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M&F Bancorp, Inc. Announces Second Quarter 2020 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 second quarter of 2020 today.

James H. Sills III, President and CEO of the Company, commented, “During the second quarter of 2020, we experienced significant changes in the national and regional economies, including government and business responses to the COVID-19 pandemic. Health and safety of our associates and customers has been a top priority. Most of the administrative associates have been working remotely since the last week of March 2020. We have not identified any issues in operating efficiencies due to these emergency arrangements. Since the beginning of the pandemic, we have taken a conservative approach related to our loan portfolio in terms of increasing our allowance for loan losses (“ALLL”) percentage from 1.08% to 1.45%. The Company added \$605,000 to the ALLL for the quarter as a precautionary measure against potential deterioration of asset quality in certain loan segments. Overall, 43% of our loan portfolio were provided payment modifications for 90 to 120 days, which was consistent with guidelines of the CARES Act. As of July 31, 2020, the overwhelming majority of these loans have returned to normal payment structures. Additionally, we participated in the Paycheck Protection Plan, which enabled us to provide funding to 141 businesses totaling \$13.1 million impacting 1,300 jobs. Finally, we are monitoring the COVID-19 situation and impacts on our associates and customers very closely.”

The Company recorded a net loss of \$59,000 for the second quarter of 2020 compared to net income of \$124,000 for the comparable quarter of 2019. Diluted income (loss) per common share was \$(0.03) and \$0.06 for the second quarters of 2020 and 2019, respectively.

The Company recorded a net loss of \$21,000 for the six months ended June 30, 2020 compared to net income of \$298,000 for the comparable period of 2019. Diluted income (loss) per common share was \$(0.01) and \$0.15 for the six months ended June 30, 2020 and 2019, respectively.

The Company produced net interest income of \$2.3 million and \$2.1 million during the three months ended June 30, 2020 and 2019, respectively. Interest income was \$2.6 million for the three months ended June 30, 2020 and 2019. Reductions in interest rates during the fourth quarter of 2019 and continuing through the first quarter of 2020 resulted in the interest income being flat. Interest expense decreased \$148,000 to \$279,000 for the three months ended June 30, 2020 compared to \$427,000 for the same period in 2019. The decrease was primarily attributable to lower rates on wholesale time-deposits.

The Company produced net interest income of \$4.6 million and \$4.3 million during the six months ended June 30, 2020 and 2019, respectively. Interest income was \$5.2 million for the six months ended June 30, 2020 and 2019. Reductions in interest rates during the fourth quarter of 2019 and continuing through the first quarter of 2020 resulted in interest income being flat. Interest expense decreased \$227,000 to \$620,000 for the six months ended June 30, 2020 compared to \$847,000 for the same period in 2019. The decrease was primarily attributable to lower rates on wholesale time-deposits.

The provision for (reversal of) loan losses totaled \$622,000 and \$(35,000) for the second quarter ended June 30, 2020 and 2019, respectively.

The provision for (reversal of) loan losses totaled \$730,000 and \$(70,000) for the six months ended June 30, 2020 and 2019, respectively.

Noninterest income increased \$229,000 or 42.49% to \$768,000 during the quarter ended June 30, 2020 as compared to the same period in 2019. The increase was primarily driven by gains on sales of loans and increases in the money service business product offering.

Noninterest income increased \$354,000 or 35.29% to \$1.4 million during the six months ended June 30, 2020 as compared to the same period in 2019. The increase was primarily driven by gains on sales of loans and increases in the money service business product offering.

Noninterest expense decreased \$73,000 or 2.84% to \$2.5 million for the quarter ended June 30, 2020 compared to \$2.6 million for the same period of 2019, primarily driven by a \$118,000 decrease in miscellaneous expenses, and a \$91,000 decrease in information technology expenses due to using flex credits to offset certain data processing cost during the remaining life of the contract, partially offset by a \$117,000 increase in professional fees, primarily related to activities in the money service business product offering.

Noninterest expense increased \$152,000 or 3.01% to \$5.2 million for the six months ended June 30, 2020 compared to \$5.0 million for the same period of 2019, primarily driven by a \$193,000 increase in professional fees, primarily related to activities in the money service business product offering, and a \$130,000 increase in salaries and employee benefits, partially offset by a \$190,000 decrease in information technology expenses due to using flex credits to offset certain data processing cost during the remaining life of the contract.

