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M&F Bancorp, Inc. Announces Second Quarter 2018 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 2018 today.

James H. Sills, III, President and CEO of the Company, commented, “We had a very good second quarter. We experienced improvements in loan growth, deposit growth, fee income and positive earnings. Our overall strategies to improve loans outstanding and core earnings are starting to bear fruit. We continue to improve in all the operational areas of the Company, and our overall delinquency percentage remains steady around 1.00% as of June 30, 2018. During the second quarter, we had excellent loan diversity and sales activity. The commercial and retail teams have attracted new small and medium sized businesses and consumer customers to the Company, which allows us to generate organic growth in our five markets. We closed 45 loans totaling \$10.0 million and our loans outstanding increased from \$159.0 million as of March 31, 2018 to \$164.6 million as of June 30, 2018. During the second quarter, we received notification from the U.S. Treasury of our sixth Bank Enterprise Award totaling \$233,000, which was based on the Bank’s commitment to serve low and moderate income communities. For the remaining quarters in 2018, the Company will strive to make progress on our strategic priorities placing emphasis on increasing loan volume and diversifying our fee income streams. We are continuing to execute our strategic plan designed to improve the overall performance of the Company.”

The Company recorded net income for the second quarter of 2018 of \$228,000 compared to a net loss of \$11,000 for the comparable quarter of 2017. Diluted income (loss) per common share was \$0.11 for the second quarter of 2018 compared to \$(0.01) in the second quarter of 2017.

The Company recorded a net loss for the six months ended June 30, 2018 of \$512,000 compared to a net loss of \$3,000 for the same period of 2017. Diluted loss per common share was \$0.25 and \$0.00 for the six months ended June 30, 2018 and 2017, respectively.

The Company produced net interest income of \$2.1 million during the three months ended June 30, 2018, which was up \$121,000 from the \$2.0 million generated for the same period of 2017. Interest income increased \$201,000 or 9.22% to \$2.4 million for the three months ended June 30, 2018 as compared to the same period of the prior year. The increase was primarily attributable to an increase in loan rates and increased loans outstanding. Interest expense increased to \$278,000 for the three months ended June 30, 2018 compared to \$198,000 for the same period in 2017. The increase was primarily attributable to the Company’s brokered-deposits, which are rate sensitive.

The Company produced net interest income of \$4.1 million during the six months ended June 30, 2018, which was up \$94,000 from the \$4.0 million generated for the same period of 2017. Interest income increased \$244,000 or 5.62% to \$4.6 million for the six months ended June 30, 2018 as compared to the same period of the prior year. The increase was primarily attributable to an increase in loan rates and increased loans outstanding. Interest expense increased to \$527,000 for the six months ended June 30, 2018 compared to \$377,000 for the same period in 2017. The increase was primarily driven by the Company’s brokered-deposits, which are rate sensitive.

The provision for loan losses totaled \$67,000 and none during the quarters ended June 30, 2018 and 2017, respectively. The provision was driven by increased loan growth.

The provision for loan losses totaled \$1.1 million and none during the six months ended June 30, 2018 and 2017, respectively. The provision for the first six months of 2018 was largely attributable to a \$992,000 charge-off on a nationally syndicated loan, which had declared bankruptcy.

Excluding \$233,000 in a BEA during the second quarter of 2018, noninterest income decreased \$59,000 or 11.66% to \$447,000 during the quarter ended June 30, 2018 as compared to the same period in 2017. The decrease was primarily attributable to a \$79,000 reduction in revenue from rental income, which resulted from the sale of the Company’s corporate office building during the fourth quarter of 2017. The BEA, awarded by the U.S. Treasury, reflects M&F Bank’s commitment to low and moderate income areas within its footprint. Service charge income increased \$21,000 or 5.88% to \$378,000 as a result of growth in demand deposit accounts and increased rates on fee based activities.

