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M&F Bancorp, Inc. (MFBP – OTC)

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Price:	$7.50	**EPS ***	**2019A:**	$0.50	**P/E**	**2019A:**	15.0x
52 Wk. Range:	$2.55 - $8.05		**2020A:**	$0.51		**2020A:**	14.7x
Div/Div Yld:	$0.08 / 1.1%		**2021E:**	$0.58		**2021E:**	12.9x
Shrs/Mkt Cap:	2.0 mm / $14.7 mm	**Tang. Book Value:**		$11.60	**Price/Tang. Book Value:**		0.65x

* EPS are diluted.

SYMBOL: MFBP

ASSETS: $343 MILLION

HQ: DURHAM, NC

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Background

M&F Bancorp, Inc., headquartered in Durham, North Carolina, is a bank holding company whose subsidiary is Mechanics and Farmers Bank ("Bank"). With $343 million in assets as of March 31, 2021, the Company conducts its operations through branch offices of M&F Bank, which are located in five major cities in North Carolina: Durham, Charlotte, Raleigh, Greensboro and Winston-Salem. In addition to M&F Bank's branch offices, the Bank owns six ATMs. The Bank is one of the few North Carolina banks designated as a Community Development Financial Institution and actively supports economic development in each of its markets, which can provide a competitive advantage in the marketplace. Trading in the stock is limited, although the Company's common stock is quoted in the over-the-counter market through the OTC Pink under the symbol "MFBP."

1ST QUARTER HIGHLIGHTS:

EPS: $0.25 VS. $0.02

EARNINGS OUTPERFORMED OUR PROJECTIONS BY $0.13 PER SHARE

THERE WAS A CREDIT FOR LOAN LOSSES VS. A PROVISION IN THE YEAR-AGO QUARTER, AS WELL AS A GAIN ON REPOSSESSED ASSETS IN Q1 21 . . .

. . . BUT EVEN EXCLUDING THESE ITEMS, ADJUSTED PRETAX INCOME MORE THAN TRIPLED

AVERAGE EARNING ASSET GROWTH OF 18% OFFSET A DECREASE OF 44 BASIS POINTS IN MARGINS

First Quarter Results Were Excellent; Capital Raised; Cash Dividend Announced

The first quarter of 2021 was one of M&F Bancorp's best in many years, for several reasons. First, earnings growth was quite strong, and while some of that strength came from a lower provision, earnings growth even excluding the provision was still quite high. Second, the Company completed a significant capital raise from three of the nation's largest banks in the quarter, which is a testament not only to the Bank's mission of providing *broader* access to capital for individuals and small- to medium-sized businesses, but also to the soundness and capabilities of the Bank itself. This additional capital puts M&F Bancorp in a much better position to expand, make investments for the future and to pursue shareholder value enhancing strategies such as paying cash dividends. And in that regard, we would note that the Board recently did, in fact, declare a cash dividend. Not surprisingly, the stock price has surged and is up significantly from our last report. Other positives included excellent asset quality, good balance sheet growth that was augmented by ongoing participation in PPP, and the announcement that bank lobbies would reopen to customers in June.

Net income for 2021's first quarter was $490,000, or $0.25 per diluted share, compared to $38,000, or $0.02 per diluted share, in the year-ago quarter. (Actual results were $0.13 above our estimate). As was stated earlier, earnings did benefit from a lower provision for loan losses (there was a credit for loan losses of $78,000 in the first quarter of 2021, versus a provision of $108,000 in the year-ago quarter), as well as a net gain on repossessed assets of $29,000 in 2021's first quarter. But even if we exclude those items, adjusted pretax income still would have tripled from the year-ago level. Net interest income was up 4% to $2,361,000 in 2021's first quarter from $2,264,000 in the year-ago quarter. This growth was entirely due to higher average earning assets, which grew 18% over the past year and more than offset a 44 basis-point drop in the net interest margin. Earnings also benefited from excellent noninterest income growth, which continued to benefit from M&F's expansion of its money service business. Excluding the gain on repossessed assets,

Quarterly Results ($000s)	2020 Q1	2021 Q1
Net Income	***38***	***490***
Pretax Income	47	617
Eliminate:		
Provision (add back)	108	(78)
Net Gain on Repo Assets	-	29
Adjusted Pretaxed Earnings	155	510

NONINTEREST INCOME, EXCLUDING GAINS ON SALE OF REPOSSESSED ASSETS, GREW 58% AND WAS LED BY THE BANK'S MONEY SERVICE BUSINESS

noninterest income was $929,000 in 2021's first quarter, up 58% from $589,000 in the year-ago quarter. Money service business income accounted for over 50% of noninterest income and increased to $487,000 in the first quarter of 2021 from $144,000 in the year-ago quarter. Noninterest expense was up a modest 3% to $2,780,000 in 2021's first quarter from $2,698,000 in the year-ago quarter, mainly due to higher information technology and money service business expenses.

