



2020

ANNUAL REPORT TO SHAREHOLDERS

# A LETTER FROM

# Robert C. Grubic, our Chair, and Rory G. Ritrievi, our President and CEO

## DEAR FELLOW SHAREHOLDERS:

As we write this letter to you in early March, 2021, the COVID-19 public health crisis and the nation's response to handling that crisis continues. Our principal thoughts remain with all those who have lost a loved one to this coronavirus and to those individuals and businesses who have been harmed financially with the loss of a job or business income. While there appears to be some encouraging signs with vaccine distribution, there is clearly work to be done to get our communities and our country safely back to normal.

Your Board of Directors continues to oversee Mid Penn Bancorp, Inc.'s ("Mid Penn" or the "Corporation") effort to help those who have been most affected, both within our company and throughout our communities. While markets were roiling throughout 2020, we remained steadfast in our commitment to help as many customers as possible secure the loans or payment deferrals they needed, or to grant them access to the liquidity they needed. We believe those commitments were instrumental in helping individuals and preserving many businesses throughout Pennsylvania.

Through those efforts, we are pleased to report solid performance for the Corporation for the year 2020 in many different respects. We had record levels of organic asset growth, core deposit growth, revenues, net income, and earnings per share. The Board and Management Team are pleased to deliver those results to you despite a difficult year for so many. Allow us to highlight a few of those financial and non-financial successes for you.

*... continued on next page.*





## UNIQUE CULTURE/UNIQUE STRATEGY

In the first few months of 2020 as COVID-19 began to grip the country, it became apparent to us that the work we had done in 2019 formulating a 2020 strategic plan was almost all for naught. Starting in late February 2020, our Management Team, under the close supervision of the Board, began to develop a new strategic plan crafted in the early hours of each day and evaluated for adjustments at the end of each long day. We focused our commitments on protecting our employees and customers and on creating an environment where the employees could continue to provide world class customer service in a way never before done, supporting the needs of our customer base when they needed it most. When the Commonwealth of Pennsylvania went into shutdown mode, we transitioned 80% of our employees to work from home virtually overnight. We were able to do that as a result of our diligent disaster recovery planning in the years leading up to 2020. We did not allow the employees to become isolated though, as we developed a Community Portal for them to stay connected with each other and to the Management Team. It also enabled each of those employees to take care of job #1: ensuring their own and their families' health and welfare.

While we believe that we have always had a strong culture throughout Mid Penn, we put that belief to the test in 2020 by entering the American Banker "Best Banks To Work For" contest. The ranking that results from that is, in essence, an employee morale gauge. Of the over 5,000 banks eligible to participate, we placed as the 20th Best Bank To Work For in the country and the best in Pennsylvania. We take a great deal of pride in that accomplishment as it is the strength of our morale -the basis of our culture- that enabled us to deliver on our uniquely designed daily strategic plans, the results of which were meaningful to our customers and instrumental to our performance.



## ORGANIC GROWTH

Over the five years leading up to 2020, as we acquired Phoenix Bancorp, Inc. (Schuylkill and Luzerne counties), The Scottsdale Bank and Trust Company (Westmoreland and Fayette counties) and First Priority Bank (Chester, Bucks, Montgomery and Berks counties), while growing in our existing counties of Dauphin and Cumberland and adding Lancaster organically, we built a footprint of demographic diversity that we felt would accelerate organic growth on both sides of the balance sheet regardless of the circumstances in the external environment. That was proven in 2020. In a year where many financial institutions were unable or reticent to provide liquidity to the marketplace, we originated nearly \$1.2 billion in commercial, consumer and residential loans. That was a record level of production for us and it led to a near best-in-class 13% organic loan growth.

In providing that liquidity to borrowers, we were also able to deepen our relationships with depositors. Throughout 2020, we grew our core

deposit portfolio by 29%, with 50% of that in the form of noninterest-bearing deposits. That growth allowed us to decrease our cost of deposits by 75 basis points which helped to preserve our net interest margin at a level above most banks in our regional peer group.

We also had a record level of growth and performance in our Trust and Wealth Management business as revenues topped \$1 million for the first time in our history, despite the challenges for members of our Trust and Wealth Management calling team to meet with their customers and prospects for most of the year.



## RECORD REVENUES/RECORD EARNINGS

With that organic growth success on both sides of the balance sheet, we had, for the first time in our history, over \$100 million in revenues. While doing our best to control expenses, and despite a loan loss provision expense that was more than triple that of the previous year, we were able to convert those revenues into a record level of net earnings available to common shareholders of \$26 million (up from \$17 million in 2019) and a record level of earnings per share of \$3.11 (up from \$2.09 in 2019).

With that earnings success, we were able to deliver our highest level of dividend distribution in 12 years while still increasing our book value by 8% and tangible book value by 12%.

While the market for financial stocks, including Mid Penn, was severely depressed in 2020 due to concerns over potential asset quality fallout, we are extremely happy to deliver this type of improvement in measurable shareholder value.



## ASSET QUALITY

We clearly take great pride in the organic growth we delivered in 2020; however, we are even more encouraged by our asset quality performance and the overall state of our asset quality, even during a state-wide and country-wide economic crisis.

We added over \$4 million to our reserve for loan losses in 2020 (the second highest level of annual provisioning in our history), but experienced only \$332,905 in net charge-offs. Consequently, our overall loan loss reserve ratio increased from 0.54% in 2019 to 0.67% in 2020. This is encouraging for a company with the level of loan growth (both organic and acquired) we have had over the last six years as aggregate net charge-offs over that six year period amount of just over \$1 million. Management's key asset quality metric (an aggregation of the net charge-off ratio + less than 90-day delinquency + non-performing asset ratio compared to total loans) remained steady around 1% throughout the year. We are very pleased with that result.

The success we had in asset quality in 2020 is attributed to the strength



of our overall loan team. We are confident that our team of lenders, credit administration professionals and loan operations specialists develop, underwrite and administer loan growth in a manner that is consistent with our objective of pristine asset quality. Additionally, throughout 2020 as our borrowing community was challenged given the pandemic's effect on the economy, we did everything possible to stabilize that community. We held daily forums throughout the year where we evaluated loan payment deferral requests and implemented those approvals in an efficient and secure manner. When the Paycheck Protection Program was implemented, we did it as well as any bank in the country which really helped to stabilize borrowers in our portfolio. And, of course, even though we were unable to meet with borrowers face to face, we made the commitment to continue strong communications with them throughout the year. Those actions all attributed to delivering solid asset quality performance for the year.



## PAYCHECK PROTECTION PROGRAM

The Corporation had a solid year of performance partially aided by Mid Penn Bank's participation in the Paycheck Protection Program (PPP), a small business recovery program implemented by the federal government in late March of 2020. Throughout that first round of PPP, we worked to deliver over 4,100 PPP loans totaling over \$630 million, helping to protect over 55,000 paychecks for employees throughout our market. The success we had, which ranked us in the top tier of performance nationally, was the result of leveraging our SBA and technology expertise in building a solid processing environment that was staffed around the clock for several months by a core group of employees, including each of our named executives. There was, of course, an immediate and positive impact to the Corporation in generating almost \$21 million of origination fees on those loans, but there was also a longer-term positive impact. In working so efficiently to get those loans approved for businesses that so desperately needed them to survive and in establishing communications that eased the stress of those applicants, we generated a significant amount of goodwill with both existing customers and customers new to us through the PPP process. The responses we received from those customers—existing and new—was so overwhelming that we decided to memorialize it all in a book. You will see a few of those comments displayed later in this annual report. Throughout the remainder of the year, our team of calling professionals throughout the company utilized that goodwill to develop even deeper relationships with pre-PPP customers and to establish non-PPP relationships with those new to us. That effort was instrumental in our ability to deliver the organic growth numbers identified above.



## YOUR BOARD

The Board of Mid Penn delivered oversight and guidance to the Corporation's Management Team and mission in a manner of which we as shareholders can be proud. While there were very few face-to-face meetings, through the use of technology, we had more Board and Board-related meetings than in any previous year. Through that oversight and guidance, the Corporation was able to deliver record results of operations, a record level of organic growth, PPP production that positioned us at the top of banks nationally, and the placement of \$27 million of subordinated debt to increase our capital position at no cost to the shareholders. The Board was focused on keeping the entire Management Team intact and motivated to deliver record results. Each and every member of our Board was instrumental in getting that done.

Our Board also grew and continued to demonstrate its commitment to increase diversity. Late in 2020, we welcomed Brian Hudson to the team. Brian has long term, statewide financial executive experience as a retired CEO of the Pennsylvania Housing Finance Agency. As a Certified Public Accountant, Brian becomes the third Independent "Financial Expert" on the Board and Audit Committee. We are confident that our shareholders will be pleased with Brian's appointment. The Nominating and Corporate Governance Committee has developed a multi-year succession and diversity plan that we feel will keep this Board energetic, engaged and a driving factor for successfully propelling our organization into the future.



## OUR VIEW OF 2021

On February 18, 2021, we issued a Form 8-K and press release that announced that we had already funded over 2,100 Round 2 PPP loans for over \$290 million which helped to save over 26,000 paychecks. We are once again distinguishing ourselves as being the PPP bank of choice for many businesses in need throughout Pennsylvania and surrounding states. The sense of satisfaction we get in completing this process on behalf of our business customers and their employees makes all the work we do very worthwhile.

With another round of PPP success, continued strong business development throughout the state in our loan, deposit, trust and wealth management business lines, as well as a great start in MPB Financial Service's wealth and insurance lines, we are cautiously optimistic that 2021 will be another great year.

We thank you for your investment in Mid Penn Bancorp, Inc. and wish you and yours all the very best of health, happiness and prosperity throughout the year.

**Rory G. Ritrivi**  
President and CEO

**Robert C. Grubic**  
Chair of the Board



# FOCUSING ON EDUCATION AND DEVELOPMENT

Although 2020 provided many challenges, Mid Penn University found ways to persevere and continued to deliver on its commitment to provide the best education and development opportunities for all Mid Penn Bank employees.

Leveraging recent investments in classroom and meeting technologies, the University transitioned to a fully-virtual environment in early 2020, converting 100% of offered classes to online availability. Despite this pivot, 2020 saw the highest enrollment in Mid Penn University history with 2,250 students enrolled in 292 classes.

The Summer Intern Program was in full swing over the summer of last year as ten college students were onboarded into various business units, learning valuable skills and getting to know how business operates. Each intern met with senior executives and leaders around the Bank and were exposed to multiple facets of our operation.

The University supported 40 mentorship pairs in 2020 that help facilitate the growth and development of emerging leaders and foster an inclusive and collaborative environment. Mid Penn Bank's mentor program helps employees gain confidence, provides professional development opportunities and exposes them to new and different ways of thinking. We believe strongly that mentorships are a great talent builder and serve to develop a pipeline of future leaders that understand our business and the Mid Penn Bank culture.



## 2020 EDUCATION & DEVELOPMENT HIGHLIGHTS



200%

INCREASE IN  
CLASSES HELD



100%

OF UNIVERSITY CLASSES  
TRANSFORMED FROM CLASSROOM  
TO VIRTUAL DELIVERY IN 2 MONTHS



165%

INCREASE IN THE NUMBER OF  
MENTORSHIPS SUPPORTED  
AT THE UNIVERSITY



160

EMPLOYEES ENROLLED IN  
CERTIFICATION PROGRAMS;  
28 GRADUATES



10

COLLEGE  
INTERNS



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2020**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13677

**MID PENN BANCORP, INC.**

*(Exact Name of Registrant as Specified in its Charter)*

**Pennsylvania**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**349 Union Street  
Millersburg, Pennsylvania**  
*(Address of Principal Executive Offices)*

**25-1666413**  
*(I.R.S. Employer  
Identification Number)*

**17061**  
*(Zip Code)*

Registrant's telephone number, including area code **1.866.642.7736**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 par value per share	MPB	The NASDAQ Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act: None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the common equity of \$18.43 per share, as reported by The NASDAQ Stock Market LLC ("NASDAQ"), on June 30, 2020, the last business day of the registrant's most recently completed second quarter was approximately \$126,417,268.

As of March 1, 2021, the registrant had 8,413,383 shares of common stock outstanding, par value \$1.00 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders is incorporated herein by reference in partial response to Part III, hereof.

**FORM 10-K**  
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## **MID PENN BANCORP, INC.**

### **PART I**

#### **ITEM 1. BUSINESS**

The disclosures set forth in this Item are qualified by the section captioned “Special Cautionary Notice Regarding Forward-Looking Statements” contained in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and other cautionary statements set forth elsewhere in this report.

#### **Mid Penn Bancorp, Inc.**

Mid Penn Bancorp, Inc. is a financial holding company incorporated in the Commonwealth of Pennsylvania in August 1991. Mid Penn Bancorp, Inc. and its wholly owned bank and nonbank subsidiaries are collectively referred to herein as “Mid Penn” or the “Corporation.” On December 31, 1991, Mid Penn acquired, as part of the holding company formation, all of the outstanding common stock of Mid Penn Bank (the “Bank”), and the Bank became a wholly-owned subsidiary of Mid Penn. During the year ended December 31, 2020, Mid Penn established three nonbank subsidiaries, including MPB Financial Services, LLC, under which two additional nonbank subsidiaries have been established: (i) MPB Wealth Management, LLC, created to expand the wealth management function and services of the Corporation, and (ii) MPB Risk Services, LLC, created to fulfill the insurance needs of both existing and potential customers of the Corporation. As of December 31, 2020, the accounts and activities of these nonbank subsidiaries established in 2020 were not material to warrant separate disclosure or segment reporting. Mid Penn’s primary business is to supervise and coordinate the business of its Bank and nonbank subsidiaries, and to provide them with the capital and resources to fulfill their respective missions.

Mid Penn’s consolidated financial condition and results of operations consist almost entirely of that of the Bank, which is managed as a single business segment. At December 31, 2020, Mid Penn had total consolidated assets of \$2,998,948,000 with total deposits of \$2,474,580,000 and total shareholders’ equity of \$255,688,000. The holding company and its nonbank subsidiaries currently do not own or lease any real property. The Bank owns or leases the banking offices as identified in Part I, Item 2.

Mid Penn’s nonbank subsidiaries employed six full-time employees as of December 31, 2020. All other employees of the Corporation are employed by the Bank, with a shared services agreement to support the operation of the holding company. At December 31, 2020, the Bank had 438 full-time and 28 part-time employees. The Bank and its employees are not subject to a collective bargaining agreement, and the Bank believes it enjoys good relations with its employees.

#### **Mid Penn Bank**

Mid Penn Bank was organized in 1868 under a predecessor name, Millersburg Bank, and became a state-chartered bank in 1931. Millersburg Bank obtained trust powers in 1935, at which time its name was changed to Millersburg Trust Company. In 1971, Millersburg Trust Company adopted the name “Mid Penn Bank”. Mid Penn’s and the Bank’s legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061.

On March 1, 2015, in connection with the acquisition of Phoenix Bancorp, Inc. (“Phoenix”) by Mid Penn, Phoenix’s wholly-owned banking subsidiary, Miners Bank, was merged with and into the Bank, with the Bank being the surviving charter.

On January 8, 2018, Mid Penn completed its acquisition of The Scottdale Bank and Trust Company (“Scottdale”) through the merger of Scottdale with and into the Bank (the “Scottdale Merger”). The Scottdale Merger resulted in the addition of five branches in Western Pennsylvania operating as “Scottdale Bank & Trust, a Division of Mid Penn Bank”.

On July 31, 2018, Mid Penn completed its acquisition of First Priority Financial Corp. (“First Priority”) pursuant to which First Priority was merged with and into Mid Penn (the “First Priority Merger”), with Mid Penn being the surviving corporation in the First Priority Merger. As part of this acquisition, First Priority’s banking subsidiary, First Priority Bank, was merged with and into the Bank. The First Priority Merger resulted in the addition of eight offices in Southeastern Pennsylvania operating as “First Priority Bank, a Division of Mid Penn Bank”. Subsequent to December 31, 2020, Mid Penn announced in February 2021 the rebranding of branches and offices in its First Priority Bank Division in southeastern Pennsylvania to the Mid Penn Bank brand.

Additional information related to the Scottdale and First Priority mergers can be found in Notes 4 and 5 to the Consolidated Financial Statements contained in Item 8 of this report.



## **MID PENN BANCORP, INC.**

Effective December 31, 2020, Mid Penn closed three full-service office locations, all within the Commonwealth of Pennsylvania, located in Pillow (Dauphin County), Malvern (Chester County), and Vanderbilt (Fayette County). As of December 31, 2020, the Bank has thirty-six full-service retail banking locations in the Pennsylvania counties of Berks, Bucks, Chester, Cumberland, Dauphin, Fayette, Lancaster, Luzerne, Montgomery, Northumberland, Schuylkill and Westmoreland. Mid Penn has no branches or offices located outside of the Commonwealth of Pennsylvania.

Mid Penn's primary business consists of attracting deposits and loans from the Bank's network of community banking offices. The Bank engages in full-service commercial banking and trust business, making available to the community a wide range of financial services, including, but not limited to, mortgage and home equity loans, secured and unsecured commercial and consumer loans, lines of credit, construction financing, farm loans, community development and local government loans and various types of time and demand deposits. The Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (the "FDIC") supervise the Bank. Deposits of the Bank are insured by the FDIC's Deposit Insurance Fund (the "DIF") to the maximum extent provided by law. In addition, the Bank provides a full range of trust and retail investment services. The Bank also offers other services such as online banking, telephone banking, cash management services, automated teller services and safe deposit boxes.

### *Business Strategy*

The Bank provides services to commercial businesses and real estate investors, consumers, nonprofit organizations, and municipalities through its thirty-six full-service retail banking properties, one loan production office, two corporate administrations office, and one operations facility which are all based in Pennsylvania. Mid Penn's primary markets reflect a diversified manufacturing and services base across twelve Pennsylvania counties, including having several offices in and around the state capital region of Harrisburg. The Bank emphasizes developing long-term customer relationships, maintaining high quality service, and providing quick responses to customer needs. Mid Penn believes that local relationship building and its prudent approach to lending are important factors in the success and growth of Mid Penn.

### **Lending Activities**

The Bank offers a variety of loan products to its customers, including commercial real estate loans, residential real estate loans, commercial and industrial loans, and consumer loans. The Bank's primary lending objectives are as follows:

- to establish relationships with creditworthy customers who exhibit positive historical repayment trends, stable cash flows and secondary sources of repayment from tangible collateral;
- to establish a diversified loan portfolio; and
- to provide a satisfactory return to Mid Penn's shareholders by properly pricing loans to include the cost of funds, administrative costs, bad debts, local economic conditions, competition, customer relationships, the term of the loan, credit risk, collateral quality and a reasonable profit margin.

Credit risk is managed through portfolio diversification, underwriting policies and procedures, and loan monitoring practices. Lenders are provided with detailed underwriting policies for all types of credit risks accepted by the Bank, and must obtain appropriate internal approvals for credit extensions. The Bank also maintains strict documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered might be mitigated or potential losses reduced. The Bank generally secures its loans with real estate with such collateral values dependent and subject to change based on real estate market conditions within its market area. As of December 31, 2020, the Bank's highest concentration of credit is in commercial real estate.

### **Investment Activities**

Mid Penn's securities portfolio is a source for both liquidity and interest earnings, and serves to support pledging requirements on public funds deposits through investments in primarily higher-quality fixed-income debt securities. Mid Penn does not have any significant non-governmental concentrations within its investment securities portfolio.

Mid Penn maintains both a held-to-maturity investment portfolio and an available-for-sale investment portfolio. Both portfolios are comprised primarily of lower-risk debt securities, including U.S. Treasury notes, U.S. agency mortgage-backed securities, U.S. agency notes, investment-grade municipal securities, and corporate bonds. The held-to-maturity portfolio was established to support the Bank's growth in public fund deposits which may require pledging of investment securities. The investments in the held-to-maturity portfolio are recorded on the balance sheet at book value (amortized cost), while the available-for-sale securities are recorded on the balance sheet at fair value. These debt securities derive fair values relative to investments of the same type and credit profile with similar maturity dates. As the interest rate environment changes, Mid Penn's fair value of securities will change. This difference

## **MID PENN BANCORP, INC.**

between the amortized cost and fair value of available-for-sale investment securities, or unrealized loss, amounted to \$3,000 as of December 31, 2020. On an after-tax basis, this unrealized loss on available-for-sale securities resulted in a reduction to shareholders' equity, through the accumulated other comprehensive loss component, of \$2,000. No investments in either the held-to-maturity portfolio or available-for-sale portfolio as of December 31, 2020 were deemed to have other-than-temporary-impairment. The majority of the investments are high quality United States and municipal securities that, if held to maturity, are expected to result in no realized loss to the Bank.

During the fourth quarter of 2019, Mid Penn early adopted Accounting Standards Update ("ASU") 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*), and as part of the adoption, reclassified 113 held-to-maturity debt securities with an aggregate amortized cost of \$67,096,000 to the available for sale category. All 113 securities were subsequently sold during the fourth quarter of 2019 and Mid Penn recognized a pre-tax gain on the sales of \$1,779,000. Please refer to Note 25, *Recent Accounting Pronouncements*, for more information regarding the adoption of ASU 2019-04.

### **Deposits and Other Sources of Funds**

The Bank primarily uses deposits and, to a lesser extent, wholesale borrowings to finance lending and investment activities. Wholesale borrowing sources include advances from the Federal Home Loan Bank of Pittsburgh (the "FHLB"), overnight borrowings from the Bank's other correspondent banking relationships, advances from the Federal Reserve's Discount Window, or special program funding such as the \$125,617,000 of funding outstanding as of December 31, 2020 that Mid Penn obtained from the Federal Reserve through the Paycheck Protection Program Liquidity Facility ("PPPLF"). Under the PPPLF, the Federal Reserve supplies financing to the Bank at a rate of 35 basis points (0.35%) for a term and amount determined based on the principal amount of PPP loans fully and specifically pledged as collateral in support of the PPPLF borrowings. Draws of PPPLF funds must be repaid to the Federal Reserve immediately after the specific PPP loans collateralizing the related draws are repaid to the Bank.

All borrowings, except for lines of credit with the Bank's correspondent banks, require collateral in the form of loans or securities. Collateral levels, therefore, limit the extent of borrowings and the available lines of credit extended by the Bank's creditors. As a result, generating and retaining retail deposits remains critical to the future funding and growth of the business. Deposit growth within the banking industry has been subject to strong competition from a variety of financial services companies. This competition may require financial institutions to adjust their product offerings and pricing to maintain and grow deposits.

Additionally, the safety of traditional bank deposit products has remained an attractive option during periods of market volatility. Mid Penn's ability to attract retail funds in the future will continue to be impacted by the public's appetite for the safety of insured or local investments versus the returns offered by alternative choices as part of their personal investment mix.

### **Competition**

The financial services and banking business is highly competitive, and the profitability of Mid Penn depends principally upon the Corporation's ability to successfully compete in its market area. The Bank actively competes with other financial services companies for deposit, loan, trust and wealth management business. Competitors include other commercial banks, credit unions, savings banks, savings and loan associations, insurance companies, securities brokerage firms, finance companies, mutual funds, and product/service alternatives via the Internet. Financial institutions compete primarily on the quality of services rendered, interest rates on loans and deposits, service charges, the convenience of banking facilities, location and hours of operation and, in the case of loans to larger commercial borrowers, relative lending limits.

Many competitors are larger than the Corporation and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, the Bank is subject to banking regulations while certain non-banking competitors may not be subject to similar regulations. For more information, see the "Supervision and Regulation" section below and Item 1A, "Risk Factors".

Mid Penn has been able to compete effectively with other financial institutions by emphasizing customer-focused relationship management and services, convenient hours, efficient and friendly employees, a consultative sales approach, local decision making, and quality products.