Excluding \$233,000 in BEA during the six months ended June 30, 2018, noninterest income decreased \$115,000 or 11.29% to \$904,000 during the six months ended June 30, 2018 as compared to the same period in 2017. The decrease was primarily attributable to a \$150,000 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 six months of 2017 compared to none during the comparable period of 2018. Service charge income increased \$52,000 or 7.41% to \$754,000 as a result of growth in demand deposit accounts and increased rates on fee based activities.

Noninterest expense decreased \$75,000 or 3.03% to \$2.4 million for the quarter ended June 30, 2018 compared to \$2.5 million for the same period of 2017, primarily driven by an \$87,000 decrease in other noninterest expenses, a \$43,000 decrease in occupancy and equipment expenses and a \$25,000 decrease in FDIC deposit insurance premiums, partially off-set by increases in other line item expenses.

Noninterest expense decreased \$177,000 or 3.56% to \$4.8 million for the six months ended June 30, 2018 compared to \$5.0 million for the same period of 2017, primarily driven by a \$125,000 decrease in other noninterest expenses, an \$85,000 decrease in occupancy and equipment expenses, a \$68,000 decrease in FDIC deposit insurance premiums and a \$38,000 decrease in net OREO expenses, partially off-set by increases in other line item expenses.

Total assets as of June 30, 2018 were \$256.0 million, up 0.35% or \$898,000 from \$255.1 million at December 31, 2017. During the six months ended June 30, 2018, loans increased to \$164.6 million, up 7.15% or \$11.0 million from \$153.6 million at December 31, 2017, while investment securities decreased \$4.4 million to \$53.0 million at June 30, 2018 from \$57.5 million at December 31, 2017. Cash and cash equivalents decreased by \$6.0 million to \$18.1 million at June 30, 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 six months ended June 30, 2018.

The allowance for loan losses was \$2.0 million and \$1.9 million at June 30, 2018 and December 31, 2017, respectively, which represented 1.22% and 1.23%, respectively, of loans outstanding.

OREO totaled none and \$104,000 at June 30, 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 June 30, 2018 were \$237.4 million, up 1.05% or \$2.5 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 \$3.5 million or 1.88% to \$179.7 million at June 30, 2018 from \$183.1 million December 31, 2017. Noninterest-bearing deposits increased \$6.1 million or 12.85% to \$53.4 million at June 30, 2018 from \$47.3 million at December 31, 2017. Other liabilities decreased \$106,000 to \$3.6 million at June 30, 2018 from \$3.7 million at December 31, 2017. The decrease represents changes in sundry liabilities.

Total stockholders' equity as of June 30, 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 \$3.5 million at June 30, 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

| | June 30, 2018 | December 31, 2017 |
|--|--------------------------|------------------------------|
| | <i>(unaudited)</i> | |
| <i>(Dollars in thousands except for share)</i> | | |
| ASSETS | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 2,000 | \$ 2,255 |
| Interest-bearing cash | 16,052 | 21,762 |
| Total cash and cash equivalents | 18,052 | 24,017 |
| Interest-bearing time deposits | 3,210 | 3,210 |
| Investment securities available-for-sale, at fair value | 53,039 | 57,488 |
| Other invested assets | 254 | 256 |
| Loans held for sale | - | - |
| Loans, net of unearned income and deferred fees | 164,550 | 153,565 |
| Allowance for loan losses ("ALLL") | (2,012) | (1,885) |
| Loans, net | 162,538 | 151,680 |
| Interest receivable | 666 | 651 |
| Bank premises and equipment, net | 2,409 | 2,437 |
| Cash surrender value of bank-owned life insurance | 8,858 | 8,733 |
| OREO | - | 104 |
| Deferred tax assets and taxes receivable, net | 5,152 | 4,875 |
| Other assets | 1,794 | 1,623 |
| TOTAL ASSETS | \$ 255,972 | \$ 255,074 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Interest-bearing deposits | \$ 179,679 | \$ 183,128 |
| Noninterest-bearing deposits | 53,394 | 47,315 |
| Total deposits | 233,073 | 230,443 |
| Other borrowings | 722 | 769 |
| Other liabilities | 3,575 | 3,681 |
| Total liabilities | 237,370 | 234,893 |
| COMMITMENTS AND CONTINGENCIES | | |
| 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 | 13,382 | 13,894 |
| Accumulated other comprehensive loss | (3,512) | (2,445) |
| Total stockholders' equity | 18,602 | 20,181 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 255,972 | \$ 255,074 |

