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M&F Bancorp, Inc. Announces Profitable 2018 Results

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

James H. Sills, III, President and CEO of the Company, commented, “During 2018, we made positive progress in all areas of the Company. We have officially turned around the Company from two years of prior losses. I am pleased to report that we generated positive earnings for the year in the amount of \$466,000 compared to a net loss of \$2.6 million in 2017. We increased our loans outstanding from \$154 million to \$174 million, an increase of 13.60%, which was one of the highest percentage increases in the state. Further, we closed over 196 loans in 2018 compared to 86 loans in 2017, which was tremendous improvement in loan volume and loan diversity in the portfolio. We were successful in executing our strategic plan to provide access to capital to small and medium businesses in all the markets served in 2018. Overall, we had positive increases in asset, loan and deposit growth and fee income including the Bank Enterprise Award (“BEA”) funds. The Company’s delinquency rate was .90%, which was the lowest level in 10 years. We continue to monitor our asset quality very closely along with the allowance for loan loss reserve, which was 1.19% of gross loans outstanding. The Company’s Tier 1 Leverage Capital ratio was 8.05%, and Total Risk Based Capital ratio was 12.27%. The Company intends to focus on our strategic priorities with emphasis on increasing loan volume and increasing profitability in the coming year.”

The Company recorded net income for the fourth quarter of 2018 of \$128,000 compared to net loss of \$2.4 million for the comparable quarter of 2017. The enactment of the new federal tax law, signed in late December 2017, negatively affected the net loss for the Company for the fourth quarter and full year of 2017. The new tax rates became effective in 2018, but the 2017 enactment required companies to revalue their deferred tax assets at the new tax rate in 2017. Accordingly, the Company recognized a \$2.1 million (\$1.03 per basic and diluted share) charge to its deferred tax asset and a corresponding increase in income tax expense in the fourth quarter. Beginning in 2018, income tax expense was positively affected by the substantial reduction in the corporate tax rate. The law provides for the corporate tax rate to be reduced from 35% to 21%. Diluted net income (loss) per common share was \$.06 and \$(1.19) during the fourth quarter of 2018 and 2017, respectively.

The Company recorded net income for the year ended December 31, 2018 of \$466,000 compared to a net loss of \$2.6 million. Diluted income (loss) per common share was \$0.23 and \$(1.28) for the years ended December 31, 2018 and 2017, respectively.

The Company produced net interest income of \$2.1 million during the three months ended December 31, 2018, which was up \$82,000 from the \$2.0 million generated for the same period of 2017. Interest income increased \$237,000 or 10.78% to \$2.4 million for the three months ended December 31, 2018 as compared to the same period of the prior year. The increase was primarily attributable to a growth and increased rates on loans. Interest expense increased \$155,000 for the three months ended December 31, 2018 to \$384,000 for the three months ended December 31, 2018. The increase was primarily driven by increased cost of funds.

The Company produced net interest income of \$8.2 million during the year ended December 31, 2018, which was up \$264,000 from the \$8.0 million generated for the same period of 2017. Interest income increased \$690,000 or 7.87% to \$9.5 million for the year ended December 31, 2018 as compared to the same period of the prior year. The increase was primarily attributable to an increase in loan volumes and rates, and an increase in yields on short-term investments. Interest expense increased to \$1.2 million for the year ended December 31, 2018 compared to \$816,000 for the same period in 2017. The increase was primarily driven by increased cost of funds.

The provision for loan losses totaled \$11,000 and \$544,000 during the quarters ended December 31, 2018 and 2017, respectively.

The provision for loan losses totaled \$26 thousand and \$1.2 million for the years ended December 31, 2018 and 2017, respectively.

Excluding \$133,000 in Bank Enterprise Award (“BEA”) recognized during the fourth quarter of 2018, noninterest income decreased \$27,000 or 5.27% to \$485,000 as compared to the same period in 2017. The decrease was primarily attributable to the reduction of rental income from leasing excess space following the sale of the Company’s corporate office building during the fourth quarter of 2017. The BEA, a financial award from the U.S. Treasury, recognizes the Bank’s dedication to financing and supporting community and economic development activities in economically distressed areas.

