

# ANNUAL REPORT 2000



2615 North  
Front Street  
Harrisburg, PA

**MID PENN  
BANCORP INC.**



**Mid Penn Bancorp, Inc.**  
**A Traditional, Yet Progressive Bank**

In 1971, Eugene Shaffer, then Executive Vice President with Mid Penn Bank, was quoted as saying “Our customers are the bank. By putting you first, you are putting us first. We shall continue to give the most efficient and courteous service possible.” It seems like nothing has changed since then...at least none of Mid Penn Bank’s traditions and values. Today, Mid Penn Bank has eleven traditional offices and a virtual office at [www.midpennbank.com](http://www.midpennbank.com). My, how times have changed.

Mid Penn Bank bought the former Mellon Bank building on July 21, 2000, which opened as its eleventh office at 2615 North Front Street, Harrisburg in late August of 2000. Mid Penn Bank recognizes the need for community banks in the Capital Region area, while personal customers and business customers are recognizing that bigger is not necessarily better. Many of the once local, community banks are now regional banks with no concept of the community bank image which they so strongly want to preserve. In the meantime, Mid Penn Bank is committed to maintaining the true image of a local, community bank while at the same time pursuing progressive services traditionally only available at a larger financial institution.

In 1931, Mid Penn Bank formed our Trust Department to serve the needs of a growing community. Mid Penn Bank’s Trust Division offers a complete range of traditional and innovative investment and trust services, including retirement plans, IRA Rollover accounts, trusts, investment management, custody services and Business savings accounts. Our institutional Trust Division offers sophisticated services for businesses of any size, including asset management and retirement plan administration. Personal trust services are designed to help clients manage their assets in the most efficient and profitable manner.

A Trust relationship with Mid Penn Bank offers you the following benefits:

- Objective and unbiased investment advice
- Development of long-term relationship
- Safekeeping and protection of assets
- Competitive fees and commissions
- Diversified investment opportunities

Traditional value and personalized service combined with advanced technology enable us to provide you with responsive and effective trust and investment services. For more information, call anyone in our Trust Division.

Indeed, we have come a long way from offering a safe deposit box and a simple checking and savings account. Today we have eleven locations located in four counties. Yet, we remain strong in our tradition. We are a very proud community bank. We serve customers first because that is what we have always believed in. As a traditional community bank, we offer free personal and free business checking; however, we also offer Trust services, cash management, commercial loans and lines of credit, mobile banking, telephone banking, Check Card and ATM service along with access to investing, estate planning, retirement planning and so much more. As our customers’ needs change, so will our products and services, but our philosophy “Our customers are the bank” will never change.

Dear Shareholder:

It is my pleasure to present Mid Penn Bancorp's financial report for the year 2000. With the start of the new century, it seems appropriate to reflect on the 132 years we have operated as an independent community bank.

Through all of these years, we have had a loyal shareholder base that has been rewarded for their investment in Mid Penn Bank and its parent company, Mid Penn Bancorp, Inc. Thanks to all of you for your support of Mid Penn Bank.

Your Bank experienced growth in a number of areas in the year 2000. Total assets of \$315,584,000 at year end increased by 9.75% over the prior year, and total loans of \$181,396,000 increased over \$169,789,000 the prior year, a gain of 6.84%. Deposits at year end totaled \$231,408,000, an increase of \$13,568,000 or 6.23% from the prior year.

Net income for the year ended December 31, 2000, of \$3,948,000 increased from \$3,884,000 the prior year. Earnings per share of \$1.30 increased from \$1.28 the prior year, an increase of 1.6%. Your Bank's return on average equity of 14.64% continues to be very strong when compared to peer banks. Strong earnings over the years have resulted in a well capitalized bank with an equity to assets ratio of 9.2%. Stockholders' equity of \$29,626,000 increased by 11.52% from the prior year.

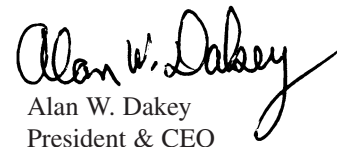
In February, we launched our eleventh office at [www.midpennbank.com](http://www.midpennbank.com). Our customers can view their account balances, transfer funds and review account transactions instantaneously at no charge. New deposit accounts can be opened on line. Loan applications can also be completed on line as well. The site also offers cash management services for business customers. We have had a very positive response to our new site and anticipate continuing growth through this convenient delivery channel. We encourage shareholders to bank with us through this convenient "office."

Our cover this year is a photo representation of your Bank's newest office located at 2615 N. Front Street, Harrisburg which opened in late August. As of December 31, 2000, we had approximately \$3 million in deposits and \$2.3 million in loans at this new location. We are very pleased with the new account activity levels to date. We encourage stockholders who live or work nearby to visit our newest office. You may find this office to be very convenient for your banking needs.

Uncertainty about the economy and its possible impact on loan quality along with concerns about interest margins contributed to a decline in most community bank stock prices during the year 2000. Mid Penn Bancorp's stock was no exception. Mid Penn Bancorp, "MBP," which is listed on the American Stock Exchange, closed the year at \$15.00 per share. I would suggest that this price level, which results in a dividend yield of 5.33% and a price to earnings ratio of 11.7%, does not reflect the value of our stock which has had a tradition of high performance, strong asset quality, a high efficiency ratio and strong return on equity. I am optimistic that community bank stock prices will recover, and Mid Penn's value will be reflected in a higher stock price.

We appreciate your confidence and support of Mid Penn Bank. Please call me at (717) 692-2133, or send any electronic correspondence to me at [adakey@midpennbank.com](mailto:adakey@midpennbank.com), should you have any questions or suggestions.

Sincerely,

  
Alan W. Dakey  
President & CEO



**Mid Penn Bancorp, Inc.**  
**Financial Highlights**

**AS OF AND FOR YEARS ENDED DECEMBER 31, 2000 AND 1999**

(Dollars in thousands, except *per share* data.)

	<u>2000</u>	<u>1999</u>	<u>Percent Change</u>
Total Assets .....	\$ 315,584	287,542	+9.75 %
Total Deposits .....	231,408	217,840	+6.23 %
Net Loans .....	181,396	169,789	+6.84 %
Total Investments and Interest Bearing Balances.....	116,261	98,669	+17.83 %
Stockholders' Equity .....	29,626	26,565	+11.52 %
Net Income .....	3,948	3,884	+1.65 %
Earnings Per Share .....	1.30	1.28	+1.56 %
Cash Dividend Per Share based on Weighted Average Number of Shares Outstanding.....	.80	2.18	-63.30 %
Book Value Per Share.....	9.76	8.74	+11.67 %

**Mid Penn Bancorp, Inc.**  
**Stockholders' Information**

	<u>2000</u>		<u>1999</u>		<u>Quarter</u>
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	
Market Value Per Share .....	\$ 22.00	13.25	26.50	24.50	1st
	19.25	15.38	25.75	24.38	2nd
	18.50	15.25	26.38	23.38	3rd
	15.88	14.75	27.25	22.50	4th

Market Value Information: The market share information was provided by the American Stock Exchange, New York, NY. Mid Penn Bancorp, Inc. common stock trades on the American Stock Exchange under the symbol: MBP.

Transfer Agent: Norwest Shareholder Services, P.O. Box 64854, St. Paul, MN 55164-0854. Phone: 1-800-468-9716.

Number of Stockholders: At December 31, 2000, there were 973 stockholders.

Dividends: A dividend of \$ .20 per share was paid during each quarter of 2000. A dividend of \$ .19 as well as a special dividend of \$1.50 per share was paid during the first quarter of 1999; a dividend of \$.20 per share was paid during each subsequent quarter of the year. Mid Penn Bancorp, Inc. plans to continue a quarterly dividend payable in February, May, August and November.

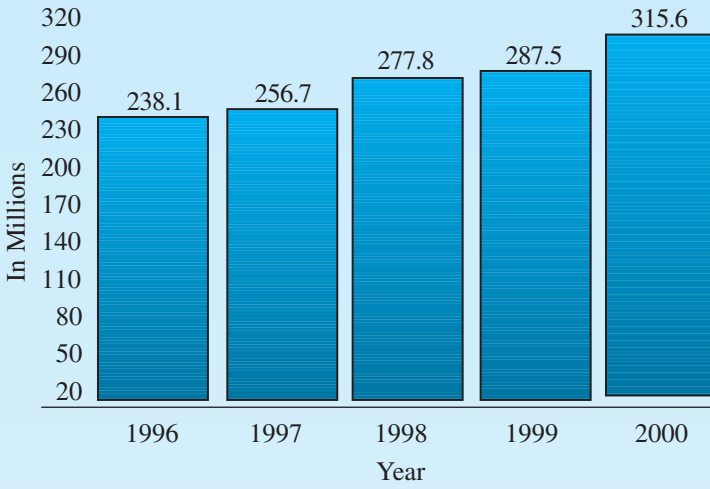
Dividend Reinvestment and Stock Purchases: Stockholders of Mid Penn Bancorp, Inc. may acquire additional shares of common stock by reinvesting their cash dividends under the Dividend Reinvestment Plan without paying a brokerage fee. Voluntary cash contributions may also be made under the Plan. For additional information about the Plan, contact the Transfer Agent.

Form 10-K: A Copy of Mid Penn Bancorp, Inc.'s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be provided to stockholders without charge upon written request to: Secretary, Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, PA 17061.

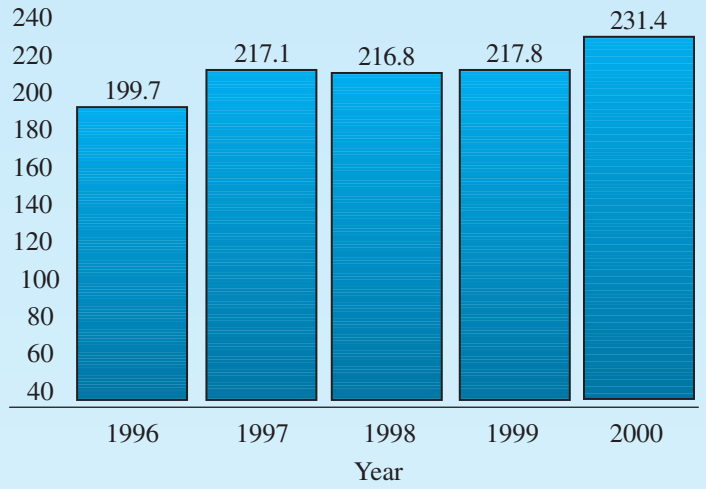
Annual Meeting: The Annual Meeting of the Stockholders of Mid Penn Bancorp, Inc. will be held at 10:00 a.m. on Tuesday, April 24, 2001, at 349 Union Street, Millersburg, Pennsylvania.

**Mid Penn Bancorp, Inc.**  
**Graphs (unaudited)**

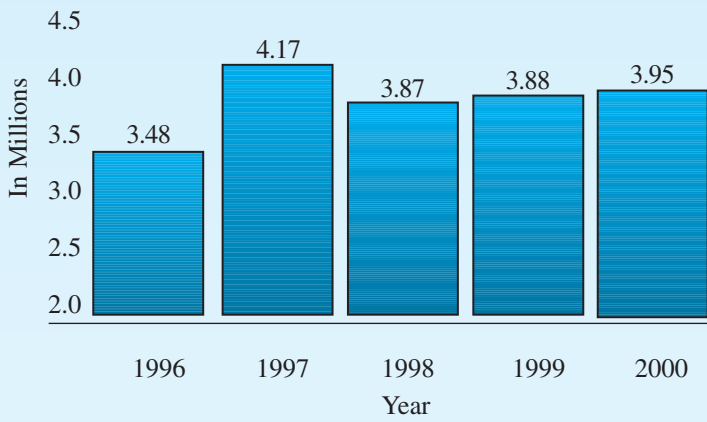
**Total Assets**



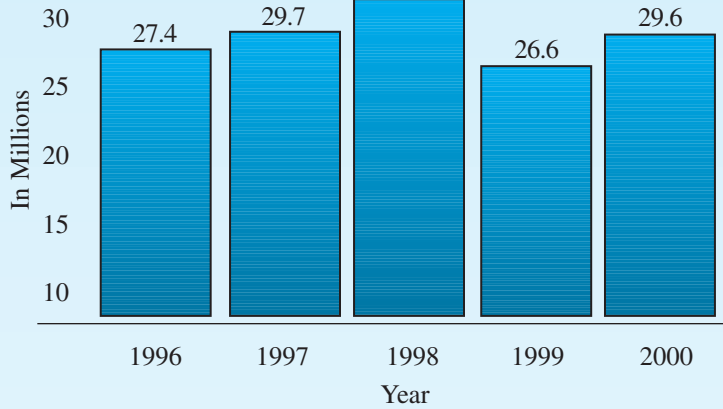
**Total Deposits**



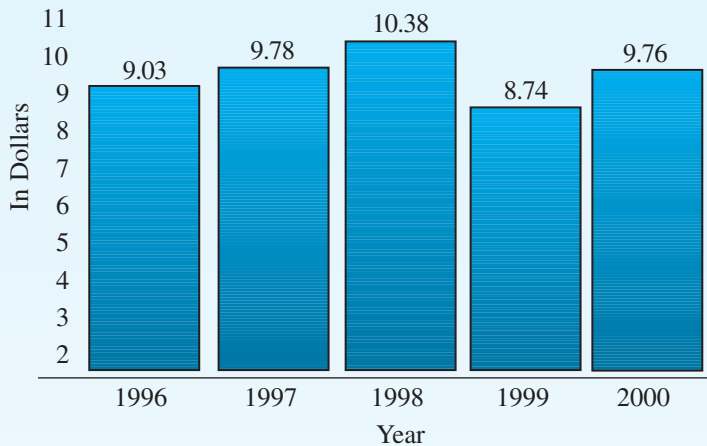
**Net Income**



**Total Equity**



**Book Value Per Share\***



\* Restated after giving effect to stock splits.