## MID PENN BANCORP, INC.

### Supervision and Regulation

#### *General*

Financial holding companies and banks are extensively regulated under both federal and state laws. The regulation and supervision of the Corporation and particularly the Bank are primarily focused on the protection of depositors, the DIF, and the monetary system, and do not prioritize shareholder interests. Enforcement actions that may be imposed by federal and state banking regulators include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance on deposits, the imposition of civil money penalties, and removal and prohibition orders. If a banking regulator takes any enforcement action, the value of an equity investment in Mid Penn could be substantially reduced or eliminated. As of December 31, 2020, the Corporation was not subject to any supervisory enforcement actions.

Federal and state banking laws contain numerous provisions affecting various aspects of the business and operations of Mid Penn and the Bank. Mid Penn is subject to, among others, the regulations of the Securities and Exchange Commission (“SEC”) and the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Bank is subject to, among others, the regulations of the Pennsylvania Department of Banking and Securities and the FDIC. The descriptions below of, and references to, applicable statutes and regulations are not intended to be complete lists or reflective of all applicable provisions or their effects on the Corporation. They are summaries of the more significant laws and regulations and are qualified in their entirety by reference to the complete provisions of such statutes and regulations.

#### *Holding Company Regulation*

Mid Penn is a registered financial holding company subject to supervision and regulation by the Federal Reserve. As such, it is subject to the Bank Holding Company Act of 1956 (“BHCA”) and many of the Federal Reserve’s regulations promulgated thereunder. The Federal Reserve has broad enforcement powers over financial and bank holding companies, including the power to impose substantial fines and civil penalties.

The BHCA requires Mid Penn to file an annual report with the Federal Reserve regarding the holding company and its subsidiary bank. The Federal Reserve Board also makes examinations of the holding company. The Bank is not a member of the Federal Reserve System; however, the Federal Reserve possesses cease-and-desist powers over financial and bank holding companies and their subsidiaries where actions would constitute an unsafe or unsound practice or violation of law. The Federal Reserve Board also makes policy that applies to the declaration and distribution of dividends by financial and bank holding companies.

The BHCA restricts a financial or bank holding company’s ability to acquire control of additional banks. In addition, the BHCA restricts the activities in which financial or bank holding companies may engage directly or through nonbank subsidiaries.

#### *Gramm-Leach-Bliley Financial Modernization Act*

Under the Gramm-Leach-Bliley Financial Modernization Act (“GLB”), bank holding companies that meet certain management, capital, and Community Reinvestment Act standards, are permitted to become financial holding companies. No prior regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in certain financial activities permitted under GLB. Activities cited by GLB as being financial in nature include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and agency;
- merchant banking activities; and
- activities that the Federal Reserve has determined by regulation to be closely related to banking.

In addition to permitting financial holding companies’ entry into new lines of business, the law allows companies the freedom to streamline existing operations and to potentially reduce costs. The GLB may increase both opportunity and competition.

## MID PENN BANCORP, INC.

In December 2019, Mid Penn made the election to change from a bank holding company to a financial holding company as its subsidiary bank was well capitalized under the FDIC Improvement Act's prompt corrective action provisions, the holding company and Bank were deemed by the regulators to be well managed, and the Bank had at least a satisfactory rating under the Community Reinvestment Act. The required filing supporting this change was a declaration that the bank holding company wished to become a financial holding company and met all applicable requirements. Mid Penn made the election given the Corporation's growth and the intended broadening spectrum of financial product and service offerings to potentially include, but not be limited to, insurance and wealth management services.

### *Bank Regulation*

Mid Penn Bank, a Pennsylvania-chartered institution, is subject to supervision, regulation and examination by both the Pennsylvania Department of Banking and Securities and the FDIC. The deposits of the Bank are insured by the FDIC to the maximum extent provided by law. The FDIC assesses deposit insurance premiums, the amount of which depends in part on both the asset size and the condition of the Bank. Moreover, the FDIC may terminate deposit insurance of the Bank under certain circumstances. The federal and state banking regulatory agencies have broad enforcement powers over depository institutions under their jurisdiction, including the power to terminate deposit insurance, to impose fines and other civil and criminal penalties, and to appoint a conservator or receiver if any of a number of conditions is met. In addition, the Bank is subject to a variety of local, state and federal laws that affect its operations.

Banking regulations affect a wide range of the Bank's activities and operations, including, but not limited to, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans, compensation standards, payment of dividends, various bank account and bank service disclosures, and the safety and soundness of banking practices.

### *Capital Requirements, Prompt Corrective Action and Basel III Capital Reforms*

Under risk-based capital requirements for financial or bank holding companies, Mid Penn is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) of eight percent. At least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less goodwill ("Tier 1 Capital"). The remainder may consist of subordinated debt, non-qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 Capital"). Combined, the Tier 1 Capital and Tier 2 Capital comprise regulatory "Total Capital". As of December 31, 2020, Mid Penn complied with these risk-based capital requirements.

In addition, the Federal Reserve has established minimum leverage ratio requirements for bank holding companies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets ("leverage ratio") equal to 3 percent for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least 4-5 percent. The requirements also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the requirements indicate that the Federal Reserve will continue to consider a "Tangible Tier 1 Leverage Ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. As of December 31, 2020, Mid Penn has met these leverage requirements, and the Federal Reserve has not advised Mid Penn of any specific minimum Tier 1 leverage ratio requirement.

The Bank is subject to similar capital requirements adopted by the FDIC, and as of December 31, 2020, the Bank's capital levels were sufficient to be considered "well-capitalized". The FDIC has not advised the Bank of any specific minimum leverage ratios.

The capital ratios of Mid Penn and the Bank are described in Note 19, *Regulatory Matters*, within Item 8, Notes to Consolidated Financial Statements, which are included herein.

Banking regulators may further refine capital requirements applicable to banking organizations, including those discussed in the "Regulatory Capital Changes" section below. Changes to capital requirements could materially affect the profitability of Mid Penn or the fair value of Mid Penn stock.

## MID PENN BANCORP, INC.

In addition to the required minimum capital levels described above, federal law establishes a system of “prompt corrective actions” which federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be “adequately capitalized” if it exceeds the minimum federal regulatory capital requirements. However, it will be deemed “undercapitalized” if it fails to meet the minimum capital requirements, “significantly undercapitalized” if it has a Total Risk-Based Capital ratio that is less than 6 percent, a Tier 1 Risk-Based Capital ratio that is less than 3 percent, or a leverage ratio that is less than 3 percent, and “critically undercapitalized” if the institution has a ratio of tangible equity to total assets that is equal to or less than 2 percent.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain “management fees” to any “controlling person”. Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain limited exceptions, that the institution be placed in receivership.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The final rules established a common equity tier 1 capital conservation buffer with a multi-year phase in to an eventual buffer of 2.5 percent of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the applicable capital conservation buffer for a given year, the bank could be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016 and were phased-in over a three-year period. The final rules called for the following minimum capital requirements, including the capital conservation buffer, effective at January 1, 2019 and subsequent years.

	<b>Effective January 1,</b>
	<b>2019</b>
Common equity tier 1 capital to risk-weighted assets	7.0%
Tier 1 capital to risk-weighted assets	8.5%
Total capital to risk-weighted assets	10.5%
Leverage ratio	4.0%

The final rules also allowed community banks to make a one-time election not to include the additional components of accumulated other comprehensive income (“AOCI”) in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. Mid Penn made the election not to include the additional components of AOCI in regulatory capital.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the Tier 1 Capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-ups approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Under the new rules, mortgage servicing assets (“MSAs”) and certain deferred tax assets (“DTAs”) are subject to stricter limitations than those applicable under the former general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain risk weights and credit conversion factors.

## MID PENN BANCORP, INC.

Mid Penn and the Bank complied throughout the phase-in period, and currently remain in compliance, with all regulatory capital requirements. Accordingly, the final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act did not have a material negative effect on Mid Penn's financial condition or capital management activities for any period since the changes were implemented.

### *Safety and Soundness Standards*

The federal banking regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards for depository institutions such as the Bank. The guidelines establish general standards relating to management practices, internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, liquidity, capital, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the agencies adopted regulations that authorize an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If an institution is not satisfying certain safety and soundness standards and fails to submit to the banking regulatory agency an acceptable compliance plan or fails to implement an accepted plan, the agency may issue an order directing action to correct the deficiency and may issue an order directing other actions be taken, including restricting asset growth, restricting interest rates paid on deposits, restricting dividend payments to shareholders, and requiring an increase in the institution's ratio of tangible equity to assets. For the periods reported in this Form 10-K and in the period subsequent to December 31, 2020, up to the date of the filing of this Form 10-K, Mid Penn was not subject to any such bank regulatory orders.

### *Payment of Dividends and Other Restrictions*

Mid Penn's holding company is a legal entity separate and distinct from the wholly-owned Bank subsidiary. There are various legal and regulatory limitations on the extent to which the Bank can, among other things, finance, or otherwise supply funds to the holding company. Specifically, dividends from the Bank are the principal source of the holding company's cash funds, and there are certain legal restrictions under Pennsylvania law and Pennsylvania banking regulations on the payment of dividends by state-chartered banks. The relevant regulatory agencies also have authority to prohibit Mid Penn and the Bank from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound banking practice. Depending upon the financial condition of the holding company and the Bank, the payment of dividends could be deemed by a regulatory agency to constitute such an unsafe or unsound practice. The holding company and the Bank were not subject to any such dividend prohibitions during the years ended December 31, 2020, 2019, and 2018.

### *Deposit Insurance*

The FDIC insures deposits of the Bank through the DIF. The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon a variety of factors that include the level of assets and tangible equity, and the condition of the Bank (the degree of risk the institution poses to the insurance fund). The FDIC insures deposits up to \$250,000. The Bank pays an insurance premium into the DIF based on a regulatory defined assessment calculation. The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the DIF. The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Subsequently, the rate for each institution within a risk category may be adjusted depending upon different factors that either enhance or reduce the risk the institution poses to the DIF, including the unsecured debt, secured liabilities and brokered deposits related to each institution. Finally, certain risk multipliers may be applied to the adjusted assessment.

Beginning with the second quarter of 2011 and as applicable continuously through to the current period, as mandated by the Dodd-Frank Act, the assessment base that the FDIC uses to calculate assessment premiums is the Bank's average assets minus average tangible equity. As the asset base of the banking industry is larger than the deposit base, the range of assessment rates is a low of 2.5 basis points and a high of 45 basis points, per \$100 of assets.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the DIF to achieve a reserve ratio of 1.35 percent of Insurance Fund insured deposits by September 2020. In addition, the FDIC has established a "designated reserve ratio" of 2 percent, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35 percent ratio, the FDIC is required to implement assessment formulas that charge banks over \$10 billion in asset size more than banks under that size. These new formulas did not affect Mid Penn Bank as it was less than \$10 billion in total assets size.

## MID PENN BANCORP, INC.

During the third quarter of 2019, Mid Penn received notification from the FDIC that the FDIC's Deposit Insurance Fund reserve ratio met a threshold resulting in the FDIC providing the Bank with a \$492,000 credit, which was applied to the deposit insurance assessments for both the second and third quarters of 2019.

### *Consumer Protection Laws*

A number of laws govern the relationship between the Bank and its customers. For example, the Community Reinvestment Act is designed to encourage services, investments, and lending activities in low- and moderate-income areas. The Home Mortgage Disclosure Act and the Equal Credit Opportunity Act attempt to minimize lending decisions based on impermissible criteria, such as race or gender. The Truth-in-Lending Act and the Truth-in-Savings Act require banks to provide certain disclosure of relevant terms related to loans and savings accounts, respectively. Anti-tying restrictions (which prohibit conditioning the availability or terms of credit on the purchase of another banking product) further restrict the Bank's relationships with its customers. The Bank maintains a comprehensive compliance management program to promote its compliance with these and other applicable consumer protection laws and regulations.

### *Privacy Laws*

The federal banking regulators have issued a number of regulations governing the privacy of consumer financial and customer information. The regulations limit the disclosure by financial institutions, such as Mid Penn's holding company and Bank, of nonpublic personal information about individuals who obtain financial products or services for personal, family, or household purposes. Subject to certain exceptions allowed by law, the regulations cover information sharing between financial institutions and nonaffiliated third parties. More specifically, the regulations require financial institutions to provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal financial information to nonaffiliated third parties and affiliates;
- annual notices of their privacy policies to their current customers; and
- a reasonable method for consumers to "opt out" of disclosures to nonaffiliated third parties.

### *Affiliate Transactions*

Transactions between the Bank and the Corporation, and/or its nonbank subsidiary affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An "affiliate" of a bank or savings institution is any company or entity that controls, is controlled by, or is under common control with the bank or savings institution. Generally, a subsidiary of a depository institution that is not also a depository institution is not treated as an affiliate of the bank for purposes of Sections 23A and 23B. Sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and requiring that such transactions be on terms that are consistent with safe and sound banking practices.

### *The USA Patriot Act, Anti-Money Laundering and Anti-Terrorism Financing*

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including Mid Penn and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. The principal provisions of Title III of the USA Patriot Act require that regulated financial institutions, including state-chartered banks:

- establish an anti-money laundering program that includes training and audit components;
- comply with regulations regarding the verification of the identity of any person seeking to open an account;
- take additional required precautions with non-U.S. owned accounts; and
- perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships.

## MID PENN BANCORP, INC.

Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged for financial institutions that comply with this provision and the authorization of the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing.

The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institution. The effectiveness of a financial institution in combating money-laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank.

The Bank has adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

### *Coronavirus Aid, Relief, and Economic Security Act*

On March 27, 2020, in response to the novel coronavirus ("COVID-19") pandemic, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. This legislation created the federal Paycheck Protection Program ("PPP") which permitted eligible business entities to apply for loans through a participating financial institution to cover payroll, rent, and other business expenses during the COVID-19 pandemic. The PPP loans, which are 100 percent guaranteed by the Small Business Administration ("SBA"), have up to a five-year term to maturity and carry a low interest rate of 1 percent throughout the loan term. The vast majority of Mid Penn's PPP loans issued in 2020 have a two-year term to maturity. The SBA may forgive the 2020 PPP loans if, among other criteria, at least 60 percent of the proceeds are used for payroll costs. Also, the borrowers will not have to make any payments for six months following the date of disbursement of the loan, though interest will continue to accrue during the deferment period. The SBA also provided a processing fee per loan to financial institutions who participated in the PPP, with the amount of such fee ranging from 1 percent to 5 percent as pre-determined by the SBA dependent upon the size of each respective credit. In addition to the processing fees, Mid Penn recorded related loan origination costs.

As of December 31, 2020, Mid Penn had received \$20,883,000 of nonrefundable loan processing fees related to the loans disbursed as a result of Mid Penn's 2020 PPP lending activities. The balance of these fees that have not yet been realized as income, and the related loan origination costs, are deferred in accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs* and will be amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of each respective loan. During the year ended December 31, 2020, Mid Penn recognized \$13,137,000 of PPP processing fees within interest and fees on loans and leases on the Consolidated Statements of Income.

As of December 31, 2020, Mid Penn had \$388,313,000 of net 2020 PPP loans outstanding (\$396,059,000 of gross PPP loans, net of deferred PPP processing fees of \$7,746,000) with all of these loans being recorded in the commercial and industrial loan portfolio classification.

On February 22, 2021, on a Form 8-K filed with the Securities and Exchange Commission ("SEC"), Mid Penn reported that through February 18, 2021 it had received 2021 Paycheck Protection Program ("2021 PPP") loan funding approvals through the Small Business Administration ("SBA"), and made subsequent loan disbursements, for 2,047 business customers totaling more than \$290 million in loans. These businesses collectively employ more than 26,000 individuals. See Note 27, *COVID-19 Pandemic Implications*, to the consolidated financial statements in Part II, Item 8 for more details.

In addition to the creation of the PPP, the CARES Act also included several tax relief initiatives, including allowing net operating losses generated in 2018, 2019, or 2020 to be carried back up to five years. As a result of this change, the full-year tax provision through December 31, 2020 includes a \$318,000 tax benefit as the result of carrying certain NOLs acquired from First Priority and Scottdale back to 2017 when the federal statutory tax rate was higher (34 percent versus 21 percent). See Note 18, *Income Taxes*, to the consolidated financial statements in Part II, Item 8 for more details.

### *JOBS Act*

In 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") became law. The JOBS Act is aimed at facilitating capital raising by smaller companies, banks, and bank holding companies. Certain changes implemented by the JOBS Act that impacted Mid Penn included (i) raising the threshold requiring registration under the Securities Exchange Act of 1934 (the "Exchange Act") for banks and bank holdings companies from 500 to 2,000 holders of record, and (ii) raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record.



## MID PENN BANCORP, INC.

### *Dodd-Frank Act*

The Dodd-Frank Act, which became law in July 2010, significantly changed regulation of financial institutions and the financial services industry. Dodd-Frank created a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation, and centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which is responsible for implementing, examining and enforcing compliance with federal consumer financial laws. Dodd-Frank also permanently raised the current standard maximum deposit insurance amount to \$250,000, established strengthened capital standards for banks, disallowed certain trust preferred securities from qualifying as Tier 1 Capital (subject to certain grandfather provisions for existing trust preferred securities), established new minimum mortgage underwriting standards, granted the Federal Reserve the power to regulate debit card interchange fees, and implemented corporate governance changes.

### *Effects of Government Policy and Potential Changes in Regulation*

Changes in regulations applicable to Mid Penn's holding company, the Bank, or its nonbank subsidiaries, or shifts in monetary or other government policies, could have a material effect on our business. The Corporation's business is also affected by the state of the financial services industry in general. As a result of legal, economic, and competitive changes, management believes that the Corporation and the financial services industry will continue to experience an increased rate of change from both the opportunities and competitive challenges resulting from greater product and service offerings, technological advancements, and business combinations.

From time to time, legislation is enacted that has the effect of increasing the compliance and operations requirements and the cost of doing business, changing the tax structure applicable to Mid Penn, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, and before various bank regulatory agencies. Mid Penn cannot predict the likelihood of any major changes or the impact such changes might have on Mid Penn, the Bank, or the nonbank subsidiaries. Congressional bills and other proposals could result in additional significant changes to the financial services and banking system, including, but not limited to, provisions for limitations on deposit insurance coverage, changing the timing and method financial institutions use to pay for deposit insurance, expanding the power of banks by removing the restrictions on bank underwriting activities, changing the regulation of bank derivatives activities, and allowing commercial enterprises to own banks. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business or change the Corporation's competitive landscape. Whether any future legislation will be enacted or additional regulations will be adopted, and how they might impact Mid Penn, cannot be determined at this time.

Mid Penn's earnings are, and will be affected by, domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve have had, and will likely continue to have, an impact on the operating results of commercial banks because of the Federal Reserve's power to implement national monetary policy to, among other things, promote employment, control inflation or combat recession. The Federal Reserve has a major impact on the loan and deposit rates offered by the Bank and its competitors, and on the levels of bank loans, investments and deposits, through its open market operations in United States government securities and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to reasonably predict the nature, amount, frequency, and impact of future changes in monetary and fiscal policies.

### *Environmental Laws*

Management does not anticipate that compliance with environmental laws and regulations will have any material effect on Mid Penn's capital, expenditures, earnings, or competitive position. However, environmentally-related hazards have become a source of high risk and liability for some financial institutions.

Additionally, the Pennsylvania Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act provides, among other things, protection to lenders from environmental liability and remediation costs under the environmental laws for releases and contamination caused by others. A lender who engages in activities involved in the routine practices of commercial lending, including, but not limited to, the providing of financial services, holding of security interests, workout practices, foreclosure or the recovery of funds from the sale of property shall not be liable under the environmental acts or common law equivalents to the Pennsylvania Department of Environmental Resources or to any other person by virtue of the fact that the lender engages in such commercial lending practice. A lender, however, will be liable if it, its employees or agents, directly cause an immediate release or directly exacerbate a release of a regulated substance on or from the property, or knew and willfully compelled the borrower to commit an action which caused such release or to violate an environmental act. The Pennsylvania Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act does not limit federal liability, which still exists under certain circumstances.

## MID PENN BANCORP, INC.

### *Corporate Governance*

The Sarbanes-Oxley Act of 2002 (“SOX”) and related regulations adopted by the SEC and NASDAQ addressed the following issues: corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. Mid Penn has established policies, procedures, and systems designed to promote compliance with these regulations. Section 404 of SOX requires publicly held companies to document, test and certify that their internal control systems over financial reporting are effective. Effective for year-end financial reports beginning with December 31, 2017, Mid Penn is subject to the independent attestation requirement under Section 404 of the SOX. The Bank remains subject to independent auditor attestation under FDIC regulation 363.3(b), which is a similar independent attestation requirement at the Bank level.

### **Available Information**

Mid Penn’s common stock is registered under Section 12(b) of the Exchange Act and is traded on NASDAQ under the trading symbol MPB. Mid Penn is subject to the informational requirements of the Exchange Act, and, accordingly, files reports, proxy statements and other information with the SEC. Mid Penn is an electronic filer with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC’s Internet site address is [www.sec.gov](http://www.sec.gov).

Mid Penn’s headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061, and its telephone number is 1-866-642-7736. Mid Penn’s website is [midpennbank.com](http://midpennbank.com) and Mid Penn makes available through its website, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably possible after filing with the SEC. Mid Penn has adopted a Code of Ethics that applies to all employees and this document is also available on Mid Penn’s website. The information included on our website is not considered a part of this document.

### **ITEM 1A. RISK FACTORS**

Before investing in Mid Penn common stock, an investor should carefully read and consider the risk factors described below, which are not intended to be all inclusive, and to review other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below are not the only ones facing Mid Penn’s holding company, the Bank, and nonbank subsidiaries. Additional risks and uncertainties that we are not aware of, or that we currently deem less significant, or that we are otherwise not specifically focused on, may also impact our business, results of operations, and our common stock. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and an investor could lose all or part of his or her investment in Mid Penn.

Unless the context otherwise requires, references to “we,” “us,” “our,” “Mid Penn,” or “Mid Penn Bancorp, Inc.,” collectively refer to Mid Penn Bancorp, Inc. and its subsidiaries, and specific references to the “Bank” refer to Mid Penn Bank, the wholly-owned banking subsidiary of Mid Penn Bancorp, Inc.

#### **Risks Related to Our Primary Business and Industry**

*Mid Penn is subject to interest rate risk.*

Mid Penn’s earnings and cash flows are largely dependent upon the Bank’s net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities, and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond Mid Penn’s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest income the Bank receives on loans and securities and the amount of interest expense it pays on deposits and borrowings, but such changes could also affect (i) the Bank’s ability to originate loans and obtain deposits, (ii) the fair value of financial assets and liabilities, and (iii) the average duration of mortgage-backed securities in the Bank’s investment portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, Mid Penn’s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and investments fall more quickly than the interest rates paid on deposits and borrowings.

Management believes it has implemented effective asset and liability management strategies and interest rate risk management activities to reduce the potential effects of changes in interest rates on Mid Penn’s results of operations. Any substantial, unexpected, prolonged, or rapid change in market interest rates could have a material adverse effect on the Bank’s net interest income and Mid Penn’s financial condition and results of operations.

## **MID PENN BANCORP, INC.**

*Mid Penn is subject to credit risk.*

As of December 31, 2020, approximately 88 percent of the Bank's loan portfolio in Table 8 of Management's Discussion and Analysis consisted of commercial real estate, commercial and industrial, and agricultural loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or secured consumer loans. Commercial loans are also typically larger than residential real estate loans and consumer loans. Because the loan portfolio contains a significant number of commercial and industrial loans, and construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. In addition, Mid Penn's credit risk may be exacerbated when the collateral held by Mid Penn cannot be readily realized or liquidated at prices sufficient to recover the full amount of the credit or derivative exposure due to Mid Penn. An increase in non-performing loans or collateral value deficiencies could result in a net loss of earnings from these loans, an increase in the provision for possible loan and lease losses and an increase in loan charge-offs, all of which could have a material adverse effect on Mid Penn's financial condition and results of operations.

