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Financial Corp.**

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Dr. Edward C. Beckett III  
Thomas R. Lisella  
James R. Nanovic  
Ida M. Queen

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Joanne Uhrle, Assistant Secretary

**Solicitor**

Nanovic Law Offices

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Sky Fogal  
Shawn M. Kresge  
Kevin J. McArdle\*  
Sheila L. O'Neil

**Lehighon Advisory Board**

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Richard L. Getz, Jr.  
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William G. Schwab  
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John M. Nonnemacher  
Charles C. Snyder  
Tammy Sword  
Jon M. Zizelmann\*

\*Advisory Board Chairman

3RD QUARTER

2020

EARNINGS  
REPORT

**To Our Shareholders:**

Net income for the nine months ended September 30, 2020 was \$2.2 million, or \$117 thousand more than the same period in 2019. On a per share basis, net income year to date was \$.66 this year compared to \$.62 last year. For the three months ending September 30, 2020, net income was \$730 thousand, \$42 thousand more than the same period in 2019. On a per share basis, third quarter net income was \$.22 this year versus \$.20 last year.

The year to date increase in net income is attributable to higher net interest income and other income, mainly realized gains on the sales of securities, and a decrease in income tax expense. These positive changes were partially offset by an increase in the provision for loan losses and higher other expenses, especially the loss on the sale of purchased consumer loans. Higher net income for the three months ended September 30 this year is attributable to an increase in net interest income and decreases in the provision for loan losses and income tax expense, partially offset by higher other expenses and a decrease in other income.

Federal funds sold totaled \$23.4 million on September 30, 2020, an increase of \$20.6 million from the prior year balance of \$2.8 million. On the same date this year, securities available for sale totaled \$229.3 million or \$32 million higher than September 2019. Higher Federal funds this year is the result of the sale of mortgage backed securities and the purchased consumer loan portfolio during the third quarter. Higher securities available in 2020 is the result of an increase in deposits as well as changes in the portfolio's market value brought about by a decrease in the level of interest rates.

On September 30, 2020, net loans receivable totaled \$221 million, \$3.8 million less than last year. This decrease is attributable to the sale of our \$12.5 million purchased consumer portfolio during the third quarter of this year, partially offset by an increase of loans within MCT's primary geographic market area, especially loans made through the SBA's Paycheck Protection Program (PPP).

The overall quality of MCT's loan portfolio is good, but the performance of the purchased consumer loan portfolio was disappointing. Given the uncertain economic outlook and expecting the rate of charge offs to increase, Management and the Board determined that selling this portfolio would improve asset quality and eliminate larger losses in the future. The total loss on the sale was approximately \$1 million. Half of this loss was charged against the reserve for loan losses and the remainder was expensed during the third quarter.

Total deposits were \$378.9 million on September 30, 2020, an increase of \$23.4 million from 2019, with non-interest-bearing deposits representing 62% of this change. Much of this increase is attributable to deposits from business customers who received funding through the PPP program.

Long term debt totaled \$70.1 million on September 30, 2020, \$13.6 million higher than 2019. This change is mainly the result of a \$10.5 million reduction in long term debt during the third quarter of 2019. This reduction was part of a deleveraging strategy initiated during the third quarter of last year to reduce the interest rate paid on long term debt and lower our cost of funds.

MCTFC's equity capital remains well above the minimum regulatory requirements to be considered "well-capitalized". Total shareholders' equity, on September 30, 2020, was \$48.4 million, \$6.3 million higher than 2019. The change in equity capital this year is attributable to increases in accumulated other comprehensive income and common stock, partially offset by a decrease in retained earnings and an increase in treasury stock. The decrease in retained earnings is the result of the 10% stock dividend paid in 2019.

The Board of Directors has reauthorized the repurchase of up to 150,000 shares (4.9%) of the Corporation's outstanding common stock. This program was suspended earlier this year during the COVID related economic lockdown. The Corporation repurchased 10,500 shares in 2020 before the program was suspended. Pursuant to the authorization, the Chief Executive Officer of the Corporation may direct the repurchases at times and in amounts determined by him to be prudent, except that any transaction involving an aggregate purchase price to be paid by the Corporation of more than \$100,000 will be subject to the separate prior approval of the Corporation's Board of Directors. The Board of Directors has provided for the repurchase program to expire after December 31, 2020, unless sooner terminated or extended.

Repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and actual number of shares repurchased will depend on market conditions and other requirements. Shares repurchased will be held by the Corporation as treasury shares available for future issuance.

The repurchase program does not obligate the Corporation to purchase any dollar amount or number of shares and the Corporation may suspend, modify, extend or terminate the program at any time.