# PARENTERANDOLPH

*The Power of Ideas*

The Board of Directors and Stockholders  
Mid Penn Bancorp, Inc.  
Millersburg, Pennsylvania

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and subsidiaries (collectively, "Corporation") as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mid Penn Bancorp, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.



PARENTE RANDOLPH, PC

Williamsport, Pennsylvania  
January 19, 2001

**Mid Penn Bancorp, Inc.**  
**Consolidated Balance Sheet**

**DECEMBER 31, 2000 AND 1999**

(Dollars in thousands, except share data)

	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>		
Cash and due from banks .....	\$ 5,986	7,474
Interest bearing balances .....	42,376	34,570
Available-for-sale investment securities .....	73,885	64,099
Loans .....	186,941	174,812
Less:		
Unearned income .....	(2,730)	(2,518)
Allowance for loan losses .....	(2,815)	(2,505)
Net loans .....	<u>181,396</u>	<u>169,789</u>
Bank premises and equipment, net .....	3,581	3,307
Foreclosed assets held for sale .....	70	63
Accrued interest receivable .....	2,502	2,120
Deferred income taxes .....	1,069	1,676
Cash surrender value of life insurance .....	4,288	4,089
Other assets .....	431	355
Total Assets	<u>\$ 315,584</u>	<u>287,542</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand .....	\$ 23,274	22,331
Interest-bearing demand .....	28,293	26,962
Money market .....	17,494	22,899
Savings .....	25,912	25,815
Time .....	<u>136,435</u>	<u>119,833</u>
Total Deposits	231,408	217,840
Short-term borrowings .....	22,738	24,636
Accrued interest payable .....	1,546	1,202
Other liabilities .....	1,025	899
Long-term debt .....	<u>29,241</u>	<u>16,400</u>
Total Liabilities	<u>285,958</u>	<u>260,977</u>
Stockholders' Equity:		
Common stock, par value \$1 per share; authorized 10,000,000 shares; 3,056,501 shares issued .....	3,057	3,057
Additional paid-in capital .....	20,368	20,368
Retained earnings .....	7,078	5,557
Accumulated other comprehensive loss .....	(344)	(1,861)
Treasury stock at cost (19,057 and 19,996 shares in 2000 and 1999, respectively) .....	<u>(533)</u>	<u>(556)</u>
Stockholders' Equity, Net	<u>29,626</u>	<u>26,565</u>
Total Liabilities and Stockholders' Equity	<u>\$ 315,584</u>	<u>287,542</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Mid Penn Bancorp, Inc.**  
**Consolidated Statement of Income**

**FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**

(Dollars in thousands, except share data)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>INTEREST INCOME</b>			
Interest and fees on loans.....	\$ 15,769	13,829	14,330
Interest on interest-bearing balances.....	2,306	2,409	2,574
Interest and dividends on investment securities:			
U.S. Treasury and government agencies .....	2,284	2,426	2,385
State and political subdivision obligations, tax-exempt ..	1,475	1,311	1,032
Other securities .....	219	136	70
Interest on federal funds sold and securities purchased under agreement to resell .....	<u>0</u>	<u>1</u>	<u>45</u>
Total Interest Income	<u>22,053</u>	<u>20,112</u>	<u>20,436</u>
<b>INTEREST EXPENSE</b>			
Interest on deposits .....	8,958	8,302	8,627
Interest on short-term borrowings.....	879	516	203
Interest on long-term debt.....	<u>1,618</u>	<u>856</u>	<u>763</u>
Total Interest Expense	<u>11,455</u>	<u>9,674</u>	<u>9,593</u>
Net Interest Income	10,598	10,438	10,843
PROVISION FOR LOAN LOSSES .....	<u>325</u>	<u>325</u>	<u>254</u>
Net Interest Income After Provision for Loan Losses	<u>10,273</u>	<u>10,113</u>	<u>10,589</u>
<b>NONINTEREST INCOME</b>			
Trust department income .....	203	127	104
Service charges on deposits .....	590	554	450
Investment securities (losses) gains, net .....	(4)	50	13
Gain on sale of loans.....	31	0	65
Income on cash surrender value of life insurance .....	198	189	0
Other income.....	<u>538</u>	<u>769</u>	<u>766</u>
Total Noninterest Income	<u>1,556</u>	<u>1,689</u>	<u>1,398</u>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits.....	3,790	3,741	3,383
Occupancy expense, net.....	364	318	323
Equipment expense .....	481	510	565
Pennsylvania bank shares tax expense .....	271	279	274
FDIC insurance premium.....	45	26	26
Marketing and advertising .....	144	121	160
Loss on mortgage loan sales .....	19	47	64
Other expenses .....	<u>1,542</u>	<u>1,623</u>	<u>1,811</u>
Total Noninterest Expense	<u>6,656</u>	<u>6,665</u>	<u>6,606</u>
INCOME BEFORE PROVISION FOR INCOME TAXES.....	5,173	5,137	5,381
Provision for income taxes.....	<u>1,225</u>	<u>1,253</u>	<u>1,516</u>
Net Income	<u>\$ 3,948</u>	<u>3,884</u>	<u>3,865</u>
Earnings Per Share (1)	<u>\$ 1.30</u>	<u>1.28</u>	<u>1.27</u>
Weighted Average Number of Shares Outstanding	3,036,007	3,037,976	3,037,037

(1) Earnings per share for 1998 has been restated to reflect a 5% stock dividend effective November 22, 1999.

The accompanying notes are an integral part of these consolidated financial statements.



**Mid Penn Bancorp, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**

**FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**

(Dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, December 31, 1997 .....	\$ 2,775	14,072	13,104	318	(539)	<u>29,730</u>
Comprehensive income:						
Net income .....	0	0	3,865	0	0	3,865
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and tax effects.....	0	0	0	26	0	<u>26</u>
Total comprehensive income						<u>3,891</u>
Cash dividends (\$.76 per share, historical).....	0	0	(2,083)	0	0	(2,083)
5% stock dividend (additional 137,409 shares).....	137	3,109	(3,246)	0	0	0
Purchase of treasury stock (96 shares).....	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2)</u>	<u>(2)</u>
 Balance, December 31, 1998 .....	 2,912	 17,181	 11,640	 344	 (541)	 <u>31,536</u>
Comprehensive income:						
Net income .....	0	0	3,884	0	0	3,884
Change in net unrealized loss on securities available for sale, net of reclassification adjustment and tax effects.....	0	0	0	(2,205)	0	<u>(2,205)</u>
Total comprehensive income						<u>1,679</u>
Cash dividends (\$2.29 per share, historical).....	0	0	(6,635)	0	0	(6,635)
5% stock dividend (additional 144,234 shares).....	145	3,187	(3,332)	0	0	0
Purchase of treasury stock (659 shares).....	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(15)</u>	<u>(15)</u>
 Balance, December 31, 1999 .....	 3,057	 20,368	 5,557	 (1,861)	 (556)	 <u>26,565</u>
Comprehensive income:						
Net income .....	0	0	3,948	0	0	3,948
Change in net unrealized loss on securities available for sale, net of reclassification adjustment and tax effects.....	0	0	0	1,517	0	<u>1,517</u>
Total comprehensive income						<u>5,465</u>
Cash dividends (\$ .80 per share, historical).....	0	0	(2,427)	0	0	(2,427)
Sale of treasury stock (939 shares) .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23</u>	<u>23</u>
 Balance, December 31, 2000 .....	 \$ <u>3,057</u>	 <u>20,368</u>	 <u>7,078</u>	 <u>(344)</u>	 <u>(533)</u>	 <u>29,626</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Mid Penn Bancorp, Inc.**  
**Consolidated Statement of Cash Flows**

**FOR YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**

(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating Activities:			
Net income .....	\$ 3,948	3,884	3,865
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses .....	325	325	254
Depreciation .....	369	404	426
Increase in cash surrender value of life insurance .....	(198)	(189)	0
Investment securities losses (gains), net .....	4	(50)	(13)
Gain on sale of foreclosed assets .....	(40)	(229)	(273)
Gain on sale of loans.....	(31)	0	(65)
Deferred income taxes.....	(177)	(105)	(61)
Change in accrued interest receivable.....	(382)	(213)	(21)
Change in other assets.....	(76)	238	157
Change in accrued interest payable.....	344	(38)	(35)
Change in other liabilities .....	126	359	(114)
Other.....	0	0	0
Net Cash Provided By Operating Activities	<u>4,212</u>	<u>4,386</u>	<u>4,120</u>
Investing Activities:			
Net (increase) decrease in interest-bearing balances .....	(7,806)	8,313	(6,879)
Decrease in federal funds sold .....	0	0	1,000
Proceeds from the maturity of investment securities .....	4,042	9,663	19,707
Proceeds from the sale of investment securities .....	3,515	3,811	5,290
Purchases of investment securities .....	(15,047)	(12,931)	(39,279)
Proceeds from sale of loans .....	3,622	0	6,174
Net increase in loans .....	(15,558)	(19,434)	(4,917)
Net purchases of bank premises and equipment.....	(643)	(213)	(471)
Proceeds from the sale of foreclosed assets.....	68	523	1,450
Capitalized additions - foreclosed assets.....	0	(10)	0
Purchase of cash surrender value of life insurance.....	0	0	(3,900)
Net Cash Used In Investing Activities	<u>(27,807)</u>	<u>(10,278)</u>	<u>(21,825)</u>
Financing Activities:			
Net (decrease) increase in demand and savings deposits....	(3,034)	6,339	7,074
Net increase (decrease) in time deposits.....	16,602	(5,301)	(7,418)
Net (decrease) increase in short-term borrowings .....	(1,898)	12,477	9,925
Long-term borrowings.....	15,000	12,000	10,000
Long-term debt repayment .....	(2,159)	(11,150)	(138)
Cash dividends paid.....	(2,427)	(6,635)	(2,083)
Sale (purchase) of treasury stock .....	23	(15)	(2)
Net Cash Provided By Financing Activities	<u>22,107</u>	<u>7,715</u>	<u>17,358</u>
Net (decrease) increase in cash and due from banks .....	(1,488)	1,823	(347)
Cash and due from banks at January 1.....	7,474	5,651	5,998
Cash and due from banks at December 31.....	\$ <u>5,986</u>	<u>7,474</u>	<u>5,651</u>
Supplemental Disclosures of Cash Flow Information:			
Cash payments of interest expense .....	\$ 11,111	9,636	9,628
Cash payments of income taxes .....	\$ 1,355	1,149	1,723
Supplemental Noncash Disclosures:			
Loan charge-offs.....	\$ 74	224	317
Transfers to foreclosed assets held for sale.....	\$ 35	0	169

The accompanying notes are an integral part of these consolidated financial statements.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements for 2000 Report**

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. and its wholly-owned subsidiaries Mid Penn Bank (“Bank”) and Mid Penn Investment Corporation (collectively, “MPB”). All significant intercompany balances and transactions have been eliminated.

On July 13, 1998, Miners Bank of Lykens was merged with and into Mid Penn Bank, and 148,250 shares of MPB’s common stock were issued in exchange for all the outstanding stock of Miners Bank of Lykens. The merger was accounted for as a pooling of interests. The separate company financial statements of Miners Bank of Lykens were immaterial in relation to MPB.

(2) Nature of Business

The Bank engages in a full-service commercial banking and trust business, making available to the community a wide range of financial services, including, but not limited to, installment loans, mortgage and home equity loans, secured and unsecured commercial and consumer loans, lines of credit, construction financing, farm loans, community development loans, loans to non-profit entities and local government loans and various types of time and demand deposits, including but not limited to, checking accounts, savings accounts, clubs, money market deposit accounts, certificates of deposit and IRAs. In addition, the Bank provides a full range of trust services through its Trust Department. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) to the extent provided by law.

The financial services are provided to individuals, partnerships, non-profit organizations and corporations through its eleven offices located in the northern portion of Dauphin County, Swatara Township in the lower portion of Dauphin County, the southern portion of Northumberland County, the western portion of Schuylkill County and Hampden Township in Cumberland County.

Mid Penn Investment Corporation is engaged in investing activities.

(3) Summary of Significant Accounting Policies

The accounting and reporting policies of MPB conform to generally accepted accounting principles and to general practice within the banking industry. The following is a description of the more significant accounting policies.

(a) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired through, or in lieu of, foreclosure in settlement of debt.

While management uses available information to recognize losses on loans and foreclosed assets, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the bank’s allowances for loan losses and foreclosed assets. Such agencies may require the bank to recognize changes to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

(b) Investment Securities

Investments are accounted for as follows:

Held-to-Maturity Securities - includes debt securities that MPB has the positive intent and ability to hold to maturity. These securities are reported at amortized cost.

Available-for-Sale Securities - includes debt and equity securities not classified as held-to-maturity securities. Such securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported, net of deferred income taxes, as a separate component of stockholders’ equity.

(c) Loans

Interest on loans is recognized on a method which approximates a level yield basis over the life of the loans. The accrual of interest on loans, including impaired loans, is discontinued when principal or interest has consistently been in default for a period of 90 days or more, or because of a deterioration in the financial condition of the borrower, payment in full of principal or interest is not expected. Interest income is subsequently recognized only to the extent cash payments are

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

received. The placement of a loan on the nonaccrual basis for revenue recognition does not necessarily imply a potential charge-off of loan principal. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

(d) Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses that may become uncollectible. Management's judgment is based upon evaluation of individual loans, risk characteristics of categories of loans, credit loss experience, economic conditions, appraisals and other relevant factors which in management's judgment deserve recognition. The allowance for loan losses is established by a charge to operations. Loan losses and recoveries on previously charged-off loans are charged or credited directly to the allowance.

(e) Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis. Maintenance and repairs are charged to expense when incurred. Gains and losses on dispositions are reflected in current operations.