Total assets as of June 30, 2020 were \$291.2 million, up 9.69% or \$25.7 million from \$265.5 million at December 31, 2019. During the six months ended June 30, 2020, loans increased to \$186.7 million, up 2.83% or \$5.1 million from \$181.6 million at December 31, 2019, while investment securities increased \$238,000 to \$43.9 million at June 30, 2020 from \$43.7 million at December 31, 2019. Cash and cash equivalents increased by \$20.5 million to \$38.8 million at June 30, 2020 as compared to \$18.3 million at December 31, 2019.

The allowance for loan losses ("ALLL") was \$2.7 and \$2.0 million at June 30, 2020 and December 31, 2019, respectively, which represented 1.45% and 1.08%, respectively, of loans outstanding. The Company estimates its ALLL based upon a five-year historical lookback at loan losses along with certain qualitative factors such as unemployment, collateral values and loan delinquencies among others. Qualitative factors were increased by approximately 52 basis points during the six-month period ended June 30, 2020 due to economic challenges the Company's borrowers may encounter as a result of the ongoing COVID-19 pandemic.

Total liabilities as of June 30, 2020 were \$268.3 million, 10.25% or \$25.0 million from \$243.3 million as of December 31, 2019. Increases in total deposits were attributable to deposits stemming from Paycheck Protection Program loans, individuals and businesses interested in supporting a minority depository institution, core deposit growth due to business development and temporary increases in deposits due to lower household spending as a result of COVID-19. Interest-bearing deposits, including CDARS®, increased \$7.4 million or 4.12% to \$187.8 million at June 30, 2020 from \$180.4 million December 31, 2019. Noninterest-bearing deposits increased \$18.0 million or 31.06% to \$75.6 million at June 30, 2020 from \$57.6 million at December 31, 2019. Operating lease liabilities totaled \$1.2 million and \$1.1 million at June 30, 2020 and December 31, 2019, respectively. Other liabilities totaled \$3.6 million at June 30, 2020 and December 31, 2019.