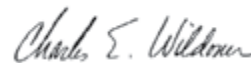
We are pleased with the progress we have made during the first nine months of this year and expect the final quarter of 2020 to be equally productive.

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)

<b>Assets</b>	As of Sept 30,	
	<u>2020</u>	<u>2019</u>
Cash and due from banks	\$ 8,148	\$ 7,340
Federal funds sold	23,369	2,753
Securities available for sale, at fair value	229,301	197,215
Restricted investment in bank stock	3,319	2,760
Loans receivable, net of allowance for loan losses 2020 \$3,138; 2019 \$2,516	221,019	224,693
Other real estate owned	15	-
Bank premises and equipment, net	9,144	9,494
Accrued interest receivable	2,389	1,497
Investment in life insurance	9,887	9,609
Prepaid expenses and other assets	1,498	4,607
Total assets	<u>\$ 508,089</u>	<u>\$ 459,968</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 63,343	\$ 48,884
Interest bearing	315,592	306,683
Total deposits	378,935	355,567
Securities sold under agreements to repurchase	6,494	2,899
Other borrowed funds	150	-
Other liabilities	3,994	2,919
Long-term debt	70,103	56,510
Total Liabilities	<u>459,676</u>	<u>417,895</u>
<b>Stockholders' Equity</b>		
Common stock, no par value; authorized 15,000,000 shares; issued 3,392,336 shares; outstanding 2020 3,346,718 shares; 2019 3,052,492 shares		
	8,497	4,337
Retained earnings	34,961	37,606
Accumulated other comprehensive gain (loss)	5,544	567
Treasury stock, at cost, 2020 45,618; 2019 34,736 shares	(589)	(437)
Total stockholders' equity	<u>48,413</u>	<u>42,073</u>
Total liabilities and stockholders' equity	<u>\$ 508,089</u>	<u>\$ 459,968</u>
<b>BOOK VALUE PER SHARE</b>	<b>\$ 14.49</b>	<b>\$ 13.78</b>

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2020	2019	2020	2019
<b>Interest Income</b>				
Loans receivable, including fees	\$2,619	\$ 2,734	\$7,931	\$ 8,187
Securities:				
Taxable	1,106	1,164	3,812	4,087
Tax-exempt	294	51	480	149
Other, including federal funds sold	119	312	120	374
<b>Total interest income</b>	<b>4,138</b>	4,261	<b>12,343</b>	12,797
<b>Interest expense</b>				
Deposits	308	817	1,410	2,343
Borrowings	244	462	675	1,313
<b>Total interest expense</b>	<b>552</b>	1,279	<b>2,085</b>	3,656
<b>Net interest income</b>	<b>3,586</b>	2,982	<b>10,258</b>	9,141
<b>Provision for Loan Losses</b>	<b>346</b>	454	<b>1,442</b>	738
<b>Net interest income after provision for loan losses</b>	<b>3,240</b>	2,528	<b>8,816</b>	8,403
<b>Other Income</b>				
Service fees	368	428	1,034	1,186
Wealth management fees	173	180	521	593
Net realized gains on sales of securities	457	406	1,130	539
Net realized gains (losses) on sales of foreclosed assets	-	(2)	-	10
Income on insurance policies	76	60	230	176
Other	26	48	214	130
<b>Total other income</b>	<b>1,100</b>	1,120	<b>3,129</b>	2,634
<b>Other Expense</b>				
Salaries and benefits	1,486	1,438	4,243	4,379
Occupancy and equipment	396	373	1,210	1,129
Director's fees	67	81	223	240
Professional fees	96	151	288	338
FDIC insurance and assessments	54	(30)	113	34
Data processing	283	273	861	710
Advertising	49	48	146	152
Pennsylvania bank shares tax	67	52	196	166
Loan sale loss	500	-	500	-
Other operating	535	431	1,617	1,389
<b>Total other expenses</b>	<b>3,533</b>	2,817	<b>9,397</b>	8,537
<b>Income before income taxes</b>	<b>807</b>	831	<b>2,548</b>	2,500
<b>Income Tax Expense</b>	<b>77</b>	143	<b>348</b>	417
<b>Net income</b>	<b>\$ 730</b>	\$ 688	<b>\$ 2,200</b>	\$ 2,083
<b>Basic earnings per share</b>	<b>\$ 0.22</b>	\$0.20	<b>\$ 0.66</b>	\$0.62
<b>Weighted average shares outstanding</b>	<b>3,316,933</b>	3,052,668	<b>3,341,233</b>	3,052,750
<b>Dividends Paid</b>	<b>\$ 0.15</b>	\$ 0.22	<b>\$ 0.15</b>	\$ 0.22