(f) Foreclosed Assets Held for Sale

Foreclosed assets held for sale consist of real estate acquired through, or in lieu of, foreclosure in settlement of debt and are recorded at fair market value at the date of transfer. Any valuation adjustments required at the date of transfer are charged to the allowance for loan losses. Subsequent to acquisition, foreclosed assets are carried at the lower of cost or fair market value less costs of disposal, based upon periodic evaluations that consider changes in market conditions and development and disposition costs. Operating results from assets acquired in satisfaction of debt, including rental income less operating costs and gains or losses on the sale of or the periodic evaluation of foreclosed assets, are recorded in noninterest expense.

(g) Income Taxes

Certain items of income and expense are recognized in different accounting periods for financial reporting purposes than for income tax purposes. Deferred income tax assets and liabilities are provided in recognition of these timing differences at currently enacted income tax rates. As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision for income taxes.

(h) Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred and were \$144,000, \$121,000 and \$160,000 in 2000, 1999 and 1998, respectively.

(i) Benefit Plans

A funded contributory profit-sharing plan is maintained for substantially all employees. The cost of the Bank's profit-sharing plan is charged to current operating expenses and is funded annually. In addition to providing a profit-sharing plan, the Bank provides health care coverage for employees who retire with twenty years or more of full-time service with the Bank, for a period up to five years from the date of retirement under the group plan of the other employees, provided the Bank is providing such health care coverage for other employees. The Bank also provides continued coverage on group life insurance for those employees who retire with twenty years or more of full-time service with the Bank. Substantially all of the Bank's employees may become eligible for those benefits if they continue working for the Bank until retirement age. The Bank currently does not offer post-employment benefits.

The Bank also has a defined benefit retirement bonus plan for qualified members of the Board of Directors who either voluntarily retire from service or attain mandatory retirement age (age 70). The benefit is based on years of service and is funded based on the expected future years of service of active participants.

(j) Trust Assets and Income

Assets held by the Bank in a fiduciary or agency capacity for customers of the Trust Department are not included in the financial statements since such items are not assets of the Bank. Trust income is recognized on the cash basis which is not materially different than if it were reported on the accrual basis.

(k) Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding



**Mid Penn Bancorp, Inc.**

**Notes to Consolidated Financial Statements (cont'd)**

during each of the years presented giving retroactive effect to stock dividends and stock splits. MPB's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding.

(l) Statement of Cash Flows

For purposes of the statement of cash flows, MPB considers cash and due from banks to be cash equivalents.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's classifications.

(4) Comprehensive Income

The components of other comprehensive (loss) income and related tax effects are as follows:

(Dollars in thousands)

	Years Ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Unrealized holding gains (losses) on available-for-sale securities.....	\$ 2,296	(3,291)	52
Less reclassification adjustment for losses (gains) realized in income ....	4	(50)	(13)
Net unrealized gains (losses) .....	2,300	(3,341)	39
Tax effect.....	(783)	1,136	(13)
Net-of-tax amount.....	<u>\$ 1,517</u>	<u>(2,205)</u>	<u>26</u>

(5) Restrictions on Cash and Due from Bank Accounts

The Bank is required to maintain reserve balances. The amount of those required reserve balances at December 31, 2000 and 1999 was approximately \$1,878,000 and \$1,871,000, respectively.

(6) Investment Securities

At December 31, 2000 and 1999, amortized cost, fair value, and gross unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)

	Amortized	Gross	Gross	Fair
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
December 31, 2000				
Available for sale securities:				
U.S. Treasury and U.S.				
government agencies .....	\$ 34,750	77	476	34,351
Mortgage-backed U.S.				
government agencies .....	2,402	1	2	2,401
State and political				
subdivision obligations .....	33,972	418	538	33,852
Restricted equity securities.....	3,281	0	0	3,281
	<u>\$ 74,405</u>	<u>496</u>	<u>1,016</u>	<u>73,885</u>
December 31, 1999				
Available for sale securities:				
U.S. Treasury and U.S.				
government agencies .....	\$ 33,778	57	1,851	31,984
Mortgage-backed U.S.				
government agencies .....	1,799	0	35	1,764
State and political				
subdivision obligations .....	28,061	144	1,135	27,070
Restricted equity securities.....	3,281	0	0	3,281
	<u>\$ 66,919</u>	<u>201</u>	<u>3,021</u>	<u>64,099</u>

Estimated fair values of debt securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh and Atlantic Central Bankers Bank and do not have a readily determinable fair value for purposes of SFAS No. 115, because their ownership is restricted and they lack a market. Therefore, these securities are classified as restricted investment securities, carried at cost, and evaluated for impairment.

Investment securities and interest bearing balances having a fair value of \$49,108,000 at December 31, 2000, were pledged to secure public and trust deposits and other borrowings.

Proceeds from the sale of investment securities in 2000 amounted to \$3,515,000 and gross losses from such sales of investment securities, as determined on the basis of specific identification of the adjusted cost of each security sold, amounted to \$4,000. Gross gains of \$50,000 and \$13,000 were realized on the sale of investment securities amounting to \$3,811,000 and \$5,290,000 in 1999 and 1998, respectively.

The following is a schedule of the maturity distribution of investment securities at amortized cost and fair value as of December 31, 2000 and 1999:

(Dollars in thousands)	December 31, 2000		December 31, 1999	
	Amortized	Fair	Amortized	Fair
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Due in 1 year or less.....	\$ 2,389	2,390	1,680	1,681
Due after 1 year but within 5 years.....	13,061	13,084	8,674	8,563
Due after 5 years but within 10 years .....	20,737	20,678	23,243	22,542
Due after 10 years .....	32,535	32,051	28,242	26,268
	<u>68,722</u>	<u>68,203</u>	<u>61,839</u>	<u>59,054</u>
Mortgage-backed securities.....	2,402	2,401	1,799	1,764
Restricted equity securities.....	3,281	3,281	3,281	3,281
	<u>\$ 74,405</u>	<u>73,885</u>	<u>66,919</u>	<u>64,099</u>

(7) Loans

A summary of loans at December 31, 2000 and 1999 is as follows:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>
Commercial real estate, construction and land development.....	\$ 110,947	105,328
Commercial, industrial and agricultural.....	26,274	20,118
Real estate - residential .....	35,610	32,586
Consumer.....	14,110	16,780
	<u>\$ 186,941</u>	<u>174,812</u>

Net unamortized loan fees of \$417,000 were deducted from loans in both years.

Loans to Bank executive officers, directors, and corporations in which such executive officers and directors are beneficially interested as stockholders, executive officers, or directors aggregated approximately \$1,418,000 and \$1,353,000 at December 31, 2000 and 1999, respectively. New loans extended were \$66,000 and \$277,000 during 2000 and 1999, respectively. Net repayments in 2000 amounted to \$1,000. Draws exceeded repayments on these loans by \$153,000 during 1999. These loans were made on substantially the same basis, including interest rates and collateral as those prevailing for comparable transactions with other borrowers at the same time.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

(8) Allowance for Loan Losses

Changes in the allowance for loan losses for the years 2000, 1999, and 1998 are summarized as follows:

(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Balance, January 1.....	\$ 2,505	2,313	2,281
Provision charged to operations .....	325	325	254
Loans charged off .....	(74)	(224)	(317)
Recoveries on loans charged off .....	59	91	95
Balance, December 31.....	\$ <u>2,815</u>	<u>2,505</u>	<u>2,313</u>

The recorded investment in loans that are considered impaired amounted to \$448,000 and \$890,000 (all in nonaccrual) on December 31, 2000 and December 31, 1999, respectively. By definition, impairment of a loan is considered when, based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The allowance for loan losses related to loans classified as impaired amounted to approximately \$169,000 at December 31, 2000 and \$235,000 at December 31, 1999. The average balances of these loans amounted to approximately \$752,000, \$873,000 and \$861,000 for the years 2000, 1999 and 1998, respectively. The Bank recognizes interest income on impaired loans on a cash basis. The following is a summary of cash receipts on these loans and how they were applied in 2000, 1999 and 1998.

(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash receipts applied to reduce principal balance .....	\$ 520	63	0
Cash receipts recognized as interest income.....	36	28	27
Total cash receipts .....	\$ <u>556</u>	<u>91</u>	<u>27</u>

In addition, at December 31, 2000 and 1999, the Bank had other nonaccrual loans of approximately \$668,000 and \$15,000, for which impairment had not been recognized. Loans which were past due 90 days or more for which interest continued to be accrued as of December 31, 2000 and 1999, amounted to approximately \$504,000 and \$386,000, respectively.

The Bank has no commitments to loan additional funds to borrowers with impaired or nonaccrual loans.

(9) Bank Premises and Equipment

At December 31, 2000 and 1999, bank premises and equipment are as follows:

(Dollars in thousands)

	<u>2000</u>	<u>1999</u>
Land.....	\$ 818	626
Buildings.....	3,926	3,645
Furniture and fixtures .....	3,383	3,213
	8,127	7,484
Less accumulated depreciation.....	4,546	4,177
	\$ <u>3,581</u>	<u>3,307</u>

(10) Deposits

At December 31, 2000 and 1999, time deposits in denominations of \$100,000 or more amounted to \$23,342,000 and \$16,216,000, respectively. Interest expense on such certificates of deposit amounted to approximately \$1,211,000, \$1,103,000 and \$1,102,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Time deposits at December 31, 2000, mature as follows: (in thousands) 2001, \$68,417; 2002, \$34,178; 2003, \$21,009; 2004, \$4,192; 2005, \$5,289; thereafter, \$3,350. Deposits and other funds from related parties held by the Corporation at December 31, 2000 amounted to \$2,070,000.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

(11) Short-term Borrowings

Short-term borrowings as of December 31, 2000 and 1999 consisted of:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>
Discount window borrowings.....	\$ 1,500	0
Federal funds purchased.....	19,300	22,300
Repurchase agreements .....	1,459	1,313
Treasury, tax and loan note .....	479	1,023
	<u>\$ 22,738</u>	<u>24,636</u>

Discount window borrowings and federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury, tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by the Bank are placed in the Treasury note option account. The Bank also has unused lines of credit with several banks amounting to \$20 million dollars at December 31, 2000.

(12) Long-term Debt

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and through its membership, the Bank can access a number of credit products which are utilized to provide various forms of liquidity. As of December 31, 2000, the Bank had long-term debt in the amount of \$29,241,000 outstanding to the FHLB consisting of a \$1,500,000 5 year fixed advance at 6.67% due September 4, 2001; a \$5,000,000 bullet loan at 6.61% which will mature on November 24, 2003; a \$639,000 10 year amortizing advance at 7.30% which will mature April 5, 2004; a \$5,000,000 7 year fixed rate advance at 6.21% convertible at FHLB's option to a LIBOR adjustable rate after 3 years which will mature November 30, 2006; a \$5,000,000 10 year fixed rate advance at 6.42% convertible at FHLB's option to a LIBOR adjustable rate after 5 years which matures December 3, 2009; a \$1,000,000 10 year fixed rate advance with an interest rate of 7.06% maturing on December 9, 2009; a \$1,000,000 10 year fixed rate advance with an interest rate of 7.24% which matures December 17, 2009; a \$5,000,000 10 year fixed rate advance at 6.28% convertible at FHLB's option to a LIBOR adjustable rate after 2 years which is due January 14, 2010; a \$5,000,000 10 year fixed rate advance at 6.71% convertible at FHLB's option to a LIBOR adjustable rate after 3 years which is due February 22, 2010; and a \$102,000 amortizing loan at a rate of 6.71% which matures February 22, 2027. The aggregate amounts of maturities of long-term debt subsequent to December 31, 2000 are \$1,672,000 (2001), \$185,000 (2002), \$5,199,000 (2003), \$88,000 (2004), \$2,000 (2005), \$22,095,000 thereafter.

Most of the Bank's investments and mortgage loans are pledged to secure FHLB borrowings.

(13) Lease Commitments

The Bank leases certain premises under long-term lease agreements which are classified as operating leases. Commitments under these agreements are not material. Rental expense for 2000, 1999 and 1998 was approximately \$34,000, \$42,000 and \$49,000, respectively.

(14) Benefit Plans

(a) Profit-Sharing

The Bank has a funded contributory profit-sharing plan covering substantially all employees. The Bank's contribution to the plan for 2000, 1999 and 1998 was \$361,000, \$310,000 and \$281,000, respectively.

(b) Health Insurance

For full-time employees who retire after at least 20 years of service, the Bank will pay premiums for major medical insurance (as provided to active employees) for a period ending on the earlier of the date the participant obtains other employment where major medical coverage is available or the date of the participant's death; however, payment of medical premiums by the Bank will cease after five years. If the retiree becomes eligible for Medicare within the five year period beginning on his/her retirement date, the Bank will pay, at its discretion, premiums for 65 Special coverage or a similar supplemental coverage. After the five year period has expired, all employer-paid benefits will cease; however, the employee may continue coverage through the employer at his/her own expense.



**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

(c) Life Insurance

For full-time employees who retire after at least 20 years of service, the Bank will provide term life insurance. The amount of coverage prior to age 65 will be the lesser of three times the participant's annual salary at retirement or \$50,000. After age 65, the insurance amount will decrease by 10% of the age 65 amount per year, subject to a minimum amount of \$2,000.

