M&F Bancorp, Inc.

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M&F Bancorp Sees Fourth Quarter Gain, 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 fourth quarter of 2016 today.

James H. Sills, III, President and CEO of the Company, commented, "2016 was the year to clean up the balance sheet. We continued the cleanup theme into the fourth quarter. We believe that the Bank is sound, healthy and continues to be well-capitalized; we view the actions taken during the year as a positive step to further improve the overall condition of the Bank. We reduced our delinquency percentage to 2.00% which is at a 10 year low. In addition, we reduced our OREO balance from $2.8 million as of January 1, 2016 to $367,000 at the end of the year. In the fourth quarter, we executed flawlessly, in terms of right sizing the balance sheet related to the liabilities, assets and capital account. In addition, we closed over $11.0 million in loans for the quarter. Further, in December we were fortunate to pay off TARP through the US Treasury early repurchase program. The Company realized a $2.3 million gain on the full redemption of its $11.7 million TARP. Although we suffered an overall loss for the year and the first loss in over 100 years, we significantly cushioned or reduced the loss by executing all the clean-up strategies and TARP repayment. Now, going into 2017, with the changes implemented during the previous and most recent quarters, we believe that we are better positioned for long-term growth in loan volume, earnings, and operating efficiencies."

The Company recorded a quarterly net loss for the fourth quarter of 2016 of $187,000 compared to a net loss of $78,000 for the fourth quarter of 2015, a decrease of $109,000. Net income available to common shareholders for the fourth quarter of 2016 was $2.1 million compared to a net loss available to common stockholders of $138,000 for the fourth quarter of 2015, an increase of $2.2 million. Diluted income (loss) per common share increased $1.11 to $1.04 for the fourth quarter of 2016 compared to $(0.07) in the fourth quarter of 2015. During the quarter, the Company realized a gain of $2.3 million on the redemption of its outstanding Series B Preferred Stock also known as Troubled Asset Relief Program ("TARP").

The Company recorded a net loss for the year ended December 31, 2016 of $3.9 million compared to net income of $347,000 for the same period of 2015, a decrease of $4.3 million. Net loss available to common shareholders for the year ended December 31, 2016 was $1.8 million compared to net income available to common stockholders of $110,000 for the same period of 2015, a decrease of $1.9 million. Diluted income (loss) per common share decreased $0.95 to $(0.90) for the year ended December 31, 2016 compared to $0.05 in the same period of 2015. During 2016, the Company realized a $4.7 million loss on the sale of certain 1-4 family residential loans and a $650,000 loss on the transfer of a commercial real estate loan to held for sale; the losses were recorded through the allowance for loan losses as charge-offs when the loans were transferred to held for sale. The losses were partially offset by a $2.3 million gain on the redemption of TARP.

The Company produced net interest income of $2.2 million during the three months ended December 31, 2016, which was down $192,000 from the $2.4 million generated for the same period of 2015. Interest income decreased $231,000 or 8.75% to $2.4 million for the three months ended December 31, 2016 as compared to the same period of the prior year. The decrease was primarily attributable to a decline in loan volume. Interest expense decreased to $181,000 for the three months ended December 31, 2016 compared to $220,000 for the same period in 2015.

The Company produced net interest income of $8.9 million during the year ended December 31, 2016, which was $1.0 million lower than the $9.9 million generated for the same time of 2015. The decrease was primarily caused by lower interest income, which decreased $1.0 million or 9.43% to $9.6 million for the year ended December 31, 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 $741,000 for the year ended December 31, 2016 compared to $717,000 for the same period in 2015.

The provision for loan losses totaled $549,000 for the three months ended December 31, 2016 as compared to $0 during the comparable 2015 quarter. The increase in provision primarily reflects the transfer of a commercial real estate loan to held for sale. For the year ended December 31, 2016, the provision for loan losses was $5.2 million as compared to $0 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 and a commercial real estate loan to held for sale.

Noninterest income decreased $83,000 or 19.95% to $333,000 during the quarter ended December 31, 2016 as compared to the same period in 2015. The decrease was primarily attributable to $80,000 in losses on the sales of securities during the three months ended December 31, 2016 compared to none during the comparable period in 2015.