Excluding \$367,000 and \$227,000 in BEA received during 2018 and 2017, respectively, noninterest income decreased \$212,000 or 10.18% to \$1.9 million during the year ended December 31, 2018 as compared to the same period in 2017. The decrease was primarily attributable to the reduction of leasing income from renting excess space following the sale of the Company's corporate office building during the fourth quarter of 2017.

Noninterest expense decreased \$82,000 or 3.23% to \$2.5 million for the quarter ended December 31, 2018 compared to the same period of 2017, primarily driven by a \$105,000 decrease in occupancy expense following the sale of the Company's corporate office building during the fourth quarter of 2017.

Noninterest expense decreased \$208,000 or 2.07% to \$9.9 million for the year ended December 31, 2018 compared to \$10.1 million for the same period of 2017, primarily driven by a \$243,000 decrease in net other expenses, a \$212,000 decrease in occupancy and equipment and an \$89,000 reduction in FDIC deposit insurance premiums, partially offset by increases in other line item expenses.

Total assets as of December 31, 2018 were \$257.2 million, up 0.83% or \$2.1 million from \$255.1 million as of December 31, 2017. During the year ended December 31, 2018, loans (including those held for sale) increased to \$174.4 million, up 13.6% or \$20.8 million from \$153.6 million as of December 31, 2017, while investment securities decreased \$6.7 million to \$50.8 million at December 31, 2018 from \$57.5 million at December 31, 2017. Cash and cash equivalents decreased by \$11.8 million to \$12.2 million as of December 31, 2018. The decrease was primarily attributable to moving lower yielding funds from interest-bearing cash to higher yielding loans.

The allowance for loan losses was \$2.1 million and \$1.9 million at December 31, 2018 and 2017, respectively, which represented 1.19% and 1.23%, respectively, of loans outstanding.

Other Real Estate Owned ("OREO") totaled none and \$104,000 at December 31, 2018 and 2017, respectively. The decrease has been driven by significant effort to dispose of nonperforming assets in a timely manner.

Total liabilities as of December 31, 2018 were \$237.3 million, up 1.02% or \$2.4 million from \$234.9 million as of December 31, 2017. Interest-bearing deposits, including CDARS®, decreased \$3.3 million or 1.80% to \$179.8 million at December 31, 2018 from \$183.1 million December 31, 2017. The decrease primarily reflects maturing certificates of deposit that were not renewed. Noninterest-bearing deposits increased \$5.9 million or 12.43% to \$53.2 million at December 31, 2018 from \$47.3 million at December 31, 2017. The increase reflects both fluctuations in large customer balances and growth in core deposits.

Total stockholders' equity as of December 31, 2018 was \$19.9 million as compared to total stockholders' equity at December 31, 2017 of \$20.2 million, a decrease of \$292,000. The decrease in equity was primarily attributable unrealized losses on investments available-for-sale.

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>(Unaudited)</i>	
<i>(Dollars in thousands except for share)</i>	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 2,654	\$ 2,255
Interest-bearing cash	9,531	21,762
Total cash and cash equivalents	<u>12,185</u>	<u>24,017</u>
Interest-bearing time deposits	3,206	3,210
Investment securities available-for-sale, at fair value	50,753	57,488
Other invested assets	254	256
Loans, net of unearned income and deferred fees	174,449	153,565
Allowance for loan losses	(2,079)	(1,885)
Loans, net	<u>172,370</u>	<u>151,680</u>
Interest receivable	699	651
Bank premises and equipment, net	2,391	2,437
Cash surrender value of bank-owned life insurance	8,985	8,733
OREO	-	104
Deferred tax assets and taxes receivable, net	4,735	4,875
Other assets	1,605	1,623
TOTAL ASSETS	<u>\$ 257,183</u>	<u>\$ 255,074</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	\$ 179,824	\$ 183,128
Noninterest-bearing deposits	53,196	47,315
Total deposits	<u>233,020</u>	<u>230,443</u>
Other borrowings	678	769
Other liabilities	3,596	3,681
Total liabilities	<u>237,294</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	14,360	13,894
Accumulated other comprehensive loss	(3,203)	(2,445)
Total stockholders' equity	<u>19,889</u>	<u>20,181</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 257,183</u>	<u>\$ 255,074</u>