The following tables provide a reconciliation of the changes in the plans' health and life insurance benefit obligations and fair value of plan assets for the years ended December 31, 2000 and 1999 and a statement of the funded status at December 31, 2000 and 1999:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>
Change in post-retirement benefit obligations:		
Benefit obligations, January 1 .....	\$ 329	404
Service cost.....	18	20
Interest cost.....	22	23
Actuarial loss (gain) .....	0	(104)
Benefit payments .....	<u>(15)</u>	<u>(14)</u>
Benefit obligations, December 31 .....	<u>\$ 354</u>	<u>329</u>
Change in fair value of plan assets:		
Fair value of plan assets, January 1.....	\$ 0	0
Employer contributions .....	15	14
Benefit payments .....	<u>(15)</u>	<u>(14)</u>
Fair value of plan assets, December 31.....	<u>\$ 0</u>	<u>0</u>
	<u>2000</u>	<u>1999</u>
Funded status:		
Excess of the benefit obligation over the value of plan assets .....	\$ (354)	(329)
Unrecognized transition obligation .....	177	192
Unrecognized gain.....	<u>(154)</u>	<u>(162)</u>
Net amount recognized.....	<u>\$ (331)</u>	<u>(299)</u>

Amount recognized in the balance sheet at December 31, 2000 and 1999 is as follows:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>
Accrued benefit liability .....	<u>\$ (331)</u>	<u>(299)</u>

The components of net periodic post-retirement benefit cost for 2000, 1999 and 1998 are as follows:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost.....	\$ 18	20	24
Interest cost.....	22	23	20
Amortization of transition obligation.....	15	15	15
Amortization of net gain .....	<u>(8)</u>	<u>(4)</u>	<u>(5)</u>
Net periodic post-retirement benefit cost.....	<u>\$ 47</u>	<u>54</u>	<u>54</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for the post retirement medical benefits plan. A one-percentage-point change in assumed health care cost trend rates would have the following effect:

(Dollars in thousands)	One-Percentage Point	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components.....	\$ 6	5
Effect on post retirement benefit obligation.....	\$ 39	32

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

Assumptions used in the measurement of MPB's benefit obligations at December 31, 2000 and 1999 are as follows:

Weighted-average assumptions:

Discount rate.....	7.0%
Rate of compensation increase.....	5.0%

For measurement purposes, a one percent annual decrease in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to be 6 percent for 2001 and remain at that level thereafter.

(d) Retirement Plan

The Bank has an unfunded defined benefit retirement plan for directors with benefits based on years of service. The adoption of this plan generated unrecognized prior service cost of \$274,000 which is being amortized based on the expected future years of service of active participants.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of plan assets for the years ended December 31, 2000 and 1999 and a statement of the funded status at December 31, 2000 and 1999:

(Dollars in thousands)

	<u>2000</u>	<u>1999</u>
Change in benefit obligations:		
Benefit obligations, January 1.....	\$ 414	405
Service cost.....	20	20
Interest cost.....	28	26
Actuarial loss (gain).....	1	(29)
Benefit payments.....	(8)	(8)
Benefit obligations, December 31.....	\$ <u>455</u>	<u>414</u>

Change in fair value of plan assets:

Fair value of plan assets, January 1.....	\$ 0	0
Employer contributions.....	8	8
Benefit payments.....	(8)	(8)
Fair value of plan assets, December 31.....	\$ <u>0</u>	<u>0</u>

December 31,

	<u>2000</u>	<u>1999</u>
Funded status:		
Excess of the benefit obligation over the value of plan assets....	\$ (455)	(414)
Unrecognized prior-service cost.....	130	156
Unrecognized gain.....	(14)	(14)
Net amount recognized.....	\$ <u>(339)</u>	<u>(272)</u>

Amounts recognized in the balance sheet at December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
(Dollars in thousands)		
Accrued benefit liability.....	\$ (376)	(334)
Intangible asset.....	37	62
Net amount recognized.....	\$ <u>(339)</u>	<u>(272)</u>

The components of net periodic pension cost for 2000, 1999 and 1998 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
(Dollars in thousands)			
Service cost.....	\$ 20	20	17
Interest cost.....	28	26	24
Amortization of prior-service cost.....	26	26	26
Net periodic pension cost.....	\$ <u>74</u>	<u>72</u>	<u>67</u>

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

Assumptions used in the measurement of MPB's benefit obligations at December 31, 2000 and 1999 are as follows:

Weighted-average assumptions:

Discount rate..... 7.0%

The Bank is the owner and beneficiary of insurance policies on the lives of the executive officers and directors which informally fund the benefit obligations. The aggregate cash surrender value of these policies was approximately \$1,512,000 and \$1,444,000 at December 31, 2000 and 1999, respectively.

(e) Deferred Compensation Plans

During 1999, the Bank adopted an executive deferred compensation plan which allows an executive officer to defer bonus compensation for a specified period in order to provide future retirement income. At December 31, 2000 and 1999, the Bank has accrued a liability of approximately \$20,000 and \$10,000, respectively, for this plan.

During 1999, the Bank adopted a director's deferred compensation plan which allows directors to defer receipt of monthly director's fees for a specified period in order to provide future retirement income. At December 31, 2000 and 1999, the Bank has accrued a liability of approximately \$64,000 and \$36,000, respectively, for this plan.

The Bank is the owner and beneficiary of insurance policies on the lives of the participating executive officer and directors which informally fund the benefit obligations. The aggregate cash surrender value of these policies was approximately \$1,232,000 and \$1,174,000 at December 31, 2000 and 1999, respectively.

(f) Salary Continuation Plan

During 1999, the Board of Directors adopted a Salary Continuation Agreement for an executive officer. The Salary Continuation Agreement provides the executive officer with a fixed annual benefit. The benefit is payable beginning at age 65 for a period of 15 years. If the executive officer terminates employment before the normal retirement date for reasons other than death, the annual benefit payable will be based on the vesting schedule as defined in the Agreement. Upon death or a change of control of the Bank, the executive officer or his beneficiary is entitled to the full fixed annual benefit. At December 31, 2000 and 1999, the Bank has accrued a liability of approximately \$46,000 and \$22,000, respectively, for this plan.

The Bank is the owner and beneficiary of an insurance policy on the life of the participating executive officer which informally funds the benefit obligation. The aggregate cash surrender value of this policy was approximately \$723,000 and \$688,000 at December 31, 2000 and 1999, respectively.

(g) Employee Stock Ownership Plan

The Bank has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. Contributions to the plan are made at the discretion of the Board of Directors. Total expense related to the Bank's contribution to the plan for 2000, 1999 and 1998 was \$118,000, \$103,000 and \$87,000, respectively. The ESOP held 8,932 and 3,732 shares of MPB stock as of December 31, 2000 and December 31, 1999, respectively, all of which were allocated to plan participants. Shares held by the ESOP are considered outstanding for purposes of calculating earnings per share.

(h) Other

At December 31, 2000 and 1999, the Bank had a Split Dollar Life Insurance Plan for two executives for which the aggregate cash surrender value is approximately \$822,000 and \$783,000, respectively.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

(15) Federal Income Taxes

The following temporary differences gave rise to the deferred tax asset at December 31, 2000 and 1999:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>
Deferred tax assets:		
Allowance for loan losses.....	\$ 803	697
Benefit plans.....	308	218
Nonaccrual interest.....	16	26
Deferred income.....	7	8
Unrealized losses on securities.....	177	959
Total	\$ <u>1,311</u>	<u>1,908</u>
Deferred tax liabilities:		
Depreciation.....	\$ (92)	(103)
Loan fees.....	(120)	(98)
Bond accretion.....	(30)	(32)
Total	\$ <u>242</u>	<u>(233)</u>
Deferred tax asset, net.....	\$ <u><u>1,069</u></u>	<u><u>1,676</u></u>

The provision for income taxes consists of the following:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current provision.....	\$ 1,401	1,358	1,577
Deferred provision.....	(176)	(105)	(61)
Provision for income taxes.....	\$ <u><u>1,225</u></u>	<u><u>1,253</u></u>	<u><u>1,516</u></u>

A reconciliation of income tax at the statutory rate to MPB's effective rate is as follows:

(Dollars in thousands)	<u>2000</u>	<u>1999</u>	<u>1998</u>
Provision at the expected statutory rate.....	\$ 1,759	1,747	1,829
Effect of tax-exempt income.....	(633)	(536)	(380)
Nondeductible interest.....	69	50	43
Other items.....	30	(8)	24
Provision for income taxes.....	\$ <u><u>1,225</u></u>	<u><u>1,253</u></u>	<u><u>1,516</u></u>

(16) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier I capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier I and total capital (as defined) to risk-weighted assets (as defined). To be considered adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier I leverage, Tier I risk-based and total risk-based ratios as set forth in the table. The Bank's actual capital amounts and ratios are also presented in the table.



**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

	<u>Capital Adequacy</u>		To Be Well Capitalized	
			Under Prompt Corrective	
	Actual		Action Provisions:	
	<u>Amount (Ratio)</u>	<u>Amount (Ratio)</u>	<u>Amount (Ratio)</u>	
(Dollars in thousands)				
As of December 31, 2000:				
Tier I Capital (to Average Assets).....	\$ 20,523 (7.0%)	11,790 (4.0%)	14,737 (5.0%)	
Tier I Capital (to Risk Weighted Assets).....	20,523 (9.9%)	8,296 (4.0%)	12,444 (6.0%)	
Total Capital (to Risk Weighted Assets) .....	23,118 (11.2%)	16,592 (8.0%)	20,740 (10.0%)	
As of December 31, 1999:				
Tier I Capital (to Average Assets).....	\$ 19,307 (7.1%)	10,812 (4.0%)	13,515 (5.0%)	
Tier I Capital (to Risk Weighted Assets).....	19,307 (9.9%)	7,768 (4.0%)	11,653 (6.0%)	
Total Capital (to Risk Weighted Assets) .....	21,736 (11.2%)	15,537 (8.0%)	19,421 (10.0%)	

As of December 31, 2000, the Bank's capital ratios are well in excess of the minimum and well-capitalized guidelines and MPB's capital ratios are in excess of the Bank's capital ratios.

(17) Concentration of Risk and Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The term of these standby letters of credit is generally one year or less.

As of December 31, 2000, commitments to extend credit amounted to \$30,325,000 and standby letters of credit amounted to \$2,921,000.

Significant concentration of credit risk may occur when the obligations of the same or affiliated parties engaged in similar activities or having similar economic characteristics causing those parties to be similarly affected by changes in economic or other conditions occur.

In analyzing the Bank's exposure to significant concentration of credit risk, management set a parameter of 10% or more of the Bank's total net loans outstanding as the threshold in determining whether the obligations of the same or affiliated parties would be classified as significant concentration of credit risk. Concentrations by industry, product line, type of collateral, etc., were also considered. U.S. Treasury securities, obligations of U.S. government agencies and corporations, and any assets collateralized by the same were excluded.

As of December 31, 2000, commercial real estate financing was the only similar activity that met the requirements to be classified as significant concentration of credit risk. However, there is a geographical concentration in that most of the Bank's business activity is with customers located in Central Pennsylvania, specifically within the Bank's trading area made up of Dauphin County, lower Northumberland County, western Schuylkill County and Hampden Township in Cumberland County.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

The Bank's highest concentrations of credit are in the areas of mobile home park land and commercial real estate office financing. Outstanding credit to these sectors amounted to \$15,229,000 or 8.4% and \$20,975,000 or 11.6% of net loans outstanding as of December 31, 2000.

(18) Commitments and Contingencies

In the ordinary course of business, MPB has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of MPB.

(19) Parent Company Statements

The condensed balance sheet, statement of income and statement of cash flows for Mid Penn Bancorp, Inc., parent only, are presented below:

**CONDENSED BALANCE SHEET**

As of December 31, 2000, 1999 and 1998  
(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>			
Cash .....	\$ 1,199	867	485
Investment in Subsidiaries.....	28,427	25,698	31,051
Total Assets	\$ <u>29,626</u>	<u>26,565</u>	<u>31,536</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Stockholders' Equity .....	30,159	27,121	32,077
Less Treasury Stock .....	(533)	(556)	(541)
Total Liabilities and Equity	\$ <u>29,626</u>	<u>26,565</u>	<u>31,536</u>

**CONDENSED STATEMENT OF INCOME**

For the Years Ended December 31, 2000, 1999 and 1998  
(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Dividends from Subsidiaries .....	\$ 2,795	7,080	2,304
Other Income from Subsidiaries .....	30	24	27
Undistributed Earnings of Subsidiaries.....	1,212	(3,148)	1,615
Other Expenses.....	(89)	(72)	(81)
Net Income	\$ <u>3,948</u>	<u>3,884</u>	<u>3,865</u>

**CONDENSED STATEMENT OF CASH FLOWS**

For the Years Ended December 31, 2000, 1999 and 1998  
(Dollars in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income .....	\$ 3,948	3,884	3,865
Undistributed Earnings of Subsidiaries .....	(1,212)	3,148	(1,615)
Net Cash Provided By Operating Activities	<u>2,736</u>	<u>7,032</u>	<u>2,250</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends Paid.....	(2,427)	(6,635)	(2,083)
Sale (purchase) of Treasury Stock .....	23	(15)	(2)
Net Cash Used By Financing Activities	<u>(2,404)</u>	<u>(6,650)</u>	<u>(2,085)</u>
Net Increase in Cash.....	332	382	165
Cash at Beginning of Period .....	867	485	320
Cash at End of Period.....	\$ <u>1,199</u>	<u>867</u>	<u>485</u>

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

(20) Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate that value. In cases where quoted market values are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of MPB.

The following methodologies and assumptions were used to estimate the fair value of MPB's financial instruments:

Cash and due from banks:

The carrying value of cash and due from banks was considered to be a reasonable estimate of fair value.

Interest bearing balances with other financial institutions:

The estimate of fair value was determined by comparing the present value of quoted interest rates on like deposits with the weighted average yield and weighted average maturity of the balances.

Investment securities:

As indicated in Note 5, estimated fair values of investment securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices for comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Loans:

The loan portfolio was segregated into pools of loans with similar economic characteristics and was further segregated into fixed rate and variable rate and each pool was treated as a single loan with the estimated fair value based on the discounted value of expected future cash flows. Fair value of loans with significant collectibility concerns (that is, problem loans and potential problem loans) was determined on an individual basis using an internal rating system and appraised values of each loan. Assumptions regarding problem loans are judgmentally determined using specific borrower information.

Deposits:

The fair value for demand deposits (e.g., interest and noninterest checking, savings and money market deposit accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). Fair value for fixed-rate certificates of deposit was estimated using a discounted cash flow calculation by combining all fixed-rate certificates into a pool with a weighted average yield and a weighted average maturity for the pool and comparing the pool with interest rates currently being offered on a similar maturity.