Noninterest income increased $269,000 or 16.60% to $1.9 million during the year ended December 31, 2016 as compared to the same period of 2015. The increase was primarily associated with the realization of $241,000 gains on the sales of investment securities during the year ended December 31, 2016 compared to $29,000 for the same period in 2015.

Noninterest expense increased $77,000 or 2.61% to $3.0 million for the quarter ended December 31, 2016 compared to $2.9 million for the same period of 2015, primarily driven by a $261,000 increase in net other real estate owned ("OREO") expenses, $92,000 in losses on disposition of mortgage servicing rights and $92,000 increase in information technology, partially offset by decreases in other noninterest expense categories.

Noninterest expense increased $757,000 or 6.82% to $11.9 million during the year ended December 31, 2016 compared to $11.1 million for the same period of 2015, primarily driven by a $517,000 increase in OREO expenses, $103,000 increase in foreclosure expenses for 1-4 family residential mortgages and $92,000 in losses on the disposition of mortgage servicing rights, partially offset by decreases in other noninterest expense categories.

Total assets as of December 31, 2016 were $256.4 million, down 14.03% or $41.9 million from $298.3 million as of December 31, 2015. During the year ended December 31, 2016, loans (including those held for sale) decreased to $150.3 million, down 8.8% or $14.5 million from $164.8 million as of December 31, 2015. Cash and cash equivalents decreased by $8.6 million to $19.7 million as of December 31, 2016. The decrease was primarily attributable to $28.0 million reduction in wholesale time deposits and a $9.4 million disbursement for the redemption of outstanding TARP, partially offset by a $14.9 million reduction in available-for-sale investment securities, which decreased to $65.0 million at December 31, 2016 from $79.9 million at December 31, 2015, and $5.8 million proceeds received from the sale of 1-4 family residential mortgage loans, $5.4 million from sales of interest-bearing time-deposits and $1.6 million in proceeds from the sales of OREO.

The allowance for loan losses was $2.4 million and $3.4 million as of December 31, 2016 and 2015, respectively, which represented 1.62% and 2.08%, respectively, of loans outstanding (excluding those held for sale). The decrease in allowance for loan losses primarily reflects historical net losses based on a rolling five-year look back. OREO totaled $367,000 and $2.8 million at December 31, 2016 and 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 December 31, 2016 were $234.1 million, down 10.67% or $27.9 million from $262.0 million as of December 31, 2015. Decreases in total deposits were primarily attributable to the planned reduction of Certificates of Deposit Account Registry Service ("CDARS"), which represent the Company's highest cost of deposits. Interest-bearing deposits, including CDARS, decreased $28.0 million or 13.3% from $209.8 million December 31, 2015 to $181.8 at December 31, 2016. Noninterest-bearing deposits increased $2.7 million or 6.0% to $47.6 million at December 31, 2016 from $44.9 million at December 31, 2015. Other liabilities decreased $2.6 million to $3.8 million at December 31, 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 December 31, 2016 was $22.3 million as compared to total stockholders' equity at December 31, 2015 of $36.2 million. Accumulated other comprehensive loss increased to $2.5 million at December 31, 2016 from $2.1 million at December 31, 2015, driven by a decrease in the market value of the Company's available-for-sale investment securities and pension plans during the period in addition to preferred dividends and accretion of $229,000 and a year-to-date net loss of $3.9 million. The Company realized a $2.3 million gain on the full redemption of its $11.7 million TARP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	*(unaudited)* **December 31, 2016**	**December 31, 2015**
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 2,053	$ 2,181
Interest-bearing cash	17,619	26,081
Federal funds sold	-	11
Total cash and cash equivalents	19,672	28,273
Interest-bearing time deposits	1,235	6,665
Investment securities available-for-sale, at fair value	65,004	79,941
Other invested assets	298	298
Loans held for sale	975	-
Loans, net of unearned income and deferred fees	149,339	164,849
Allowance for loan losses	(2,417)	(3,435)
Loans, net	146,922	161,414
Interest receivable	629	785
Bank premises and equipment, net	5,060	4,412
Cash surrender value of bank-owned life insurance	8,480	8,228
OREO	367	2,764
Deferred tax assets and taxes receivable, net	6,756	4,264
Other assets	997	1,206
TOTAL ASSETS	$ 256,395	$ 298,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	$ 181,830	$ 209,817
Noninterest-bearing deposits	47,586	44,883
Total deposits	229,416	254,700
Other borrowings	862	938
Other liabilities	3,794	6,388
Total liabilities	234,072	262,026
Stockholders' equity:		
Series B Preferred Stock- $1,000 liquidation value per share, no and 11,735 shares authorized, issued and outstanding at December 31, 2016 and 2015, respectively	-	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	16,072	17,895
Accumulated other comprehensive loss	(2,481)	(2,134)
Total stockholders' equity	22,323	36,224
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 256,395	$ 298,250

