2019. The increase was primarily driven by the money service business product offering. The BEA, awarded by the U.S. Treasury, reflects M&F Bank’s commitment to low and moderate income areas within its footprint.

Excluding a \$203,000 and \$44,000 in BEA recognized during the during the nine months ended September 30, 2020 and 2019, respectively, \$(4,000) and \$52,000 in gains (losses) on disposals of assets during the nine months ended September 30, 2020 and 2019, and \$186,000 realized gain on sale of loans and \$13,000 gain on sale of investment securities during the nine months ended September 30, 2020, noninterest income increased \$442,000 or 30.34% to \$1.9 million during the nine months ended September 30, 2020 as compared to the same period in 2019. The increase was primarily attributable to a \$357,000 increase in service charges and a \$70,000 increase in other service charges and commissions, primarily driven by the money service business product offering.

Noninterest expense increased \$114,000 or 4.62% to \$2.6 million for the quarter ended September 30, 2020 compared to \$2.5 million for the same period of 2019, primarily driven by a \$93,000 increase in information technology and a \$62,000 increase in salaries and employee benefits, partially offset by a \$120,000 decrease in other miscellaneous expenses primarily driven by decreased costs associated with other net periodic benefits.

Noninterest expense increased \$266,000 or 3.54% to \$7.8 million for the nine months ended September 30, 2020 compared to \$7.5 million for the same period of 2019, primarily driven by a \$237,000 increase professional fees and a \$192,000 in salaries and employee benefits, partially offset by a \$162,000 decrease in other miscellaneous primarily driven by decreased costs associated with other net periodic benefits and a \$97,000 decrease in information technology, resulting from the utilization of flex credits during the remaining term of the contract to partially offset costs.

Total assets as of September 30, 2020 were \$316.3 million, up 19.16% or \$50.8 million from \$265.5 million at December 31, 2019. During the nine months ended September 30, 2020, loans increased to \$189.7 million, up 4.46% or \$8.1 million from \$181.6 million at December 31, 2019, while investment securities increased \$8.2 million to \$51.9 million at September 30, 2020 from \$43.7 million at December 31, 2019. Cash and cash equivalents increased by \$35.5 million to \$53.8 million at September 30, 2020 as compared to \$18.3 million at December 31, 2019.

The allowance for loan losses (“ALLL”) was \$3.0 million and \$2.0 million at September 30, 2020 and December 31, 2019, respectively, which represented 1.56% and 1.08%, respectively, of loans outstanding. The Company estimates its ALLL based upon a five-year historical lookback at loan losses along with certain qualitative factors such as unemployment, collateral values and loan delinquencies among others. Qualitative factors were increased by approximately 60 basis points during the nine-month period ended September 30, 2020 due to economic challenges the Company’s borrowers may encounter as a result of the ongoing COVID-19 pandemic.

Total liabilities as of September 30, 2020 were \$292.7 million, 20.31% or \$49.4 million from \$243.3 million as of December 31, 2019. Increases in total deposits were attributable to deposits stemming from Paycheck Protection Program loans, individuals and businesses interested in supporting a minority depository institution, core deposit growth due to business development and temporary increases in deposits due to lower household spending as a result of COVID-19. Interest-bearing deposits, including CDARS®, increased \$22.7 million or 12.62% to \$203.1 million at September 30, 2020 from \$180.4 million December 31, 2019. Noninterest-bearing deposits increased \$26.9 million or 46.65% to \$84.5 million at September 30, 2020 from \$57.6 million at December 31, 2019. Operating lease liabilities totaled \$1.2 million and \$1.1 million at September 30, 2020 and December 31, 2019, respectively. Other liabilities totaled \$3.6 million at September 30, 2020 and December 31, 2019.

Total stockholders' equity as of September 30, 2020 was \$23.6 million as compared to total stockholders' equity at December 31, 2019 of \$22.2 million. Accumulated other comprehensive loss decreased to \$1.2 million at September 30, 2020 from \$1.8 million at December 31, 2019, driven by an increase in the market value of the Company's available-for-sale investment securities during the period.

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and the Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Effects of COVID-19 may negatively impact significant estimates and exacerbate a vulnerability due of certain concentrations (e.g., business concentration in a market or

geographical area severely affected by effects of COVID-19). Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements. Source: M&F Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