Short-term borrowed funds:

Because of time to maturity, the estimated fair value of short-term borrowings approximates the book value.

Long-term debt:

The estimated fair values of long-term debt was determined using discounted cash flow analysis, based on borrowing rates for similar types of borrowing arrangements.

Accrued interest:

The carrying amounts of accrued interest approximates their fair values.

Off-balance-sheet financial instruments:

There are no unearned fees outstanding on off-balance-sheet financial instruments and the fair values are determined to be equal to the carrying values.

**Mid Penn Bancorp, Inc.**  
**Notes to Consolidated Financial Statements (cont'd)**

The following table summarizes the book or notional value and fair value of financial instruments at December 31, 2000 and 1999.

(Dollars in thousands)	December 31, 2000		December 31, 1999	
	Book or Notional Value	Fair Value	Book or Notional Value	Fair Value
<b>Financial assets:</b>				
Cash and due from banks .....	\$ 5,986	5,986	7,474	7,474
Interest bearing balances .....	42,376	42,376	34,570	34,570
Investment securities .....	73,885	73,885	64,099	64,099
Net loans .....	181,396	187,750	169,789	172,678
<b>Financial liabilities:</b>				
Deposits .....	\$ 231,408	232,803	217,840	217,107
Short-term borrowings.....	22,738	22,738	24,636	24,636
Long-term debt .....	29,241	30,944	16,400	16,842
<b>Off-balance sheet financial instruments:</b>				
Commitments to extend credit .....	\$ 30,325	30,325	29,648	29,648
Standby letters of credit .....	2,921	2,921	2,336	2,336

(21) Common Stock

MPB has reserved 50,000 of authorized, but unissued shares of its common stock for issuance under a Stock Bonus Plan (the "Plan"). Shares issued under the Plan are at the discretion of the board of directors.

In November, 1997, MPB amended and restated its dividend reinvestment plan, (DRIP). Two hundred thousand shares of MPB's authorized but unissued common stock are reserved for issuance under the DRIP. The DRIP also allows for voluntary cash payments within specified limits, for the purchase of additional shares.

(22) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Corporation is required to adopt SFAS No. 133 on January 1, 2001 and it cannot be applied retroactively to financial statements of prior periods. Management does not expect the initial adoption of SFAS No. 133 to have a material effect on the Corporation's operations or financial position.

In September 2000, the SFAS issued FASB No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement supercedes and replaces the guidance in Statement 125. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, although it carries over most of Statement 125's provisions without reconsideration. The Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending December 15, 2000. This Statement is to be applied prospectively with certain exceptions. Other than those exceptions, earlier or retroactive application of its accounting provisions is not permitted. The Corporation has not yet determined the impact, if any, of this statement on the Corporation's financial condition, equity, results of operations or disclosure.



**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis**  
**of Financial Condition and Results of Operations**

The purpose of this discussion is to further detail the financial condition and results of operations of Mid Penn Bancorp, Inc. (MPB). MPB is not aware of any known trends, events, uncertainties or of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on MPB's liquidity, capital resources or operations. This discussion should be read along with the financial statements also appearing in this report. Per share data has been restated to reflect the effect of stock dividends and splits. The prior financial data has been restated to reflect the 1998 merger of Miners Bank of Lykens as if the two banks had always been one.

**Financial Summary**

The consolidated earnings of MPB are derived primarily from the operations of its wholly-owned subsidiary, Mid Penn Bank.

MPB earned net income of \$3,948,000 for the year 2000, compared to \$3,884,000 in 1999, which was an increase of \$64,000 or 1.7%. This represents net income in 2000 of \$1.30 per share compared to \$1.28 per share in 1999 and \$1.27 per share in 1998.

Total assets of MPB continued to grow in 2000, reaching the level of \$315,584,000, an increase of \$28,042,000 or 9.75% over \$287,542,000 at year end 1999. Approximately ten million of the asset growth during 2000 resulted in the purchase of interest bearing balances and municipal securities, which were funded by borrowings resulting in incremental income to MPB going forward.

MPB continued to achieve an excellent return on average shareholders' equity, (ROE), a widely recognized performance indicator in the financial industry. The ROE was 14.64% in 2000, 14.68% in 1999 and 12.81% in 1998. Return on average assets (ROA), another performance indicator, was 1.34% in 2000, 1.40% in 1999 and 1.45% in 1998.

During the first quarter of 1999 our Board of Directors declared a special cash dividend of \$1.50 per share. This special dividend is not expected to affect regular dividends in the future. The special dividend was declared to reduce the capital levels of Mid Penn Bancorp, Inc., increase ROE, and enhance shareholder value. We have enjoyed a very solid capital position due to strong financial performance. In the banking industry, there has been a general shift from ROA to ROE as a measure of financial performance since ROE is a truer measure of a company's earnings on its shareholders' ownership. By lowering capital through this special dividend, we would be improving ROE, thus improving this ratio important to bank stock analysis.

Even after the payment of this special dividend, Mid Penn Bank has maintained capital levels well above regulatory requirements. Tier one capital (to risk weighted assets) of \$20,523,000 or 9.9% and total capital (to risk weighted assets) of \$23,118,000 or 11.2% at December 31, 2000, are well above the December 31, 2000 requirement, which is 4% for tier one capital and 8% for total capital. Tier one capital consists primarily of stockholders' equity. Total capital includes qualifying subordinated debt, if any, and the allowance for loan losses, within permitted limits. Risk-weighted assets are determined by assigning various levels of risk to different categories of assets and off-balance-sheet activities.

**Net Interest Income**

Net interest income, MPB's primary source of revenue, represents the difference between interest income and interest expense. Net interest income is affected by changes in interest rates and changes in average balances (volume) in the various interest-sensitive assets and liabilities.

During 2000 net interest income increased \$160,000 or 1.53% as compared to a decrease of \$405,000 or 3.74% in 1999. The 1999 decrease was caused primarily by the lower yield on loans during the year due to the decrease in average prime rate and pressure in the competitive environment to reprice existing loans. The average balances, effective interest differential and interest yields for the years ended December 31, 2000, 1999 and 1998, the components of net interest rate growth, are presented in Table 1. A comparative presentation of the changes in net interest income for 2000 compared to 1999, and 1999 compared to 1998, is given in Table 2. This analysis indicates the changes in interest income and interest expense caused by the volume and rate components of interest earning assets and interest bearing liabilities.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

The yield on earning assets increased to 8.33% in 2000 from 7.91% in 1999. The yield on earning assets for 1998 was also 8.33%. The change in the yield on earning assets was due primarily to the repricing of commercial loans in a very competitive rate environment, the \$3,900,000 purchase of life insurance, which yields income but not interest income, and changes in the "prime rate." The average "prime rate" for 2000 was 9.20% as compared to 7.98% for 1999 and 8.38% for 1998.

Interest expense increased by \$1,781,000 or 18.41% in 2000 as compared to \$81,000 or .84% in 1999. The increase in interest expense is due primarily to the increase in the total of interest bearing liabilities including the greater reliance on borrowings from the Federal Home Loan Bank of Pittsburgh particularly in light of the short-term interest rate increases during 2000.

Primarily resulting from the fluctuations in interest rates, the net interest margin, on a tax equivalent basis, in 2000 was 4.25% compared to 4.24% in 1999 and 4.52% in 1998. Management continues to closely monitor the net interest margin.

**TABLE 1: AVERAGE BALANCES, EFFECTIVE INTEREST DIFFERENTIAL AND INTEREST YIELDS**

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
 FOR YEAR ENDED DECEMBER 31, 2000

(Dollars in thousands)	Average <u>Balance</u>	Interest <u>Income/Expense</u>	Average Rates <u>Earned/Paid</u>
<b>ASSETS:</b>			
Interest Bearing Balances .....	\$ 36,234	2,306	6.36
Investment Securities:			
Taxable .....	39,224	2,503	6.38
Tax-Exempt .....	<u>29,251</u>	2,235	7.64
Total Investment Securities	<u>68,475</u>		
 Federal Funds Sold .....	 7	 0	 6.00
Loans, Net .....	<u>175,802</u>	<u>16,310</u>	9.28
Total Earning Assets .....	280,518	<u>23,354</u>	8.33
Cash and Due from Banks .....	5,212		
Other Assets .....	9,015		
Total Assets	\$ <u>294,745</u>		
 <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>			
Interest Bearing Deposits:			
NOW .....	\$ 28,518	391	1.37
Money Market .....	18,568	659	3.55
Savings .....	25,744	570	2.21
Time .....	130,342	7,338	5.63
Short-term Borrowings .....	14,362	879	6.12
Long-term Debt .....	<u>24,378</u>	<u>1,618</u>	6.64
Total Interest Bearing Liabilities .....	241,912	<u>11,455</u>	4.74
Demand Deposits .....	23,511		
Other Liabilities .....	2,358		
Stockholders' Equity .....	<u>26,964</u>		
Total Liabilities and Stockholders' Equity	\$ <u>294,745</u>		
 Net Interest Income .....	 \$	 <u>11,899</u>	
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets .....			8.33%
Rate on Supporting Liabilities .....			4.08%
Net Interest Margin .....			4.25%

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 1: AVERAGE BALANCES, EFFECTIVE INTEREST DIFFERENTIAL AND INTEREST YIELDS (cont'd)**

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
 FOR YEAR ENDED DECEMBER 31, 1999

(Dollars in thousands)

	<u>Average Balance</u>	<u>Interest Income/Expense</u>	<u>Average Rates Earned/Paid</u>
<b>ASSETS:</b>			
Interest Bearing Balances .....	\$ 39,671	2,409	6.07%
Investment Securities:			
Taxable .....	40,672	2,562	6.30%
Tax-Exempt .....	26,609	1,988	7.47%
Total Investment Securities .....	<u>67,281</u>		
Federal Funds Sold .....	12	1	5.00%
Loans, Net .....	<u>156,518</u>	<u>13,884</u>	8.87%
Total Earning Assets .....	263,482	<u>20,844</u>	7.91%
Cash and Due from Banks .....	5,174		
Other Assets .....	9,646		
Total Assets	\$ <u>278,302</u>		
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>			
Interest Bearing Deposits:			
NOW .....	\$ 27,669	380	1.37%
Money Market .....	20,734	705	3.40%
Savings .....	26,259	586	2.23%
Time .....	125,782	6,631	5.27%
Short-term Borrowings .....	10,683	517	4.84%
Long-term Debt .....	<u>14,453</u>	<u>855</u>	5.92%
Total Interest Bearing Liabilities .....	225,580	<u>9,674</u>	4.29%
Demand Deposits .....	23,338		
Other Liabilities .....	2,934		
Stockholders' Equity .....	<u>26,450</u>		
Total Liabilities and Stockholders' Equity	\$ <u>278,302</u>		
Net Interest Income .....	\$	<u>11,170</u>	
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets .....			7.91%
Rate on Supporting Liabilities .....			3.67%
Net Interest Margin .....			4.24%

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 1: AVERAGE BALANCES, EFFECTIVE INTEREST DIFFERENTIAL AND INTEREST YIELDS (cont'd)**

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
 FOR YEAR ENDED DECEMBER 31, 1998

(Dollars in thousands)

	<u>Average Balance</u>	<u>Interest Income/Expense</u>	<u>Average Rates Earned/Paid</u>
<b>ASSETS:</b>			
Interest Bearing Balances .....	\$ 40,056	2,574	6.43%
Investment Securities:			
Taxable .....	37,832	2,455	6.49%
Tax-Exempt .....	19,868	1,564	7.87%
Total Investment Securities	<u>57,700</u>		
Federal Funds Sold .....	819	45	5.50%
Loans, Net .....	<u>153,344</u>	<u>14,357</u>	9.36%
Total Earning Assets .....	251,919	<u>20,995</u>	8.33%
Cash and Due from Banks .....	5,806		
Other Assets .....	7,945		
Total Assets	\$ <u><u>265,670</u></u>		
<b>LIABILITIES &amp; STOCKHOLDERS'</b>			
<b>EQUITY:</b>			
Interest Bearing Deposits:			
NOW .....	\$ 27,649	500	1.81%
Money Market .....	14,882	449	3.02%
Savings .....	25,112	622	2.48%
Time .....	126,123	7,056	5.59%
Short-term Borrowings .....	3,801	203	5.34%
Long-term Debt .....	<u>13,573</u>	<u>763</u>	5.62%
Total Interest Bearing Liabilities .....	211,140	<u>9,593</u>	4.54%
Demand Deposits .....	21,024		
Other Liabilities .....	3,328		
Stockholders' Equity .....	<u>30,178</u>		
Total Liabilities and Stockholders' Equity	\$ <u><u>265,670</u></u>		
Net Interest Income .....	\$	<u><u>11,402</u></u>	
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets .....			8.33%
Rate on Supporting Liabilities .....			3.81%
Net Interest Margin .....			4.52%

Interest and average rates are presented on a fully taxable equivalent basis, using an effective tax rate of 34%. For purposes of calculating loan yields, average loan balances include nonaccrual loans.