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for share and per share data)	*(unaudited)* For the Three Months Ended December 31, 2016	*(unaudited)* For the Three Months Ended December 31, 2015	*(unaudited)* For the Years Ended December 31, 2016	*(unaudited)* For the Years Ended December 31, 2015
Interest income:				
Loans, including fees	$ 2,038	$ 2,217	$ 7,865	$ 9,064
Investment securities available-for-sale, including dividends				
Taxable	318	330	1,402	1,297
Tax-exempt	-	50	83	101
Interest-bearing time deposits	24	25	109	82
Other	28	17	153	69
Total interest income	2,408	2,639	9,612	10,613
Interest expense:				
Deposits	179	218	733	709
Borrowings	2	2	8	8
Total interest expense	181	220	741	717
Net interest income	2,227	2,419	8,871	9,896
Less provision for loan losses	549	-	5,181	-
Net interest income after provision for loan losses	1,678	2,419	3,690	9,896
Noninterest income:				
Service charges	296	292	1,104	1,138
Rental income	54	56	217	200
Cash surrender value of life insurance	64	60	252	233
Net realized gains (losses) on sales of investment securities available-for-sale	(80)	-	241	29
Net realized losses on sales of interest-bearing time deposits	(6)	-	(6)	-
Other income	5	8	81	20
Total noninterest income	333	416	1,889	1,620
Noninterest expense:				
Salaries and employee benefits	1,233	1,517	5,312	5,484
Occupancy and equipment	341	350	1,330	1,395
Directors' fees	56	58	200	213
Marketing	49	54	242	199
Professional fees	137	122	621	594
Information technology	335	243	1,199	907
FDIC deposit insurance	18	137	431	561
OREO expenses, net	487	226	1,002	485
Delivery expenses	32	35	126	146
Other	335	204	1,387	1,109
Total noninterest expense	3,023	2,946	11,850	11,093
Income (loss) before income tax expense (benefit)	(1,012)	(111)	(6,271)	423
Income tax expense (benefit)	(825)	(33)	(2,333)	76
Net income (loss)	(187)	(78)	(3,938)	347
Preferred stock dividends and accretion	(52)	(60)	(229)	(237)
Gain on redemption of preferred stock	2,344	-	2,344	-
Net income (loss) available to common stockholders	$ 2,105	$ (138)	$ (1,823)	$ 110
Basic and diluted income (loss) per share of common stock:	$ 1.04	$ (0.07)	$ (0.90)	$ 0.05
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)

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	3.05%	(5.11%)	(0.01%)	(0.18%)	(0.18%)
Return on average common stockholders' equity (1)(3)	41.19%	(61.21%)	(0.14%)	(2.26%)	(2.21%)
Net interest margin (1)	3.51%	3.09%	3.22%	3.28%	3.49%
Net interest income to average assets (1)	3.23%	2.87%	3.00%	3.05%	3.26%
Efficiency ratio (4)	114.25%	129.00%	103.88%	102.48%	102.97%
Nonperforming assest to total assets	0.91%	1.91%	2.30%	2.36%	2.73%

(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

(4) Calcuated by dividing total noninterest expense by the sum of fully taxable equivalent net interest income and noninterest income excluding securites gains (losses)