	September 30, 2020 <i>(unaudited)</i>	December 31, 2019
<i>(Dollars in thousands except for share)</i>		
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 13,035	\$ 8,379
Interest-bearing cash	40,762	9,946
Total cash and cash equivalents	<u>53,797</u>	<u>18,325</u>
Interest-bearing time deposits	4,436	4,436
Investment securities available-for-sale, at fair value	51,883	43,655
Other invested assets	262	254
Loans, net of unearned income and deferred fees	189,690	181,594
ALLL	<u>(2,955)</u>	<u>(1,960)</u>
Loans, net	<u>186,735</u>	<u>179,634</u>
Interest receivable	1,032	679
Bank premises and equipment, net	2,620	2,606
Cash surrender value of bank-owned life insurance	9,441	9,243
Deferred tax assets and taxes receivable, net	3,172	4,013
Operating lease right-of-use asset	1,162	1,062
Other assets	1,806	1,575
TOTAL ASSETS	<u>\$ 316,346</u>	<u>\$ 265,482</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 203,144	\$ 180,379
Noninterest-bearing deposits	84,544	57,649
Total deposits	<u>287,688</u>	<u>238,028</u>
Other borrowings	221	587
Operating lease liabilities	1,192	1,085
Other liabilities	3,621	3,609
Total liabilities	<u>292,722</u>	<u>243,309</u>
Stockholders' equity:		
Series C Junior Participating Preferred Stock- \$0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Common stock, no par value, 10,000,000 shares authorized; issued and outstanding: 2,126,415 and 2,031,337 at September 30, 2020 and December 31, 2019, respectively	9,232	8,732
Retained earnings	15,584	15,286
Accumulated other comprehensive loss	<u>(1,192)</u>	<u>(1,845)</u>
Total stockholders' equity	<u>23,624</u>	<u>22,173</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 316,346</u>	<u>\$ 265,482</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	2019	September 30, 2020	2019
Interest income:				
Loans, including fees	\$ 2,283	\$ 2,252	\$ 6,937	\$ 6,637
Investment securities available-for-sale, including dividends				
Taxable	153	247	565	788
Interest-bearing time deposits	25	23	73	56
Other	9	82	65	289
Total interest income	<u>2,470</u>	<u>2,604</u>	<u>7,640</u>	<u>7,770</u>
Interest expense:				
Deposits	201	427	819	1,272
Borrowings	-	1	2	3
Total interest expense	<u>201</u>	<u>428</u>	<u>821</u>	<u>1,275</u>
Net interest income	<u>2,269</u>	<u>2,176</u>	<u>6,819</u>	<u>6,495</u>
Less provision for (reversal of) loan losses	<u>250</u>	<u>(162)</u>	<u>980</u>	<u>(232)</u>
Net interest income after provision for (reversal of) loan losses	<u>2,019</u>	<u>2,338</u>	<u>5,839</u>	<u>6,727</u>
Noninterest income:				
Service charges on deposit accounts	453	280	1,155	798
Other service charges, commissions and fees	177	125	442	372
Rental income	2	2	6	2
Cash surrender value of life insurance	68	66	198	193
Realized gain on sale of loan	-	-	186	-
Net realized gains on sales of investment securities available-for-sale	13	-	13	-
Realized net gain (loss) on disposal of Bank premises and equipment	-	-	(4)	52
Other income	227	77	301	136
Total noninterest income	<u>940</u>	<u>550</u>	<u>2,297</u>	<u>1,553</u>
Noninterest expense:				
Salaries and employee benefits	1,424	1,362	4,180	3,988
Occupancy and equipment	308	304	948	927
Directors' fees	31	32	103	114
Marketing	60	60	191	140
Professional fees	203	159	655	418
Information technology	302	209	791	888
FDIC deposit insurance	29	(2)	107	74
Other real estate owned expenses, net	-	-	1	2
Delivery expenses	31	30	93	90
Other	195	315	709	871
Total noninterest expense	<u>2,583</u>	<u>2,469</u>	<u>7,778</u>	<u>7,512</u>
Income before income tax expense	<u>376</u>	<u>419</u>	<u>358</u>	<u>768</u>
Income tax expense	<u>57</u>	<u>89</u>	<u>60</u>	<u>140</u>
Net income	<u>\$ 319</u>	<u>\$ 330</u>	<u>\$ 298</u>	<u>\$ 628</u>
Basic and diluted income per share of common stock:				
Basic and Diluted	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.31
Weighted average shares of common stock outstanding:				
Basic and Diluted	2,033,404	2,031,337	2,032,031	2,031,337

SELECTED QUARTERLY FINANCIAL RATIOS*(Unaudited)*

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 3 2019
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	0.42%	(0.08%)	0.06%	0.57%	0.50
Return on average common stockholders' equity (1)(3)	5.52%	(1.03%)	0.68%	6.87%	6.13
Tangible book value per share	\$ 11.11	\$ 11.30	\$ 11.32	\$ 10.92	\$ 10.7
Net interest margin (1)	3.26%	3.59%	3.71%	3.76%	3.57
Net interest income to average assets (1)	2.98%	3.26%	3.39%	3.43%	3.31
Efficiency ratio (4)	80.82%	81.76%	94.57%	79.73%	90.57
Nonperforming assets to total assets	0.28%	0.35%	0.35%	0.36%	0.35

(1) Annualized

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

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

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