Loan fees of \$203,000, \$258,000 and \$275,000 are included with interest income in Table 1 for the years 2000, 1999 and 1998, respectively.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 2: VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME**

(Dollars in thousands)

	2000 Compared to 1999			1999 Compared to 1998		
	Increase (Decrease) Due to Change In:			Increase (Decrease) Due to Change In:		
<i>Taxable Equivalent Basis</i>	<u>Volume</u>	<u>Rate</u>	<u>Net</u>	<u>Volume</u>	<u>Rate</u>	<u>Net</u>
<b>INTEREST INCOME:</b>						
Interest Bearing Balances .....	\$ (209)	106	(103)	(25)	(140)	(165)
Investment Securities:						
Taxable .....	(91)	32	(59)	184	(77)	107
Tax-Exempt .....	197	50	247	531	(107)	424
Total Investment Securities	<u>106</u>	<u>82</u>	<u>188</u>	<u>715</u>	<u>(184)</u>	<u>531</u>
Federal Funds Sold .....	(1)	0	(1)	(44)	0	(44)
Loans, Net .....	1,710	716	2,426	297	(770)	(473)
Total Interest Income	<u>\$ 1,606</u>	<u>904</u>	<u>2,510</u>	<u>943</u>	<u>(1,094)</u>	<u>(151)</u>
<b>INTEREST EXPENSE:</b>						
Interest Bearing Deposits:						
NOW .....	\$ 11	0	11	0	(120)	(120)
Money Market.....	(74)	28	(46)	177	79	256
Savings .....	(11)	(5)	(16)	28	(64)	(36)
Time .....	240	467	707	(19)	(406)	(425)
Total Interest Bearing Deposits	<u>166</u>	<u>490</u>	<u>656</u>	<u>186</u>	<u>(511)</u>	<u>(325)</u>
Short-term Borrowings .....	178	184	362	367	(53)	314
Long-term Debt.....	588	175	763	49	43	92
Total Interest Expense	<u>\$ 932</u>	<u>849</u>	<u>1,781</u>	<u>602</u>	<u>(521)</u>	<u>81</u>
<b>NET INTEREST INCOME:</b>	<u>\$ 674</u>	<u>55</u>	<u>729</u>	<u>341</u>	<u>(573)</u>	<u>(232)</u>

The effect of changing volume and rate has been allocated entirely to the rate column. Tax-exempt income is shown on a tax equivalent basis assuming a federal income tax rate of 34%.

**Provision for Loan Losses**

The provision for loan losses charged to operating expense represents the amount deemed appropriate by management to maintain an adequate allowance for possible loan losses. Due to the cyclical nature of the economy coupled with the Bank's substantial involvement in commercial loans and the record number of nationwide consumer bankruptcies, management thought it prudent to make a \$325,000 allocation in 2000 as well as a provision of \$325,000 during 1999. The 1998 provision included a specific allocation of \$150,000 related to one impaired commercial loan. The allowance for loan losses as a percentage of average total loans was 1.58% at December 31, 2000, compared to 1.58% and 1.47% for the years ended December 31, 1999 and 1998, which continues to be higher than that of peer financial institutions due to higher level of loans to finance commercial real estate. A summary of charge-offs and recoveries of loans is presented in Table 3.



**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 3: ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**

(Dollars in thousands)

	Years ended December 31,				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996*</u>
Balance beginning of period .....	\$ <u>2,505</u>	<u>2,313</u>	<u>2,281</u>	<u>2,278</u>	<u>2,457</u>
Loans charged-off:					
Commercial real estate, construction and land development .....	1	0	40	4	25
Commercial, industrial and agricultural ...	12	146	200	32	213
Real estate-residential .....	0	0	40	20	4
Consumer .....	<u>61</u>	<u>78</u>	<u>37</u>	<u>197</u>	<u>234</u>
Total loans charged off	<u>74</u>	<u>224</u>	<u>317</u>	<u>253</u>	<u>476</u>
Recoveries on loans previously charged-off:					
Commercial real estate, construction and land development .....	28	55	10	4	39
Commercial, industrial and agricultural ...	5	1	56	107	105
Real estate-residential .....	0	0	0	3	38
Consumer .....	<u>26</u>	<u>35</u>	<u>29</u>	<u>33</u>	<u>63</u>
Total recoveries	<u>59</u>	<u>91</u>	<u>95</u>	<u>147</u>	<u>245</u>
Net charge-offs .....	<u>15</u>	<u>133</u>	<u>222</u>	<u>106</u>	<u>231</u>
Current period provision for loan losses .....	<u>325</u>	<u>325</u>	<u>254</u>	<u>109</u>	<u>52</u>
Balance end of period .....	\$ <u><u>2,815</u></u>	<u><u>2,505</u></u>	<u><u>2,313</u></u>	<u><u>2,281</u></u>	<u><u>2,278</u></u>
Ratio of net charge-offs during the period to average loans outstanding during the period, net of unearned discount.....	<u>.01%</u>	<u>.08</u>	<u>0.14</u>	<u>0.07</u>	<u>0.16</u>

\*Mid Penn Bank only, Miners Bank of Lykens information not readily available

Allowance for loan losses as a percentage  
of average total loans .....

**Noninterest Income**

During 2000, MPB earned \$1,556,000 in noninterest income, compared to \$1,689,000 earned in 1999, and \$1,398,000 earned in 1998. Noninterest income in 1999 included nonrecurring gains of \$336,000 from the sale of other real estate.

Trust department income for 2000 was \$203,000, a \$76,000 or 59.84% increase over \$127,000 in 1999, which was \$23,000 or 22.12% more than the \$104,000 earned in 1998. The Trust Department adopted a new fee schedule during 2000, which will result in increased trust fees earned. Trust Department income fluctuates from year to year, also due to the number of estates being settled during the year.

Service charges on deposit accounts amounted to \$590,000 for 2000, an increase of \$36,000 over \$554,000 for 1999, which showed a 23.11% increase over 1998. The majority of this increase resulted from the increasing revenues from NSF charges.

On December 31, 1998, MPB purchased cash surrender value life insurance policies that provide funding for director retirement and salary continuation plans. The income on these policies amounted to \$198,000 during the year 2000.

MPB also earned \$70,000 in fees from Invest, the third-party provider of investments whose services the Bank has contracted. Other operating income amounted to \$496,000 (net of gains on other real estate) in 2000, \$481,000 and \$443,000 in 1999 and 1998, respectively.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**Noninterest Expense**

A summary of the major components of noninterest expense for the years ended December 31, 2000, 1999 and 1998 is reflected in Table 4. Noninterest expense decreased to \$6,656,000 in 2000 from \$6,665,000 in 1999 and \$6,606,000 in 1998. The major component of noninterest expense is salaries and employee benefits. Noninterest expense in 2000 changed less than 1% compared to that of 1999.

Noninterest expense of \$6,665,000 in 1999 increased less than 1% over that of 1998. This expense in 1999 includes approximately \$126,000 of supplemental employee bonuses for the year 1998.

**TABLE 4: NONINTEREST EXPENSE**

(Dollars in thousands)

	Years ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Salaries and employee benefits .....	\$ 3,790	3,741	3,383
Occupancy, net .....	364	318	323
Equipment .....	481	510	565
Postage and supplies .....	291	275	356
FDIC assessments .....	45	26	26
Marketing and advertising.....	144	121	160
Other real estate, net.....	0	0	0
Pennsylvania bank shares tax.....	271	279	274
Professional services .....	104	124	126
Telephone .....	72	74	70
Loss on mortgage sales .....	19	47	64
Other.....	<u>1,075</u>	<u>1,150</u>	<u>1,259</u>
Total Noninterest Expense	\$ <u>6,656</u>	<u>6,665</u>	<u>6,606</u>

**Investments**

MPB investment portfolio is utilized to improve earnings through investments of funds in high-yielding assets which provide the necessary balance sheet liquidity for MPB.

MPB's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded on our Balance Sheet at market value. Our investments: US Treasury, Agency and Municipal securities are given a market price relative to investments of the same type with similar maturity dates. As the interest rate environment of these securities changes, our existing securities are valued differently in comparison. This difference in value, or unrealized loss, amounted to \$344,000, net of tax, as of the end of the year. However, the investments are all high quality United States and municipal securities that if held to maturity are expected to yield no loss to the bank.

At December 31, 2000, SFAS No. 115 resulted in a decrease of shareholders' equity of \$344,000 (unrealized loss on securities of \$522,000 less estimated income tax effect of \$178,000). As of December 31, 1999, SFAS No. 115 resulted in an decrease in shareholders' equity of \$1,861,000 (unrealized loss on securities of \$2,820,000, less estimated income tax effect of \$959,000), compared to in an increase in stockholders' equity of \$344,000 (unrealized gain on securities of \$521,000, less estimated income tax effect of \$177,000) as of December 31, 1998.

MPB does not have any significant concentrations of investment securities.

Table 5 provides a history of the amortized cost of investment securities at December 31, for each of the past three years. The gross unrealized gains and losses on investment securities are outlined in Note 6 to the Consolidated Financial Statements.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 5: AMORTIZED COST OF INVESTMENT SECURITIES**

(Dollars in thousands)	December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
U. S. Treasury and U.S. government agencies .....	\$ 34,750	33,778	36,922
Mortgage backed U.S. government agencies.....	2,402	1,799	2,285
State and political subdivision obligations.....	33,972	28,061	26,020
Restricted equity securities .....	<u>3,281</u>	<u>3,281</u>	<u>2,185</u>
Total	<u>\$ 74,405</u>	<u>66,919</u>	<u>67,412</u>

**Loans**

At December 31, 2000, net loans totaled \$181,396,000, a \$11,607,000 or 6.84% increase from December 31, 1999. During 2000, MPB experienced an increase in commercial real estate and commercial/industrial loans of approximately \$5,619,000, the majority of which was generated in the greater Harrisburg region.

The current environment in lending is extremely competitive with financial institutions aggressively pursuing potential borrowers. At December 31, 2000, loans, net of unearned income, represented 62.7% of earning assets as compared to 63.2% on December 31, 1999 and 57.6% on December 31, 1998.

The Bank's loan portfolio is diversified among individuals, farmers, and small and medium-sized businesses generally located within the Bank's trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County. Commercial real estate, construction and land development loans are collateralized mainly by mortgages on the income-producing real estate or land involved. Commercial, financial and agricultural loans are made to business entities and may be secured by business assets, including commercial real estate, or may be unsecured. Residential real estate loans are secured by liens on the residential property. Consumer loans include installment, lines of credit and home equity loans.

A distribution of the Bank's loan portfolio according to major loan classification is shown in Table 6.

**TABLE 6: LOAN PORTFOLIO**

(Dollars in thousands)	December 31,				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Commercial real estate, construction and land development .....	\$ 110,947	105,328	88,263	81,191	75,200
Commercial, industrial and agricultural .....	26,274	20,118	20,401	20,107	19,925
Real estate-residential mortgage .....	35,610	32,586	30,325	34,195	34,391
Consumer .....	14,110	16,780	16,034	21,018	27,420
Lease financing .....	<u>0</u>	<u>0</u>	<u>1</u>	<u>8</u>	<u>13</u>
Total Loans	186,941	174,812	155,024	156,519	156,949
Unearned income .....	<u>(2,730)</u>	<u>(2,518)</u>	<u>(2,031)</u>	<u>(1,943)</u>	<u>(1,879)</u>
Loans net of unearned discount .....	184,211	172,294	152,993	154,576	155,070
Allowance for loan losses .....	<u>(2,815)</u>	<u>(2,505)</u>	<u>(2,313)</u>	<u>(2,281)</u>	<u>(2,278)</u>
Net Loans	<u>\$ 181,396</u>	<u>169,789</u>	<u>150,680</u>	<u>152,295</u>	<u>152,792</u>

**Allowance for Loan Losses**

The allowance for loan losses is maintained at a level believed adequate by Management to absorb potential loan losses in the loan portfolio. MPB has a loan review department that is charged with establishing a "watch list" of potential unsound loans, identifying unsound credit practices and suggesting corrective actions. A quarterly review and reporting process is in place for monitoring those loans that are on the "watch list." Each credit on the "watch list" is evaluated to estimate potential losses. In addition, estimates for each category of credit are provided based on Management's judgment which considers past experience, current economic conditions and other factors. For installment and real estate mortgages, specific allocations are based on past loss experience adjusted for recent portfolio growth and economic trends. The total of reserves resulting from this analysis are "allocated" reserves. The amounts not specifically provided for individual classes of loans are considered "unallocated." This unallocated amount is determined and based on judgments regarding economic conditions, trends and other factors.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

The allocation of the allowance for loan losses among the major classifications is shown in Table 7 as of December 31 of each of the past five years. The allowance for loan losses at December 31, 2000, was \$2,815,000 or 1.53% of total loans less unearned discount as compared to \$2,505,000 or 1.45% at December 31, 1999, and \$2,313,000 or 1.51% at December 31, 1998.

**TABLE 7: ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES**

(Dollars in thousands)

	December 31,									
	2000		1999		1998		1997		1996	
	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans
Commercial real estate, construction and land development .....	\$ 1,318	59.3%	927	60.3%	861	56.8%	596	50.6%	666	47.9%
Commercial, industrial and agricultural .....	1,008	14.1%	782	11.5%	693	13.5%	369	14.0%	381	12.7%
Real estate-residential mortgage.....	209	19.0%	198	18.6%	219	19.4%	207	21.9%	184	21.9%
Consumer .....	93	7.6%	114	9.6%	127	10.3%	146	13.5%	309	17.5%
Unallocated .....	187	-	484	-	413	-	963	-	738	-
Total loans	\$ 2,815	100%	2,505	100%	2,313	100.0%	2,281	100.0%	2,278	100.0%

**Nonperforming Assets**

Nonperforming assets, other than consumer loans and 1-4 family residential mortgages, include impaired and nonaccrual loans, loans past due 90 days or more, restructured loans and other real estate (including residential property). Nonaccrual loans are loans on which we no longer recognize daily interest income. A loan is generally classified as nonaccrual when principal or interest has consistently been in default for a period of 90 days or more, or because of a deterioration in the financial condition of the borrower, payment in full of principal or interest is not expected. Loans past due 90 days or more and still accruing interest are loans that are generally well-secured and in the process of collection or repayment. Restructured loans are those loans whose terms have been modified to lower interest or principal payments because of borrower financial difficulties. Foreclosed assets held for sale include those assets that have been acquired through foreclosure for debts previously contracted, in settlement of debt.

Consumer loans are generally recommended for charge-off when they become 150 days delinquent. All 1-4 family residential mortgages 90 days or more past due are reviewed quarterly by Management, and collection decisions are made in light of the analysis of each individual loan. The amount of consumer and residential mortgage loans past due 90 days or more at year-end was \$222,000, \$266,000 and \$66,000 in 2000, 1999, and 1998, respectively.

