



FOR IMMEDIATE RELEASE – April 27, 2018

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M&F Bancorp, Inc. Announces First Quarter 2018 Results

DURHAM, N.C.-- M&F Bancorp, Inc. (“Company”), the parent company of M&F Bank (“Bank”), announced unaudited financial results for the first quarter of 2018 today.

James H. Sills III, President and CEO of the Company, commented, “Aside from a \$1.0 million charge-off on a nationally syndicated loan, which declared bankruptcy, 2018 has exceeded expectations. Loans grew by approximately \$5.5 million or 3.55% to \$159.0 million at March 31, 2018 from \$153.6 million at December 31, 2017, while deposits grew \$1.4 million or 0.59% to \$231.8 million at March 31, 2018 from \$230.4 million at December 31, 2017. Our service charge income increased by \$31,000 or 8.99% during the first quarter compared to the comparable period of the prior year, while our noninterest expenses decreased by \$102,000 or 4.09% over the same time horizon. At the end of the first quarter, we had reduced our delinquency ratio to 1.07%. In addition, we reduced our other real estate owned (“OREO”) balance from \$104,000 at December 31, 2017 to \$0 at March 31, 2018, which played a crucial role in our ability to manage non-interest expenses. We remain focused on sales, loan growth and expense control to generate sustainable core earnings. We believe that the Bank is sound, healthy and continues to be well-capitalized.”

The Company recorded a net loss for the first quarter of 2018 of \$740,000 compared to net income of \$8,000 for the comparable quarter of 2017, a decrease of \$748,000. Diluted income (loss) per common share was \$(0.36) and \$0.00 for the first quarters of 2018 and 2017, respectively.

The Company produced net interest income of \$2.0 million during the three months ended March 31, 2018, which was down \$27,000 from the \$2.0 million generated for the same period of 2017. Interest income increased \$43,000 or 1.99% to \$2.2 million for the three months ended March 31, 2018 as compared to the same period of the prior year. The increase was primarily attributable to an increase in loans outstanding and increased yields on short-term investments. Interest expense increased to \$249,000 for the three months ended March 31, 2018 compared to \$179,000 for the same period in 2017. The increase was primarily attributable to higher rates on wholesale time-deposits deposits.

The provision for loan losses totaled \$1.1 million and none for the three months ended March 31, 2018 and 2017, respectively. The provision for the first three months of 2018 was largely attributable to a \$992,000 charge-off on a nationally syndicated loan, which had declared bankruptcy.

Noninterest income decreased \$56,000 or 10.92% to \$457,000 during the quarter ended March 31, 2018 as compared to the same period in 2017. The decrease was primarily attributable to a \$71,000 reduction in revenue from rental income, which resulted from the sale of the Company’s corporate office building during the fourth quarter of 2017. Additionally, the Company realized a \$30,000 gain on the sale of a loan during the first three months of 2017 compared to none during the comparable period of 2018. Service charge income increased \$31,000 or 8.99% as a result of growth in demand deposit accounts and increased rates on fee based activities.

Noninterest expense decreased \$102,000 or 4.09% to \$2.4 million for the quarter ended March 31, 2018 compared to \$2.5 million for the same period of 2017, primarily driven by a \$43,000 decrease in FDIC deposit insurance premiums, a \$42,000 decrease in occupancy and equipment expenses, primarily as a result of selling the Company’s corporate office, and a \$37,000 decrease in net OREO expenses.

Total assets as of March 31, 2018 were \$254.7 million, down 0.15% or \$392,000 from \$255.1 million at December 31, 2017. During the three months ended March 31, 2018, loans increased to \$159.0 million, up 3.55% or \$5.5 million from \$153.6 million at December 31, 2017, while investment securities decreased \$2.5 million to \$55.0 million at March 31, 2018 from \$57.5 million at December 31, 2017. Cash and cash equivalents decreased by \$3.5 million to \$20.6 million at March 31, 2018 as compared to \$24.0 million at December 31, 2017. The Company used maturities of investment securities and cash to fund loan growth during the quarter ended March 31, 2018.

The allowance for loan losses was \$1.9 million at March 31, 2018 and December 31, 2017, respectively, which represented 1.22% and 1.23%, respectively, of loans outstanding.