*The allowance for loan and lease losses may be not be sufficient to cover actual loan and lease losses.*

Mid Penn maintains an allowance for loan and lease losses, which is a reserve established that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; changes in present economic, political and regulatory conditions; other external factors such as the ongoing pandemic; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible loan and lease losses inherently involves a high degree of subjectivity and requires Mid Penn to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the impact of the ongoing pandemic, new information regarding existing loans, identification of additional problem credits and other factors, both within and outside of Mid Penn's control, may require an increase in the allowance. In addition, bank regulatory agencies periodically review Mid Penn's allowance for possible loan and lease losses and may require an increase in the provision for possible loan and lease losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance, Mid Penn may need additional provisions to increase the allowance for possible loan and lease losses. Any increases in the allowance resulting from loan loss provisions will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on Mid Penn's financial condition and results of operations.

*Competition from other financial institutions may adversely affect Mid Penn's and the Bank's profitability.*

Mid Penn's banking subsidiary faces substantial competition in originating both commercial and consumer loans. This competition comes principally from other banks, credit unions, savings institutions, mortgage banking companies and other lenders. Many of its larger competitors who offer loans enjoy advantages over the Bank, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce Mid Penn's net income by decreasing the number and size of loans that its banking subsidiary originates and the interest rates it may charge on these loans.

In attracting business and consumer deposits, the Bank faces substantial competition from other insured depository institutions such as other commercial banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of Mid Penn's larger competitors who accept deposits also enjoy advantages over the Bank, including greater financial resources, more aggressive marketing campaigns, better brand recognition, and more convenient branch locations. These competitors may offer higher interest rates than Mid Penn, which could decrease the deposits that the Bank attracts or require an increase in rates and interest expense to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect Mid Penn's ability to generate the funds necessary for lending operations. As a result, Mid Penn may need to seek other sources of funds that may be more expensive to obtain and could increase its cost of funds.

Mid Penn's banking subsidiary and nonbank subsidiaries also compete with non-banking providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance agencies and governmental organizations, which may offer more favorable terms. Some of its non-banking competitors are not subject to the same extensive and costly regulations that govern Mid Penn's operations. As a result, such non-banking competitors may have advantages over Mid Penn's banking subsidiary and nonbank subsidiaries in providing certain products and services. This competition may reduce or limit Mid Penn's margins on banking services, revenues from nonbanking subsidiaries' activities, reduce its market share and adversely affect its earnings and financial condition.

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*The expected discontinuance of LIBOR presents risks to the financial instruments originated, issued or held by Mid Penn that use LIBOR as a reference rate.*

LIBOR is used as a reference rate for some of Mid Penn's transactions, which means it is the base on which relevant interest rates are determined. Transactions include those in which Mid Penn lends and borrows money; issues, purchases and sells securities; and enters into derivatives to manage Mid Penn's and its customers' risk. LIBOR is the subject of recent national and international regulatory guidance and proposals for reform. The United Kingdom Financial Conduct Authority, which regulates the process for setting LIBOR, announced in July 2017 that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. There are ongoing efforts to establish an alternative reference rate to LIBOR, such as the Secured Overnight Financing Rate or "SOFR", and ensure that all related legal documents, indices, and derivatives which are impacted by this change are updated accordingly.

If another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to all of the markets relying on the availability of a broadly accepted reference rate. Even if another reference rate ultimately replaces LIBOR, risks will remain for Mid Penn with respect to outstanding loans, derivatives or other instruments using LIBOR. Those risks arise in connection with transitioning those instruments to a new reference rate and the corresponding value transfer that may occur in connection with that transition. Risks related to transitioning instruments to a new reference rate or to how LIBOR is calculated and its availability include impacts on the yield on loans or securities held by Mid Penn, amounts paid on securities Mid Penn has issued, or amounts received and paid on derivative instruments Mid Penn has entered into. The value of loans, securities, or derivative instruments tied to LIBOR and the trading market for LIBOR-based securities could also be impacted upon its discontinuance or if it is limited. Further, it is possible that LIBOR quotes will become unavailable prior to 2021 if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified. These risks may also be increased due to the shorter timeframe for preparing for the transition.

*The Basel III capital requirements require Mid Penn to maintain higher levels of capital, which could reduce profitability.*

Basel III established higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital. Although these capital requirements have been phased in and met by Mid Penn, the Basel III requirements signal a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. The Basel III implementation activities and related regulatory capital targets required additional capital to support our business risk profile. Maintaining higher levels of capital potentially reduces opportunities to leverage interest-earning assets, which could limit the net interest income and profitability of Mid Penn, and adversely impact our financial condition and results of operations.

*Acts of terrorism, natural disasters, global climate change, pandemics and global conflicts may have a negative impact on our business and operations.*

Acts of terrorism, natural disasters, global climate change, pandemics, global conflicts or other similar events could have a negative impact on our business and operations. While we have business continuity plans in place, such events occurring or persisting, such as the current COVID-19 pandemic, could disrupt or delay the normal operations of our business and our facilities (including communications and technology), result in harm to or cause travel limitations on our employees, and have a similar impact on our clients, suppliers, third-party vendors and counterparties. These events also could impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations, and may have other adverse effects on us in ways that we are unable to predict.

*As a participating lender in the SBA Paycheck Protection Program ("PPP"), we are subject to additional risks of litigation from our clients or other parties regarding our processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.*

On March 27, 2020, President Trump signed the CARES Act, which included a loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. The PPP opened on April 3, 2020; however, because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes the Corporation to risks relating to noncompliance with the PPP. Since the opening of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for

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the PPP. We may be exposed to the risk of litigation, from both clients and non-clients that approached us regarding PPP loans, regarding our process and procedures used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by us, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

*The COVID-19 pandemic has caused a significant global and national economic downturn and unprecedented levels of unemployment, which may adversely affect, our business and results of operations, and the future impact of the COVID-19 pandemic on the global, national and local economies and our business, results of operations and financial condition remain uncertain.*

The COVID-19 pandemic has caused a significant global and national economic downturn and unprecedented levels of unemployment, which has adversely affected, and is expected to continue to adversely affect, the Corporation's business and results of operations, and the future impact of the COVID-19 pandemic on the global, national and local economies and the Corporation's business, results of operations and financial condition remain uncertain.

The COVID-19 pandemic has resulted in authorities implementing numerous measures attempting to contain the spread and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter in place orders, and limitations on business activity, including closures. These measures are, among other things, severely restricting global and national economic activity, which is disrupting supply chains, lowering asset valuations, significantly increasing unemployment and underemployment levels, decreasing liquidity in markets for certain securities and causing significant volatility and disruptions in the financial markets. These measures have negatively impacted, and could continue to negatively impact, businesses, market participants, our counterparties and clients, and the global, national and local economies for a prolonged period of time. Should current economic conditions persist or continue to deteriorate, this economic environment could have a continued adverse effect on our business and operations, including but not limited to: decreased demand for our products and services; protracted periods of lower interest rates; lower asset management fees; and increased credit losses due to deterioration in the financial condition of our consumer and commercial borrowers, including declining asset and collateral values, which may result in an increase in our provision for credit losses and net charge-offs. Additionally, our liquidity and regulatory capital could be adversely impacted by customers' withdrawal of deposits, volatility and disruptions in the capital and credit markets, and customer draws on lines of credit. To the extent the COVID-19 pandemic continues to adversely affect the economy, and/or adversely affects our business, results of operations or financial condition, it may also have the effect of increasing the likelihood and/or magnitude of other risks including those related to market, credit, and business operations.

In response to the economic and market conditions resulting from the COVID-19 pandemic, governments and regulatory authorities, including central banks, have acted to provide fiscal and monetary stimulus to support the global and national economy. However, there can be no assurance that these measures will stimulate the global and national economy or avert recessionary conditions in markets in which we conduct operations.

We continue to closely monitor the COVID-19 pandemic and related risks as they evolve. The magnitude, duration and likelihood of the current outbreak of COVID-19, further outbreaks of COVID-19, future actions taken by governmental authorities and/or other third parties in response to the COVID-19 pandemic, and its future direct and indirect effects on the global, national and local economies and our business and results of operation are highly uncertain. The COVID-19 pandemic may cause prolonged global, national or local recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on our business, results of operations and financial condition.

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*Interest rate volatility stemming from COVID-19 could negatively affect our net interest income, lending activities, deposits and profitability.*

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

*If Mid Penn's information systems are interrupted or sustain a breach in security, those events may negatively affect Mid Penn's financial performance and reputation.*

In conducting its business, Mid Penn relies heavily on its information systems. Maintaining and protecting those systems and data is difficult and expensive, as is dealing with any failure, interruption, or breach in security of these systems, whether due to acts or omissions by Mid Penn or by a third party, and whether intentional or not. Any such failure, interruption, or breach could result in failures or disruptions in Mid Penn's customer relationship management, general ledger, deposit, loan, and other systems. A breach of Mid Penn's information security may result from fraudulent activity committed against Mid Penn or its clients, resulting in financial loss to Mid Penn or its clients, or privacy breaches against Mid Penn's clients. Such fraudulent activity may consist of check fraud, electronic fraud, wire fraud, "phishing", social engineering, identity theft, or other deceptive acts. The policies, procedures, and technical safeguards put in place by Mid Penn to prevent or limit the effect of any failure, interruption, or security breach of its information systems and data may be insufficient to prevent or remedy the effects of any such occurrences. The occurrence of any failures, interruptions, or security breaches of Mid Penn's information systems and data could damage Mid Penn's reputation, cause Mid Penn to incur additional expenses, result in online services or other businesses becoming inoperable, subject Mid Penn to regulatory sanctions or additional regulatory scrutiny, or expose Mid Penn to civil litigation and possible financial liability, any of which could have a material adverse effect on Mid Penn's financial condition and results of operations.

*Mid Penn's business operations and interaction with customers are increasingly done via technology and electronic delivery channels, and this has increased risks related to cyber-attacks and cyber incidents.*

Mid Penn is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. An increased level of attention in the industry is focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, Mid Penn has certain security systems and policies and procedures in place to prevent or limit the effect of the possible security breach of its information systems and it has insurance against some cyber-risks and attacks. While Mid Penn has not incurred any material losses related to cyber-attacks, nor is it aware of any specific or threatened cyber-incidents as of the date of this report, it may incur substantial costs and suffer other negative consequences if it falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that cyber-attacks may have caused; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

*We are required to make a number of judgments in applying generally accepted accounting standards, and different estimates and assumptions in the application of these accounting standards could result in a decrease in capital and/or other material changes to our reports of financial condition and results of operations.*

Generally accepted accounting principles involve certain estimates and processes that are particularly susceptible to significant change, including those related to the determination of the allowance for loan losses and reserve for unfunded lending commitments, the fair value of and potential impairment of certain financial instruments including investment securities, income tax assets or liabilities (including deferred tax assets and any related valuation allowance), and share-based compensation. While we have identified critical accounting policies and have procedures and processes in place to support making the related judgments and estimates, changes to the processes, assumptions, or models in the application of these generally accepted accounting principles, and the impact to the related judgments and estimates could result in a decrease to net income and, possibly, capital and may have a material adverse effect on our financial condition and results of operations. From time to time, the Financial Accounting Standards Board and the SEC issues changes to or updated interpretations of the financial accounting and reporting guidance that governs the preparation of Mid

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Penn's financial statements. These changes are beyond our control, can be difficult to predict, and could materially impact how we report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior financial statements by material amounts. The implementation of new or revised guidance could also result in material adverse effects to our reported capital.

*Mid Penn's mortgage banking income may experience significant volatility.*

Mortgage banking income is highly influenced by the level and direction of market forces including mortgage interest rates, and real estate and refinancing activity. In lower interest rate environments, the demand for mortgage loans and refinancing activity will tend to increase. This has the effect of increasing fee income, but could adversely impact the estimated fair value of Mid Penn's mortgage servicing rights as the rate of loan prepayments increase. In higher interest rate environments, the demand for mortgage loans and refinancing activity will generally be lower. This has the effect of decreasing mortgage loan originations and refinance activities, and related fee income opportunities.

*Mid Penn could be required to repurchase mortgage loans or indemnify mortgage loan purchasers due to breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could have a material adverse impact on our liquidity, results of operations and financial condition.*

Mid Penn originates and sells a significant amount of residential mortgage loans into the secondary market. When Mid Penn sells mortgage loans, Mid Penn is required to make customary representations and warranties to purchasers about the mortgage loans and the manner in which they were originated. The agreements pursuant to which the loans are sold require Mid Penn to repurchase or substitute mortgage loans in the event there was a breach of any of these representations or warranties. In addition, Mid Penn may be required to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. If repurchase and indemnity demands increase significantly, Mid Penn's liquidity, results of operations and financial condition may be adversely affected.

*Mid Penn's profitability depends significantly on economic conditions in Pennsylvania.*

Unlike larger or regional financial institutions that are more geographically diversified, Mid Penn's success is dependent to a significant degree on economic conditions in Pennsylvania, especially in the twelve counties and the specific markets primarily served by Mid Penn. The banking industry is affected by general economic conditions, including the effects of inflation, recession, unemployment, real estate values, trends in national and global economics, and other factors beyond our control. An economic recession or a delayed recovery over a prolonged period of time in Pennsylvania, or more specific to the counties or communities in Pennsylvania served by Mid Penn, could cause an increase in the level of the Bank's non-performing assets and loan and lease losses, thereby causing operating losses, impairing liquidity, and eroding capital. Mid Penn cannot assure that adverse changes in the local and state economy supporting its market area would not have a material adverse effect on Mid Penn's consolidated financial condition, results of operations, and cash flows.

*Mid Penn is subject to claims and litigation pertaining to fiduciary responsibility.*

From time to time, customers may make claims and take legal action pertaining to Mid Penn's performance of its fiduciary responsibilities. Whether customer claims and legal action related to Mid Penn's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to Mid Penn, the claims or related litigation processes may result in significant financial expense and liability, and/or adversely affect the market perception of Mid Penn and its products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on Mid Penn's business, which, in turn, could have a material adverse effect on Mid Penn's financial condition and results of operations.

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*Mid Penn operates in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.*

Mid Penn's holding company, the Bank, and its nonbank subsidiaries are collectively subject to extensive regulation, supervision and examination by federal and state banking authorities. The potential exists for additional or amended federal or state laws and regulations, or changes in supervisory policies or activities, to materially affect many aspects of Mid Penn's operations, including capital levels, lending and funding practices, and liquidity standards. New laws and regulations may increase costs of regulatory compliance and of doing business and otherwise affect operations, and may significantly affect the markets in which Mid Penn does business, the markets for and value of Mid Penn's loans and investments, the ability to attract deposits at a reasonable cost, the fees charged, and ongoing operations, costs and profitability. Further, additional legislation and regulations that could significantly affect Mid Penn's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on its financial condition and results of operations. Also, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. Any changes in applicable regulations or federal, state or local legislation, or the exercise of bank regulatory authority, may have a negative impact on Mid Penn's results of operations, financial condition, and its ability to pay dividends on common stock.

*The soundness of other financial institutions may adversely affect Mid Penn.*

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. Mid Penn has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose Mid Penn to credit risk and losses in the event of a default by a counterparty or client. Any such losses could have a material adverse effect on Mid Penn's financial condition and results of operations.

*Volatility in financial markets and the economy may have materially adverse effects on our liquidity and financial condition.*

In the recent past, the capital and credit markets experienced extreme volatility and economic disruption, including the most recent volatility and market stresses from the COVID-19 pandemic. Adverse financial market and economic conditions can exert downward pressure on stock prices, security prices, and credit availability for certain issuers without regard to their underlying financial strength. If such levels of financial market and economic disruption and volatility return, there can be no assurance that Mid Penn will not experience adverse effects, which may materially affect its liquidity, financial condition, and profitability.

*Mid Penn's banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect its earnings.*

Poor economic conditions and the resulting bank failures from the most recent recession stressed the DIF and increased the costs of the Bank's FDIC insurance assessments. Future bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue special assessments. Mid Penn generally is unable to control the amount of premiums or special assessments that its banking subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on the results of Mid Penn's operations and financial condition.

*If we conclude that the decline in the value of any of our investment securities is other than temporary, we are required to write down the value of that security through a charge to earnings.*

Mid Penn reviews its investment securities portfolio at each quarter-end reporting period to determine whether the fair value of individual securities or the portfolio as a whole is below the current carrying value. When the fair value of any of its investment securities has declined below its carrying value, Mid Penn is required to assess whether the decline is other than temporary. If Mid Penn concludes that the decline is other than temporary, it is required to write down the value of that security through a charge to earnings. Changes in the expected cash flows of these securities and/or prolonged price declines may result in Mid Penn concluding that impairment of these securities is other than temporary, which would require a charge to earnings to write down these securities to their fair value. Due to the complexity of the process, inputs, calculations and assumptions used in determining whether an investment is impaired, Mid Penn's assessment of or disclosure of the impairment status of investments may not accurately reflect the actual impairment in the future.



## **MID PENN BANCORP, INC.**

*Mid Penn is subject to environmental liability risk associated with lending activities.*

A significant portion of Mid Penn's loan portfolio is secured by real property. During the ordinary course of business, Mid Penn may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, Mid Penn may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require Mid Penn to incur substantial expenses and may materially reduce the affected property's value or limit Mid Penn's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase Mid Penn's exposure to environmental liability. Although Mid Penn has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on Mid Penn's financial condition and results of operations.

*Mid Penn's financial performance may suffer if its information technology is unable to keep pace with its growth or industry developments.*

Effective and competitive delivery of Mid Penn's products and services is increasingly dependent upon information technology resources and processes provided both internally and through third party vendors. In addition to better serving customers, the effective use of technology increases efficiency and enables Mid Penn to reduce costs. Mid Penn's future success will depend, in part, upon its ability to address the needs of its customers by effectively and safely using technology to provide products and services to enhance customer convenience, attract customers who prefer technological delivery channels, and to create additional efficiencies in its operations. Many of Mid Penn's competitors have greater resources to invest in technological improvements and infrastructure. Additionally, as technology and information security requirements in the financial services industry change and evolve, keeping pace becomes increasingly complex and expensive for Mid Penn. There can be no assurance that Mid Penn will be able to effectively keep pace with these technological advancements or the related substantial costs and investments required, which could adversely affect its financial condition and results of operations.

*Growing by acquisition entails certain risks, and difficulties in integrating past or future acquisitions could adversely affect our business.*

In 2018, Mid Penn completed acquisitions of both The Scottdale Bank & Trust Company and First Priority Financial Corp. and continued the integration of these acquisitions in the subsequent periods. Growth by acquisition involves substantial risks, as the ultimate success of such acquisitions may depend on, among other things, the ability to realize anticipated cost savings and to integrate the acquired companies and operation in a manner that does not result in decreased revenues. Excessive acquisition costs, conversion costs and the disruption of existing customer relationships in both the acquired companies and legacy markets may occur. If we are not able to successfully achieve the financial efficiencies or integration and growth objectives of acquisitions, the anticipated benefits of an acquisition may not be realized fully, or at all, or may take longer to realize than planned.

Further, the asset quality or other financial characteristics of an acquired company may deteriorate from the date a merger or other acquisition agreement is entered into and when the transaction is completed or the post-merger period.

Mid Penn has spent and may continue to spend significant resources identifying companies and businesses to acquire. The efficient and effective integration of any companies and businesses we acquire and integrate into our organization is critical to our growth. The recent Scottdale and First Priority mergers, and any future mergers or acquisitions, involve numerous risks including difficulties in integrating the culture, operations, technologies and personnel of the acquired companies, the diversion of management's attention from other business concerns and the potential loss of customers. Failure to fully integrate the operations of Scottdale and First Priority successfully, or to integrate the operations of future acquisition targets, could harm Mid Penn's business, financial condition, results of operations and cash flows.

*We plan to pursue a growth strategy and there are risks associated with rapid growth.*

We intend to pursue a growth plan consistent with our prior business strategy, including growth by acquisition, as well as leveraging our existing branch network or adding new branch locations or offices and personnel in current and adjacent markets we choose to serve. The Scottdale Merger and First Priority Merger were part of our growth strategy.

Our ability to manage growth successfully will depend on our ability to attract or retain qualified personnel, maintain cost controls and efficiencies, and ensure our areas of growth continue to meet our high asset quality standards, while attracting additional loans and deposits on favorable terms, as well as on factors beyond our control, such as economic conditions and competition in existing and new markets. If we grow too quickly and are not able to attract qualified personnel, control costs and maintain asset quality, this continued rapid growth could materially adversely affect our financial performance.

## **MID PENN BANCORP, INC.**

### **Risks Related to Mid Penn Common Stock**

*The trading volume in Mid Penn's common stock is less than that of other larger financial services companies.*

Mid Penn's common stock is listed for trading on NASDAQ (symbol: MPB); however, the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of Mid Penn's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which Mid Penn has no control. Given the generally lower trading volume of Mid Penn's common stock, significant sales of Mid Penn's common stock, or the expectation of these sales, could cause Mid Penn's stock price to fall.

*The market price of Mid Penn common stock may fluctuate significantly, and this may make it difficult for investors to resell shares of common stock owned by them at times or at prices they find attractive.*

The market price of our common stock as reported on NASDAQ is subject to constant change during business trading hours. We expect that the market price of Mid Penn common stock will continue to fluctuate and there can be no assurance about the stability or trend of market prices for Mid Penn common stock. Stock price volatility, particularly with a stock like ours with lower trading volumes than larger financial services companies, may make it difficult for investors to resell their Mid Penn common stock when they want and at times or prices that they find attractive. Mid Penn's stock price may fluctuate significantly as a result of a variety of factors, many of which are beyond our control. These factors include those described elsewhere in this entire "Risk Factors" section, in this document, and our other filings with the SEC.

*Mid Penn's ability to pay dividends on its common stock, and principal and interest on its subordinated notes, depends primarily on dividends from its banking subsidiary, which is subject to regulatory limits.*

Mid Penn is a bank holding company and its operations are conducted primarily by its banking subsidiary. Mid Penn's ability to pay dividends on its common stock, and principal and interest on its subordinated notes, depends on its receipt of dividends from the Bank. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the respective regulatory agencies that supervise the Bank. The ability of the Bank to pay dividends is also subject to profitability, financial condition, liquidity, and capital management limits. There is no assurance that Mid Penn's banking subsidiary or other subsidiaries established in the future will be able to pay dividends, or that Mid Penn itself will generate adequate cash flow to pay dividends in the future. Federal Reserve policy, which applies to Mid Penn as a registered bank holding company, also provides that dividends by bank holding companies should generally be paid out of earnings from both the current period and a designated look-back period. Mid Penn's ability to pay dividends on its common stock, or the amount of any dividends paid, could have a material adverse effect on the market price of its common stock.

*Mid Penn may need to, or be required to, raise additional capital in the future, and capital may not be available when needed and on terms favorable to current stockholders.*

Federal banking regulators require Mid Penn's holding company and the Bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation, and banking regulatory agencies. In addition, capital levels are also determined by Mid Penn's management and board of directors, based on capital levels that they believe are necessary to support Mid Penn's business operations.

If Mid Penn raises capital through merger and acquisition activities, or through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and could dilute the per share book value and earnings per share of its common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on Mid Penn's stock price. New investors also may have rights, preferences and privileges senior to Mid Penn's current common stockholders, which may adversely impact its current common stockholders.

Mid Penn's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of its control, and on its financial performance. Accordingly, Mid Penn cannot be certain of its ability to raise additional capital on acceptable terms and acceptable time frames or to raise additional capital at all. If Mid Penn cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect Mid Penn's financial condition and results of operations.

## **MID PENN BANCORP, INC.**

*Offerings of debt, which would be senior to Mid Penn's common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.*

Mid Penn may attempt to increase its capital resources if the Corporation's or the Bank's capital ratios fall below the required minimums. Mid Penn's holding company or the Bank could be required to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, senior or subordinated notes and preferred stock. If a future liquidation of Mid Penn occurs, holders of debt securities and shares of preferred stock and lenders with respect to other borrowings are likely to receive distributions of available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of existing shareholders or reduce the market price of our common stock, or both. Holders of Mid Penn common stock are not entitled to preemptive rights or other protections against dilution.