A presentation of nonperforming assets as of December 31, for each of the past five years is given in Table 8. Nonperforming assets at December 31, 2000, totaled \$2,312,000 or 0.73% of total assets compared to \$2,217,000 or 0.77% of total assets in 1999, and \$3,064,000 or 1.10% of total assets in 1998. The foreclosed assets held for sale at December 31, 2000, consist of one piece of commercial real estate and residential building lots that MPB has available for sale.

Nonperforming assets are taken into consideration by Management when assessing the adequacy of the Allowance for Loan Losses.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 8: NONPERFORMING ASSETS**

(Dollars in thousands)	December 31,				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Nonaccrual loans.....	\$ 1,116	890	376	333	1,183
Past due 90 days or more .....	504	386	844	212	544
Restructured loans.....	<u>622</u>	<u>878</u>	<u>1,497</u>	<u>212</u>	<u>145</u>
Total nonperforming loans	2,242	2,154	2,717	757	1,872
Foreclosed assets held for sale.....	<u>70</u>	<u>63</u>	<u>347</u>	<u>1,355</u>	<u>548</u>
Total nonperforming assets	\$ <u>2,312</u>	<u>2,217</u>	<u>3,064</u>	<u>2,112</u>	<u>2,420</u>
Percent of total loans outstanding.....	1.26%	1.29%	2.00%	1.38%	1.54%
Percent of total assets.....	.73%	0.77%	1.10%	0.82%	1.02%

There are no loans classified for regulatory purposes that have not been included in Table 8. There are no trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources, or no other material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with loan repayment terms.

**Deposits and Other Funding Sources**

MPB's primary source of funds is its deposits. Deposits at December 31, 2000, increased by \$13,568,000 or 6.23% from December 31, 1999, which also increased slightly by \$1,038,000 or 0.48% from December 31, 1998. The majority of deposit growth in 2000 came during a three-year, 7% APY certificate of deposit promotion offered in the Spring of the year. Average balances and average interest rates applicable to the major classifications of deposits for the years ended December 31, 2000, 1999, and 1998 are presented in Table 9.

Average short-term borrowings for 2000 were \$14,362,000 as compared to \$10,683,000 in 1999. These borrowings included customer repurchase agreements, treasury tax and loan option borrowings and federal funds purchased.

**TABLE 9: DEPOSITS BY MAJOR CLASSIFICATION**

(Dollars in thousands)	Years ended December 31,					
	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	Average	Average	Average	Average	Average	Average
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
Noninterest bearing demand deposits....	\$ 23,511	0.00%	23,338	0.00%	21,024	0.00%
Interest bearing demand deposits.....	28,518	1.37%	27,669	1.37%	27,649	1.81%
Money market .....	18,568	3.55%	20,734	3.40%	14,882	3.02%
Savings .....	25,744	2.21%	26,259	2.23%	25,112	2.48%
Time .....	<u>130,342</u>	<u>5.63%</u>	<u>125,782</u>	<u>5.27%</u>	<u>126,123</u>	<u>5.59%</u>
Total	\$ <u>226,683</u>	<u>3.95%</u>	<u>223,782</u>	<u>3.71%</u>	<u>214,790</u>	<u>4.02%</u>

**Capital Resources**

Stockholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The greater the capital resources, the more likely a corporation is to meet its cash obligations and absorb unforeseen losses. Too much capital, however, indicates that not enough of the company's earnings have been paid to shareholders and the buildup makes it difficult for a company to offer a competitive return on the shareholders' capital going forward. For these reasons capital adequacy has been, and will continue to be, of paramount importance.

In 2000, capital was increased by \$3,061,000 or 11.52%. In 1999, capital was decreased by \$4,971,000 or 15.8% compared to 1998. Capital growth is achieved by retaining more in earnings than we pay out to our shareholders.

MPB's normal dividend payout allows for quarterly cash returns to its stockholders and provides earnings retention at a level sufficient to finance future Corporation growth. The dividend payout ratio, which represents the percentage of annual net income returned to the stockholders in the form of cash dividends, was 62% for 2000 compared to 171% for 1999 and 54% for 1998.



**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

The reason for the special dividend payout in 1999, as outlined in the first section of this discussion, was to increase ROE and enhance shareholder value.

MPB has been approved by the Internal Revenue Service to offer an employee stock ownership plan.

At December 31, 2000, 19,057 shares of MPB's common stock have been purchased back by MPB, held as treasury stock, and are available for issuance under the dividend reinvestment plan or the stock bonus plan. The treasury stock may also be used for the employee stock ownership plan.

**Federal Income Taxes**

Federal income tax expense for 2000 was \$1,255,000 compared to \$1,253,000 and \$1,516,000 in 1999 and 1998, respectively. The effective tax rate was 24% for 2000, 24% for 1999 and 28% for 1998.

**Liquidity**

MPB's asset-liability management policy addresses the management of MPB's liquidity position and its ability to raise sufficient funds to meet deposit withdrawals, fund loan growth and meet other operational needs. MPB utilizes its investment portfolio as a source of liquidity, along with deposit growth and increases in repurchase agreements and other short-term borrowings. (See Deposits and Other Funding Sources which appears earlier in this discussion.) Liquidity from investments is provided primarily through investments and interest bearing balances with maturities of one year or less. Funds are available to MPB through loans from the Federal Home Loan Bank and established federal funds (overnight) lines of credit. MPB's major source of funds is its core deposit base as well as its capital resources.

During 2000, the major sources of cash came from operations and a net increase in deposits of \$13,568,000. The majority of this deposit increase came in the form of three-year certificates of deposit issued at a yield of 7%. In order to meet our funding needs over and above the funds generated by growth in deposits, MPB turned to the FHLB for borrowings. MBP borrowed \$5,000,000 in a 10-year/2-year putable advance, \$5,000,000 in a 10-year/3-year putable advance and \$5,000,000 in a three year bullet borrowing.

The major uses of funds during the year included the net increase in loans of \$15,558,000, and the increase in both investments and interest-bearing balances. Short-term borrowings were used during December to purchase interest-bearing balances, which increased by \$7,806,000 from year end 1999, to December 31, 2000, and to purchase other investment securities in advance of declining interest rates.

The major sources of cash in 1999 came from operations, increased short-term borrowings of \$12,477,000, and the net decrease of \$8,313,000 in interest-bearing balances. Net deposits increased by \$1,038,000 contributing another source of cash. The major area of deposit increase was in a high-balance money market account known as the Prime Investment account, while certificate of deposit balances decreased during the year in the face of a very competitive price environment.

The sources of cash were used primarily to fund loan growth. Net loan funding in 1999 used \$19,434,000 of cash. While loan growth was very sluggish during the first half of the year, MPB experienced substantial loan growth with the portfolio growing more than 12% by year end. The majority of the loan growth was in loans to fund commercial real estate in the Greater Harrisburg area. Other uses of cash for the year included the \$6,635,000 paid to shareholders in dividends, and the increase in cash balances of \$1,823,000 related to our preparedness for increased cash needs in light of Y2K concerns.

**Market Risk - Asset-Liability Management and Interest Rate Sensitivity**

Interest rate sensitivity is a function of the repricing characteristics of MPB's portfolio of assets and liabilities. Each asset and liability reprices either at maturity or during the life of the instrument. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities that are subject to repricing in a future period of time. These differences are known as interest sensitivity gaps.

MPB manages the interest rate sensitivity of its assets and liabilities. The principal purpose of asset-liability management is to maximize net interest income while avoiding significant fluctuations in the net interest margin and maintaining adequate liquidity. Net interest income is increased by increasing the net interest margin and by increasing earning assets.

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

MPB utilizes asset-liability management models to measure the impact of interest rate movements on its interest rate sensitivity position. The traditional maturity gap analysis is also reviewed regularly by MPB's management. MPB does not attempt to achieve an exact match between interest sensitive assets and liabilities because it believes that a controlled amount of interest rate risk is desirable.

The maturity distribution and weighted average yields of investments is presented in Table 10. The maturity distribution and repricing characteristics of MPB's loan portfolio is shown in Table 11. Table 12 provides expected maturity information about MPB's financial instruments that are sensitive to changes in interest rates. Except for the effects of prepayments on mortgage related assets, the table presents principal cash flows and related average interest rates on interest bearing assets by contractual maturity. Residential loans are assumed to have annual payment rates between 12% and 18% of the portfolio. Loan and mortgage backed securities balances are not adjusted for unearned discounts, premiums, and deferred loan fees. MPB assumes that 75% of savings and NOW accounts are core deposits and are, therefore, expected to roll-off after 5 years. Transaction accounts, excluding money market accounts, are assumed to roll-off after five years. Money market accounts are assumed to be variable accounts and are reported as maturing within the first twelve months. No roll-off is applied to certificates of deposit. Fixed maturity deposits reprice at maturity. The maturity distribution of time deposits of \$100,000 or more is shown in Table 13.

**TABLE 10: INVESTMENT MATURITY AND YIELD**

(Dollars in thousands)

	December 31, 2000				
	One Year and Less	After One Year thru	After Five Years thru	After Ten Years	Total
		<u>Five Years</u>	<u>Ten Years</u>	<u>Years</u>	
U.S. Treasury and U.S. government agencies .....	\$ 2,001	10,238	10,999	11,512	34,750
State and political subdivision obligations .....	388	2,823	9,739	21,022	33,972
Mortgage-backed U.S. government agencies .....	0	749	994	659	2,402
Equity securities .....	0	0	0	3,281	3,281
Total	<u>\$ 2,389</u>	<u>13,810</u>	<u>21,732</u>	<u>36,474</u>	<u>74,405</u>

	December 31, 2000				
	One Year and Less	After One Year thru	After Five Years thru	After Ten Years	Total
		<u>Five Years</u>	<u>Ten Years</u>	<u>Years</u>	
<u>Weighted Average Yields</u>					
U.S. Treasury and U.S. government agencies ....	5.79	6.36	6.51	6.53	6.43
State and political subdivision obligations .....	9.08	7.48	7.24	7.03	7.15
Mortgage-backed U.S. government agencies .....	0	6.28	6.20	6.60	6.34
Equity securities .....	0	0	0	6.49	6.49
Total	<u>6.32</u>	<u>6.58</u>	<u>6.82</u>	<u>6.81</u>	<u>6.76</u>

**TABLE 11: LOAN MATURITY AND INTEREST SENSITIVITY**

(Dollars in thousands)

	December 31, 2000			
	One Year and Less	After One Year thru	After Five Years	Total
		<u>Five Years</u>	<u>Years</u>	
Commercial, real estate, construction and land development .....	\$ 28,381	64,377	18,189	110,947
Commercial, industrial and agricultural .....	12,981	11,772	1,521	26,274
Real estate- residential mortgages .....	8,320	12,554	14,736	35,610
Consumer .....	2,626	7,931	823	11,380
Total Loans	<u>\$ 52,308</u>	<u>96,634</u>	<u>35,269</u>	<u>184,211</u>

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

**TABLE 11: LOAN MATURITY AND INTEREST SENSITIVITY (cont'd)**

	One Year and Less	After One Year thru Five Years	After Five Years	Total
<u>Rate Sensitivity</u>				
Predetermined rate .....	\$ 6,912	28,557	33,039	68,508
Floating or adjustable rate .....	<u>45,396</u>	<u>68,077</u>	<u>2,230</u>	<u>115,703</u>
Total	<u>\$ 52,308</u>	<u>96,634</u>	<u>35,269</u>	<u>184,211</u>

**TABLE 12: INTEREST RATE SENSITIVITY GAP**

(Dollars in thousands)

(As of December 31, 2000)

	Expected Maturity Year Ended December 31,						Total	Fair Value
	2001	2002	2003	2004	2005	Thereafter		
<b>Assets:</b>								
Interest bearing balances .....	\$ 22,479	12,470	5,745	495	1,188	0	42,377	42,377
Average interest rate .....	6.45	7.07	7.32	7.30	7.47	-	6.79	
Debt securities .....	\$ 2,389	1,810	3,599	2,603	5,798	54,935	71,134	70,604
Average interest rate .....	6.32	6.50	6.59	6.67	6.56	6.83	6.77	
Adjustable rate loans .....	\$ 46,093	16,805	17,988	17,928	16,343	546	115,703	115,703
Average interest rate .....	9.18	8.49	8.70	7.99	8.08	8.01	8.65	
Fixed rate loans .....	\$ 9,286	7,799	9,974	8,179	10,077	23,193	68,508	72,047
Average interest rate .....	8.90	9.32	9.08	8.72	9.06	8.39	8.61	
Federal funds sold .....	\$ 0	0	0	0	0	0	0	0
Total	<u>\$ 80,247</u>	<u>38,884</u>	<u>37,306</u>	<u>29,205</u>	<u>33,406</u>	<u>78,674</u>	<u>297,722</u>	<u>300,731</u>
<b>Interest liabilities:</b>								
Variable rate savings and transaction accounts .....	\$ 33,276	0	0	0	0	65,127	98,403	98,403
Average interest rate .....	2.97	-	-	-	-	1.10	1.73	
Certificates of deposit and IRAs .....	\$ 66,186	34,178	21,009	4,192	5,289	3,350	134,204	134,400
Average interest rate .....	5.69	6.06	6.36	5.36	6.07	5.58	5.89	
Short term borrowings .....	\$ 22,738	0	0	0	0	0	22,738	22,738
Average interest rate .....	6.40	-	-	-	-	-	6.40	
Long term fixed rate borrowings .....	\$ 1,671	184	5,197	87	0	22,102	29,241	30,944
Average interest rate .....	6.67	7.30	6.61	7.30	-	6.47	6.52	
Total	<u>\$123,871</u>	<u>34,362</u>	<u>26,206</u>	<u>4,279</u>	<u>5,289</u>	<u>90,579</u>	<u>284,586</u>	<u>286,485</u>
<b>Rate sensitive gap:</b>								
Periodic gap .....	\$(43,624)	4,522	11,100	24,926	28,117	(11,905)		
Cumulative gap .....	\$(43,624)	(39,102)	(28,002)	(3,076)	25,041	13,136		
Cumulative gap as a percentage of total assets .....	-13.8%	-12.4%	-8.9%	-1.0%	+7.9%	+4.2%		

