Second Quarter Financial Report 2018

To Our Shareholders:

Net income for the six months ended June 30, 2018 was $1.48 million, $136 thousand more than the first half of 2017. On a per share basis, net income year-to-date was $.48 this year compared to $.44 last year. For the three months ending June 30, 2018, net income was $735 thousand, about the same as last year. On a per share basis, second quarter net income was $.24 for both 2018 and 2017.

The slight increase in both 2018 year-to-date and quarter-to-date results are mainly attributable to a reduction in salary and benefits, lower provisioning for loan losses, lower tax expense and an increase in gains on sales of foreclosed assets. These positive variables were partially offset by lower realized gains on sales of securities and higher data processing costs.

On June 30, 2018, net loans receivable totaled $207.1 million, $16.0 million higher than the same period last year. Loans originated within MCT's market area increased by $8.2 million or 5.5% with the remaining $7.6 million or 17.8% increase attributable to purchased or participation loans. As we continue our implementation of the strategic initiative in favor of loans, the high quality of our portfolio has enabled us to grow the portfolio without increasing the provision for loan losses. Nonperforming assets totaled $492 thousand or 0.24% of total loans compared to $540 thousand or 0.29% for the same period last year.

Securities available for sale were $188.3 million on June 30, 2018, $17.4 million less than the same date in 2017. A portion of this decrease was by design, as we replaced maturing investments with higher yielding loans. The remaining decrease was due to the change in value with unrealized losses in the portfolio.

As of June 30, 2018, total deposits were $324.5 million compared to $332.8 million last year. Non-interest bearing deposits increased $3.2 million or 8.2% compared to 2017. Interest bearing deposits recorded an overall decrease. This change is attributable to our decision to reduce brokered deposits by $18.9 million or 64.0%. If brokered deposits are excluded, other interest bearing deposits, both non-maturity core deposits and the CDs, recorded modest growth in the second quarter of 2018.

Total equity capital on June 30, 2018 was $35.8 million, $2.8 million lower than 2017. The reduction in equity capital this year is attributable to a $4.6 million reduction in accumulated other comprehensive income, partially offset by an increase in retained earnings of $1.8 million.

On June 6, 2018, the Board of Directors announced authorizing the repurchase of up to 150,000 shares (4.9%) of the Corporation's outstanding common stock. 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, 2018, 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.

In June, the FOMC increased its benchmark Fed Funds rate by 0.25% to a range of 1.75% to 2.00%. The last time the Fed Funds rate topped 2.00% was in late summer 2008, before the financial crisis. At that time, the economy was contracting and FOMC was on its way to cutting rates to zero, where they would remain for seven years.

Since initiating the current tightening cycle in December 2015, the FOMC has increased the Fed Funds rate by 1.50%. Two more rate hikes are expected this year and another three hikes are planned in 2019. There appears to be a consensus among economists that the economy is sufficiently strong to absorb two hikes in 2018 but the interest rate outlook for 2019 is less certain. The FOMC's rate actions to date are already causing problems in emerging market economies. Low inflation, the prospects for slower international economic growth, higher tariffs and the talk of trade have combined to anchor long term interest rates below 3.00%, even as short-term rates have increased. As a result, the spread between the 2-year vs 10-year treasury is extremely narrow. If the FOMC continues to increase short term rates, the yield curve could invert sometime next year, signaling the possibility of a recession sometime in 2019 or 2020.

The composition of MCTFC's balance sheet, loans and deposits, reflects the communities we serve and the customers with whom we do business. As a result, the initial impact of higher interest rates on MCTFC's cost of funds and net interest income is always negative. We are attempting to offset this challenge by controlling costs and growing earning assets, specifically, loans receivable.

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, 2018	2017
Cash and due from banks	**$ 3,413**	$ 4,558
Federal funds sold	**9,526**	-
Securities available for sale, at fair value	**188,285**	205,709
Restricted investment in bank stock	**3,061**	2,059
Loans receivable, net of allowance for loan losses 2018 $2,156; 2017 $2,390	**207,133**	191,086
Other real estate owned	**-**	209
Bank premises and equipment, net	**8,923**	9,149
Accrued interest receivable	**1,269**	1,345
Investment in life insurance	**9,270**	8,986
Prepaid expenses and other assets	**4,332**	1,009
Total assets	**$ 435,212**	$ 424,110
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 42,664**	$ 39,430
Interest bearing	**281,857**	293,321
Total deposits	**324,521**	332,751
Securities sold under agreements to repurchase	**3,961**	3,691
Other borrowed funds	**-**	9,701
Other liabilities	**1,935**	2,546
Long-term debt	**69,010**	36,800
Total Liabilities	**399,427**	385,489
Stockholders' Equity		
Common stock, no par value; authorized 15,000,000 shares; issued 3,087,228 shares; outstanding 2018 3,056,843 shares; 2017 3,056,843 shares	**4,337**	4,337
Retained earnings	**35,516**	33,742
Accumulated other comprehensive gain (loss)	**(3,695)**	915
Treasury stock, at cost, 2018 30,385; 2017 30,385	**(373)**	(373)
Total stockholders' equity	**35,785**	38,621
Total liabilities and stockholders' equity	**$ 435,212**	$ 424,110
BOOK VALUE PER SHARE	**$ 11.71**	$ 12.63

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest Income				
Loans receivable, including fees	**$ 2,158**	$ 1,914	**$ 4,175**	$ 3,686
Securities:				
Taxable	**1,374**	1,265	**2,738**	2,458
Tax-exempt	**61**	205	**128**	360
Interest Income fed funds sold	**32**	-	**32**	-
Total interest income	**3,625**	3,384	**7,073**	6,504
Interest expense				
Deposits	**496**	352	**945**	665
Borrowings	**283**	144	**464**	231
Total interest expense	**779**	496	**1,409**	896
Net interest income	**2,846**	2,888	**5,664**	5,608
Provision for Loan Losses	**33**	55	**66**	133
Net interest income after provision for loan losses	**2,813**	2,833	**5,598**	5,475
Other Income				
Service fees	**386**	381	**748**	749
Wealth management fees	**186**	189	**339**	359
Net realized gains on sales of securities	**(28)**	70	**228**	283
Net realized gains on sales of foreclosed assets	**122**	-	**122**	31
Unrealized gain on equity investment securities	**12**	-	**12**	-
Income on insurance policies	**58**	58	**116**	117
Other	**35**	49	**83**	91
Total other income	**771**	747	**1,648**	1,630
Other Expense				
Salaries and benefits	**1,348**	1,390	**2,732**	2,853
Occupancy and equipment	**362**	361	**763**	754
Director's fees	**78**	82	**153**	149
Professional fees	**96**	69	**182**	152
FDIC insurance and assessments	**34**	28	**69**	48
Data processing	**210**	163	**413**	327
Advertising	**60**	50	**110**	98
Pennsylvania bank shares tax	**61**	55	**118**	108
Other operating	**467**	459	**952**	923
Total other expenses	**2,716**	2,657	**5,492**	5,412
Income before income taxes	**868**	923	**1,754**	1,693
Income Tax Expense	**133**	191	**278**	353
Net income	**$ 735**	$ 732	**$ 1,476**	$ 1,340
Basic Earnings Per Share	**$ 0.24**	$ 0.24	**$ 0.48**	$ 0.44
Weighted Average Shares Outstanding	**3,056,843**	3,056,843	**3,059,363**	3,059,363
Dividends Paid	**$ 0.22**	$ 0.22	**0.22**	0.22

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