Also, Mid Penn's board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the shareholders. The board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over common stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If Mid Penn issues preferred stock in the future that has a preference over its common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if preferred stock is issued with voting rights that dilute the voting power of common stock, the rights of holders of Mid Penn's common stock or the market price of the common stock could be adversely affected.

*Pennsylvania Business Corporation Law and various anti-takeover provisions under our articles of incorporation and bylaws could impede the takeover of Mid Penn.*

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire Mid Penn, even if the acquisition would be advantageous to shareholders. In addition, Mid Penn has various anti-takeover measures in place under its articles of incorporation and bylaws, including a supermajority vote requirement for mergers, the staggered election of Mid Penn's board of directors, and the absence of cumulative voting. Any one or more of these laws or measures may impede the takeover of Mid Penn and may prevent its shareholders from taking part in a transaction in which they could realize a premium over the current market price of its common stock.

*Mid Penn's common stock is not insured by any governmental entity.*

Although Mid Penn and the Bank are regulated by governmental agencies, Mid Penn common stock is not a deposit account or other obligation of the Bank or any other bank and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, any other governmental entity or by any other public or private entity. Investment in Mid Penn common stock is inherently risky for the reasons described elsewhere in this "Risk Factors" section, in this document, and our other filings with the SEC. Mid Penn common stock is also subject to the same market forces that affect the price of common stock in any other publicly traded company. As a result, investors who acquire Mid Penn common stock may lose some or all of their investment.

## **General Risk Factors**

*Mid Penn's controls and procedures may fail or be circumvented.*

Management maintains Mid Penn's internal controls, disclosure controls and procedures, and corporate governance policies and procedures, and periodically reviews and updates them. Any system of controls, however well designed and operated, is based in part on performance by personnel or certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of Mid Penn's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on Mid Penn's business, results of operations, and financial condition.

*Mid Penn may not be able to attract and retain skilled personnel.*

Mid Penn's success depends, in large part, on its ability to attract and retain qualified, key personnel. Competition for the best personnel in most activities engaged in by Mid Penn can be intense, and Mid Penn may not be able to hire or retain them. The unexpected loss of services of one or more of Mid Penn's key personnel could have a material adverse impact on Mid Penn's business because of their skills, knowledge of Mid Penn's market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

## **MID PENN BANCORP, INC.**

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

### **ITEM 2. PROPERTIES**

The Bank owns a building in Millersburg, Pennsylvania, located at 349 Union Street, which serves as the Corporation's headquarters. The Bank also owns one building in Halifax, Pennsylvania that serves as an operational support facility and two buildings in Harrisburg, Pennsylvania that serve as corporate administrative and operational support offices. Administrative space is also leased in Pottsville, Lancaster, and Chambersburg, Pennsylvania. The Bank's retail office network is comprised of thirty-six full-service locations and one loan production office as of December 31, 2020. Eleven retail banking locations are located in Dauphin County, five in Schuylkill County, four in Berks County, three in Westmoreland County, three in Cumberland County, three in Lancaster County, one in Fayette County, one in Chester County, two in Luzerne County, and one location in each of Northumberland, Montgomery, and Bucks Counties. As of December 31, 2020, retail banking facilities at seventeen locations were owned, while nineteen branch facilities and the loan production office were leased. All real estate owned by Mid Penn is free and clear of encumbrances. Mid Penn's leases expire at various dates through the year 2039 and generally include options to renew. For additional information regarding the lease commitments, refer to Note 9, *Leases*, within Item 8, Notes to Consolidated Financial Statements.

### **ITEM 3. LEGAL PROCEEDINGS**

Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. Mid Penn and the Bank have no proceedings pending other than ordinary, routine litigation occurring in the normal course of business. In addition, management does not know of any material proceedings contemplated by governmental authorities against Mid Penn, the Bank, or any of its properties.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Corporation's common stock is traded on NASDAQ under the symbol MPB.

Transfer Agent: Computershare, Attn: Shareholder Services, P.O. Box 30170, College Station, TX 77842-3170. Phone: 1-800-368-5948.

Number of Shareholders: As of March 1, 2021, there were approximately 2,510 shareholders of record of Mid Penn's common stock.

Dividends: In 2020, cash dividends of \$0.77 were paid, while cash dividends of \$0.82 were declared. Cash dividends of \$0.79 were paid and declared in 2019. In 2018, cash dividends of \$0.70 were paid, while cash dividends of \$0.45 were declared. The declaration of cash dividends on Mid Penn's common stock is at the discretion of its Board of Directors, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant.

Dividend Reinvestment and Stock Purchases: Shareholders of Mid Penn 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.

Annual Meeting: The Annual Meeting of the Shareholders of Mid Penn is expected to be held virtually at 10:00 a.m. on Tuesday, May 11, 2021.

Accounting, Auditing and Internal Control Complaints: Information on how to report a complaint regarding accounting, internal accounting controls or auditing matters is available at Mid Penn's website: [www.midpennbank.com](http://www.midpennbank.com)

## MID PENN BANCORP, INC.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers: During 2020, Mid Penn announced the adoption of a treasury stock repurchase program authorizing the repurchase of up to \$15,000,000 of Mid Penn's outstanding common stock, which represents approximately 8.0% of the issued shares based on Mid Penn's closing stock price and shares issued as of December 31, 2020. Under the treasury stock purchase program, Mid Penn may conduct repurchases of its common stock through open market transactions (which may be by means of a trading plan adopted under SEC Rule 10b5-1) or in privately negotiated transactions. Repurchases under the program are made at the discretion of management and are subject to market conditions and other factors. There is no guarantee as to the exact number of shares that Mid Penn may repurchase. The repurchase plan became effective March 19, 2020 and is authorized to continue through March 19, 2021, unless otherwise extended by Mid Penn's Board of Directors.

A summary of treasury stock activity during the year ended December 31, 2020 is presented below.

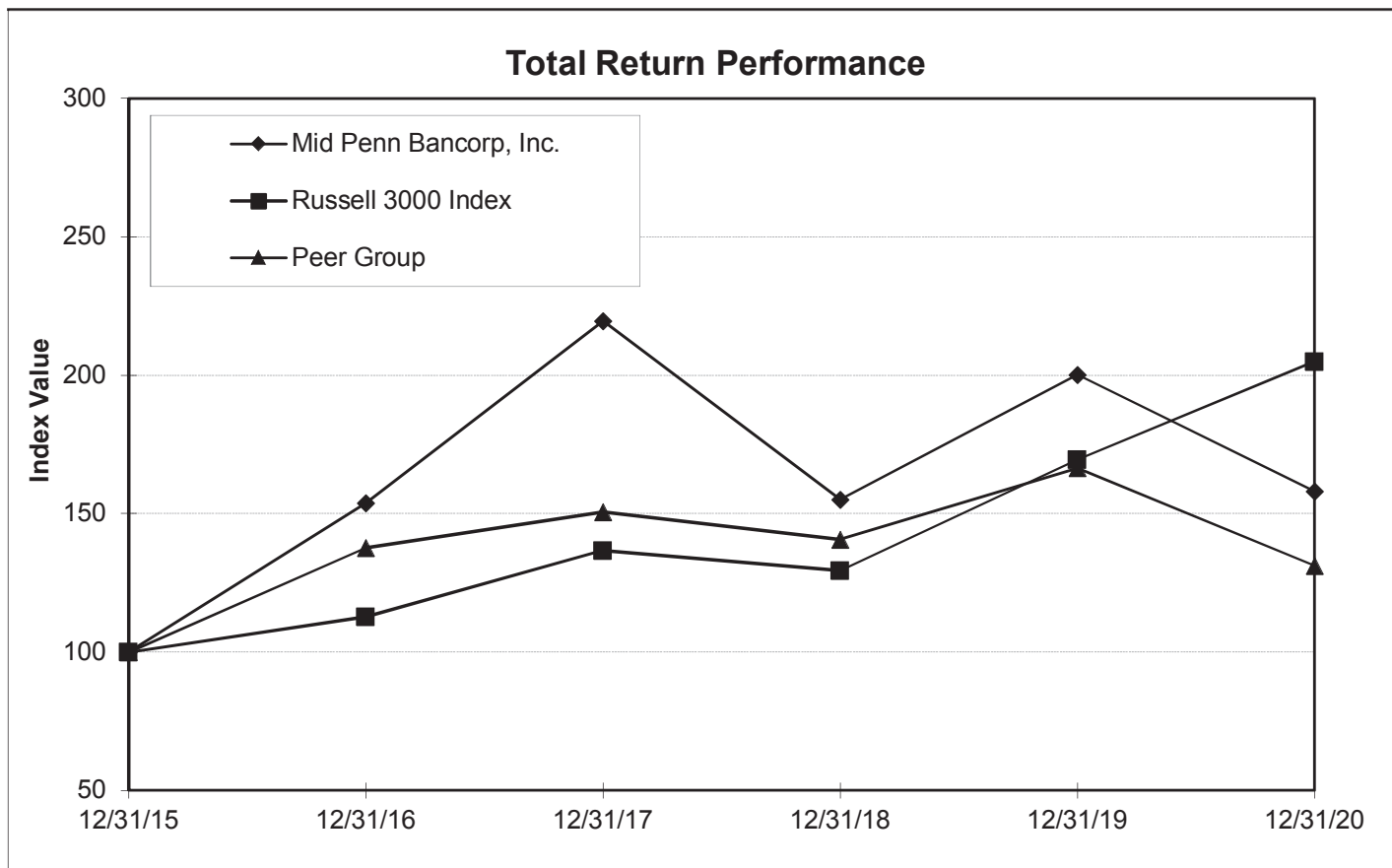
Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
March 1 - March 31, 2020	—	\$ —	—	\$ 15,000,000
April 1 - April 30, 2020	—	\$ —	—	\$ 15,000,000
May 1 - May 31, 2020	60,816	\$ 19.39	\$ 60,816	\$ 13,820,763
June 1 - June 30, 2020	19,707	\$ 19.30	\$ 80,523	\$ 13,440,326
July 1 - July 31, 2020	1,265	\$ 19.39	81,788	\$ 13,415,796
August 1 - August 31, 2020	2,292	\$ 19.52	84,080	\$ 13,371,063
September 1 - September 30, 2020	8,572	\$ 19.33	92,652	\$ 13,205,325
October 1 - October 31, 2020	—	\$ —	92,652	\$ 13,205,325
November 1 - November 30, 2020	—	\$ —	92,652	\$ 13,205,325
December 1 - December 31, 2020	—	\$ —	92,652	\$ 13,205,325

Securities Authorized for Issuance under Equity Compensation Plans: Information regarding the Corporation's equity compensation plans is included in Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

**MID PENN BANCORP, INC.**

Stock Performance Graph

The following five-year performance graph compares the cumulative total shareholder return (including reinvestment of dividends) on Mid Penn’s common stock to the Russell 3000 Index and Mid Penn’s Peer Group, which includes Mid-Atlantic commercial banks with assets between \$2 billion and \$4 billion as of September 30, 2020. The stock performance graph assumes that \$100 was invested on December 31, 2015, and the cumulative return is measured as of each subsequent fiscal year end.



<i>Index</i>	<i>Period Ending</i>					
	<i>12/31/15</i>	<i>12/31/16</i>	<i>12/31/17</i>	<i>12/31/18</i>	<i>12/31/19</i>	<i>12/31/20</i>
Mid Penn Bancorp, Inc.	100.00	153.90	219.65	155.01	200.24	157.97
Russell 3000	100.00	112.74	136.56	129.40	169.54	204.95
Mid-Atlantic Custom Peer Group*	100.00	137.62	150.50	140.58	166.52	131.25

\* Peer Group consists of Mid-Atlantic commercial banks with assets between \$2 billion and \$4 billion as of September 30, 2020.

Source: S&P Global Market Intelligence  
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[www.snl.com](http://www.snl.com)

A detailed list of the Banks comprising the Mid-Atlantic Custom Peer Group is incorporated herein by reference to Exhibit 99.1, which is filed with this Annual Report on Form 10-K.

**MID PENN BANCORP, INC.**

**ITEM 6. SELECTED FINANCIAL DATA**

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

	2020	2019	2018	2017	2016
<b>INCOME:</b>					
Total Interest Income	\$ 107,935	\$ 95,312	\$ 68,654	\$ 43,892	\$ 40,212
Total Interest Expense	19,727	25,164	12,720	6,304	5,367
Net Interest Income	88,208	70,148	55,934	37,588	34,845
Provision for Loan and Lease Losses	4,200	1,390	500	325	1,870
Noninterest Income	17,908	12,621	7,462	5,693	5,924
Noninterest Expense	70,577	59,953	50,171	31,367	28,818
Income Before Provision for Income Taxes	31,339	21,426	12,725	11,589	10,081
Provision for Income Taxes	5,130	3,725	2,129	4,500	2,277
Net Income	26,209	17,701	10,596	7,089	7,804
Series D Preferred Stock Dividends	—	—	102	—	—
Net Income Available to Common Shareholders	26,209	17,701	10,494	7,089	7,804

**COMMON STOCK DATA PER SHARE:**

Earnings Per Common Share (Basic)	\$ 3.11	\$ 2.09	\$ 1.48	\$ 1.67	\$ 1.85
Earnings Per Common Share (Fully Diluted)	3.10	2.09	1.48	1.67	1.85
Cash Dividends Declared	0.82	0.79	0.45	0.77	0.68
Cash Dividends Paid	0.77	0.79	0.70	0.62	0.58
Book Value Per Common Share	30.37	28.05	26.38	17.85	16.65
Tangible Book Value Per Common Share (a)	22.39	19.96	18.10	16.82	15.59

**AVERAGE SHARES OUTSTANDING**

FOR THE YEAR (BASIC):	8,439,427	8,468,586	7,071,091	4,236,616	4,229,284
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**AVERAGE SHARES OUTSTANDING**

FOR THE YEAR (FULLY DILUTED):	8,443,092	8,492,073	7,091,797	4,252,561	4,239,630
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**AT YEAR-END:**

Available-For-Sale Investment Securities	\$ 5,748	\$ 37,009	\$ 111,923	\$ 93,465	\$ 133,625
Held-to-Maturity Investment Securities	128,292	136,477	168,370	101,356	—
Loans and Leases, Net of Unearned Interest	2,384,041	1,762,756	1,624,067	910,404	813,924
Allowance for Loan and Lease Losses	13,382	9,515	8,397	7,606	7,183
Total Assets	2,998,948	2,231,175	2,077,981	1,170,354	1,032,599
Total Deposits	2,474,580	1,912,394	1,726,026	1,023,568	935,373
Short-term Borrowings	125,617	—	43,100	34,611	—
Long-term Debt	75,115	32,903	48,024	12,352	13,581
Subordinated Debt	44,580	27,070	27,082	17,338	7,414
Shareholders' Equity	255,688	237,874	223,209	75,703	70,467

**RATIOS:**

Return on Average Assets	0.95%	0.82%	0.63%	0.64%	0.78%
Return on Average Shareholders' Equity	10.76%	7.67%	5.98%	9.48%	10.71%
Cash Dividend Payout Ratio	24.76%	37.80%	47.30%	37.18%	31.35%
Allowance for Loan and Lease Losses to Loans and Leases at Year End	0.56%	0.54%	0.52%	0.84%	0.88%
Average Shareholders' Equity to Average Assets for the Year	8.83%	10.65%	10.54%	6.78%	7.28%

- (a) Tangible Book Value Per Common Share is a non-GAAP measure as it excludes goodwill and core deposits and other intangibles, net; see Reconciliation of Non-GAAP Measure below.

**MID PENN BANCORP, INC.**

**RECONCILIATION OF NON-GAAP MEASURE:**

This Annual Report on Form 10-K contains financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). For tangible book value per common share, the most directly comparable financial measure calculated in accordance with GAAP is our book value per common share. Management of Mid Penn believes that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value. Income tax effects of non-GAAP adjustments are calculated using the applicable statutory tax rate for the jurisdictions in which the charges (benefits) are incurred, while taking into consideration any valuation allowances or non-deductible portions of the non-GAAP adjustments. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for financial measures determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of Mid Penn's results and financial condition as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information will be helpful in understanding Mid Penn's ongoing operating results. This supplemental presentation should not be construed as an inference that Mid Penn's future results will be unaffected by similar adjustments to be determined in accordance with GAAP.

<i>(Dollars in thousands, except per share data)</i>	2020	2019	December 31, 2018	2017	2016
Shareholder's Equity	\$ 255,688	\$ 237,874	\$ 223,209	\$ 75,703	\$ 70,467
Less: Goodwill	62,840	62,840	62,840	3,918	3,918
Less: Core Deposit and Other Intangibles	4,360	5,758	7,221	434	539
Tangible Equity	<u>\$ 188,488</u>	<u>\$ 169,276</u>	<u>\$ 153,148</u>	<u>\$ 71,351</u>	<u>\$ 66,010</u>
Common Shares Outstanding	<u>8,419,183</u>	<u>8,480,938</u>	<u>8,459,918</u>	<u>4,242,216</u>	<u>4,233,297</u>
Book Value per Common Share	<u>\$ 30.37</u>	<u>\$ 28.05</u>	<u>\$ 26.38</u>	<u>\$ 17.85</u>	<u>\$ 16.65</u>
Tangible Book Value per Common Share	<u>\$ 22.39</u>	<u>\$ 19.96</u>	<u>\$ 18.10</u>	<u>\$ 16.82</u>	<u>\$ 15.59</u>



**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Certain of the matters discussed in this document may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mid Penn or the Bank to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "estimate," and similar expressions are intended to identify such forward-looking statements. Mid Penn's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

- the effects of future economic conditions on Mid Penn, the Bank, its nonbank subsidiaries, and their markets and customers;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- future actions or inactions of the United States government, including a failure to increase the government debt limit or a prolonged shutdown of the federal government;
- business or economic disruption from national or global epidemic or pandemic events, including those from the ongoing COVID-19 pandemic;
- the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, the value of investment securities, and interest rate protection agreements;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in Mid Penn's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
- an increase in the Pennsylvania Bank Shares Tax to which Mid Penn Bank's capital stock is currently subject, or imposition of any additional taxes on the capital stock of Mid Penn or Mid Penn Bank;
- impacts of the capital and liquidity requirements imposed by bank regulatory agencies;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, Financial Accounting Standards Board, the SEC, and other accounting and reporting standard setters;
- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- technological changes;
- our ability to implement business strategies, including our acquisition strategy;
- our ability to successfully expand our franchise, including acquisitions or establishing new offices at favorable prices;
- our ability to successfully integrate any banks, companies, offices, assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- potential goodwill impairment charges, or future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our ability to attract and retain qualified management and personnel;
- results of regulatory examination and supervision processes;
- the failure of assumptions underlying the establishment of reserves for loan and lease losses, the assessment of potential impairment of investment securities, and estimations of values of collateral and various financial assets and liabilities;
- our ability to maintain compliance with the listing rules of NASDAQ;
- our ability to maintain the value and image of our brand and protect our intellectual property rights;
- volatility in the securities markets;
- disruptions due to flooding, severe weather, or other natural disasters or Acts of God; and
- acts of war or terrorism; and
- the factors described in Item 1A of this Annual Report.

All written or oral forward-looking statements attributable to Mid Penn are expressly qualified in their entirety by these cautionary factors.

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of Mid Penn's consolidated financial statements and should be read in conjunction with the Consolidated Financial Statements of the Corporation and Notes thereto and other detailed information appearing elsewhere in this Annual Report on Form 10-K. The comparability of the results of operations for the year ended 2020, compared to 2019 and 2018, in general, have been materially impacted by the acquisition of The Scottsdale Bank and Trust Company, which closed on January 8, 2018, and the acquisition of First Priority Financial Corp., which closed on July 31, 2018. For comparative purposes, some 2019 and 2018 balances have been reclassified to conform to the 2020 presentation. Such reclassifications had no impact on net income available to common shareholders or shareholders' equity.

Mid Penn is not aware of any current trends, events, uncertainties or any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on Mid Penn's or the Bank's liquidity, capital resources, or operations.

#### Critical Accounting Estimates

Mid Penn's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and conform to general practices within the banking industry for smaller reporting public companies. Application of certain principles involves significant judgments and estimates by management that have a material impact on the carrying value of certain assets and liabilities. The judgments and estimates used in applying these principles are based on historical experiences and other factors which are believed to be reasonable under the circumstances. Because of the nature of the judgments and estimates that have been made, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the reported results of operations.

Management of the Corporation considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of the Corporation's investment securities for other-than-temporary impairment, the valuation of the Corporation's goodwill for impairment, and the valuation of assets acquired and liabilities assumed in business combinations, to be the accounting areas that require the most subjective and complex judgments.

The allowance for loan and lease losses represents management's estimate of probable incurred credit losses inherent in the loan and lease portfolio. Determining the amount of the allowance for loan and lease losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience adjusted for subjectively determined qualitative factors, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan and lease portfolio also represents the largest asset type on the consolidated balance sheet. Throughout the remainder of this report, the terms "loan" or "loans" refers to both loans and leases.

Valuations for the investment portfolio are determined using quoted market prices, where available. If quoted market prices are not available, investment valuation is based on pricing models, quotes for similar investment securities, and observable values based upon yield curves and spreads. In addition to valuation of securities, management must assess whether there are any declines where the fair value is below the carrying value of any investments such that the decline should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statement of income.

Certain intangible assets generated in connection with acquisitions are periodically assessed for impairment. Goodwill is tested at least annually for impairment, and if certain events occur which indicate goodwill might be impaired between annual tests, such as the potential impact of the COVID-19 pandemic, goodwill must be tested when such events occur. In making this assessment, Mid Penn considers a number of factors including operating results, business plans, economic projections, anticipated future cash flows, current market data, stock price, etc. Similarly, the amortized basis of the core deposit intangible asset and trade name intangible are periodically assessed for impairment. There are inherent uncertainties related to these factors and Mid Penn's judgment in applying them to the analysis of core deposit intangible, trade name intangible, and goodwill impairment. Future changes in economic and operating conditions could result in goodwill or core deposit intangible or trade name intangible impairment in subsequent periods.

Valuations of assets acquired and liabilities assumed in business combinations are measured at fair value as of the acquisition date. In many cases, determining the fair value of the assets acquired and liabilities assumed requires Mid Penn to estimate the timing and amount of cash flows expected to result from these assets and liabilities and to discount these cash flows at appropriate rates of interest, which require the utilization of significant estimates and judgment in accounting for the acquisition.

Financial Summary*2020 versus 2019*

Mid Penn's net income to common shareholders (earnings) for the year ended December 31, 2020 was \$26,209,000 or \$3.11 per common share basic and \$3.10 per share diluted, compared to earnings of \$17,701,000 or \$2.09 per common share basic and diluted for the year ended December 31, 2019. The results for the year ended December 31, 2020 included the recognition of \$13,137,000 of PPP loan processing fees generated as a result of Mid Penn's participation in the PPP. These PPP fees are recognized into interest income over the term of the respective loan (most have a 24-month maturity), or sooner if the loans are forgiven by the Small Business Administration or the borrowers otherwise pay down principal prior to a loan's stated maturity.

Total assets of Mid Penn were \$2,998,948,000 as of December 31, 2020, reflecting an increase of \$767,773,000 or 34 percent compared to total assets of \$2,231,175,000 as of December 31, 2019. Included in this increase is the significant volume of \$388,313,000 of Paycheck Protection Program ("PPP") loans outstanding, net of deferred fees, as of December 31, 2020. Total core banking loans (total loans excluding both the PPP portfolio and mortgage loans held for sale) increased to \$1,995,728,000 as of December 31, 2020, representing an annualized core loan growth rate of over 13 percent since the end of 2019. The asset growth was funded primarily by both (i) \$562,186,000 of deposit growth, representing an annual deposit growth rate of over 29 percent, including an increase of \$226,188,000 in noninterest-bearing deposits for the year ended December 31, 2020; and (ii) a \$167,829,000 net increase in borrowings, including \$125,617,000 of funding obtained from the Federal Reserve through the Paycheck Protection Program Liquidity Facility ("PPPLF"). Under the PPPLF, the Federal Reserve supplies financing to the Bank at a rate of 35 basis points (0.35%) for a term and amount determined based on the principal amount of PPP loans fully and specifically pledged as collateral in support of the PPPLF borrowings. Draws of PPPLF funds must be repaid to the Federal Reserve immediately after the specific PPP loans collateralizing the related draws are repaid to the Bank.

