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M&F Bancorp, Inc. (MFBP – OTC)

John A. (Buddy) Howard, CFA
February 18, 2022

Price:	$6.95	**EPS ***	**2020A:**	$0.51	**P/E**	**2020A:**	13.6x
52 Wk. Range:	$5.20 - $8.05	(FY: DEC)	**2021A:**	$1.36		**2021A:**	5.1x
Div/Div Yld:	$0.09 / 1.3%		**2022E:**	$1.05		**2022E:**	6.6x
Shrs/Mkt Cap:	2.0 mm / $13.8 mm	**Tang. Book Value:**		$12.93	**Price/Tang. Book Value:**		0.54x

* EPS are diluted.

SYMBOL: MFBP

ASSETS: $365 MILLION

HQ: DURHAM, NC

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OVERALL HIGHLIGHTS:

FOURTH QUARTER AND YEARLY RESULTS WERE EXCELLENT

IN THE YEAR:
- **RECORD EARNINGS**
- **CAPITAL WAS RAISED**
- **GOOD LOAN GROWTH**
- **SOLID ASSET QUALITY**
- **NEW FEE INCOME SOURCE**
- **CASH DIVIDENDS PAID**

4TH QUARTER HIGHLIGHTS:

EPS: $0.38 VS. $0.36

THERE WERE A NUMBER OF NONRECURRING OR VOLATILE ITEMS THAT AFFECTED THE COMPARISONS

NET INTEREST INCOME WAS UP 35% DUE TO GROWTH IN AVERAGE EARNING ASSETS AND IMPROVED MARGINS, AS WELL AS PPP FEE INCOME

NONINTEREST INCOME, EXCLUDING SECURITY GAINS, GREW 21%

Background

M&F Bancorp, Inc., headquartered in Durham, North Carolina, is a bank holding company whose subsidiary is Mechanics and Farmers Bank (“Bank”). With $365 million in assets as of December 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 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.”

Fourth Quarter Results Were Excellent; Significant Milestones Reached over the Past Year

M&F Bancorp had an outstanding quarter and year ended December 31, 2021. In fact, it was one of the Company’s best years ever, with the achievement of several key milestones. For example, during 2021: 1) earnings hit an all-time high; 2) capital was greatly expanded when $18 million in new capital was issued by the Company; 3) loans expanded rapidly, with some of that growth coming from PPP, but also coming from organic efforts; 4) asset quality remained quite pristine, with NPAs/assets staying below 1% for the fourth consecutive year; 5) the Bank began participating in a highly creative new fee initiative (“Empower Share Class Fund partnership”), and 6) finally, the Company resumed paying cash dividends. From a shareholder’s standpoint, it may have been the most significant (and encouraging) year since we began following the Company more than two decades ago. We discuss some of these items in more detail on the opposite page.

First, turning to the quarterly results, we would note that net income available to common stockholders (after $30,000 in preferred stock dividends) was $757,000, or $0.38 per diluted share, in 2021’s fourth quarter, versus $752,000, or $0.36 per diluted share, in the year-ago quarter. There were several volatile items that affected results. The two most notable ones were: 1) differing recoveries for loan losses for the quarters ($78,000 in the fourth quarter of 2021 versus $280,000 in the fourth quarter of 2020), and 2) varying levels of PPP income in both periods ($506,000 in 2021’s fourth quarter versus $63,000 in the year-ago quarter). But bottom line, the underlying fundamentals were decidedly positive. For example, net interest income was up 35% to $3,172,000 in 2021’s fourth quarter from $2,353,000 in the year-ago quarter. While some of this growth came from higher PPP related income, it still increased an impressive 16% even excluding the PPP related income. Average earning assets increased 22%, while the net interest margin grew 35-basis points to 3.82% from 3.47% in the year-ago quarter. Noninterest income, excluding net gains on the sale of securities, totaled $1,091,000 for 2021’s fourth quarter, up 21% from $901,000 in the year-ago quarter, with the growth mainly coming from strong showings in money service business income and commissions from the sale of financial products. Noninterest expense, excluding OREO expenses/income, was $3,276,000 for 2021’s fourth quarter, which was up 24% from $2,647,000 in the year-ago quarter, with the increase mainly reflecting increased staffing and costs related to PPP loan originations.