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, | |
|---|--|------------------|--------------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income: | | | | |
| Loans, including fees | \$ 2,012 | \$ 1,808 | \$ 3,826 | \$ 3,596 |
| Investment securities available-for-sale, including dividends | | | | |
| Taxable | 282 | 314 | 580 | 642 |
| Tax-exempt | - | - | - | - |
| Interest-bearing time deposits | 13 | 5 | 27 | 9 |
| Other | 74 | 53 | 156 | 98 |
| Total interest income | 2,381 | 2,180 | 4,589 | 4,345 |
| Interest expense: | | | | |
| Deposits | 276 | 196 | 524 | 373 |
| Borrowings | 2 | 2 | 3 | 4 |
| Total interest expense | 278 | 198 | 527 | 377 |
| Net interest income | 2,103 | 1,982 | 4,062 | 3,968 |
| Less provision for loan losses | 67 | - | 1,134 | - |
| Net interest income after provision for loan losses | 2,036 | 1,982 | 2,928 | 3,968 |
| Noninterest income: | | | | |
| Service charges | 378 | 357 | 754 | 702 |
| Rental income | - | 79 | - | 150 |
| Cash surrender value of life insurance | 63 | 63 | 125 | 125 |
| Realized gain on sale of loan | - | - | - | 30 |
| Realized loss on disposal of assets | - | - | - | (3) |
| Other income | 239 | 7 | 258 | 15 |
| Total noninterest income | 680 | 506 | 1,137 | 1,019 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 1,270 | 1,240 | 2,537 | 2,493 |
| Occupancy and equipment | 284 | 327 | 573 | 658 |
| Directors' fees | 45 | 43 | 95 | 91 |
| Marketing | 76 | 45 | 134 | 91 |
| Professional fees | 130 | 131 | 268 | 258 |
| Information technology | 330 | 315 | 673 | 638 |
| FDIC deposit insurance | 49 | 74 | 90 | 158 |
| OREO expenses, net | 3 | 4 | (9) | 29 |
| Delivery expenses | 34 | 30 | 63 | 60 |
| Other | 183 | 270 | 369 | 494 |
| Total noninterest expense | 2,404 | 2,479 | 4,793 | 4,970 |
| Income (loss) before income tax expense (benefit) | 312 | 9 | (728) | 17 |
| Income tax expense (benefit) | 84 | 20 | (216) | 20 |
| Net income (loss) | \$ 228 | \$ (11) | \$ (512) | \$ (3) |
| Basic and diluted income (loss) per share of common stock: | \$ 0.11 | \$ (0.01) | \$ (0.25) | \$ - |
| 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, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 |
|--|--------------------------|---------------------------|------------------------------|-------------------------------|--------------------------|
| Selected Quarterly Financial Ratios | | | | | |
| Return on average assets (1) (2) | 0.35% | (1.14%) | (3.81%) | (0.26%) | (0.02%) |
| Return on average common stockholders' equity (1)(3) | 4.96% | (15.12%) | (43.05%) | (2.99%) | (0.19%) |
| Tangible book value per share | \$ 9.16 | \$ 9.18 | \$ 9.93 | \$ 11.09 | \$ 11.12 |
| Net interest margin (1) | 3.53% | 3.27% | 3.40% | 3.38% | 3.27% |
| Net interest income to average assets (1) | 3.26% | 3.02% | 3.10% | 3.08% | 3.00% |
| Efficiency ratio (4) | 86.38% | 98.88% | 102.42% | 91.28% | 99.64% |
| Nonperforming assets to total assets | 0.65% | 0.66% | 1.02% | 1.56% | 0.75% |

(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)