As part of the annual increase in borrowings, long-term debt increased from \$32,903,000 at December 31, 2019 to \$75,115,000 at December 31, 2020. During the second quarter of 2020, Mid Penn executed a new Federal Home Loan Bank ("FHLB") two-year term lower-cost borrowing of \$70,000,000 to fund anticipated core loan growth. This increase was partially offset by the prepayment of \$27,500,000 of higher-cost long-term FHLB borrowings. Mid Penn recognized \$165,000 of FHLB prepayment penalties, which were recorded within other noninterest expenses on the Consolidated Statements of Income. Mid Penn recognized \$93,000 of FHLB prepayment penalties during the year ended December 31, 2019 attributable to the prepayment of \$20,000,000 of higher-cost FHLB borrowings.

**Subordinated Debt**

Subordinated debt outstanding increased \$17,510,000 or 65 percent, from \$27,070,000 at December 31, 2019 to \$44,580,000 at December 31, 2020. The year-over-year increase reflects the net impact of three subordinated debt transactions:

- In March 2020, Mid Penn issued an aggregate of \$15,000,000 of Subordinated Notes due March 2030 (the "March 2020 Notes") to accredited investors. The March 2020 Notes bear interest at a rate of 4 percent per year for the first five years and then float at the Wall Street Journal's Prime Rate, and are intended to be treated as Tier 2 capital for regulatory capital purposes.
- In December 2020, Mid Penn issued an aggregate of \$12,150,000 of Subordinated Notes due December 2030 (the "December 2020 Notes") to accredited investors. The December 2020 Notes bear interest at a rate of 4.5 percent per year for the first five years and then float at the Wall Street Journal's Prime Rate, and are intended to be treated as Tier 2 capital for regulatory capital purposes.
- Also, during the fourth quarter of 2020, Mid Penn redeemed \$9,500,000 in subordinated debt assumed in 2018 in conjunction with Mid Penn's acquisition of First Priority Bank. The First Priority Bank subordinated debt paid a high fixed rate of interest of 7 percent, and was redeemed promptly following the expiration of the noncallable period and after receiving the required regulatory approval for the redemption. Mid Penn recognized prepayment fees of \$143,000 related to the early redemption, which are included in other noninterest expenses.

Mid Penn's return on average shareholders' equity ("ROE"), a widely recognized performance indicator in the financial industry, was 10.76% in 2020 and 7.67% in 2019. Return on average assets ("ROA"), another performance indicator, was 0.95% in 2020 and 0.82% in 2019.

Mid Penn's tax-equivalent net interest margin for the year ended December 31, 2020 was 3.48 percent versus 3.57 percent for the year ended December 31, 2019. The yield on interest-earning assets decreased from 4.83 percent for 2019 to 4.25 percent for 2020. The net interest margin and yields on loans and interest-earning assets reflect the recognition of PPP loan processing fees in total interest income. Though the average balance of interest-earning assets increased year over year, the yields on interest-earning assets declined due to both (i) the significant average balance of PPP loans, which earn interest at a rate of 1 percent while outstanding, and (ii) reductions in market interest rates and the impact on the yields of loans, investments, and overnight funds subsequent to December 2019 as a result of the 1.50 percent of combined Federal Open Market Committee ("FOMC") rate cuts during March 2020 in response to the COVID-19 pandemic. The total cost of deposits for the year ended December 31, 2020 favorably decreased to 0.72 percent compared to 1.19 percent for the year ended December 31, 2019 as a result of the aforementioned growth in noninterest-bearing deposits, and from deposit rate decrease adjustments made during the year, including those made in response to the March 2020 FOMC rate cuts. Further discussion of the net interest margin can be found in the Net Interest Income section below.

Mid Penn's allowance for loan and lease losses at December 31, 2020 was \$13,382,000 or 0.56% of total loans (less unearned discount), as compared to \$9,515,000 or 0.54% at December 31, 2019. Mid Penn had net loan charge-offs of \$333,000 and \$272,000 for the years ended December 31, 2020 and 2019, respectively. Further discussion of these items can be found in the Provision for Loan and Lease Losses section below.

Total nonperforming assets were \$15,644,000 at December 31, 2020, an increase compared to nonperforming assets of \$12,157,000 at December 31, 2019. Further discussion of the components of nonperforming assets can be found in the Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses section below.

The Corporation's regulatory capital measures of Tier 1 Capital (to risk weighted assets) of \$188,501,000 or 9.6%, and Total Capital (to risk weighted assets) of \$246,529,000 or 12.6%, at December 31, 2020, are above the regulatory "well capitalized" requirements. Tier 1 Capital consists primarily of Mid Penn's shareholders' equity less the value of goodwill and other intangible assets, and excluding the impact of the accumulated other comprehensive income/loss component. Total Capital includes the Tier 1 Capital, as well as Mid Penn's qualifying subordinated debt and the allowance for loan and lease losses, within permitted regulatory limits. Risk-weighted assets are determined by assigning various levels of risk, in accordance with regulatory risk-weighting definitions, to different categories of assets and off-balance sheet activities.

#### *2019 versus 2018*

Mid Penn's net income available to common shareholders ("earnings") was \$17,701,000 or \$2.09 per common share basic and diluted, compared to earnings of \$10,494,000 or \$1.49 per common share basic and diluted for the year ended December 31, 2018. The results for the year ended December 31, 2018 included \$4,790,000 of merger and acquisition expenses resulting from both (i) Mid Penn's acquisition of First Priority Financial Corp. ("First Priority") on July 31, 2018, and (ii) Mid Penn's acquisition of The Scottsdale Bank & Trust Company ("Scottsdale") on January 8, 2018.

Total assets of Mid Penn grew \$153,194,000 or 7 percent in 2019 to close the year at \$2,231,175,000, compared to total assets of \$2,077,981,000 as of December 31, 2018. Asset growth during the year ended December 31, 2019 was primarily attributable to net organic loan growth, an increase in liquid assets from demand deposit growth, and the recording of operating and finance lease right of use assets as a result of Mid Penn's adoption of Accounting Standard Codification (ASC) 842 – *Leases* effective January 1, 2019. Please reference Note 25, *Recent Accounting Pronouncements*, within Item 8, Notes to Consolidated Financial Statements, for more information regarding the adoption of ASC 842.

Decreases in short-term and long-term debt during the year ended December 31, 2019 were the result of both (i) the paydown of \$43,100,000 of short-term borrowings during 2019, and (ii) the prepayment of \$20 million of FHLB fixed rate borrowings originally due in 2020. Mid Penn recognized a prepayment penalty of \$93,000 related to these early payoffs. The prepayment penalty is included in other expenses on the Consolidated Statement of Income for the year ended December 31, 2019.

Mid Penn's return on average shareholders' equity ("ROE"), a widely recognized performance indicator in the financial industry, was 7.67% in 2019 and 5.98% in 2018. Return on average assets ("ROA"), another performance indicator, was 0.82% in 2019 and 0.63% in 2018.

Net interest margin was 3.57% in 2019 versus 3.67% in 2018. Net interest income on a tax equivalent basis increased to \$71,012,000 in 2019 from \$56,824,000 in 2018, as the 2019 net interest income reflected the full year impact of interest-earning assets and interest-bearing liabilities from the two 2018 acquisitions. Despite year-over-year increases in yields on interest-earning assets and growth in noninterest-bearing deposits, the decrease in net interest margin was driven by both (i) the higher cost of deposits and borrowed funds as a result of higher short-term rates for much of 2019 and defensive deposit rate increase responsive to strong bank and nonbank competition for retail deposit customer market share, and (ii) the full-year impact of the higher-cost wholesale funding sources assumed effective July 31, 2018 with the First Priority acquisition, including brokered time deposits and subordinated debt. Further discussion of net interest margin can be found in the Net Interest Income section below.

Mid Penn's allowance for loan and lease losses at December 31, 2019 was \$9,515,000 or 0.54% of total loans (less unearned discount), as compared to \$8,397,000 or 0.52% at December 31, 2018. Mid Penn had net loan charge-offs of \$272,000 for the year ended December 31, 2019 compared to net recoveries of \$291,000 during the year ended December 31, 2018. The net charge-off position in 2019 was primarily due to a \$205,000 charge-off taken on one relationship during the second quarter of 2019. The favorable net recovery position during 2018 was driven by the recovery of \$777,000 of principal from the successful workout of a commercial real estate relationship that originally had a large partial charge-off in 2009. Further discussion of these items can be found in the Provision for Loan and Lease Losses section below.

Total nonperforming assets were \$12,157,000 at December 31, 2019, compared to nonperforming assets of \$12,283,000 at December 31, 2018. Further discussion of the components of nonperforming assets can be found in the Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses section below.

The Corporation's regulatory capital measures of Tier 1 Capital (to risk weighted assets) of \$168,146,000 or 9.8%, and Total Capital (to risk weighted assets) of \$204,811,000 or 11.9%, at December 31, 2019, are above the regulatory "well capitalized" requirements. Tier 1 Capital consists primarily of Mid Penn's shareholders' equity less the value of goodwill and other intangible assets, and excluding the impact of the accumulated other comprehensive income/loss component. Total Capital includes the Tier 1 Capital, as well as Mid Penn's qualifying subordinated debt and the allowance for loan and lease losses, within permitted regulatory limits. Risk-weighted assets are determined by assigning various levels of risk, in accordance with regulatory risk-weighting definitions, to different categories of assets and off-balance sheet activities.

The average balances, effective interest differential, and interest yields for the years ended December 31, 2020, 2019, and 2018, and the components of net interest income are presented below in Table 1. Table 2 provides a comparative presentation of the changes in net interest income for 2020 compared to 2019, and 2019 compared to 2018, by reflecting changes in interest income and interest expense caused by the volume and rate components of interest earning assets and interest-bearing liabilities.

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

## Income and Rates on a Taxable Equivalent Basis for Years Ended

(Dollars in thousands)

	December 31, 2020			December 31, 2019			December 31, 2018		
	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates
<b>ASSETS:</b>									
Interest Bearing Balances	\$ 3,593	\$ 39	1.09%	\$ 5,236	\$ 100	1.91%	\$ 4,983	\$ 75	1.51%
Investment Securities:									
Taxable	112,636	2,524	2.24%	149,187	3,442	2.31%	165,422	3,838	2.32%
Tax-Exempt	49,410	1,276 (a)	2.58%	89,011	2,590 (a)	2.91%	102,656	2,940 (a)	2.86%
Total Securities	162,046	3,800	2.35%	238,198	6,032	2.53%	268,078	6,778	2.53%
Federal Funds Sold	135,243	497	0.37%	63,436	1,222	1.93%	25,745	451	1.75%
Loans and Leases, Net	2,247,002	103,871 (b)	4.62%	1,678,000	88,398 (b)	5.27%	1,243,987	61,965 (b)	4.98%
Restricted Investment in Bank Stocks	6,554	360	5.49%	5,964	424	7.11%	3,567	275	7.71%
Total Earning Assets	2,554,438	108,567	4.25%	1,990,834	96,176	4.83%	1,546,360	69,544	4.50%
Cash and Due from Banks	33,485			30,134			29,408		
Other Assets	170,506			145,996			89,953		
Total Assets	<u>\$2,758,429</u>			<u>\$2,166,964</u>			<u>\$1,665,721</u>		
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY:</b>									
Interest-bearing Demand	\$ 538,385	\$ 3,423	0.64%	\$ 415,359	\$ 4,331	1.04%	\$ 371,873	\$ 2,447	0.66%
Money Market	605,552	4,072	0.67%	443,248	7,355	1.66%	309,705	2,990	0.97%
Savings	186,132	346	0.19%	187,927	641	0.34%	191,686	540	0.28%
Time	443,607	8,558	1.93%	471,241	9,223	1.96%	324,853	4,907	1.51%
Total Interest-bearing Deposits	1,773,676	16,399	0.92%	1,517,775	21,550	1.42%	1,198,117	10,884	0.91%
Short-term Borrowings	106,233	371	0.35%	16,557	470	2.84%	8,833	207	2.34%
Long-term Debt	66,609	999	1.50%	54,634	1,580	2.89%	17,292	462	2.67%
Subordinated Debt	38,740	1,958	5.05%	27,073	1,564	5.78%	21,324	1,167	5.47%
Total Interest-bearing Liabilities	1,985,258	19,727	0.99%	1,616,039	25,164	1.56%	1,245,566	12,720	1.02%
Noninterest-bearing Demand	505,094			296,872			232,562		
Other Liabilities	24,435			23,325			12,030		
Shareholders' Equity	243,642			230,728			175,563		
Total Liabilities & Shareholders' Equity	<u>\$2,758,429</u>			<u>\$2,166,964</u>			<u>\$1,665,721</u>		
Net Interest Income (taxable equivalent basis)		\$ 88,840			\$ 71,012			\$ 56,824	
Taxable Equivalent Adjustment		(632)			(864)			(890)	
Net Interest Income		<u>\$ 88,208</u>			<u>\$ 70,148</u>			<u>\$ 55,934</u>	
Total Yield on Earning Assets			4.25%			4.83%			4.50%
Rate on Supporting Liabilities			0.99%			1.56%			1.02%
Average Interest Spread			3.26%			3.27%			3.48%
Net Interest Margin			3.48%			3.57%			3.67%

(a) Includes tax equivalent adjustments (calculated using statutory rates of 21 percent) of \$268,000, \$544,000, and \$617,000 for the years 2020, 2019, and 2018, respectively, resulting from tax-free municipal securities in the investment portfolio.

(b) Includes tax equivalent adjustments (calculated using statutory rates of 21 percent) of \$364,000, \$320,000, and \$273,000 for the years 2020, 2019, and 2018, respectively, resulting from tax-free municipal loans in the commercial loan portfolio.

Net Interest Income

Net interest income, Mid Penn's primary source of earnings, represents the difference between interest income received on loans, investments, and overnight funds, and interest expense paid on deposits and short- and long-term borrowings. Net interest income is affected by changes in interest rates and changes in average balances (volume) in the various interest-sensitive assets and liabilities. Interest and average rates in Table 1 above are presented on a fully taxable-equivalent basis. Tax-equivalent adjustments were calculated using statutory corporate tax rate of 21 percent for the years ended December 31, 2020, 2019 and 2018. For purposes of calculating loan yields, average loan balances include nonaccrual loans. Loan fees of \$15,795,000, \$2,153,000 and \$1,038,000 are included with loan interest income in Table 1 above for the years ended December 31, 2020, 2019, and 2018, respectively. During the year ended December 31, 2020, Mid Penn recognized \$13,137,000 of PPP fees which are included in loan fees. Similar fees were not recognized during the years ended December 31, 2019 or 2018.

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

	2020 Compared to 2019			2019 Compared to 2018		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change In:			Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
<b>INTEREST INCOME:</b>						
Interest Bearing Balances	\$ (31)	\$ (30)	\$ (61)	\$ 4	\$ 21	\$ 25
Investment Securities:						
Taxable	(843)	(75)	(918)	(377)	(19)	(396)
Tax-Exempt	(1,152)	(162)	(1,314)	(391)	41	(350)
Total Securities	(1,995)	(237)	(2,232)	(768)	22	(746)
Federal Funds Sold	1,383	(2,108)	(725)	660	111	771
Loans and Leases, Net	29,975	(14,502)	15,473	21,619	4,814	26,433
Restricted Investment Bank Stocks	42	(106)	(64)	185	(36)	149
Total Interest Income	29,374	(16,983)	12,391	21,700	4,932	26,632
<b>INTEREST EXPENSE:</b>						
Interest Bearing Deposits:						
Interest Bearing Demand	1,283	(2,191)	(908)	286	1,598	1,884
Money Market	2,693	(5,976)	(3,283)	1,289	3,076	4,365
Savings	(6)	(289)	(295)	(11)	112	101
Time	(541)	(124)	(665)	2,211	2,105	4,316
Total Interest Bearing Deposits	3,429	(8,580)	(5,151)	3,775	6,891	10,666
Short-term Borrowings	2,546	(2,645)	(99)	181	82	263
Long-term Debt	346	(927)	(581)	998	120	1,118
Subordinated Debt	674	(280)	394	315	82	397
Total Interest Expense	6,995	(12,432)	(5,437)	5,269	7,175	12,444
<b>NET INTEREST INCOME</b>	<b>\$ 22,379</b>	<b>\$ (4,551)</b>	<b>\$ 17,828</b>	<b>\$ 16,431</b>	<b>\$ (2,243)</b>	<b>\$ 14,188</b>

The effect of changing volume and rate, which cannot be segregated, has been allocated entirely to the rate column. Tax-exempt income is shown on a tax equivalent basis using a statutory corporate tax rate of 21 percent for the years ended December 31, 2020, 2019 and 2018.

For the year ended December 31, 2020, Mid Penn's tax-equivalent net interest margin was 3.48% versus 3.57% for the year ended December 31, 2019 and 3.67% for the year ended December 31, 2018. During 2020, taxable equivalent net interest income increased \$17,828,000 or 25 percent compared to 2019. During 2019, taxable equivalent net interest income increased \$14,188,000 or 25 percent compared to 2018. The primary sources of the increased taxable equivalent net interest income for the 2020 year included (i) \$2,292,000 of interest income from core loan growth, (ii) reduced interest expense due to a lower cost of deposits, and (iii) the recognition of \$13,137,000 of PPP loan processing fees generated as a result of Mid Penn's participation in the PPP. These PPP fees are recognized into interest income over the term of the respective loan (most have a 24-month maturity), or sooner if the loans are forgiven by the Small Business Administration or the borrowers otherwise pay down principal prior to a loan's stated maturity.

The yield on interest-earning assets decreased to 4.25% in 2020, from 4.83% in 2019 and 4.50% in 2018. Though the average balance of interest-earning assets increased year over year, the yields on interest-earning assets declined due to both (i) the significant average balance of PPP loans, which earn interest at a rate of 1 percent while outstanding, and (ii) reductions in market interest rates and the impact of the yields on loans, investments, and overnight funds subsequent to December 2019 consisting of 1.50 percent of combined Federal Open Market Committee ("FOMC") rate cuts during March 2020 in response to the COVID-19 pandemic.

Interest expense for 2020 decreased by \$5,437,000 or 22 percent when compared to 2019. Interest expense for 2019 increased by \$12,444,000 or 98 percent when compared to 2018. The cost of interest-bearing liabilities decreased to 0.99% in 2020 from 1.56% in 2019 and 1.02% in 2018. The decrease in the cost of interest-bearing liabilities in 2020 was due to an increase of \$226,188,000 in noninterest-bearing deposits for the year ended December 31, 2020, and from deposit rate decrease adjustments made during the year, including those made in response to the March 2020 FOMC rate cuts.

Further changes to the future mix of the loan, investment, and deposit products in the Bank's portfolios, and the volume of variable rate and fixed rate instruments based upon new loan originations and investment purchases, may significantly change the net interest margin and the yields on earning-assets and the costs of interest-bearing liabilities. In addition, net interest income may be impacted by further interest rate actions of the Federal Reserve or other movements in market rates and the yield curve. Management continues to monitor the net interest margin closely.

#### Provision for Loan and Lease Losses

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at a level adequate to absorb management's estimate of probable losses inherent in the loan and lease portfolio. Mid Penn's provision for loan and lease losses is based upon management's monthly reviews of the loan portfolio throughout each year. The purpose of the monthly reviews is to assess loan quality, identify impaired loans and leases, analyze delinquencies, ascertain loan and lease growth, evaluate actual and potential charge-offs and recoveries, assess general economic conditions in the markets we serve, and determine appropriate loan loss provisions to maintain an adequate allowance.

Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's portfolio credit risk and potential loss assessment process, which took into consideration the risk characteristics of the loan and lease portfolio, shifting collateral values, and the assessment of other relevant qualitative factors from December 31, 2019 to December 31, 2020. For the year ended December 31, 2020, the provision for loan and lease losses was \$4,200,000 representing an increase of over 200 percent compared to a provision for loan losses of \$1,390,000 for the year ended December 31, 2019. The allowance for loan losses and the related provision reflect Mid Penn's continued application of the incurred loss method for estimating credit losses as Mid Penn is not yet required to adopt the current expected credit loss ("CECL") accounting standard. The increase in the loan loss reserves and the provision was primarily the result of (i) providing for the year-to-date core loan growth (excluding PPP loans), which was over 13 percent during the year ended December 31, 2020, and (ii) an increase in the values of qualitative factors applied related to economic and external conditions when compared to prior periods, with such changes driven by the potential for ongoing financial implications from the COVID-19 pandemic on Mid Penn's customers and market area. The allowance for loan and lease losses as a percentage of total loans was 0.56% at December 31, 2020, compared to 0.54% at December 31, 2019 and 0.52% at December 31, 2018.

For the years ended December 31, 2020 and December 31, 2019, Mid Penn had net charge-offs of \$333,000 and \$272,000, respectively, compared to net recoveries of \$291,000 during the same period of 2018. Loans charged off during 2020 were comprised of four commercial real estate, construction, and land development loans totaling \$265,000, three commercial and industrial loans for \$45,000, one mortgage loan for \$4,000, twelve consumer loans to unrelated borrowers totaling \$37,000, and \$21,000 of overdrawn deposit account charge-offs.

Mid Penn may need to make future adjustments to the allowance and the provision for loan and lease losses if economic conditions or loan credit quality or other relevant qualitative factors differ substantially from the assumptions used in making Mid Penn's evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.



A summary of charge-offs and recoveries of loans and leases are presented in Table 3.

**TABLE 3: ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES***(Dollars in thousands)*

	Years ended December 31,				
	2020	2019	2018	2017	2016
Balance, beginning of year	\$ 9,515	\$ 8,397	\$ 7,606	\$ 7,183	\$ 6,168
Loans and leases charged off:					
Commercial real estate, construction and land development	265	100	104	322	216
Commercial, industrial and agricultural	45	217	142	25	820
Real estate - residential	4	29	60	102	4
Consumer	58	82	222	48	67
Total loans and leases charged off	372	428	528	497	1,107
Recoveries on loans and leases previously charged off:					
Commercial real estate, construction and land development	3	82	808	553	211
Commercial, industrial and agricultural	3	45	1	26	4
Real estate - residential	3	9	—	4	26
Consumer	30	20	10	12	11
Total loans and leases recovered	39	156	819	595	252
Net charge-offs (recoveries)	333	272	(291)	(98)	855
Provision for loan and lease losses	4,200	1,390	500	325	1,870
Balance, end of year	<u>\$ 13,382</u>	<u>\$ 9,515</u>	<u>\$ 8,397</u>	<u>\$ 7,606</u>	<u>\$ 7,183</u>

	Years ended December 31,				
	2020	2019	2018	2017	2016
Ratio of net charge-offs (recoveries) during the year to average loans and leases outstanding during the year, net of unearned discount	<u>0.01%</u>	<u>0.02%</u>	<u>-0.02%</u>	<u>-0.01%</u>	<u>0.11%</u>
Allowance for loan and lease losses as a percentage of total loans and leases at December 31	<u>0.56%</u>	<u>0.54%</u>	<u>0.52%</u>	<u>0.84%</u>	<u>0.88%</u>
Allowance for loan and lease losses as a percentage of non-performing assets at December 31	<u>85.54%</u>	<u>78.27%</u>	<u>68.37%</u>	<u>67.26%</u>	<u>124.73%</u>

**TABLE 4: NONINTEREST INCOME***(Dollars in thousands)*

	Years ended December 31,		
	2020	2019	2018
Income from fiduciary activities	\$ 1,694	\$ 1,416	\$ 1,155
Service charges on deposits	637	884	933
Net gain on sales of investment securities	467	1,878	137
Earnings from cash surrender value of life insurance	301	314	286
Mortgage banking income	9,682	3,771	751
ATM debit card interchange income	1,960	1,594	1,253
Merchant services income	392	413	347
Net gain on sales of SBA loans	442	831	561
Other income	2,333	1,520	2,039
Total Noninterest Income	<u>\$ 17,908</u>	<u>\$ 12,621</u>	<u>\$ 7,462</u>

Noninterest Income*2020 versus 2019*

For the year ended December 31, 2020, noninterest income totaled \$17,908,000, an increase of \$5,287,000 or 42 percent, compared to noninterest income of \$12,621,000 for the year ended December 31, 2019.

