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M&F Bancorp, Inc. Announces Second Quarter 2017 Earnings

DURHAM, N.C.-- M&F Bancorp, Inc. (“Company”) (OTCPink: MFBP), the parent company of M&F Bank (“Bank”), announced unaudited financial results for the second quarter of 2017 today.

James H. Sills, III, President and CEO of the Company, commented, “We are focused on improving core earnings and expense containment. We continue to improve in all the operational areas of the Company. We have experienced improvements in deposit growth, fee income and controlling non-interest expenses. Our overall delinquency percentage remains steady in the 1.28% range as of June 30, 2017. During the second quarter, we had flat loan growth; however, we did close our first SBA loan with others in the pipeline, which will help to increase our loans outstanding. Recently, we hired a new Chief Credit Officer and new commercial lender for our Charlotte market. These two staff additions along with increased sales activity will help attract new customers to the Company. For the remaining quarters in 2017, the Company intends to continue to make progress on our strategic priorities placing emphasis on increasing loan volume.”

The Company recorded a net loss for the second quarter of 2017 of \$11,000 compared to net income of \$50,000 for the comparable quarter of 2016, a decrease of \$61,000. Net loss available to common shareholders for the second quarter of 2017 and 2016 was \$11,000 and \$9,000, respectively, an increase of \$2,000. Diluted loss per common share was \$0.01 for the second quarter of 2017 compared to \$0.00 in the second quarter of 2016.

The Company recorded a net loss for the six months ended June 30, 2017 of \$3,000 compared to a net loss of \$31,000 for the same period of 2016, a \$28,000 improvement. Net loss available to common shareholders for the six months ended June 30, 2017 and 2016 was \$3,000 and \$148,000, respectively, a decrease of \$145,000. Diluted loss per common share was \$0.00 and \$0.07 for the six months ended June 30, 2017 and 2016, respectively.

The Company produced net interest income of \$2.0 million during the three months ended June 30, 2017, which was down \$246,000 from the \$2.2 million generated for the same period of 2016. Interest income decreased \$235,000 or 9.73% to \$2.2 million for the three months ended June 30, 2017 as compared to the same period of the prior year. The decrease was primarily attributable to a decline in loan and investment securities volumes. Interest expense increased to \$198,000 for the three months ended June 30, 2017 compared to \$187,000 for the same period in 2016.

The Company produced net interest income of \$4.0 million during the six months ended June 30, 2017, which was down \$550,000 from the \$4.5 million generated for the same period of 2016. Interest income decreased \$540,000 or 11.05% to \$4.3 million for the six months ended June 30, 2017 as compared to the same period of the prior year. The decrease was primarily attributable to a decline in loan and investment securities volumes. Interest expense increased to \$377,000 for the six months ended June 30, 2017 compared to \$367,000 for the same period in 2016.

The provision for loan losses totaled none and \$171,000 during the quarters ended June 30, 2017 and 2016, respectively.

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Excluding \$315,000 in realized gains on sales of securities during the second quarter of 2016, noninterest income increased \$95,000 or 23.11% to \$506,000 during the quarter ended June 30, 2017 as compared to the same period in 2016. The increase was primarily attributable to \$92,000 increase in service charge income as a result of structural and fee changes in certain deposit products.

Excluding \$321,000 in realized gains on sales of securities during the six months ended June 30, 2016, noninterest income increased \$186,000 or 22.33% to \$1.0 million during the six months ended June 30, 2017 as compared to the same period in 2016. The increase was primarily attributable to \$175,000 increase in service charge income as a result of structural and fee changes in certain deposit products.

Noninterest expense decreased \$278,000 or 10.08% to \$2.5 million for the quarter ended June 30, 2017 compared to \$2.8 million for the same period of 2016, primarily driven by a \$111,000 decrease in salaries and employee benefits, \$65,000 reduction in FDIC deposit insurance

premiums, a \$39,000 decrease in net other real estate owned (“OREO”) expenses and a \$35,000 decrease in other noninterest expenses.

Noninterest expense decreased \$595,000 or 10.69% to \$5.0 million for the six months ended June 30, 2017 compared to \$5.6 million for the same period of 2016, primarily driven by a \$257,000 decrease in salaries and employee benefits, \$127,000 decrease in net OREO expenses, a \$118,000 reduction in FDIC deposit insurance premiums and a \$79,000 decrease in other noninterest expenses.

Total assets as of June 30, 2017 were \$265.4 million, up 3.50% or \$9.0 million from \$256.4 million as of December 31, 2016. During the six month period ended June 30, 2017, loans (including those held for sale) increased to \$155.7 million, up 3.58% or \$5.4 million from \$150.3 million as of December 31, 2016, while investment securities decreased \$2.9 million to \$62.1 million at June 30, 2017 from \$65.0 million at December 31, 2016. Cash and cash equivalents increased by \$5.6 million to \$25.3 million as of June 30, 2017. The increase was primarily attributable to \$8.8 million increase in total deposits and a \$2.9 million decrease in investment securities, partially offset by loan growth. Management believes a significant part of the deposit growth reflects temporary fluctuations in a couple of the Company’s largest commercial deposit accounts.

The allowance for loan losses was \$2.3 million and \$2.4 million at June 30, 2017 and December 31, 2016, respectively, which represented 1.51% and 1.62%, respectively, of loans outstanding (excluding those held for sale).