Total stockholders' equity as of June 30, 2020 was \$23.0 million as compared to total stockholders' equity at December 31, 2019 of \$22.2 million. Accumulated other comprehensive loss decreased to \$1.0 million at June 30, 2020 from \$1.8 million at December 31, 2019, driven by an increase 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. Effects of COVID-19 may negatively impact significant estimates and exacerbate a vulnerability due of certain concentrations (e.g., business concentration in a market or geographical area severely affected by effects of COVID-19). 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, | December 31, |
|--|--------------------|---------------------|
| | 2020 | 2019 |
| | <i>(unaudited)</i> | |
| ASSETS | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 7,558 | \$ 8,379 |
| Interest-bearing cash | 31,216 | 9,946 |
| Total cash and cash equivalents | <u>38,774</u> | <u>18,325</u> |
| Interest-bearing time deposits | 4,436 | 4,436 |
| Investment securities available-for-sale, at fair value | 43,893 | 43,655 |
| Other invested assets | 262 | 254 |
| Loans, net of unearned income and deferred fees | 186,731 | 181,594 |
| ALL | <u>(2,705)</u> | <u>(1,960)</u> |
| Loans, net | <u>184,026</u> | <u>179,634</u> |
| Interest receivable | 1,836 | 679 |
| Bank premises and equipment, net | 2,555 | 2,606 |
| Cash surrender value of bank-owned life insurance | 9,373 | 9,243 |
| Deferred tax assets and taxes receivable, net | 3,183 | 4,013 |
| Operating lease right-of-use asset | 1,207 | 1,062 |
| Other assets | 1,663 | 1,575 |
| TOTAL ASSETS | <u>\$ 291,208</u> | <u>\$ 265,482</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Interest-bearing deposits | \$ 187,813 | \$ 180,379 |
| Noninterest-bearing deposits | 75,555 | 57,649 |
| Total deposits | <u>263,368</u> | <u>238,028</u> |
| Other borrowings | 83 | 587 |
| Operating lease liabilities | 1,235 | 1,085 |
| Other liabilities | 3,564 | 3,609 |
| Total liabilities | <u>268,250</u> | <u>243,309</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 | 15,265 | 15,286 |
| Accumulated other comprehensive loss | <u>(1,039)</u> | <u>(1,845)</u> |
| Total stockholders' equity | <u>22,958</u> | <u>22,173</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 291,208</u> | <u>\$ 265,482</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, | |
|---|--|---------------|--------------------------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income: | | | | |
| Loans, including fees | \$ 2,346 | \$ 2,196 | \$ 4,654 | \$ 4,385 |
| Investment securities available-for-sale, including dividends | | | | |
| Taxable | 189 | 264 | 412 | 541 |
| Interest-bearing time deposits | 24 | 18 | 48 | 33 |
| Other | 6 | 94 | 56 | 207 |
| Total interest income | <u>2,565</u> | <u>2,572</u> | <u>5,170</u> | <u>5,166</u> |
| Interest expense: | | | | |
| Deposits | 278 | 426 | 618 | 845 |
| Borrowings | 1 | 1 | 2 | 2 |
| Total interest expense | <u>279</u> | <u>427</u> | <u>620</u> | <u>847</u> |
| Net interest income | 2,286 | 2,145 | 4,550 | 4,319 |
| Less provision for (reversal of) loan losses | 622 | (35) | 730 | (70) |
| Net interest income after provision for (reversal of) loan losses | <u>1,664</u> | <u>2,180</u> | <u>3,820</u> | <u>4,389</u> |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 341 | 261 | 702 | 518 |
| Other service charges, commissions and fees | 132 | 131 | 265 | 247 |
| Rental income | 2 | - | 4 | - |
| Cash surrender value of life insurance | 65 | 64 | 130 | 127 |
| Realized gain on sale of loan | 186 | - | 186 | - |
| Realized net gain (loss) on disposal of Bank premises and equipment | (4) | 52 | (4) | 52 |
| Other income | 46 | 31 | 74 | 59 |
| Total noninterest income | <u>768</u> | <u>539</u> | <u>1,357</u> | <u>1,003</u> |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 1,330 | 1,316 | 2,756 | 2,626 |
| Occupancy and equipment | 317 | 317 | 640 | 623 |
| Directors' fees | 33 | 37 | 72 | 82 |
| Marketing | 55 | 45 | 131 | 80 |
| Professional fees | 250 | 133 | 452 | 259 |
| Information technology | 251 | 342 | 489 | 679 |
| FDIC deposit insurance | 39 | 42 | 78 | 76 |
| Other real estate owned expenses, net | 1 | 1 | 1 | 2 |
| Delivery expenses | 34 | 32 | 62 | 60 |
| Other | 187 | 305 | 514 | 556 |
| Total noninterest expense | <u>2,497</u> | <u>2,570</u> | <u>5,195</u> | <u>5,043</u> |
| Income before income tax expense (benefit) | (65) | 149 | (18) | 349 |
| Income tax expense (benefit) | (6) | 25 | 3 | 51 |
| Net income (loss) | <u>\$ (59)</u> | <u>\$ 124</u> | <u>\$ (21)</u> | <u>\$ 298</u> |
| Basic and diluted income per share of common stock: | \$ (0.03) | \$ 0.06 | \$ (0.01) | \$ 0.15 |
| 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, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 |
|--|--------------------------|---------------------------|------------------------------|-------------------------------|--------------------------|---------------------------|
| Selected Quarterly Financial Ratios | | | | | | |
| Return on average assets (1) (2) | (0.08%) | 0.06% | 0.57% | 0.50% | 0.19% | 0.26% |
| Return on average common stockholders' equity (1)(3) | (1.03%) | 0.68% | 6.87% | 6.13% | 2.39% | 3.47% |
| Tangible book value per share | \$ 11.30 | \$ 11.32 | \$ 10.92 | \$ 10.76 | \$ 10.52 | \$ 10.20 |
| Net interest margin (1) | 3.59% | 3.71% | 3.76% | 3.57% | 3.52% | 3.51% |
| Net interest income to average assets (1) | 3.26% | 3.39% | 3.43% | 3.31% | 3.26% | 3.25% |
| Efficiency ratio (4) | 81.76% | 94.57% | 79.73% | 90.57% | 95.75% | 93.75% |
| Nonperforming assets to total assets | 0.35% | 0.35% | 0.36% | 0.35% | 0.37% | 0.46% |

(1) Annualized

(2) Calculated by dividing annualized net income available to common shareholders by average assets

(3) Calculated by dividing annualized net income 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.