Mortgage banking income was \$9,682,000 for the year ended December 31, 2020, an increase of \$5,911,000 or more than double the mortgage banking income of \$3,771,000 recorded during 2019. As mortgage interest rates declined and remained low for most of 2020, Mid Penn significantly increased residential mortgage originations (both purchase and refinance activity) and secondary-market loan sales and gains during 2020.

ATM debit card interchange income was \$1,960,000 for the year ended December 31, 2020, an increase of \$366,000 or 23 percent compared to interchange income of \$1,594,000 for 2019. The increase resulted from increasing card-based transaction usage across our expanding checking account customer base.

Income from fiduciary and wealth management activities was \$1,694,000 for the year ended December 31, 2020, an increase of \$278,000 or 20 percent, compared to fiduciary income of \$1,416,000 for 2019. The increased revenues in 2020 were attributed to growth in trust assets under management and increased sales of retail investment products.

Net gains on sales of investment securities were \$467,000 for the year ended December 31, 2020, a decrease of \$1,411,000 compared to net gains on sales of securities of \$1,878,000 for the year ended December 31, 2019. During the fourth quarter of 2019, Mid Penn adopted Accounting Standards Update (“ASU”) 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* and, as part of the adoption, Mid Penn reclassified several held-to-maturity debt securities with an aggregate amortized cost of \$67,100,000 to the available-for-sale category. Through implementation of planned organic hedging activities as part of Mid Penn’s interest rate risk management, all the reclassified securities were subsequently sold, and Mid Penn realized a pre-tax gain on the sales of \$1,779,000 in 2019. Investment sales and gains during the twelve months ended December 31, 2020 reflect the continued implementation of asset/liability management strategies, which included effectively using some of these gains to offset \$165,000 of debt prepayment penalties, recorded within other noninterest expenses, associated with the early redemption of higher-cost FHLB advances.

Service charges on deposits were \$637,000 during the year ended December 31, 2020, reflecting a decrease of \$247,000 or 28 percent when compared to 2019. The decrease is primarily due to less overdraft activity and decreased nonsufficient funds fees charged to deposit customers.

Net gains on sales of SBA loans were \$442,000 for the year ended December 31, 2020, a decrease of \$389,000 or 47 percent compared to net gains on sales of SBA loans of \$831,000 during 2019. Much of the decrease is due to the temporary shift of the resources in our SBA lending function to focus on the SBA-administered PPP loan processing, funding, and forgiveness during 2020.

Other income was \$2,333,000 for the year ended December 31, 2020, an increase of \$813,000 compared to other income of \$1,520,000 for the year ended December 31, 2019. The increase in other income was primarily driven by higher volumes of fee-based income, including loan-level swap fees, wire transfer fees, letter of credit fees, and credit card program referrals and royalties.

*2019 versus 2018*

For the year ended December 31, 2019, noninterest income totaled \$12,621,000, an increase of \$5,159,000 or 69 percent, compared to noninterest income of \$7,462,000 for the year ended December 31, 2018.

Mortgage banking income was \$3,771,000 for the year ended December 31, 2019, an increase of \$3,020,000 or over 400 percent compared to mortgage banking income of \$751,000 for the year ended December 31, 2018. Mid Penn expanded its team of residential mortgage originators in southeastern Pennsylvania during 2019, contributing to the larger volume of mortgage loans originated and sold during the year. Additionally, longer-term mortgage interest rates have declined significantly over the past twelve months, resulting in a higher level of mortgage originations and secondary-market loan sales during 2019.

Net gains on sales of securities were \$1,878,000 for the year ended December 31, 2019, an increase of \$1,741,000 compared to net gains on sales of securities of \$137,000 for the year ended December 31, 2018. As previously reported on a Form 8-K dated November 20, 2019, Mid Penn early adopted Accounting Standards Update (“ASU”) 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*), and as part of the adoption, Mid Penn reclassified 113 held-to-maturity debt securities with an aggregate amortized cost of \$67,096,000 to the available-for-sale category. Through implementation of planned organic hedging activities as part of Mid Penn’s interest rate risk management, all 113 securities were subsequently sold during the fourth quarter of 2019, and Mid Penn realized a pre-tax gain on the sales of \$1,779,000 which offset some of the market impact of lower earning-asset yields in the second half of 2019.

Income from fiduciary activities was \$1,416,000 for the year ended December 31, 2019, an increase of \$261,000 or 23 percent, compared to fiduciary income of \$1,155,000 for the year ended December 31, 2018. These additional revenues were attributed to growth in trust assets under management and increased sales of retail investment products, as a result of successful continued business development efforts by Mid Penn’s trust and wealth management team.

ATM debit card interchange income was \$1,594,000 for the year ended December 31, 2019, an increase of \$341,000 or 27 percent compared to interchange income of \$1,253,000 for the year ended December 31, 2018. The increase resulted from increasing card-based transaction usage across our customer base, as well as the full-year impact of the added volume from demand deposit accounts assumed in the 2018 First Priority acquisition.

Net gains on sales of SBA loans were \$831,000 for the year ended December 31, 2019, an increase of \$270,000 or 48 percent compared to net gains on sales of SBA loans of \$561,000 during 2018. The increase reflects Mid Penn’s continued growth in SBA loan production, reflective of both the Bank’s expanded footprint and its reputation as a preferred small business lender.

For the twelve months ended December 31, 2019, merchant services income totaled \$413,000, an increase of \$66,000 or 19 percent, compared to \$347,000 for the twelve months ended December 31, 2018, reflecting an increase in the volume of business customers utilizing Mid Penn’s merchant services to process their debit card transactions, cash advances, and other related products. Mid Penn also established a relationship with a new merchant services vendor that has resulted in more favorable retention of revenues for the Bank.

Other income was \$1,520,000 for the year ended December 31, 2019, a decrease of \$519,000 compared to other income of \$2,039,000 for the year ended December 31, 2018. For the full-year 2018, Mid Penn recognized \$737,000 of defined benefit pension plan settlement gains from certain plan participants receiving lump sum benefit payouts (the plan and related liabilities were assumed as a result of the Scottsdale acquisition in January 2018). During the year ended December 31, 2019, a lower amount of pension plan lump sum payouts occurred, with related settlement gains totaling \$34,000. Pension settlement gains are not expected to be a recurring item on a going-forward basis.

**TABLE 5: NONINTEREST EXPENSE***(Dollars in thousands)*

	Years ended December 31,		
	2020	2019	2018
Salaries and employee benefits	\$ 37,758	\$ 32,360	\$ 23,862
Occupancy expense, net	5,505	5,352	4,019
Equipment expense	2,910	2,647	2,186
Software licensing and utilization	5,286	4,394	3,609
FDIC Assessment	1,680	839	772
Legal and professional fees	1,665	1,679	1,117
Charitable contributions qualifying for State tax credits	1,342	755	585
Mortgage banking profit-sharing expense	2,004	—	—
Pennsylvania Bank Shares tax expense	583	777	225
Marketing and advertising expense	542	906	1,025
Telephone expense	539	609	621
Loss (gain) on sale/write-down of foreclosed assets	333	(15)	4
Intangible amortization	1,398	1,430	1,224
Merger and acquisition expense	—	—	4,790
Director fees and benefits expense	1,109	1,005	792
ATM debit card processing expense	819	685	631
Meals, travel, and lodging expense	644	1,036	945
Insurance	368	353	278
Corporate donations and sponsorships	207	401	149
Investor services	200	153	159
Loan collection costs	197	487	271
OREO expense	150	91	275
Other expenses	5,338	4,009	2,632
Total Noninterest Expense	<u>\$ 70,577</u>	<u>\$ 59,953</u>	<u>\$ 50,171</u>

Noninterest Expense*2020 versus 2019*

For the year ended December 31, 2020, noninterest expense totaled \$70,577,000, an increase of \$10,624,000 or 18 percent, compared to noninterest expense of \$59,953,000 for the year ended December 31, 2019.

Salaries and employee benefits were \$37,758,000 for the year ended December 31, 2020, an increase of \$5,398,000 or 17 percent, versus 2019, with the increase primarily attributable to (i) increased commissions expense, commensurate with the mortgage loan origination and sales success of the mortgage banking group; (ii) increased compensation expense for the substantial time and effort devoted to the PPP loan initiative by many of our business development officers and staff members during 2020; and (iii) the addition of private banking and insurance business development professionals in our new nonbank subsidiaries.

Software licensing and utilization costs were \$5,286,000 for the year ended December 31, 2020, an increase of \$892,000 or 20 percent compared to \$4,394,000 for the year ended December 31, 2019. This increase reflects the additional costs from both transaction volume-based charges, and licensing fees related to the addition of new staff and locations added since December 31, 2019, as well as costs associated with ensuring secure connectivity for an increased volume of employees working remotely in response to the COVID-19 pandemic restrictions. Additionally, Mid Penn continued to invest in upgrades to internal systems, networks, storage capabilities, cybersecurity management, and data security mechanisms to enhance data management and security capabilities responsive to both the larger company profile and increasing complexity of information technology management.

FDIC assessment expense was \$1,680,000 for the year ended December 31, 2020, an increase of \$841,000 or more than double the \$839,000 of FDIC assessment expense recognized during the year ended December 31, 2019. The lower assessment expense for the year ended December 31, 2019 reflected the receipt of \$492,000 of FDIC small bank assessment credits in 2019. Similar credits were not received in 2020. Additionally, the total base assessment expense increased for 2020 when compared to 2019, primarily due to the significant year-over-year increase in total average assets of the Bank on which the assessment is based.

Community and charitable contributions qualifying for State tax credits totaled \$1,342,000 for the year ended December 31, 2020, an increase of \$587,000 compared to similar program contributions of \$755,000 for the year ended December 31, 2019. Mid Penn was approved by the Commonwealth of Pennsylvania to contribute an increased tax-credit-qualifying amount to participants within Pennsylvania's Department of Community and Economic Development ("DCED") Educational Improvement Tax Credit Program ("EITC"), and to moderate-to-low income housing projects in the DCED's Neighborhood Assistance Program ("NAP") during the year ended December 31, 2020. These EITC and NAP contributions in 2020 generated tax credits totaling \$1,132,000 to be applied to Mid Penn's Pennsylvania bank shares tax liability. These contributions and programs are also key elements of Mid Penn's Community Reinvestment Act compliance activities.

Pennsylvania bank shares tax expense was \$583,000 for the year ended December 31, 2020, a decrease of \$194,000 or 25 percent compared to \$777,000 for the year ended December 31, 2019. The decrease in shares tax expense generally reflects the aforementioned larger dollar volume of EITC and NAP donations made, which qualified for PA shares tax credits.

Mortgage banking profit-sharing expense totaled \$2,004,000 for payments accrued for or made to third-party principals commensurate with the record-level of earnings success within the Southeastern Pennsylvania mortgage banking group at Mid Penn for the year ended December 31, 2020. Similar expenses were not recognized during the year ended December 31, 2019 as the group did not generate sufficient earnings in 2019 to qualify for profit-sharing to the third-party principals.

Marketing and advertising expense was \$542,000 for the year ended December 31, 2020, a decrease of \$364,000 or 40 percent compared to \$906,000 during the same period in 2019. The year of 2019 reflected additional advertising expense and promotional items expense to increase regional recognition and knowledge of Mid Penn's First Priority Bank division and expanded mortgage origination operations in Southeastern Pennsylvania. Similar expenses were not recognized in 2020. Additionally, as a result of the pandemic, in-person promotional events were significantly reduced in 2020, resulting in less advertising and promotional items expense.

The loss on the sale or write-down of foreclosed assets was \$333,000 during the year ended December 31, 2020 as compared to a gain on the sale of foreclosed assets of \$15,000 during the year ended December 31, 2019. The 2020 expense is attributable to write-downs taken on two related foreclosed assets totaling \$358,000 during the year ended December 31, 2020. These write-downs were partially offset by \$25,000 of collective gains on the sale of certain smaller foreclosed real estate properties during 2020.

#### *2019 versus 2018*

For the year ended December 31, 2019, noninterest expense totaled \$59,953,000, an increase of \$9,782,000 or 20 percent, compared to noninterest expense of \$50,171,000 for the twelve months ended December 31, 2018. The increase in noninterest expense for the twelve month period was driven by both (i) the full-year impact of the staff, facilities, and technology licensing costs added as a result of the acquisition of First Priority in July 2018, (ii) the 2019 expansion of Mid Penn's mortgage banking division in the southeastern Pennsylvania market, and (iii) the addition of business development professionals, primarily in our recently-acquired markets, to better take advantage of new market opportunities to increase our revenues from lending and wealth management activities.

Salaries and employee benefits expenses were \$32,360,000 during the year ended December 31, 2019, an increase of \$8,498,000 or 36 percent, versus the same period in 2018, with the increase primarily attributable to (i) the full-year impact of the compensation and benefit costs of the commercial business officers and the retail staff from the First Priority acquisition, effective July 31, 2018, (ii) the personnel added as a result of the significant expansion of the mortgage banking division in 2019, and (iii) staff added as part of the new Hazle Township office opened during the fourth quarter of 2019.

Occupancy expenses increased \$1,333,000 or 33 percent during the year ended December 31, 2019 compared to the twelve months ended December 31, 2018. Similarly, equipment expense increased \$461,000 or 21 percent during the year ended December 31, 2019 compared to the twelve months ended December 31, 2018. These increases related to (i) the full-year impact of the incremental facilities operating costs, including rent, utilities, and depreciation expense associated with the acquisition of First Priority, and (ii) expansion of the corporate administrative facilities to include expanded employee education facilities, and to realize additional efficiencies after the two 2018 mergers by further centralizing several back-office functions supporting the broader franchise.

Pennsylvania bank shares tax expense was \$777,000 for the year ended December 31, 2019, an increase of \$552,000 or over 200 percent compared to \$225,000 for the year ended December 31, 2018. The increase in assessment expense generally reflects the larger total shareholder equity balance upon which the tax is based (from both acquisition and organic growth activity) as of the tax measurement date of January 1, 2019 when compared to January 1, 2018. Both years also reflected the impact of Pennsylvania tax credits generated from the Bank's Educational Improvement Tax Credit (EITC) and Neighborhood Assistance Program (NAP) community giving, with these donations totaling \$755,000 and \$585,000 in 2019 and 2018 respectively, resulting in tax credits totaling \$677,000 in 2019 and \$522,000 in 2018.

FDIC assessment expense was \$839,000 for the year ended December 31, 2019, an increase of \$67,000 or 9 percent compared to \$772,000 for the year ended December 31, 2018. During the third quarter of 2019, Mid Penn received notification from the FDIC that the FDIC's Deposit Insurance Fund reserve ratio met a threshold resulting in the FDIC providing the Bank with a \$492,000 credit, which was applied to assessment liability accruals for both the second and third quarters of 2019. The credit received during 2019 partially offset an increase in total assessment expense when comparing to the full year of 2018, primarily due the year-over-year increase in total average assets of the Bank on which the assessment is based.

Legal and professional fees for the year ended December 31, 2019 increased by \$562,000 or 50 percent compared to the same period in 2018 due to the increased size of the franchise and related expanded use and increased costs of third-party providers for information technology support, human resources services, external audit, and loan review services.

Software licensing and utilization costs were \$4,394,000 for the year ended December 31, 2019, an increase of \$785,000 or 22 percent compared to \$3,609,000 for the year ended December 31, 2018. The year-over-year increase is a result of additional transaction volume-based costs and licensing fees related to the addition of the locations, staff and accounts for the First Priority offices acquired in July 2018, the expansion of the mortgage banking division during 2019, and the addition of the Hazle Township branch added in 2019. Additionally, Mid Penn continued to invest in upgrades to internal systems, networks, storage capabilities, and data security mechanisms to enhance data management and security capabilities responsive to both the larger company profile and increasing complexity of information technology management.

Intangible amortization increased from \$1,224,000 during the year ended December 31, 2018 to \$1,430,000 during the year ended December 31, 2019 due to the full-year impact of amortization resulting from the core deposit intangible asset added from the First Priority acquisition on July 31, 2018.

Other expenses were \$4,009,000 during the twelve months ended December 31, 2019, an increase of \$2,632,000 or 52 percent compared to other expense of \$2,632,000 for the same period in 2018. As the First Priority acquisition and organic growth have significantly increased the organization's geographic profile and employee base, several categories within other expense experienced related increases, including stationery and supplies, postage, printing, subscriptions, and employee relations.

No merger expenses were recorded during the year ended December 31, 2019. During the twelve months ended December 31, 2018, merger and acquisition expenses totaling \$4,790,000 were recorded including investment banking fees, merger-related legal and professional fees, severance costs, and information technology conversion/termination costs incurred for the two 2018 acquisitions of First Priority and Scottdale.

### Investments

Mid Penn's investment portfolio is utilized primarily to support overall liquidity and interest rate risk management, to provide collateral supporting pledging requirements for public funds on deposit, and to generate additional interest income within reasonable risk parameters. Mid Penn's investment portfolio includes both held-to-maturity securities and available-for-sale securities.

Mid Penn's portfolio of held-to-maturity securities, recorded at amortized cost, decreased \$8,185,000 to \$128,292,000 as of December 31, 2020, as compared to \$136,477,000 as of December 31, 2019. Mid Penn's total available-for-sale securities portfolio decreased \$31,261,000 or 84 percent, from \$37,009,000 at December 31, 2019 to \$5,748,000 at December 31, 2020. The year ended December 31, 2020 reflected a higher volume of calls of both available-for-sale and held-to-maturity securities as market yields dropped due to both changes in the yield curve and from the FOMC reducing rates in response to the COVID-19 pandemic, leading to certain U.S. Agencies and other security issuers to execute calls on some higher coupon securities. Additionally, Mid Penn initiated some sales of available-for-sale investment securities for both strategic portfolio and asset liability management objectives.

The debt securities in Mid Penn's available-for-sale portfolio are recorded at fair value, which is generally based upon a market price relative to other debt investments of the same type with similar maturity dates. As the interest rate environment and overall market yield curve changes, the fair value of securities changes accordingly. The fair values of securities can also be impacted by changing market supply and demand for certain types of securities.

At December 31, 2020, the unrealized loss on available-for-sale investment securities resulted in a decrease in shareholders' equity of \$2,000 (comprised of a gross unrealized loss on securities of \$3,000 net of a deferred income tax benefit of \$1,000). At December 31, 2019, the unrealized loss on available-for-sale investment securities resulted in a decrease in shareholders' equity of \$127,000 (comprised of a gross unrealized loss on securities of \$161,000 net of a deferred income tax benefit of \$34,000). Mid Penn does not have any significant concentrations of non-governmental securities within its investment portfolio. Table 6 provides a summary of our investment securities, and maturity and yield information relating to debt securities is shown in Table 7.

**TABLE 6: FAIR VALUE OF INVESTMENT SECURITIES***(Dollars in thousands)*

	December 31,		
	2020	2019	2018
<b>Available-for-sale securities:</b>			
U.S. government agencies	\$ —	\$ 22,830	\$ 41,572
Mortgage-backed U.S. government agencies	2	12,890	38,849
State and political subdivision obligations	—	30	29,256
Corporate debt securities	5,746	1,259	2,246
Total available-for-sale debt securities	5,748	37,009	111,923
<b>Available-for-sale equity securities:</b>			
Equity securities	\$ 515	\$ 507	\$ 492
Total available-for-sale equity securities	515	507	492
<b>Held-to-maturity securities:</b>			
U.S. Treasury and U.S. government agencies	\$ 11,577	\$ 50,036	\$ 16,856
Mortgage-backed U.S. government agencies	41,743	42,091	64,548
State and political subdivision obligations	68,738	45,349	83,649
Corporate debt securities	10,736	—	1,539
Total held-to-maturity securities	132,794	137,476	166,592
Total	<u>\$ 139,057</u>	<u>\$ 174,992</u>	<u>\$ 279,007</u>

**TABLE 7: INVESTMENT MATURITY AND YIELD***(Dollars in thousands)*

	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
<b>As of December 31, 2020</b>					
<b>Available for sale securities, at fair value:</b>					
Mortgage-backed U.S. government agencies	\$ —	\$ —	\$ —	\$ 2	\$ 2
Corporate debt securities	—	4,747	999	—	5,746
	<u>\$ —</u>	<u>\$ 4,747</u>	<u>\$ 999</u>	<u>\$ 2</u>	<u>\$ 5,748</u>
<b>Held to maturity securities, at amortized cost:</b>					
U.S. Treasury and U.S. government agencies	\$ —	\$ 7,988	\$ 3,523	\$ —	\$ 11,511
Mortgage-backed U.S. government agencies	—	—	13,342	27,468	40,810
State and political subdivision obligations	—	20,910	42,404	2,135	65,449
Corporate debt securities	—	5,085	5,437	—	10,522
	<u>\$ —</u>	<u>\$ 33,983</u>	<u>\$ 64,706</u>	<u>\$ 29,603</u>	<u>\$ 128,292</u>
<b>Weighted Average Yields</b>					
<b>Available for sale securities:</b>					
Mortgage-backed U.S. government agencies	—	—	—	2.35%	2.35%
Corporate debt securities	—	5.00%	4.50%	—	4.91%
	<u>0.00%</u>	<u>5.00%</u>	<u>4.50%</u>	<u>2.35%</u>	<u>4.91%</u>
<b>Held to maturity securities:</b>					
U.S. Treasury and U.S. government agencies	—	1.42%	2.42%	—	1.73%
Mortgage-backed U.S. government agencies	—	—	2.95%	2.66%	2.75%
State and political subdivision obligations	—	2.99%	3.08%	2.92%	3.05%
Corporate debt securities	—	3.56%	3.03%	—	3.29%
	<u>0.00%</u>	<u>2.71%</u>	<u>3.01%</u>	<u>2.68%</u>	<u>2.85%</u>

Loans

Total loans at December 31, 2020 were \$2,384,041,000 compared to \$1,762,756,000 at December 31, 2019, an increase of \$621,285,000 or 35 percent since year-end 2019. Much of the growth is attributable to the funding of PPP loans during the second and third quarters of 2020, with \$388,313,000 of PPP loans still outstanding as of December 31, 2020, net of deferred PPP processing fees of \$7,746,000. The annual loan growth also reflects an increase of \$232,972,000 in core (non-PPP) loans, or a 13 percent organic loan growth rate, primarily in commercial real estate credits, and commercial and industrial loans.

At December 31, 2020, loans (net of unearned income) represented 85 percent of earning assets, compared to 86 percent and 85 percent at December 31, 2019 and 2018, respectively.

The majority of the Bank's loan portfolio is to businesses and individuals located within the Bank's primary market area of the Pennsylvania counties of Berks, Bucks, Chester, Cumberland, Dauphin, Fayette, Lancaster, Luzerne, Montgomery, Northumberland, Schuylkill and Westmoreland. Commercial real estate, construction, and land development loans are collateralized mainly by mortgages on the income-producing real estate or land involved. Commercial, industrial, and agricultural loans are primarily 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 loans, lines of credit and home equity loans. The Bank has no significant concentration of credit to any one borrower. The Bank's highest concentration of credit by loan type is in commercial real estate financings.

A distribution of the Bank's loan portfolio according to major loan classification is shown in Table 8, and the maturity and rate sensitivity information related to the loan portfolio is reflected in Table 9.