OREO totaled \$0 and \$367,000 at June 30, 2017 and December 31, 2016, 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 June 30, 2017 were \$242.8 million, up 3.72% or \$8.7 million from \$234.1 million as of December 31, 2016. Increases in total deposits were primarily attributable to significant temporary fluctuations in a couple of the Company’s largest commercial deposit accounts. Interest-bearing deposits, including CDARS®, increased \$5.4 million or 2.94% to \$187.2 million at June 30, 2017 from \$181.8 million December 31, 2016. Noninterest-bearing deposits increased \$3.4 million or 7.15% to \$51.0 million at June 30, 2017 from \$47.6 million at December 31, 2016.

Total stockholders' equity as of June 30, 2017 was \$22.6 million as compared to total stockholders' equity at December 31, 2016 of \$22.3 million. Accumulated other comprehensive loss decreased to \$2.2 million at June 30, 2017 from \$2.5 million at December 31, 2016, driven by a decrease in the market value of the Company's available-for-sale investment securities and pension plans 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. Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements. Source: M&F Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	June 30, 2017	December 31, 2016
	<i>(Unaudited)</i>	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 2,301	\$ 2,053
Interest-bearing cash	22,967	17,619
Total cash and cash equivalents	<u>25,268</u>	<u>19,672</u>
Interest-bearing time deposits	2,469	1,235
Investment securities available for sale, at fair value	62,131	65,004
Other invested assets	260	298
Loans held for sale	280	975
Loans, net of unearned income and deferred fees	155,419	149,339
Allowance for loan losses	<u>(2,345)</u>	<u>(2,417)</u>
Loans, net	<u>153,074</u>	<u>146,922</u>
Interest receivable	605	629
Bank premises and equipment, net	5,149	5,060
Cash surrender value of bank-owned life insurance	8,605	8,480
OREO	-	367
Deferred tax assets and taxes receivable, net	6,580	6,756
Other assets	940	997
TOTAL ASSETS	<u><u>\$ 265,361</u></u>	<u><u>\$ 256,395</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 187,184	\$ 181,830
Noninterest-bearing deposits	50,989	47,586
Total deposits	<u>238,173</u>	<u>229,416</u>
Other borrowings	816	862
Other liabilities	3,791	3,794
Total liabilities	<u>242,780</u>	<u>234,072</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; 2,031,337 shares issued and outstanding	8,732	8,732
Retained earnings	16,069	16,072
Accumulated other comprehensive loss	<u>(2,220)</u>	<u>(2,481)</u>
Total stockholders' equity	<u>22,581</u>	<u>22,323</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 265,361</u></u>	<u><u>\$ 256,395</u></u>

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Loans, including fees	\$ 1,808	\$ 1,949	\$ 3,596	\$ 3,928
Investment securities available-for-sale, including dividends				
Taxable	314	365	642	730
Tax-exempt	-	29	-	83
Interest-bearing time deposits	5	29	9	57
Other	53	43	98	87
Total interest income	2,180	2,415	4,345	4,885
Interest expense:				
Deposits	196	185	373	363
Borrowings	2	2	4	4
Total interest expense	198	187	377	367
Net interest income	1,982	2,228	3,968	4,518
Less provision for loan losses	-	171	-	171
Net interest income after provision for loan losses	1,982	2,057	3,968	4,347
Noninterest income:				
Service charges	357	265	702	527
Rental income	79	54	150	108
Cash surrender value of life insurance	63	64	125	125
Realized gain on sale of loan	-	-	30	-
Net realized gains on sales of investment securities available-for-sale	-	315	-	321
Realized loss on disposal of assets	-	-	(3)	-
Other income	7	28	15	73
Total noninterest income	506	726	1,019	1,154
Noninterest expense:				
Salaries and employee benefits	1,234	1,345	2,481	2,738
Occupancy and equipment	327	318	658	650
Directors' fees	43	54	91	99
Marketing	45	67	91	135
Professional fees	131	160	258	297
Information technology	315	285	638	561
FDIC deposit insurance	74	139	158	276
OREO expenses, net	4	43	29	156
Delivery expenses	30	35	60	68
Other	276	311	506	585
Total noninterest expense	2,479	2,757	4,970	5,565
Income (loss) before income tax expense (benefit)	9	26	17	(64)
Income tax expense (benefit)	20	(24)	20	(33)
Net income (loss)	(11)	50	(3)	(31)
Preferred stock dividends and accretion	-	(59)	-	(117)
Net loss available to common stockholders	\$ (11)	\$ (9)	\$ (3)	\$ (148)
Basic and diluted loss per share of common stock:				
	\$ (0.01)	\$ -	\$ -	\$ (0.07)
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)*

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	(0.02%)	0.01%	3.05%	(5.11%)	(0.01%)
Return on average common stockholders' equity (1)(3)	(0.19%)	0.14%	41.19%	(61.21%)	(0.14%)
Tangible book value per share	\$ 11.12	\$ 11.03	\$ 10.99	\$ 10.37	\$ 12.26
Net interest margin (1)	3.27%	3.26%	3.51%	3.09%	3.22%
Net interest income to average assets (1)	3.00%	2.99%	3.23%	2.87%	3.00%
Efficiency ratio (4)	99.64%	99.68%	114.25%	129.00%	103.88%
Nonperforming assest to total assets	0.75%	0.67%	0.91%	1.91%	2.30%

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