



To Our Shareholders:

Net income for the nine months ended September 30, 2017 was \$2.2 million, \$269 thousand less than the same period in 2016. On a per share basis, net income year to date was \$ .70 this year compared to \$.79 last year. For the three months ending September 30, 2017, net income was \$815 thousand, \$199 thousand less than the same period in 2016. On a per share basis, third quarter net income was \$.27 this year versus \$.33 last year.

The decrease in year-to-date and quarter-to-date income is primarily attributable to higher other income in 2016 versus 2017, specifically a gain on the sale of an ORE property, mortgage banking fees and net realized gains on sales of securities. Partially offsetting this year's lower revenue in these areas is an increase in net interest income and a reduction in costs: loan loss provision, other expense, and taxes.

Our strategic initiative to change the bank's mix of earning assets in favor of loans continued at a slower pace in the third quarter of 2017. On September 30, 2017 net loans outstanding totaled \$193.5 million, an increase of \$36.7 million or 23.41% compared to 2016. Of this increase, loans originated in MCT's market area accounted for \$14.7 million, an increase of 11% over the prior year. The remaining \$22 million is attributable to purchased loans.

Securities available for sale were \$203.6 million on September 30, 2017, \$1.7 million less than the same date in 2016. During the quarter, we continued to change the investment mix to realize gains and position the portfolio for the probability of rising interest rates.

Total deposits were \$340.6 million on September 30, 2017, an increase of \$21.4 million or 6.71% higher than last year. Year over year, noninterest bearing deposits increased by \$2 million or 4.93% and interest-bearing deposits increased by \$19.5 million or 6.97%. Growth in interest-bearing accounts is attributable to an increase in core deposit, both non-maturity and, for the first time in many years, time deposits. Growth in time deposits, the result of higher interest rates, allowed us

to reduce our use of brokered deposits this year versus 2016.

Total equity capital on September 30, 2017 was \$39.3 million, \$2.3 million lower than 2016. This decrease is attributable to a \$3.3 million reduction in the value of accumulated other comprehensive income partially offset by an increase of \$1.2 million in retained earnings.

The Fed is likely to increase short-term interest rates by a quarter of a percentage point at its December 2017 meeting bringing the target Fed Funds levels to 1.25-1.50%. This would be the third increase in 2017 and two more increases in 2018 are projected. Meanwhile, in October, the Fed finally began the long-awaited process of normalizing/shrinking its balance sheet and slight increases of 10 to 20 bps in the yield of the 10-year treasury bond are expected. If these predictions materialize, short-term rates will increase at a faster pace than long-term rates, the yield curve will continue to flatten and we would be operating in a very challenging operating environment. MCT's solution to the expected margin pressure created in this scenario is continued growth in higher yielding assets, specifically loans.

In the face of this very challenging interest rate environment we remain cautiously optimistic. Our strategies are beginning to come together, as evidenced by higher net interest income, lower other expenses, especially salaries and benefits, and a reduction in the provision for loan losses.

As always, we thank you for your continued loyalty and support of MCT Financial Corp.

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 Sept 30,	
	2017	2016
Cash and due from banks	\$ 3,680	\$ 3,924
Federal Funds Sold	3,896	6,419
Interest-bearing time deposits	1,015	1,000
Securities available for sale, at fair value	203,580	205,287
Restricted investment in bank stock	1,891	1,173
Loans receivable, net of allowance for loan losses 2017 \$2,371; 2016 \$2,130	193,528	156,821
Other real estate owned	179	224
Bank premises and equipment, net	9,041	8,694
Accrued interest receivable	1,497	1,812
Investment in life insurance	9,051	8,772
Prepaid expenses and other assets	791	932
Total assets	<b>\$ 428,149</b>	<b>\$ 395,058</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 41,873	\$ 39,906
Interest bearing	298,761	279,298
Total deposits	340,634	319,204
Securities sold under agreements to repurchase	3,496	5,599
Other liabilities	2,402	4,161
Long-term debt	42,300	24,500
Total Liabilities	<b>388,832</b>	<b>353,464</b>
<b>Stockholders' Equity</b>		
Common stock, no par value; authorized 15,000,000 shares; issued 3,087,228 shares; outstanding 2017 3,056,843 shares; 2016 3,068,843 shares	4,337	4,337
Retained earnings	34,556	33,357
Accumulated other comprehensive gain	797	4,123
Treasury stock, at cost, 2017 30,385; 2016 18,385 shares	(373)	(223)
Total stockholders' equity	<b>39,317</b>	<b>41,594</b>
Total liabilities and stockholders' equity	<b>\$ 428,149</b>	<b>\$ 395,058</b>
<b>BOOK VALUE PER SHARE</b>	<b>\$ 12.85</b>	<b>\$ 13.55</b>

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans receivable, including fees	\$ 2,034	\$ 1,658	\$ 5,720	\$ 4,738
Securities:				
Taxable	1,238	1,300	3,696	3,848
Tax-exempt	193	124	553	579
Other	12	4	12	11
Total interest income	3,477	3,086	9,981	9,176
<b>Interest expense</b>				
Deposits	410	306	1,075	909
Borrowings	176	82	407	232
Total interest expense	586	388	1,482	1,141
Net interest income	2,891	2,698	8,499	8,035
<b>Provision for Loan Losses</b>	3	175	136	340
Net interest income after provision for loan losses	2,888	2,523	8,363	7,695
<b>Other Income</b>				
Service fees	388	399	1,137	1,151
Wealth management fees	151	134	510	436
Net realized gains on sales of securities	119	283	402	961
Net realized gains (losses) on sales of foreclosed assets	(17)	624	14	634
Realized gain on sale of servicing rights	111	-	111	-
Income on insurance policies	60	62	177	179
Mortgage banking activities	(15)	32	(4)	108
Other	40	34	120	90
Total other income	837	1,568	2,467	3,559
<b>Other Expense</b>				
Salaries and benefits	1,365	1,416	4,218	4,207
Occupancy and equipment	359	362	1,113	1,145
Director's fees	68	81	217	245
Professional fees	217	124	369	334
FDIC insurance and assessments	33	55	81	161
Data processing	169	121	496	314
Advertising	51	49	149	164
Pennsylvania bank shares tax	55	46	163	143
Other operating	346	452	1,269	1,385
Total other expenses	2,663	2,706	8,075	8,098
Income before income taxes	1,062	1,385	2,755	3,156
<b>Income Tax Expense</b>	247	371	600	732
Net income	\$ 815	\$ 1,014	\$ 2,155	\$ 2,424
<b>Basic earnings per share</b>	\$ 0.27	\$ 0.33	\$ 0.70	\$ 0.79
<b>Weighted average shares outstanding</b>	3,068,843	3,068,843	3,058,513	3,068,843
<b>Dividends Paid</b>	\$ 0.22	\$ 0.21	\$ 0.22	\$ 0.21

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### Solicitor

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\*Advisory Board Chairman