FROM MARCH 31, 2020 TO MARCH 31, 2021:
DEPOSITS GREW 26%
NET LOANS INCREASED 3%
TOTAL ASSETS WERE UP 30%

$17.5 MILLION IN CAPITAL WAS RAISED

TOTAL EQUITY/ASSETS WAS 11.7%, WHILE COMMON EQUITY/ASSETS WAS 6.7%

Balance sheet growth over the past year was led by deposits, a portion of which stemmed from PPP loans. From March 31, 2020 to March 31, 2021, deposits were up 26%, while net loans increased 3% and total assets grew 30%. Looking ahead, we expect loan growth to potentially weaken, as many of the PPP loans are forgiven/repaid, although improving margins (PPP loans only earn 1%) should help to offset much of the impact of lower average earning assets. As can be seen from the adjacent table, margin comparisons to year-ago figures will become much easier beginning in mid-2021. From a capital standpoint, the Company is in a strong position. During the first quarter of 2021, M&F issued $17.3 million in noncumulative perpetual preferred stock to three major U.S. banks, significantly boosting its capital ratios. Total shareholders' equity was $40.3 million, or 11.7% of total assets, at March 31, 2021, while common equity was $23.0 million, or 6.7% of assets, as of the same date in 2020.

NET INTEREST MARGIN (%)				
Q1 20	Q2 20	Q3 20	Q4 20	Q1 20
3.71	3.59	3.26	3.47	3.27

M&F Bancorp's Shares Have Had an Excellent Performance; Cash Dividend Announced

MFBP SHARES HAVE HAD EXCELLENT TOTAL RETURN

THE SHARES ARE UP 40% FROM OUR Q4 2020 REPORT

THE SHARES HAD A HIGHER TOTAL RETURN COMPARED TO NC PEERS ON A 1-YEAR, 3-YEAR AND 5-YEAR BASIS

M&F's stock has been performing quite well and was up more than 40% from our fourth quarter of 2020 report dated February 17, 2021. The stock performance is even better on a long-term basis. As can be seen from the table below, MFBP shares have a one-year total return of 154%, a three-year total return of 125% and a five-year total return of 136%, all of which compared favorably to the NC peer group medians of 41%, negative 5% and 33%, respectively. (The NC peer group includes seven NC banks with total assets between $100 million and $500 million.) As was mentioned earlier, the Board recently announced a quarterly cash dividend of $0.02 per share, payable May 19, 2021 to shareholders of record on May 10, 2021. Despite the strong stock performance, the shares are trading at a discount compared to the majority of its NC peers on both a multiple of earnings and book value basis, and have a current cash dividend yield 1.1%.

DESPITE THE INCREASE, THE SHARES STILL APPEAR REASONABLY VALUED

M&F Bancorp, Inc. NC Peer Group Comparison							
	ROAA MRQtr	ROAE MRQtr.	P/E LTM	Price/ Book	Total Return 1 year	Total Return 3 year	Total Return 5 year
MFBP	0.61%	8.30%	10.1x	0.65x	154%	125%	136%
NC Peer Group Median	0.73%	6.93%	11.0x	1.01x%	41%	-5%	33%

NPAs Decreased 8% from March 31, 2020

NPAS/ASSETS: 0.25%

THE ALLOWANCE FOR LOAN LOSSES INCREASED 22%

RESERVES/LOANS: 1.39%

Nonperforming assets dropped to the lowest they have been in many years. Specifically, ("NPAs"), which include nonaccruing loans, accruing loans more than 90 days past due and OREO (but excludes performing TDRs) totaled $856,000, or 0.25% of total assets, at March 31, 2021, versus $879,000, or 0.28% of total assets, at December 31, 2020, and $937,000, or 0.35% of total assets, at the year-ago date. The allowance for loan losses was $2,581,000, or 1.39% of loans, at March 31, 2021, up from $2,116,000, or 1.18% of loans, at the year-ago date.

Projections

EPS:
2019A: $ 0.50
2020A: $ 0.51
2021E: $ 0.58

Based on the recent results, we are tentatively projecting 2021 earnings available to common of $1.1 million, or $0.58 per share, up from $0.48 per share projected previously. Actual earnings could vary substantially from these projections given the uncertainties of the COVID-19 crisis.

ADDITIONAL INFORMATION UPON REQUEST