**TABLE 8: LOAN PORTFOLIO***(Dollars in thousands)*

	December 31,									
	2020		2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, construction and land development	\$1,348,569	56.6	\$1,110,828	63.0	\$1,003,542	61.8	\$465,122	51.1	\$397,547	48.8
Commercial, industrial and agricultural	752,354	31.6	339,147	19.2	286,583	17.6	188,262	20.7	171,985	21.1
Real estate - residential	276,065	11.6	304,995	17.3	323,639	19.9	253,152	27.8	240,418	29.5
Consumer	7,064	0.2	7,807	0.5	10,351	0.7	3,954	0.4	4,132	0.6
Total Loans	<u>2,384,052</u>	<u>100.0</u>	<u>1,762,777</u>	<u>100.0</u>	<u>1,624,115</u>	<u>100.0</u>	<u>910,490</u>	<u>100.0</u>	<u>814,082</u>	<u>100.0</u>
Unearned income	(11)		(21)		(48)		(86)		(158)	
Loans net of unearned discount	2,384,041		1,762,756		1,624,067		910,404		813,924	
Allowance for loan and lease losses	(13,382)		(9,515)		(8,397)		(7,606)		(7,183)	
Net loans	<u>\$2,370,659</u>		<u>\$1,753,241</u>		<u>\$1,615,670</u>		<u>\$902,798</u>		<u>\$806,741</u>	

**TABLE 9: LOAN MATURITY AND INTEREST SENSITIVITY***(Dollars in thousands)*

As of December 31, 2020	One Year	After One	After Five	Total
	and Less	Year thru	Years	
Commercial real estate, construction and land development	\$ 83,141	\$ 318,235	\$ 947,193	\$ 1,348,569
Commercial, industrial and agricultural	15,078	510,806	226,470	752,354
Real estate - residential mortgages	13,203	22,937	239,925	276,065
Consumer	931	2,002	4,120	7,053
	<u>\$ 112,353</u>	<u>\$ 853,980</u>	<u>\$ 1,417,708</u>	<u>\$ 2,384,041</u>

**Rate Sensitivity**

Predetermined rate	\$ 50,067	\$ 724,758	\$ 228,957	\$ 1,003,782
Floating or adjustable rate	62,286	129,222	1,188,751	1,380,259
	<u>\$ 112,353</u>	<u>\$ 853,980</u>	<u>\$ 1,417,708</u>	<u>\$ 2,384,041</u>



Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses

Other than as described herein, Mid Penn does not believe there are current significant credit-related trends, events or uncertainties relating to its loan portfolio that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Mid Penn recognizes that the effects of current and past economic conditions and other unfavorable business conditions, including the potential impact of the ongoing COVID-19 pandemic, may eventually adversely influence certain borrowers' abilities to comply with their repayment terms. Mid Penn regularly monitors the financial strength of its borrowers, including those at higher risk of credit stress from the pandemic or its economic effects, and does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not normally structure construction loans with interest reserve components, or perform commercial real estate or other type of loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not extend loans at maturity solely due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

**TABLE 10: NONPERFORMING ASSETS***(Dollars in thousands)*

	<b>December 31,</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Nonperforming Assets:</b>					
Nonaccrual loans	\$ 15,047	\$ 11,471	\$ 10,749	\$ 10,575	\$ 4,658
Accruing troubled debt restructured loans	463	490	517	544	877
<b>Total nonperforming loans</b>	<b>15,510</b>	<b>11,961</b>	<b>11,266</b>	<b>11,119</b>	<b>5,535</b>
Foreclosed real estate	134	196	1,017	189	224
<b>Total nonperforming assets</b>	<b>15,644</b>	<b>12,157</b>	<b>12,283</b>	<b>11,308</b>	<b>5,759</b>
Accruing loans 90 days or more past due	—	—	—	—	59
<b>Total risk elements</b>	<b>\$ 15,644</b>	<b>\$ 12,157</b>	<b>\$ 12,283</b>	<b>\$ 11,308</b>	<b>\$ 5,818</b>
Nonperforming loans as a % of total loans outstanding	0.65%	0.68%	0.69%	1.22%	0.68%
Nonperforming assets as a % of total loans outstanding and other real estate	0.66%	0.69%	0.76%	1.24%	0.71%
Ratio of allowance for loan losses to nonperforming loans	86.28%	79.55%	74.53%	68.41%	129.78%

Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to partially or fully charging off the loan. If a partial charge off is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit.

Foreclosed real estate decreased \$62,000 from \$196,000 at December 31, 2019 to \$134,000 at December 31, 2020, driven by the sale of several smaller foreclosed real estate properties in 2020. During 2020, nonperforming loans increased \$3,487,000 from \$12,157,000 at December 31, 2019, to \$15,644,000 at December 31, 2020. The increase in nonperforming assets was primarily the result of one loan relationship totaling \$2,331,000 being reclassified to nonaccrual status (see Loan relationship no. 2 below).

Loan relationship no. 1 – At December 31, 2020, the contractual outstanding principal balance of this nonaccrual loan relationship was \$7,354,000 and consisted of two commercial and industrial loans and one commercial real estate credit acquired in 2018 which were transferred from accrual to nonaccrual status during the fourth quarter of 2019. Given that the fair value of the collateral, primarily comprised of a significant amount of commercial real estate, exceeds the outstanding principal balance, no specific allowance allocation has been currently assigned to this relationship. Management is diligently pursuing its full rights given its priority liens to the collateral under the loan agreements to collect the remaining outstanding balance.

Loan relationship no. 2 –The contractual outstanding principal balance of this nonaccrual loan relationship was \$2,331,000 and was comprised of two loans acquired in 2018. These loans were transferred from accrual to nonaccrual status during the second quarter of 2020. These loans are collateralized primarily by commercial real estate, and, given that the fair value of the remaining collateral exceeds the outstanding principal balance, no specific allowance allocation has been currently assigned to this relationship. Management expects to recover the remaining outstanding balance through the sale of real estate collateral pledged in support of the loans.

Mid Penn's troubled debt restructured loans at December 31, 2020 totaled \$1,479,000 of which \$463,000 were accruing loans in compliance with the terms of the modification and \$1,017,000 are included in the balance of total nonaccrual loans.

Mid Penn entered into forbearance agreements on all loans currently classified as troubled debt restructured loans, and these agreements have resulted in additional principal repayment. The terms of these forbearance agreements vary and may include reductions in principal payments, reductions in interest rates, and/or repayment of the loan as collateral is sold.

Further discussion of troubled debt restructured loans can be found in Note 7, *Loans and Allowance for Loan and Lease Losses*, within Item 8, Notes to Consolidated Financial Statements. As of December 31, 2020, there were no defaulted troubled debt restructured loans, as all troubled debt restructured loans were current with respect to their associated forbearance agreements.

The following table provides additional analysis of partially charged off loans:

**TABLE 11: PARTIALLY CHARGED OFF LOANS**

*(Dollars in thousands)*

	December 31, 2020	December 31, 2019
Period ending total loans outstanding (net of unearned income)	\$ 2,384,041	\$ 1,762,756
Allowance for loan and lease losses	13,382	9,515
Total Nonperforming loans	15,510	11,961
Recorded investment in nonperforming and impaired loans with partial charge-offs	836	332
Ratio of nonperforming loans with partial charge-offs to total loans	0.04%	0.02%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	5.39%	2.78%
Coverage ratio net of nonperforming loans with partial charge-offs	91.20%	81.82%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	0.56%	0.54%

Mid Penn has not experienced any additional charge-offs on loans for which a partial charge-off had originally been taken during the periods presented.

Mid Penn considers a commercial loan or commercial real estate loan to be impaired when it becomes 90 days or more past due and the collection efforts indicate that receipt of all contractual amounts due is not probable. Impairment may occur before a 90-day or more period of delinquency when it is probable, based upon the facts and circumstances, that Mid Penn will be unable to collect all contractual principal and interest due. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time, the loan would likely be considered collateral dependent as the discounted cash flow ("DCF") method would indicate no operating income is available to add to the respective loan's collateral position; therefore, most impaired loans are deemed to be collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. The balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variation in value. A specific allocation of allowance is made for any anticipated collateral shortfall. The balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is

reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The collateral shortfall of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans. The balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan or commercial real estate loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary, but allows Mid Penn to determine if any potential collateral shortfalls exist.

Larger groups of small-balance loans, such as residential mortgages and consumer installment loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment disclosures unless such loans are the subject of a restructuring agreement.

Mid Penn's loan rating system assumes any loans classified as substandard nonaccrual to be impaired, and most of these loans are considered collateral dependent; therefore, most of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third-party valuations on all impaired loans collateralized by real estate as soon as practicable following the credit being classified as substandard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however, no allowance recommendation will be made until such time as Mid Penn is in receipt of the updated valuation. The Asset Recovery department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no material time lapses noted with the above processes.

In some instances, Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances, a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary.

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property as soon as practicable following being placed on nonaccrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation, despite significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 12 months for possible revaluation by an independent third party.

Mid Penn had loans with an aggregate balance of \$15,510,000 which were deemed by management to be impaired at December 31, 2020, including \$1,742,000 in loans from previous mergers which were acquired with credit deterioration. Of the \$13,768,000 of impaired loan relationships excluding the loans acquired with credit deterioration, \$1,452,000 were commercial and industrial relationships, \$9,102,000 were commercial real estate relationships, \$818,000 were residential relationships, \$31,000 were commercial real estate – construction relationships, and \$2,365,000 were home equity relationships. As of December 31, 2020, there were specific loan loss reserve allocations of \$533,000 against the commercial and industrial relationships and \$274,000 against the commercial real estate relationships. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships.

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In addition to a loan review function that operates independently of the lending function, management monitors the loan portfolio at least monthly to identify changes to the credit risks in the portfolio so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Board of Directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses as an integral part of the examination process. As part of the examination process, federal or state regulatory agencies may require Mid Penn to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

In establishing the allowance, management evaluates on a quantitative basis individual classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. In addition, an allowance for the remainder of the loan and lease portfolio is determined based on historical loss experience, adjusted by qualitative factors determined by management, within certain components of the portfolio.

This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. These factors include:

- changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the value of underlying collateral for collateral-dependent loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;
- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- changes in the quality of the institution's loan review system;
- changes in the nature and volume of the portfolio and in the terms of loans;
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio; and
- the existence and effect of any concentrations of credit and changes in the level of such concentrations.

While the allowance for loan and lease losses is maintained at a level believed to be adequate by management to provide for probable losses inherent in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates and consideration of the above-noted qualitative factors which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods. Management believes, based on information currently available, that the allowance for loan and lease losses of \$13,382,000 as of December 31, 2020 is adequate to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

The allocation of the allowance for loan and lease losses among the major classifications is shown in Table 12 as of December 31 of each of the past five years.

**TABLE 12: ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES**

*(Dollars in thousands)*

	December 31,				
	2020	2019	2018	2017	2016
Commercial real estate, construction and land development	\$ 8,789	\$ 6,310	\$ 4,778	\$ 4,613	\$ 4,467
Commercial, industrial and agricultural	3,066	2,341	2,391	1,795	1,581
Real estate - residential	429	417	453	428	541
Consumer	508	444	535	426	382
Unallocated	590	3	240	344	212
	<u>\$ 13,382</u>	<u>\$ 9,515</u>	<u>\$ 8,397</u>	<u>\$ 7,606</u>	<u>\$ 7,183</u>

The increase in the allowance balance was the result of both organic loan growth during 2020, and from increases in the values of qualitative factors for both economic conditions and external factors given the impact of the COVID-19 pandemic impact. Management continues to monitor the portfolio very closely for pandemic-related stresses. See also the discussion in the Provision for Loan and Lease Losses section.

The allowance for loan and lease losses at December 31, 2020 was \$13,382,000 or 0.56% of total loans (less unearned discount), as compared to \$9,515,000 or 0.54% at December 31, 2019, and \$8,397,000 or 0.52% at December 31, 2018.

### Deposits and Other Funding Sources

Mid Penn's primary source of funds are retail deposits from businesses, public funds depositors, and consumers in its market area. For the year ended December 31, 2020, total deposits increased by \$562,186,000 or over 29 percent. Deposits as of year-end 2019 had increased by \$186,386,000 or 11 percent since December 31, 2018. Deposit growth during the year ended December 31, 2020 was led by substantial increases in noninterest-bearing balances and money market deposits, primarily due to both new and expanded cash management and commercial deposit account relationships, including those from new customers established as a result of Mid Penn's PPP loan activities. Deposit growth from year-end 2018 to year-end 2019 was led by increases in money market deposits and noninterest-bearing balances, primarily due to both new and expanded cash management and commercial deposit account relationships. Average balances and average interest rates applicable to the classifications of deposits for the years ended December 31, 2020, 2019, and 2018 are presented in Table 13.

Mid Penn had no brokered time deposits as of December 31, 2020, compared to \$13,326,000 in brokered time deposits at December 31, 2019 and \$56,188,000 as of December 31, 2018. The decrease in brokered certificates of deposits during both 2019 and 2020 was the result of brokered certificates of deposit assumed in the First Priority and Phoenix acquisitions which matured and were not replaced.

**TABLE 13: DEPOSITS BY MAJOR CLASSIFICATION**

(Dollars in thousands)

	Years Ended December 31,					
	2020		2019		2018	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	\$ 505,094	0.00%	\$ 296,872	0.00%	\$ 232,562	0.00%
Interest-bearing demand deposits	538,385	0.64	415,359	1.04	371,873	0.66
Money market	605,552	0.67	443,248	1.66	309,705	0.97
Savings	186,132	0.19	187,927	0.34	191,686	0.28
Time	443,607	1.93	471,241	1.96	324,853	1.51
	<u>\$ 2,278,770</u>	<u>0.72%</u>	<u>\$ 1,814,647</u>	<u>1.19%</u>	<u>\$ 1,430,679</u>	<u>0.76%</u>

The maturity distribution of time deposits of \$100,000 or more is reflected in Table 14.

**TABLE 14: MATURITY OF TIME DEPOSITS \$100,000 OR MORE**

(Dollars in thousands)

	December 31,		
	2020	2019	2018
Three months or less	\$ 33,819	\$ 31,314	\$ 29,957
Over three months to twelve months	116,798	148,449	201,827
Over twelve months	77,344	92,041	12,952
	<u>\$ 227,961</u>	<u>\$ 271,804</u>	<u>\$ 244,736</u>

Short-term borrowings of \$125,617,000 at December 31, 2020 consisted entirely of Mid Penn's utilization of the Federal Reserve's PPPLF. The PPPLF allows banks to pledge PPP loans as collateral to borrow funds for up to a term of five years (to match the term of the respective PPP loans) at an interest rate of 0.35 percent. Mid Penn held no short-term borrowings as of December 31, 2019. As of December 31, 2020 and 2019, the Bank had long-term debt outstanding in the amount of \$75,115,000 and \$32,903,000, respectively, consisting primarily of FHLB fixed rate advances as well as a finance lease liability executed in 2019.

### Capital Resources

Shareholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The detailed computation of Mid Penn's regulatory capital ratios can be found in Note 19, *Regulatory Matters*, within Item 8, Notes to Consolidated Financial Statements. The greater the Corporation's capital resources, the more likely it is to meet its cash obligations and absorb unforeseen losses. Capital management practices have been, and will continue to be, of paramount importance to the Corporation in support of both its regulatory capital requirements and its shareholders.

Shareholders' equity increased by \$17,814,000 or 7 percent from \$237,874,000 as of December 31, 2019 to \$255,688,000 as of December 31, 2020. The increase in shareholders' equity primarily reflects the growth in retained earnings through year-to-date net income, net of dividends paid and declared. Some of the year-over-year increase in shareholders' equity was offset by the initiation of Mid Penn's treasury stock repurchase program, which reflected total common stock buybacks of \$1,795,000 as of December 31, 2020. A total of 92,652 common shares were repurchased at a discount to tangible book value per share, with an average cost of \$19.37 per share.

Shareholders' equity increased by \$14,664,000 or 7 percent from \$223,209,000 as of December 31, 2018 to \$237,874,000 as of December 31, 2019. The increase in shareholders' equity during 2019 reflected (i) the growth in retained earnings through year-to-date net income of \$17,701,000 net of dividends paid totaling \$6,688,000, (ii) a \$316,000 favorable prior period adjustment posted as part of the adoption of the new GAAP leasing standard, and (iii) other comprehensive income from the significant after-tax appreciation in the available-for-sale portfolio, much of which had been realized from securities sales during 2019.

Shareholders' equity more than doubled, from \$75,703,000 at December 31, 2017 to \$223,209,000 at December 31, 2018, primarily due to (i) the issuance of 1,878,827 shares of Mid Penn common stock on January 8, 2018 in connection with the acquisition of Scottsdale; and (ii) the issuance of 2,320,800 shares of Mid Penn common stock on July 31, 2018, in connection with the acquisition of First Priority. Additionally, shareholders' equity reflects the growth in retained earnings through \$10,494,000 of net income available to common shareholders for 2018, less dividends declared during the year of \$3,453,000. These increases were partially offset by other comprehensive losses, primarily due to the after-tax impact of the unrealized reduction in market value within the available-for-sale investment portfolio since December 31, 2017.

Mid Penn's dividend payout philosophy looks to provide reasonable quarterly cash returns to shareholders while still retaining sufficient earnings to finance future growth and maintain sound capital levels. For additional information, see "Part II, Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Repurchases of Equity Securities – Dividends". Dividends paid and declared on common shares totaled \$0.77 and \$0.82, respectively, for the year ended December 31, 2020. Dividends paid and declared on common shares totaled \$0.79 for the year ended December 31, 2019. Dividends paid and declared on common shares totaled \$0.70 and \$0.45, respectively, for the year ended December 31, 2018. The dividend payout ratio, which represents the percentage of annual net income returned to shareholders in the form of cash dividends, was 24.80% for 2020 and 37.80% for 2019.

Mid Penn maintained regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2020 and 2019, as follows:

(Dollars in thousands)

	Capital Adequacy					
	Actual		Minimum for Basel III Capital Adequacy (a)		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Mid Penn Bancorp, Inc.</b>						
As of December 31, 2020						
Tier 1 Capital (to Average Assets)	\$ 188,501	6.8%	\$ 111,201	4.0%	\$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	188,501	9.6%	137,351	7.0%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	188,501	9.6%	166,783	8.5%	N/A	N/A
Total Capital (to Risk Weighted Assets)	246,529	12.6%	206,026	10.5%	N/A	N/A
<b>Mid Penn Bank</b>						
As of December 31, 2020						
Tier 1 Capital (to Average Assets)	\$ 218,676	7.9%	\$ 111,166	4.0%	\$ 138,958	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	218,676	11.1%	137,288	7.0%	127,482	6.5%
Tier 1 Capital (to Risk Weighted Assets)	218,676	11.1%	166,707	8.5%	156,901	8.0%
Total Capital (to Risk Weighted Assets)	232,124	11.8%	205,933	10.5%	196,126	10.0%
<b>Mid Penn Bancorp, Inc.</b>						
As of December 31, 2019						
Tier 1 Capital (to Average Assets)	\$ 168,146	7.8%	\$ 86,773	4.0%	\$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	168,146	9.8%	120,020	7.0%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	168,146	9.8%	145,738	8.5%	N/A	N/A
Total Capital (to Risk Weighted Assets)	204,811	11.9%	180,030	10.5%	N/A	N/A
<b>Mid Penn Bank</b>						
As of December 31, 2019						
Tier 1 Capital (to Average Assets)	\$ 185,101	8.5%	\$ 86,760	4.0%	\$ 108,450	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	185,101	10.8%	119,995	7.0%	111,424	6.5%
Tier 1 Capital (to Risk Weighted Assets)	185,101	10.8%	145,708	8.5%	137,137	8.0%
Total Capital (to Risk Weighted Assets)	204,196	11.9%	179,992	10.5%	171,421	10.0%

(a) Minimum amounts and ratios include the full phase in of the capital conservation buffer of 2.5 percent required by the BASEL III framework.

Effective in the third quarter of 2018, the Federal Reserve raised the consolidated asset limit to be considered a small bank holding company from \$1 billion to \$3 billion. A company that qualifies as a small bank holding company is not subject to the Federal Reserve's consolidated capital rules, although a company that so qualifies may continue to file reports that include such capital amounts and ratios. Mid Penn has elected to continue to report those amounts and ratios.

#### Subordinated Debt

##### *Subordinated Debt Issued December 2020*

On December 22, 2020, Mid Penn Bancorp, Inc. entered into agreements for and sold, at 100% of their principal amount, an aggregate of \$12,150,000 of its Subordinated Notes due December 2030 (the "December 2020 Notes") on a private placement basis to accredited investors. The December 2020 Notes are treated as Tier 2 capital for regulatory capital purposes.

The December 2020 Notes will bear interest at a rate of 4.5% per year for the first five years and then float at the Wall Street Journal's Prime Rate, provided that the interest rate applicable to the outstanding principal balance during the period the December 2020 Notes are floating will at no time be less than 4.5%. Interest is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, beginning on March 31, 2021. The December 2020 Notes will mature on December 31, 2030 and are redeemable, in whole or in part, without premium or penalty, on any interest payment date on or after December 31, 2025 and prior to December 31, 2030, subject to any required regulatory approvals. Additionally, if (A) all or any portion of the December 2020 Notes cease to be deemed Tier 2 Capital, (B) interest on the December 2020 Notes fails to be deductible for United States federal income tax purposes or (C) Mid Penn will be considered an "investment company," Mid Penn may redeem the December 2020 Notes, in whole but not in part, by giving 10 days' notice to the holders of the December 2020 Notes. In the event of a redemption described in the previous sentence, Mid Penn will redeem the December 2020 Notes at 100% of the principal amount of the December 2020 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holders of the December 2020 Notes may not accelerate the maturity of the December 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of the holding company or Mid Penn Bank, its principal banking subsidiary. Related parties held \$750,000 of the December 2020 Notes as of December 31, 2020.

##### *Subordinated Debt Issued March 2020*

On March 20, 2020, Mid Penn Bancorp, Inc. entered into agreements with accredited investors who purchased \$15,000,000 aggregate principal amount of Mid Penn Subordinated Notes due 2030 (the "March 2020 Notes"). The March 2020 Notes are treated as Tier 2 capital for regulatory capital purposes.

The March 2020 Notes bear interest at a rate of 4.0% per year for the first five years and then float at the Wall Street Journal's Prime Rate, provided that the interest rate applicable to the outstanding principal balance during the period the March 2020 Notes are floating will at no time be less than 4.25%. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, beginning on June 30, 2020, for the first five years after issuance and will be payable quarterly in arrears thereafter on March 30, June 30, September 30 and December 30. The March 2020 Notes will mature on March 30, 2030 and are redeemable in whole or in part, without premium or penalty, at any time on or after March 30, 2025 and prior to March 30, 2030. Additionally, if all or any portion of the March 2020 Notes cease to be deemed Tier 2 Capital, Mid Penn may redeem, on any interest payment date, all or part of the March 2020 Notes. In the event of a redemption described in the previous sentence, Mid Penn will redeem the March 2020 Notes at 100% of the principal amount of the 2020 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holders of the March 2020 Notes may not accelerate the maturity of the March 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of the holding company or Mid Penn Bank, its principal banking subsidiary. Related parties held \$1,700,000 of the March 2020 Notes as of December 31, 2020.

##### *Subordinated Debt Assumed July 2018 with the First Priority Acquisition*

On July 31, 2018, Mid Penn completed its acquisition of First Priority and assumed \$9,500,000 of Subordinated Notes (the "First Priority Notes"). In accordance with purchase accounting principles, the First Priority Notes were assigned a fair value premium of \$247,000. The notes were treated as Tier 2 capital for regulatory reporting purposes.