**Mid Penn Bancorp, Inc.**  
**Management's Discussion and Analysis (cont'd)**

(Dollars in thousands)

Expected Maturity  
Year Ended December 31,

(As of December 31, 1999)

	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
<b>Assets:</b>								
Interest bearing balances .....	\$ 19,315	13,271	1,587	298	99	0	34,570	34,570
Average interest rate .....	6.19	5.84	5.74	6.25	7.00	-	6.04	
Debt securities .....	\$ 1,681	2,645	1,589	995	3,233	50,675	60,818	60,818
Average interest rate .....	7.00	6.46	7.43	5.87	6.83	6.71	6.72	
Adjustable rate loans .....	\$ 34,019	17,839	18,870	13,506	19,175	3,750	107,159	107,159
Average interest rate .....	8.75	8.69	8.52	8.48	8.00	8.35	8.51	
Fixed rate loans .....	\$ 6,495	8,317	8,943	8,813	7,576	24,991	65,135	68,024
Average interest rate .....	8.55	8.94	9.15	8.67	8.38	8.31	8.52	
Total	\$ 61,510	42,072	30,989	23,612	30,083	79,416	267,682	270,571
<b>Interest liabilities:</b>								
Variable rate savings and transaction accounts .....	\$ 38,464	0	0	0	0	61,914	100,378	100,378
Average interest rate .....	2.87	-	-	-	-	1.13	1.79	
Certificates of deposit and IRAs .....	\$ 54,239	29,882	12,691	7,804	5,519	7,327	117,462	116,729
Average interest rate .....	5.07	5.63	5.54	5.63	5.35	5.94	5.36	
Short term borrowings .....	\$ 24,636	0	0	0	0	0	24,636	24,636
Average interest rate .....	5.79	-	-	-	-	-	5.79	
Long term fixed rate borrowings .....	\$ 200	1,700	7,200	200	5,017	2,083	16,400	16,842
Average interest rate .....	7.29	6.74	6.20	7.29	6.42	7.13	6.47	
Total	\$ 117,539	31,582	19,891	8,004	10,536	71,324	258,876	258,585
<b>Rate sensitive gap:</b>								
Periodic gap .....	\$(56,029)	10,490	11,098	15,608	19,547	8,115		
Cumulative gap .....	\$(56,029)	(45,539)	(34,441)	(18,823)	714	8,806		
<b>Cumulative gap as a percentage</b>								
of total assets .....	-19.5%	-15.8%	-12.0%	-6.5%	-0.2%	+3.1%		

In the last quarter of 2000, management analyzed interest rate risk using the Vining Sparks Asset-Liability Management Model. Using the computerized model, management reviews interest rate risk on a monthly basis. This analysis includes an earnings scenario whereby interest rates are increased by 200 basis points and another whereby they are decreased by 200 basis points. These scenarios indicate that there would not be a significant variance in net interest income at the one-year time frame due to interest rate changes; however, actual results could vary significantly from the calculations prepared by management. At December 31, 2000, all interest rate risk levels according to our model were within the tolerance guidelines set by management. The model noted above utilized by management to create the reports used for Table 12 makes various assumptions and estimates. Actual results could differ significantly from these estimates which would result in significant differences in cash flows. In addition, the table does not take into consideration changes which management would make to realign its portfolio in the event of a changing rate environment.

**TABLE 13: MATURITY OF TIME DEPOSITS \$100,000 OR MORE**

(Dollars in thousands)

December 31,

	2000	1999	1998
Three months or less .....	\$ 5,431	3,525	4,933
Over three months to twelve months .....	8,534	4,960	5,921
Over twelve months .....	9,377	7,731	5,882
Total	\$ 23,342	16,216	16,736

### **Effects of Inflation**

A bank's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of a bank are monetary in nature. Management believes the impact of inflation on its financial results depends principally upon MPB's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction or at the same magnitude as the prices of other goods and services. As discussed previously, Management seeks to manage the relationship between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Information shown elsewhere in this Annual Report will assist in the understanding of how MPB is positioned to react to changing interest rates and inflationary trends. In particular, the summary of net liabilities, the composition of loans, investments and deposits should be considered.

### **Off-Balance-Sheet Items**

MPB makes contractual commitments to extend credit and extends lines of credit which are subject to MPB's credit approval and monitoring procedures.

As of December 31, 2000, commitments to extend credit amounted to \$30,325,000 as compared to \$29,648,000 as of December 31, 1999.

MPB also issues standby letters of credit to its customers. The risk associated with standby letters of credit is essentially the same as the credit risk involved in loan extensions to customers. Standby letters of credit increased to \$2,921,000 at December 31, 2000, from \$2,336,000 at December 31, 1999.

### **Comprehensive Income**

Comprehensive Income is a measure of all changes in equity of a corporation, excluding transactions with owners in their capacity as owners (such as proceeds from issuances of stock and dividends). The difference between Net Income and Comprehensive Income is termed "Other Comprehensive Income." For MPB, Other Comprehensive Income consists of unrealized gains and losses on available-for-sale securities, net of deferred income tax. Comprehensive Income should not be construed to be a measure of net income. The effect of Other Comprehensive Income would only be reflected in the income statement if the entire portfolio of available-for-sale securities were sold on the statement date. The amount of unrealized gains or losses reflected in Comprehensive Income may vary widely at statement dates depending on the markets as a whole and how the portfolio of available-for-sale securities is affected by interest rate movements. Other Comprehensive Income (Loss) for the periods ended December 31, 2000, 1999 and 1998 was 1,517,000, (\$2,205,000) and \$26,000, respectively.



**Mid Penn Bancorp, Inc.**  
**Summary of Selected Financial Data**

(Dollars in thousands, except per share data)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>INCOME:</b>					
Total Interest Income .....	\$ 22,053	20,112	20,436	19,312	18,171
Total Interest Expense .....	11,455	9,674	9,593	8,853	8,428
Net Interest Income .....	10,598	10,438	10,843	10,459	9,743
Provision for Possible Loan Losses .....	325	325	254	109	52
Non-Interest Income .....	1,556	1,689	1,398	1,772	841
Non-Interest Expense .....	6,656	6,665	6,606	6,232	5,658
Income Before Income Taxes .....	5,203	5,137	5,381	5,890	4,874
Income Tax Expense .....	1,255	1,253	1,516	1,721	1,397
Extraordinary Income, Net of Tax .....	0	0	0	0	0
Net Income .....	3,948	3,884	3,865	4,169	3,477
<b>COMMON STOCK DATA PER SHARE:*</b>					
Earnings Per Share .....	1.30	1.28	1.27	1.37	1.14
Cash Dividends Declared .....	.80	2.18	.69	.66	.42
Stockholders' Equity .....	\$ 9.76	8.74	10.90	10.27	9.48
<b>AVERAGE SHARES OUTSTANDING .....</b>	<b>3,036,007</b>	<b>3,037,976</b>	<b>2,892,416</b>	<b>2,895,417</b>	<b>2,895,430</b>
<b>AT YEAR-END:</b>					
Investments .....	\$ 73,885	64,099	67,933	53,599	42,740
Loans, Net of Unearned Discount .....	184,211	172,294	152,993	154,576	155,070
Allowance for Loan Losses .....	2,815	2,505	2,313	2,281	2,278
Total Assets .....	315,584	287,542	277,827	256,728	238,103
Total Deposits .....	231,408	217,840	216,802	217,146	199,673
Short-term Borrowings .....	22,738	24,636	12,159	2,234	4,512
Long-term Debt .....	29,241	16,400	15,550	5,688	4,710
Stockholders' Equity .....	\$ 29,626	26,565	31,536	29,730	27,438
<b>RATIOS:</b>					
Return on Average Assets .....	1.34	1.40	1.45	1.71	1.52
Return on Average Stockholders' Equity ..	14.64	14.68	12.81	14.76	13.37
Cash Dividend Payout Ratio .....	61.54	170.91	53.73	47.92	36.67
Allowance for Loan Losses to Loans .....	1.53	1.45	1.51	1.48	1.47
Average Stockholders' Equity to					
Average Assets .....	9.15	9.50	11.36	11.56	11.34

\* Per share figures are based on weighted average shares outstanding for the respective years as restated after giving effect to stock dividends and splits.

**Mid Penn Bancorp, Inc.**  
**Directors and Officers / Mid Penn Bank Senior Management**

**DIRECTORS**

**Mid Penn Bancorp, Inc.**  
**Mid Penn Bank**

**Jere M. Coxon**  
Executive Vice President  
Penn Wood Products, Inc.

**Alan W. Dakey**  
President and CEO  
Mid Penn Bank

**Earl R. Etzweiler**  
Owner  
Etzweiler & Associates, Attorneys

**Gregory M. Kerwin**  
Senior Partner  
Kerwin & Kerwin, Attorneys

**Charles F. Lebo**  
Retired Educator  
PA Dept. of Education

**Warren A. Miller**  
Retired Assistant Vice President  
Mid Penn Bank

**William G. Nelson**  
President  
Hess Trucking Co., Inc.

**Donald L. Sauve**  
Consultant  
Don's Food Market, Inc.

**Edwin D. Schlegel**  
Retired Superintendent  
Millersburg Area School District

**Eugene F. Shaffer**  
Chairman  
Mid Penn Bank

**Guy J. Snyder, Jr.**  
President  
Snyder Fuels, Inc.

**DIRECTORS EMERITI**

**Bruce C. Adams**  
**Guy F. Bucher**  
**Harvey J. Hummel**  
**Charles R. Phillips**  
**Anna C. Woodside**

**EXECUTIVE OFFICERS**

**Mid Penn Bancorp, Inc.**

**Eugene F. Shaffer**  
Chairman

**Earl R. Etzweiler**  
Vice Chairman

**Alan W. Dakey**  
President and CEO

**Kevin W. Laudenslager**  
Treasurer

**Cindy L. Wetzel**  
Secretary

**SENIOR MANAGEMENT**

**Mid Penn Bank**

**Eugene F. Shaffer**  
Chairman  
*44 Years Banking Experience*

**Alan W. Dakey**  
President and CEO  
*27 Years Banking Experience*

**Robert M. Garst**  
Senior Vice President  
and Senior Loan Officer  
*21 Years Banking Experience*

**Norman L. Houser**  
Senior Vice President and  
Business Development Officer  
*41 Years Banking Experience*

**Randall L. Klinger**  
Senior Vice President  
and Senior Credit Officer  
*27 Years Banking Experience*

**Allen J. Trawitz**  
Executive Vice President  
*32 Years Banking Experience*

**Nelson E. Carr**  
Vice President and Business  
Development Officer,  
Harrisburg Office  
*40 Years Banking Experience*

**Kevin W. Laudenslager**  
Vice President and Comptroller  
*16 Years Banking Experience*

**Larry L. Novinger**  
Vice President  
and Operations Officer  
*16 Years Banking Experience*

**Steven S. Shuey**  
Vice President  
and Loan Review Officer  
*27 Years Banking Experience*

**Linda M. Sitlinger**  
Vice President  
and Sales Manager/Branch Administrator  
*21 Years Banking Experience*

**Dennis E. Spotts**  
Vice President and EDP Manager  
*28 Years Banking Experience*

**Allen R. Spring**  
Senior Vice President and Senior Trust  
Officer  
*42 Years Banking Experience*

**Cindy L. Wetzel**  
Corporate Secretary and  
Secretary to the Board  
*22 Years Banking Experience*

**CAPITAL AREA ADVISORY BOARD**  
**Mid Penn Bank**

**Norman K. A. Hoffer**  
**Theodore W. Mowery**  
**Robert M. Newbury**  
**David J. Rimmel**  
**Ronald H. Smith**

**MINERS-LYKENS ADVISORY BOARD**  
**Mid Penn Bank**

**Franklin W. Ruth Jr.**  
**Raymond C. Donley**  
**Harold G. Jury**  
**Gregory M. Kerwin**  
**Terrence J. Kerwin**  
**Richard E. Klinger**  
**Donald E. Sauve**  
**Allen J. Trawitz**

**Mid Penn Bancorp, Inc.  
Office Locations**

**NEW LOCATION IN HARRISBURG**

2615 North Front Street  
Harrisburg PA 17110  
(717) 233-7380

**MILLERSBURG**  
349 Union Street  
Millersburg PA 17061  
(717) 692-2133  
(717) 896-3140

**ELIZABETHVILLE**  
2 East Main Street  
Elizabethville PA 17023  
(717) 362-8147

**HARRISBURG**  
4098 Derry Street  
Harrisburg PA 17111  
(717) 558-2144

**DALMATIA**  
School House Road  
Dalmatia PA 17017  
(570) 758-2711

**CARLISLE PIKE**  
4622 Carlisle Pike  
Mechanicsburg PA 17055  
(717) 761-2480

**TOWER CITY**  
545 East Grand Avenue  
Tower City PA 17980  
(717) 647-2157

**DAUPHIN**  
1001 Peters Mountain Road  
Dauphin PA 17018  
(717) 921-8899

**TREMONT**  
7 - 9 East Main Street  
Tremont PA 17981  
(570) 695-3358

**HALIFAX**  
Halifax Shopping Center  
3763 Peters Mountain Road  
Halifax PA 17032  
(717) 896-8258

**MINERS-LYKENS**  
550 Main Street  
Lykens PA 17048  
(717) 453-7185

Member  
FDIC



**w w w . m i d p e n n b a n k . c o m**  
**7 1 7 - 6 9 2 - 4 0 0 0**