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Financial Corp.**

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2ND QUARTER

2020
EARNINGS
REPORT

To Our Shareholders:

Net income for the six months ended June 30, 2020 was \$1.47 million, \$75 thousand higher than the first half of 2019. On a per share basis, net income year-to-date was \$.44 this year compared to \$.42 last year. For the three months ending June 30, 2020, net income was \$753 thousand, \$20 thousand lower than last year. On a per share basis, second quarter net income was \$.22 and \$.23, respectively, for 2020 and 2019.

On a year-to-date basis, 2020's higher net income is attributable to an increase in net interest income and gains on the sale of securities. These positives were partially offset by increases in the provision for loan losses and other expenses and decreases in service and wealth management fees.

Lower net income for the three-months ended June 30, 2020 versus 2019 is the result of increases in the provision for loan losses and other expenses, combined with decreases in service and wealth management fees. These negatives were partially offset by increases in net interest income and gains on security sales as well as a decrease in income tax expense.

Net loans receivable totaled \$234.8 million on June 30, 2020, \$4.9 million higher than last year. This change is attributable to an increase in loans to borrowers located within MCT's primary geographic market area, especially loans made through the SBA's Paycheck Protection Program (PPP). This increase was partially offset by a decrease in the bank's portfolios of purchased loans.

During the first six months of this year, MCT originated over \$10 million in PPP loans. According to data from the SBA, MCT was the leading PPP lender in Carbon County as measured by the dollars of loans under \$150 thousand and the number of loans over \$150 thousand. In Schuylkill County, MCT was ranked fourth by the dollars of loans under \$150 thousand and seventh by the number of loans over \$150 thousand.

The overall quality of our loan portfolio is good, but the performance of our purchased consumer loan portfolio continues to disappoint. Given the performance of this portfolio, and the uncertainty engendered by the uneven pace of economic recovery, the contribution to reserve for loan losses was increased to \$1.1 million in 2020 versus \$284 thousand last year.

On June 30, 2020, securities available for sale and federal funds sold totaled \$230.4 million and \$11.8 million, respectively. The \$42 million increase in the securities portfolio in 2020 versus 2019 was intended to help sustain interest income in, what we expect will be, the absence of loan demand and position the bank for a prolonged period of lower interest rates.

Total deposits were \$382.4 million on June 30, 2020, \$33.3 million more than 2019. At almost \$59 million, non-interest-bearing deposits were \$12.7 million higher in June 30, 2020 than on the same date in 2019 and accounted for 38% of the change in total deposits. Higher non-interest-bearing deposits this year is mainly attributable to deposits from business customers who received funding through the PPP program.

MCTFC's equity capital remains well above the minimum regulatory requirements to be considered "well-capitalized." Total shareholders' equity, on June 30, 2020, was \$46.4 million, \$4.9 million higher than 2019. The change in equity capital this year is attributable to increases in accumulated other comprehensive income and retained earnings, partially offset by an increase in treasury stock.

In response to the economic uncertainty caused by the temporary, pandemic induced lockdown of the economy, the Board of Directors has temporarily suspended MCTFC's stock repurchase plan. We plan to reinstate the plan at the appropriate time at some point in the future.

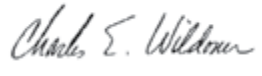
There is a good reason the word "unprecedented" is so often used to describe the first half of 2020. Few of us alive today have ever experienced anything like the last six months! It would be wonderful to say the worst is over, but the continuing increases in reported cases of COVID-19 tells a different story. The pandemic will be with us for a long time and we all need to adapt to business as the "new usual".

As always, we thank you for your continued loyalty and support.

Sincerely,



Patrick H. Reilly
President/Chief Executive Officer



Charles E. Wildoner
Chairman of the Board

Consolidated Balance Sheet (unaudited)
(Dollars in Thousands)

Assets	As of June 30,	
	<u>2020</u>	<u>2019</u>
Cash and due from banks	\$ 4,954	\$ 4,634
Federal funds sold	11,825	21,909
Securities available for sale, at fair value	230,396	188,360
Restricted investment in bank stock	3,280	3,636
Loans receivable, net of allowance for loan losses 2019 \$2,269; 2018 \$2,156	234,782	229,834
Other Real estate Owned	32	-
Bank premises and equipment, net	9,282	9,594
Accrued interest receivable	2,128	1,474
Investment in life insurance	9,822	9,544
Prepaid expenses and other assets	1,336	4,910
Total assets	<u>\$ 507,837</u>	<u>\$ 473,895</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 58,999	\$ 46,309
Interest bearing	323,414	302,824
Total deposits	382,413	349,133
Securities sold under agreements to repurchase	4,983	2,687
Other Borrowed Funds	150	-
Other liabilities	4,759	3,072
Long-term debt	69,118	77,460
Total Liabilities	<u>461,423</u>	<u>432,352</u>
Stockholders' Equity		
Common stock, no par value; authorized 15,000,000 shares; issued 3,392,336 shares; outstanding 2020 3,346,718 shares; 2019 3,052,792 shares	8,497	4,337
Retained earnings	34,231	36,916
Accumulated other comprehensive gain (loss)	4,275	722
Treasury stock, at cost, 2020 45,618; 2019 34,436	(589)	(432)
Total stockholders' equity	<u>46,414</u>	<u>41,543</u>
Total liabilities and stockholders' equity	<u>\$ 507,837</u>	<u>\$ 473,895</u>
BOOK VALUE PER SHARE	\$ 13.84	\$ 13.61

Consolidated Statement of Income (unaudited)
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest Income				
Loans receivable, including fees	\$ 2,670	\$ 2,803	\$ 5,312	\$ 5,453
Securities:				
Taxable	1,318	1,455	2,706	2,923
Tax-exempt	133	48	186	98
Interest Income fed funds sold	1	62	1	62
Total interest income	4,122	4,368	8,205	8,536
Interest expense				
Deposits	391	799	1,102	1,526
Borrowings	235	459	431	851
Total interest expense	626	1,258	1,533	2,377
Net interest income	3,496	3,110	6,672	6,159
Provision for Loan Losses	866	162	1,096	284
Net interest income after provision for loan losses	2,630	2,948	5,576	5,875
Other Income				
Service fees	304	395	666	758
Wealth management fees	172	234	348	413
Net realized gains on sales of securities	538	72	673	133
Net realized gains on sales of foreclosed assets	0	12	0	12
Income on insurance policies	78	58	154	116
Other	51	40	188	82
Total other income	1,143	811	2,029	1,514
Other Expense				
Salaries and benefits	1,283	1,443	2,757	2,941
Occupancy and equipment	396	377	814	756
Director's fees	78	80	156	159
Professional fees	97	93	192	187
FDIC insurance and assessments	38	26	59	64
Data processing	287	222	578	437
Advertising	48	49	97	104
Pennsylvania bank shares tax	67	52	129	114
Other operating	596	486	1,082	958
Total other expenses	2,890	2,828	5,864	5,720
Income before income taxes	883	931	1,741	1,669
Income Tax Expense	130	158	271	274
Net income	\$ 753	\$ 773	\$ 1,470	\$ 1,395
Basic Earnings Per Share	\$ 0.22	\$ 0.23	\$ 0.44	\$ 0.42
Weighted Average Shares Outstanding	3,353,383	3,052,792	3,353,383	3,052,792
Dividends Paid	\$ 0.15	\$ 0.22	\$ 0.15	\$ 0.22