OREO totaled none and \$104,000 at March 31, 2018 and December 31, 2017, 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 March 31, 2018 were \$236.0 million, up 0.49% or \$1.2 million from \$234.9 million as of December 31, 2017. Increases in total deposits were primarily attributable to growth in core deposit accounts, partially offset by significant temporary fluctuations in a couple of the Company's largest commercial deposit accounts. Interest-bearing deposits, including CDARS®, decreased \$1.4 million or 0.78% to \$181.7 million at March 31, 2018 from \$183.1 million December 31, 2017. Noninterest-bearing deposits increased \$2.8 million or 5.90% to \$50.1 million at March 31, 2018 from \$47.3 million at December 31, 2017. Other liabilities decreased \$190,000 to \$3.5 million at March 31, 2018 from \$3.7 million at December 31, 2017. The decrease represents changes in sundry liabilities.

Total stockholders' equity as of March 31, 2018 was \$18.6 million as compared to total stockholders' equity at December 31, 2017 of \$20.2 million. Accumulated other comprehensive loss increased to \$3.2 million at March 31, 2018 from \$2.4 million at December 31, 2017, driven by a decrease 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. Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements. Source: M&F Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS*(Dollars in thousands except for share)*

	March 31, 2018	December 31, 2017
	<i>(unaudited)</i>	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 2,405	\$ 2,255
Interest-bearing cash	18,145	21,762
Total cash and cash equivalents	<u>20,550</u>	<u>24,017</u>
Interest-bearing time deposits	3,210	3,210
Investment securities available-for-sale, at fair value	54,969	57,488
Other invested assets	254	256
Loans, net of unearned income and deferred fees	159,023	153,565
Allowance for loan losses	(1,946)	(1,885)
Loans, net	<u>157,077</u>	<u>151,680</u>
Interest receivable	628	651
Bank premises and equipment, net	2,423	2,437
Cash surrender value of bank-owned life insurance	8,795	8,733
OREO	-	104
Deferred tax assets and taxes receivable, net	5,157	4,875
Other assets	1,619	1,623
TOTAL ASSETS	<u>\$ 254,682</u>	<u>\$ 255,074</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 181,699	\$ 183,128
Noninterest-bearing deposits	50,108	47,315
Total deposits	231,807	230,443
Other borrowings	746	769
Other liabilities	3,491	3,681
Total liabilities	<u>236,044</u>	<u>234,893</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	13,154	13,894
Accumulated other comprehensive loss	(3,248)	(2,445)
Total stockholders' equity	<u>18,638</u>	<u>20,181</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 254,682</u>	<u>\$ 255,074</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans, including fees	\$ 1,814	\$ 1,788
Investment securities available-for-sale, including dividends		
Taxable	298	328
Interest-bearing time deposits	14	3
Other	82	46
Total interest income	<u>2,208</u>	<u>2,165</u>
Interest expense:		
Deposits	248	177
Borrowings	1	2
Total interest expense	<u>249</u>	<u>179</u>
Net interest income	1,959	1,986
Less provision for loan losses	1,067	-
Net interest income after provision for loan losses	<u>892</u>	<u>1,986</u>
Noninterest income:		
Service charges	376	345
Rental income	-	71
Cash surrender value of life insurance	62	62
Realized gain on sale of loan	-	30
Realized loss on disposal of assets	-	(2)
Other income	19	7
Total noninterest income	<u>457</u>	<u>513</u>
Noninterest expense:		
Salaries and employee benefits	1,228	1,247
Occupancy and equipment	289	331
Directors' fees	50	48
Marketing	58	46
Professional fees	138	127
Information technology	343	323
FDIC deposit insurance	41	84
OREO expenses, net	(12)	25
Delivery expenses	29	30
Other	225	230
Total noninterest expense	<u>2,389</u>	<u>2,491</u>
Income (loss) before income tax expense (benefit)	(1,040)	8
Income tax expense (benefit)	(300)	-
Net income (loss)	<u>\$ (740)</u>	<u>\$ 8</u>
Basic and diluted income (loss) per share of common stock:	\$ (0.36)	\$ -
Weighted average shares of common stock outstanding:		
Basic and diluted	2,031,337	2,031,337

SELECTED QUARTERLY FINANCIAL RATIOS*(Unaudited)*

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	(1.14%)	(3.81%)	(0.26%)	(0.02%)	0.01%
Return on average common stockholders' equity (1)(3)	(15.12%)	(43.05%)	(2.99%)	(0.19%)	0.14%
Tangible book value per share	\$ 9.18	\$ 9.93	\$ 11.09	\$ 11.12	\$ 11.03
Net interest margin (1)	3.27%	3.40%	3.38%	3.27%	3.26%
Net interest income to average assets (1)	3.02%	3.10%	3.08%	3.00%	2.99%
Efficiency ratio (4)	98.88%	102.42%	91.28%	99.64%	99.68%
Nonperforming assets to total assets	0.66%	1.02%	1.56%	0.75%	0.67%

(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 securities gains (losses), if applicable