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YEAR 2021 HIGHLIGHTS:

EPS: $1.36 VS. $0.51

NET LOANS GREW 24%

Results for the full year 2021 were likewise excellent, with net income available to common stockholders more than doubling to $2,693,000, or $1.36 per diluted share (after $90,000 in preferred stock dividends), from $1,050,000, or $0.51 per diluted share, for the year 2020. Net interest income increased 23%, noninterest income (excluding nonrecurring factors) was up 48% and noninterest expense grew 18%. Balance sheet growth over the past year was strong, particularly in loans. Specifically, from December 31, 2020 to December 31, 2021, net loans increased 24%, deposits were up 13% and total assets grew 18%. Period end loans, excluding PPP loans, were up a solid 14% from December 31, 2020.

2021 Was A Banner Year for the Company; Capital Base Was Greatly Expanded

$18 MILLION IN NEW CAPITAL WAS ISSUED EARLIER IN THE YEAR, AND $76 MILLION WILL BE ISSUED FROM THE U.S. TREASURY'S ECIP, WHICH WILL INCREASE CAPITAL TO OVER $118 MILLION

THE ADDITIONAL CAPITAL POSITIONS THE COMPANY FOR MORE RAPID GROWTH

TOTAL EQUITY/ASSETS: 11.75%, UP FROM 7.59% AT THE YEAR-AGO DATE

THE BANK IS ALSO PARTICIPATING IN A CREATIVE NEW FEE INITIATIVE CALLED THE EMPOWER SHARE CLASS PARTNERSHIP

M&F Bancorp saw a large influx of capital in the past year, which has continued into the beginning of 2022. During 2021, the Company issued $18 million in new capital to three of the largest banks in the U.S., which is a testament, in and of itself, to the quality of the Bank, its management and its mission. But in addition to this capital, the Company recently announced (after year end) that it had been allocated $76 million in capital from the U.S. Treasury as part of the Emergency Capital Investment Program ("ECIP"), a program designed to encourage low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. The capital will be in the form of preferred stock that pays no dividends for the first two years, and following that period, pays a maximum of only 2% in dividends, so it represents very inexpensive capital. The addition of this capital will boost the Company's total capital base to more than $118 million, and positions it quite well to expand. Shareholders' equity at December 31, 2021 was $43 million (11.75% of total assets), up from $23 million (7.59% of total assets) at the year-ago date. One other initiative we would mention is the Bank's recent participation in a highly creative new fee initiative ("Empower Share Class Fund partnership"). Under this program, the Bank earns a percentage of fees managed by the asset management arm of J.P. Morgan. As part of that program, it was announced that Food Lion would be depositing $50 million to support M&F Bancorp in its efforts to provide financial opportunities to small businesses, make investments in technology and provide financial means for literacy programs. Such fees represent a lucrative new income source that we expect to be recurring.

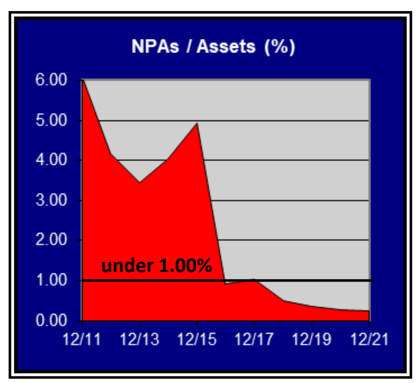
Asset Quality is Excellent and Continued to Improve at the End of 2021

M&F'S NPAS/ASSETS RATIO HAS REMAINED UNDER 1.00% SINCE THE YEAR 2018

NPAS/ASSETS: 0.23%, DOWN FROM 0.28% AT THE YEAR-AGO DATE

RESERVES/LOANS: 0.98%, OR 1.10% EXCLUDING PPP LOANS

Asset quality remains excellent. In fact, 2021 marked the fourth year in a row that the Company's ratio of NPAs/assets was under 1.00%. Specifically, nonperforming assets ("NPAs" which include nonaccruing loans, accruing loans more than 90 days past due and OREO but excludes performing TDRs), totaled $824,000, or 0.23% of total assets, at December 31, 2021, compared to $821,000, or 0.22% of total assets, at September 30, 2021, and down 6% from $879,000, or 0.28% of total assets, at December 31, 2020. The allowance for loan losses was $2,272,000, or 0.98% of gross loans (1.10% excluding PPP loans) at December 31, 2021, versus $2,673,000, or 1.43% of gross loans, at the year-ago date.



Projections

EPS (LOSS):
2020A: $ 0.51
2021A: $ 1.36
2022E: $ 1.05

For 2022, we are maintaining our estimate for the Company to have net income of $2.0 million, or $1.05 per diluted share. The reason for the drop in projected 2022 EPS from 2021 is that there will likely be a large drop PPP loan fee accretion in 2022 relative to 2021.

ADDITIONAL INFORMATION UPON REQUEST