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except for share and per share data)

	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	For the Three Months Ended		For the Years Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$ 2,063	\$ 1,849	\$ 7,948	\$ 7,294
Investment securities available-for-sale, including dividends				
Taxable	276	288	1,131	1,237
Interest-bearing time deposits	15	12	56	31
Other	82	50	328	211
Total interest income	<u>2,436</u>	<u>2,199</u>	<u>9,463</u>	<u>8,773</u>
Interest expense:				
Deposits	382	218	1,236	799
Borrowings	2	11	6	17
Total interest expense	<u>384</u>	<u>229</u>	<u>1,242</u>	<u>816</u>
Net interest income	<u>2,052</u>	<u>1,970</u>	<u>8,221</u>	<u>7,957</u>
Less provision for loan losses	<u>11</u>	<u>544</u>	<u>26</u>	<u>1,171</u>
Net interest income after provision for loan losses	<u>2,041</u>	<u>1,426</u>	<u>8,195</u>	<u>6,786</u>
Noninterest income:				
Service charges	408	376	1,543	1,435
Rental income	-	64	-	288
Cash surrender value of life insurance	64	64	252	253
Realized gain on sale of loan	-	-	19	30
Realized loss on disposal of assets	-	(2)	-	(6)
Other income	146	10	424	310
Total noninterest income	<u>618</u>	<u>512</u>	<u>2,238</u>	<u>2,310</u>
Noninterest expense:				
Salaries and employee benefits	1,270	1,123	5,153	4,821
Occupancy and equipment	292	397	1,172	1,384
Directors' fees	46	46	183	174
Marketing	49	46	233	200
Professional fees	120	129	541	520
Information technology	358	341	1,379	1,305
FDIC deposit insurance	41	43	179	268
OREO expenses, net	3	52	(4)	132
Delivery expenses	28	29	120	117
Other	253	336	902	1,145
Total noninterest expense	<u>2,460</u>	<u>2,542</u>	<u>9,858</u>	<u>10,066</u>
Income (loss) before income tax expense	199	(604)	575	(970)
Income tax expense				
Income tax expense (benefit) related to ordinary operations	71	(274)	109	(467)
Income tax expense related to change in tax rate	-	2,088	-	2,088
Income tax expense	<u>71</u>	<u>1,814</u>	<u>109</u>	<u>1,621</u>
Net income (loss)	<u>\$ 128</u>	<u>\$ (2,418)</u>	<u>\$ 466</u>	<u>\$ (2,591)</u>
Basic and diluted income (loss) per share of common stock:	\$ 0.06	\$ (1.19)	\$ 0.23	\$ (1.28)
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, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Selected Quarterly Financial Ratios					
Return on average assets (1) (2)	0.20%	1.31%	0.35%	(1.14%)	(3.81%)
Return on average common stockholders' equity (1)(3)	2.66%	17.98%	4.96%	(15.12%)	(43.05%)
Tangible book value per share	\$ 9.79	\$ 9.45	\$ 9.16	\$ 9.18	\$ 9.93
Net interest margin (1)	3.42%	3.50%	3.53%	3.27%	3.40%
Net interest income to average assets (1)	3.17%	3.24%	3.26%	3.02%	3.10%
Efficiency ratio (4)	92.13%	100.58%	86.38%	98.88%	102.42%
Nonperforming assets to total assets	0.50%	0.49%	0.65%	0.66%	1.02%

(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