The First Priority Notes agreements were entered into by First Priority on November 13, 2015 with five accredited investors pursuant to which First Priority issued subordinated notes totaling \$9,500,000. The First Priority Notes had a maturity date of November 30, 2025, and bear interest at a fixed rate of 7.00% per annum. The Notes were non-callable for an initial period of five years and included provisions for redemption pricing between 101.5% and 100.5% of the liquidation value if called after five years but prior to the stated maturity date.

On December 18, 2020, Mid Penn redeemed the \$9,500,000 of subordinated debt assumed in 2018 in conjunction with Mid Penn's acquisition of First Priority Bank. The First Priority subordinated debt was redeemed promptly following the expiration of the noncallable period and after receiving the required regulatory approval for the redemption. Mid Penn recognized redemption pricing fees of \$143,000 related to the early redemption, which are included in other noninterest expenses.

#### *Subordinated Debt Issued December 2017*

On December 19, 2017, Mid Penn entered into agreements with investors to purchase \$10,000,000 aggregate principal amount of its Subordinated Notes due 2028 (the "2017 Notes"). The 2017 Notes are treated as Tier 2 capital for regulatory capital purposes. The offering closed in December 2017.

The 2017 Notes bear interest at a rate of 5.25% per year for the first five years and then float at the Wall Street Journal's Prime Rate plus 0.50%, provided that the interest rate applicable to the outstanding principal balance will at no time be less than 5.0%. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on July 15, 2018, for the first five years after issuance and will be payable quarterly in arrears thereafter on January 15, April 15, July 15, and October 15. The 2017 Notes will mature on January 1, 2028 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 21, 2022, and prior to January 1, 2028. Additionally, Mid Penn may redeem the 2017 Notes in whole at any time, or in part from time to time, upon at least 30 days' notice if: (i) a change or prospective change in law occurs that could prevent Mid Penn from deducting interest payable on the 2017 Notes for U.S. federal income tax purposes; (ii) an event occurs that precludes the 2017 Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) Mid Penn becomes required to register as an investment company under the Investment Company Act of 1940, as amended. In the event of a redemption described in the previous sentence, Mid Penn will redeem the 2017 Notes at 100% of the principal amount of the 2017 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holder of the 2017 Notes may not accelerate the maturity of the 2017 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of Mid Penn or Mid Penn Bank.

#### *Subordinated Debt Issued December 2015*

On December 9, 2015, Mid Penn entered into agreements with investors to purchase \$7,500,000 aggregate principal amount of its Subordinated Notes (the "2015 Notes") due 2025. Eighty percent of the balance of the 2015 Notes were treated as Tier 2 capital for regulatory capital purposes as of December 31, 2020.

The 2015 Notes bear interest at a rate of 5.15% per year for the first five years and then float at the Wall Street Journal's Prime Rate plus 0.50%, provided that the interest rate applicable to the outstanding principal balance will at no time be less than 4.0%. Interest is paid quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, beginning on January 1, 2016. The 2015 Notes will mature on December 9, 2025 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 9, 2020, and prior to December 9, 2025. Additionally, Mid Penn may redeem the 2015 Notes in whole at any time, or in part from time to time, upon at least 30 days' notice if: (i) a change or prospective change in law occurs that could prevent Mid Penn from deducting interest payable on the 2015 Notes for U.S. federal income tax purposes; (ii) an event occurs that precludes the 2015 Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) Mid Penn becomes required to register as an investment company under the Investment Company Act of 1940, as amended, in each case at 100% of the principal amount of the 2015 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holder of the 2015 Notes may not accelerate the maturity of the 2015 Notes, except upon Mid Penn's or Mid Penn Bank's bankruptcy, insolvency, liquidation, receivership, or similar event.

Series D Preferred Stock

In accordance with the terms and conditions of the Agreement and Plan of Merger dated January 16, 2018 between Mid Penn and First Priority (the "Merger Agreement"), each share of First Priority Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "First Priority Preferred Stock") outstanding as of July 31, 2018 was converted into the right to receive one share of Mid Penn Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a \$1,000 liquidation preference per share (the "Mid Penn Preferred Stock"). In connection with the First Priority Merger, Mid Penn issued 3,404 shares of Mid Penn Preferred Stock totaling \$3,404,000.

The terms of the Mid Penn Preferred Stock were no less favorable than those of the First Priority Preferred Stock as in effect immediately prior to the Merger. The Mid Penn Preferred Stock was redeemable at the option of Mid Penn, subject to the prior receipt of any requisite regulatory approval.

Dividends were payable quarterly on February 15, May 15, August 15 and November 15 of each year. The dividend rate on the Mid Penn Preferred Stock was fixed at 9%.

During the fourth quarter of 2018, the Federal Reserve Bank approved Mid Penn's request to redeem all 3,404 shares of Mid Penn Preferred Stock at the \$1,000 liquidation value. The redemption of the \$3,404,000 of the Mid Penn Preferred Stock was completed and the final dividend payment was made on December 14, 2018. Accordingly, no preferred stock was outstanding, and no preferred dividends were paid, as of and for the years ended December 31, 2020 and December 31, 2019, respectively. Preferred dividends of \$102,000 were paid in 2018.

Income Taxes

The provision for income taxes was \$5,130,000 during the year ended December 31, 2020, an increase of \$1,405,000 or 38 percent compared to \$3,725,000 for the same period in 2019. The provision for income taxes for the year ended December 31, 2020 reflects an effective Federal tax rate of 16.8%, compared to an effective Federal tax rate of 17.8% for the year ended December 31, 2019. The full-year 2020 tax provision and effective tax rate reflects (i) the impact of tax-free income earned on municipal investments and loans, (ii) the impact of certain CARES Act provisions allowing for the carryback of federal tax net operating losses (NOLs) to prior periods in which the Federal tax rate was 34 percent totaling \$318,000, (iii) the full-year impact of tax credits recognized related to Mid Penn's investment in a low-income housing project in Dauphin County, Pennsylvania totaling \$861,000, and (iv) state income taxes that Mid Penn pays to the states of New Jersey, Maryland, and Delaware for revenues sourced in those respective states.

Income tax expense for 2019 was \$3,725,000, compared to \$2,129,000 for 2018. The provision for income taxes for the twelve months ended December 31, 2019 reflects (i) an effective federal tax rate of 17.8%, with the difference from the statutory tax rate of 21% mostly related to tax-exempt income on municipal securities and loans; (ii) a favorable adjustment to federal income tax expense of \$277,000 for certain permanent nonrecurring tax benefits recorded during 2019; and (iii) New Jersey income tax expense of \$185,000 attributable to increased New Jersey sourced income, primarily from First Priority legacy customers. Federal income tax expense in 2018 reflects the reduction in the maximum corporate income tax rate from 34 percent to 21 percent, legislated by the Tax Cuts and Jobs Act ("TCJA") in December 2017, with the rate change effective January 1, 2018.

Liquidity

Mid Penn's asset-liability management policy addresses the management of Mid Penn's liquidity position and its ability to raise sufficient funds to meet deposit withdrawals, fund loan growth and meet other operational needs. In addition to its cash and equivalents, Mid Penn utilizes its investments as a source of liquidity, along with deposit growth and increases in borrowings. For additional information, see Deposits and Other Funding Sources, which appears earlier in this discussion. Liquidity from investments is provided primarily through investment calls, sales of available-for-sale securities, prepayments on mortgage-backed securities, and from investments and interest-bearing balances with maturities of one year or less.

The Bank can obtain funds from overnight borrowings, short-term borrowings, and long-term borrowings from the FHLB, up to the Bank's maximum borrowing capacity with the FHLB, which was \$852,568,000 at December 31, 2020. FHLB borrowings require the Bank to make certain restricted stock purchases in accordance with FHLB requirements. Borrowings with the FHLB are collateralized by certain qualifying loans and investment securities of the Bank. The Bank also has unused lines of credit with other correspondent banks amounting to \$35,000,000 at December 31, 2020.

Major sources of cash in 2020 came from the \$562,186,000 net increase in deposits, \$348,756,000 of proceeds from sales of mortgage loans originated for sale, and proceeds from short-term PPPLF borrowings of \$125,617,000.

Major uses of cash in 2020 were \$623,153,000 to fund net portfolio loan growth (primarily commercial PPP loans), \$356,158,000 to fund mortgage loans originated for sale, and \$178,630,000 to fund the purchase of investment securities.

Major sources of cash in 2019 came from the \$186,368,000 net increase in deposits, \$160,279,000 of proceeds from sales of mortgage loans originated for sale, and \$154,307,000 in proceeds from the sales of available-for-sale investments securities.

Major uses of cash in 2019 were \$163,228,000 to fund mortgage loans originated for sale, \$139,430,000 to fund net portfolio loan growth (primarily commercial loans) and \$79,254,000 to fund the purchase of investment securities.

### Aggregate Contractual Obligations

Table 15 represents Mid Penn's on-and-off balance sheet aggregate contractual obligations to make future payments as of December 31, 2020.

**TABLE 15: AGGREGATE CONTRACTUAL OBLIGATIONS**

*(Dollars in thousands)*

	Financial Statements Note Reference	Total	One Year or Less	Payments Due by Period		
				One to Three Years	Three to Five Years	More than Five Years
Operating lease obligations	9	\$ 12,791	\$ 1,942	\$ 3,569	\$ 2,814	\$ 4,466
Finance lease obligation	9	4,894	217	434	511	3,732
Certificates of deposit	10	425,295	258,135	142,862	23,685	613
Long-term debt	12	72,792	942	70,887	705	258
Subordinated debt	13	61,224	1,972	3,944	11,444	43,864
Payments under benefit plans	16	3,534	221	481	739	2,093
Executive compensation payments	17	8,571	50	97	55	8,369
		<u>\$ 589,101</u>	<u>\$ 263,479</u>	<u>\$ 222,274</u>	<u>\$ 39,953</u>	<u>\$ 63,395</u>

We are not aware of any other commitments or contingent liabilities which may have a material adverse impact on Mid Penn's liquidity or capital resources.

### 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 Mid Penn's ability to measure its sensitivity to changes in interest rates and to take appropriate actions, as needed or controllable by the Bank, to mitigate the impacts of inflation 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 included elsewhere in this report will assist in the understanding of how Mid Penn is positioned to react to changing interest rates and inflationary trends. In particular, the previously discussed risk factors, the composition of and yields on loans and investments, and the composition and costs of deposits and other interest-bearing liabilities, should be considered.

### Off-Balance Sheet Items

Mid Penn makes contractual commitments to extend credit and extends lines of credit, which are subject to Mid Penn's credit approval and monitoring procedures. As of December 31, 2020, commitments to extend credit amounted to \$654,977,000 compared to \$435,553,000 as of December 31, 2019.

Mid Penn 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 \$39,468,000 at December 31, 2020, from \$26,574,000 at December 31, 2019.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a financial institution, Mid Penn's primary source of market risk is interest rate risk. Interest rate risk is the exposure to fluctuations in Mid Penn's future earnings (earnings at risk) resulting from changes in interest rates. This exposure or sensitivity is a function of the repricing characteristics of Mid Penn'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.

The principal purpose of asset-liability management is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Net interest income is increased by increasing the net interest margin and by volume growth. Thus, the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

Mid Penn utilizes an asset-liability management model to measure the impact of interest rate movements on its interest rate sensitivity position. Mid Penn's management also reviews the traditional maturity gap analysis regularly. Mid Penn does not always attempt to achieve an exact match between interest sensitive assets and liabilities because it believes that an actively managed amount of interest rate risk is inherent and appropriate in the management of Mid Penn's profitability.

Modeling techniques and simulation analysis involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturing deposit sensitivity, and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of Mid Penn's interest rate risk position over time.

Management reviews interest rate risk on a quarterly basis. This analysis includes earnings scenarios whereby interest rates are increased and decreased by 100, 200, and 300 basis points. These scenarios, detailed in Table 16, indicate that Mid Penn would experience enhanced net interest income over a one-year time frame due to upward interest rate changes, while a reduction in interest rates would result in a decline in net interest income over a one-year time frame; however, actual results could vary significantly from the calculations prepared by management. At December 31, 2020, all interest rate risk levels according to the model were within the tolerance limits of the Board-approved policy.

**TABLE 16: EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES**

December 31, 2020			December 31, 2019		
Change in Basis Points	% Change in Net Interest Income	Policy Risk Limit	Change in Basis Points	% Change in Net Interest Income	Policy Risk Limit
300	15.69%	≥ -20%	300	10.43%	≥ -20%
200	10.03%	≥ -15%	200	6.84%	≥ -15%
100	4.72%	≥ -10%	100	3.37%	≥ -10%
0			0		
(100)	-3.97%	≥ -10%	(100)	-2.87%	≥ -10%
(200)	-9.30%	≥ -15%	(200)	-4.99%	≥ -15%
(300)	-14.45%	≥ -20%	(300)	-8.66%	≥ -20%

**MID PENN BANCORP, INC.**

**ITEM 8. FINANCIAL STATEMENTS**

The following audited financial statements are set forth in this Annual Report on Form 10-K on the following pages:

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### Management Report on Internal Controls Over Financial Reporting

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in SEC Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on this assessment, management concluded that, as of December 31, 2020, the Corporation's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Corporation's internal control over financial reporting has been audited by RSM US LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Rory G. Ritrievi  
Rory G. Ritrievi  
President and  
Chief Executive Officer  
March 15, 2021

/s/ Michael D. Peduzzi, CPA  
Michael D. Peduzzi, CPA  
Sr. Executive Vice President and  
Chief Financial Officer  
March 15, 2021

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Mid Penn Bancorp, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### Allowance for Loan Losses – Qualitative Factors

The allowance for loan losses as of December 31, 2020 was \$13.4 million. As described in Notes 3 and 7 to the financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgement, will be adequate to absorb losses on existing loans.

The allowance consists of specific and general components in the amounts of \$0.8 million and \$12.6 million, respectively. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in collateral values, changes in the experience of the lending staff and loan review systems, changes in lending policies and procedures (including underwriting standards), changes in the mix and volume of loans originated, the effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio, shifting industry or portfolio concentrations, and other relevant factors. The evaluation of the qualitative factor adjustments requires a significant amount of judgement by management and involves a high degree of subjectivity.

We identified the qualitative factor component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factors included the following, among others:

- We obtained an understanding of the relevant controls related to management's assessment and review of the qualitative factors, and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.
- We obtained an understanding of how management developed the estimates and related assumptions, including:
  - o Testing completeness and accuracy of key data inputs used in forming assumptions or calculations and testing the reliability of the underlying data on which these factors are based by comparing information to source documents and external information sources.
  - o Evaluating the reasonableness of the qualitative factor established by management as compared to the underlying internal or external information sources.

#### **Goodwill Impairment – Fair Value of Reporting Unit**

As described in Notes 3 of the consolidated statements, the Company's goodwill balance was \$62.8 million as of December 31, 2020. Goodwill is evaluated annually for impairment or at interim periods if certain events occur which may cause the fair value of the reporting unit to fall below its carrying amount. The Company estimates the fair value of the single reporting unit by making significant estimates and assumptions related to the specific circumstances of the reporting unit such as projections of net interest income and net income.

We identified the impairment assessment of goodwill as a critical audit matter due to the complexity of the analysis and certain significant assumptions such as projected cash flows, discount and growth rates and comparable public companies. Auditing management's assumptions required a high degree of auditor judgement, subjectivity, and increased audit effort, including the use of internal specialists.

Our audit procedures related to the goodwill impairment assessments performed throughout the year included the following, among others:

- We obtained an understanding of the relevant controls related to the assessment of goodwill impairment and tested such controls for design and operating effectiveness, including controls over management's preparation of cash flow projections, review of significant assumptions such as discount and growth rates, and comparable public companies.
- We obtained an understanding of the use of management's specialist and their specialized skill and knowledge needed to evaluate their work.
- We tested the completeness and accuracy of the underlying data used in the fair value estimates by agreeing Company financial data to internal records and using valuation specialists to obtain market data for a population of comparable companies.
- We evaluated management's cash flow projections and significant assumptions considered within the business plan by considering the current and past performance of the Company and the consideration of the Company's ability to meet financial projections.
- We utilized internal specialists to assist in:
  - o Evaluating the discount rate by comparing to publicly available market data.
  - o Evaluating the long-term growth rate by comparing to industry standard metrics.
  - o Evaluating the price multiples of comparable public companies by comparing management's assumptions to market information publicly available for comparable companies.
  - o Evaluating the reasonableness and application of the methodologies used by management including the income approach and the market approach.

/s/ RSM US LLP

We have served as the Company's auditor since 2020.

Philadelphia, Pennsylvania  
March 15, 2021



## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and subsidiaries (the “Corporation”) as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and subsidiaries at December 31, 2019, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on the Corporation’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We served as the Corporation's auditor from 2013 to 2020.

Philadelphia, Pennsylvania  
March 13, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Mid Penn Bancorp, Inc.

### Opinion on the Internal Control Over Financial Reporting

We have audited Mid Penn Bancorp, Inc. and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 15, 2021 expressed an unqualified opinion.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Philadelphia, Pennsylvania  
March 15, 2021

**MID PENN BANCORP, INC.***(Dollars in thousands)***Consolidated Balance Sheets****December 31, 2020**      **December 31, 2019****ASSETS**

Cash and due from banks	\$ 31,284	\$ 25,746
Interest-bearing balances with other financial institutions	1,541	4,657
Federal funds sold	270,899	108,627
Total cash and cash equivalents	303,724	139,030
Investment securities held to maturity, at amortized cost (fair value \$132,794 and \$137,476)	128,292	136,477
Investment securities available for sale, at fair value	5,748	37,009
Equity securities available for sale, at fair value	515	507
Loans held for sale	25,506	8,422
Loans and leases, net of unearned interest	2,384,041	1,762,756
Less: Allowance for loan and lease losses	(13,382)	(9,515)
Net loans and leases	2,370,659	1,753,241
Bank premises and equipment, net	24,886	24,937
Operating lease right of use asset	10,157	11,442
Finance lease right of use asset	3,267	3,447
Cash surrender value of life insurance	17,183	16,881
Restricted investment in bank stocks	7,594	4,902
Accrued interest receivable	12,971	7,964
Deferred income taxes	3,619	2,810
Goodwill	62,840	62,840
Core deposit and other intangibles, net	4,360	5,758
Foreclosed assets held for sale	134	196
Other assets	17,493	15,312
Total Assets	<u>\$ 2,998,948</u>	<u>\$ 2,231,175</u>

**LIABILITIES & SHAREHOLDERS' EQUITY**

Deposits:		
Noninterest-bearing demand	\$ 536,224	\$ 310,036
Interest-bearing demand	605,567	458,451
Money Market	720,506	488,748
Savings	195,038	177,737
Time	417,245	477,422
Total Deposits	2,474,580	1,912,394
Short-term borrowings	125,617	—
Long-term debt	75,115	32,903
Subordinated debt	44,580	27,070
Operating lease liability	11,200	12,544
Accrued interest payable	2,007	2,208
Other liabilities	10,161	6,182
Total Liabilities	2,743,260	1,993,301
Shareholders' Equity:		
Common stock, par value \$1.00; 20,000,000 shares authorized		
Shares issued: 8,511,835 and 8,480,938 at December 31, 2020 and December 31, 2019;		
Shares outstanding: 8,419,183 and 8,480,938 at December 31, 2020 and December 31, 2019	8,512	8,481
Additional paid-in capital	178,853	178,159
Retained earnings	70,175	50,891
Accumulated other comprehensive income (loss)	(57)	343
Treasury Stock, at cost; 92,652 shares at December 31, 2020	(1,795)	—
Total Shareholders' Equity	255,688	237,874
Total Liabilities and Shareholders' Equity	<u>\$ 2,998,948</u>	<u>\$ 2,231,175</u>

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

**MID PENN BANCORP, INC.***(Dollars in thousands, except per share data)***Consolidated Statements of Income****Years Ended December 31,**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>INTEREST INCOME</b>			
Interest and fees on loans and leases	\$ 103,507	\$ 88,078	\$ 61,692
Interest and dividends on investment securities:			
U.S. Treasury and government agencies	1,631	3,084	3,518
State and political subdivision obligations, tax-exempt	1,008	2,046	2,323
Other securities	1,253	782	595
Total interest and dividends on investment securities	3,892	5,912	6,436
Interest on interest-bearing balances	39	100	75
Interest on federal funds sold	497	1,222	451
Total Interest Income	107,935	95,312	68,654
<b>INTEREST EXPENSE</b>			
Interest on deposits	16,399	21,550	10,884
Interest on short-term borrowings	371	470	207
Interest on long-term and subordinated debt	2,957	3,144	1,629
Total Interest Expense	19,727	25,164	12,720
Net Interest Income	88,208	70,148	55,934
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>			
Net Interest Income After Provision for Loan and Lease Losses	84,008	68,758	55,434
<b>NONINTEREST INCOME</b>			
Income from fiduciary activities	1,694	1,416	1,155
Service charges on deposits	637	884	933
Net gain on sales of investment securities	467	1,878	137
Earnings from cash surrender value of life insurance	301	314	286
Mortgage banking income	9,682	3,771	751
ATM debit card interchange income	1,960	1,594	1,253
Merchant services income	392	413	347
Net gain on sales of SBA loans	442	831	561
Other income	2,333	1,520	2,039
Total Noninterest Income	17,908	12,621	7,462
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	37,758	32,360	23,862
Occupancy expense, net	5,505	5,352	4,019
Equipment expense	2,910	2,647	2,186
Software licensing and utilization	5,286	4,394	3,609
FDIC Assessment	1,680	839	772
Legal and professional fees	1,665	1,679	1,117
Charitable contributions qualifying for State tax credits	1,342	755	585
Mortgage banking profit-sharing expense	2,004	—	—
Pennsylvania Bank Shares Tax expense	583	777	225
Marketing and advertising expense	542	906	1,025
Telephone expense	539	609	621
Loss (gain) on sale or write-down of foreclosed assets	333	(15)	4
Intangible amortization	1,398	1,430	1,224
Merger and acquisition expense	—	—	4,790
Other expenses	9,032	8,220	6,132
Total Noninterest Expense	70,577	59,953	50,171
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>31,339</b>	<b>21,426</b>	<b>12,725</b>
Provision for income taxes	5,130	3,725	2,129
<b>NET INCOME</b>	<b>26,209</b>	<b>17,701</b>	<b>10,596</b>
Series D preferred stock dividends	—	—	102
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 26,209</b>	<b>\$ 17,701</b>	<b>\$ 10,494</b>
<b>PER COMMON SHARE DATA:</b>			
Basic Earnings Per Common Share	\$ 3.11	\$ 2.09	\$ 1.48
Diluted Earnings Per Common Share	\$ 3.10	\$ 2.09	\$ 1.48
Cash Dividends Declared	\$ 0.82	\$ 0.79	\$ 0.45

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

*(Dollars in thousands)*

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 26,209	\$ 17,701	\$ 10,596
Other comprehensive income (loss):			
Unrealized gains (losses) arising during the period on available for sale securities, net of income taxes of \$131, \$1,223, and (\$259), respectively (d)	494	4,598	(1,010)
Reclassification adjustment for net gain on sales of available-for-sale securities included in net income, net of income taxes of (\$98), (\$394), and (\$29), respectively (a), (d)	(369)	(1,484)	(108)
Change in defined benefit plans, net of income taxes of (\$134), (\$79), and \$363, respectively (b), (d)	(503)	(296)	1,364
Reclassification adjustment for settlement gains and activity related to benefit plans, net of income taxes of (\$6), (\$26), and (\$156), respectively (c), (d)	(22)	(97)	(585)
Total other comprehensive (loss) income	(400)	2,721	(339)
Total comprehensive income	\$ 25,809	\$ 20,422	\$ 10,257

- (a) Amounts are included in net gain on sales of investment securities on the Consolidated Statements of Income as a separate component within total noninterest income.
- (b) The change in defined benefit plans consists primarily of unrecognized actuarial (losses) gains on defined benefit plans during the period.
- (c) The reclassification adjustment for defined benefit plans includes settlement gains, amortization of prior service costs, and amortization of net gain or loss. Amounts are included in other income on the Consolidated Statements of Income within the total noninterest income. Please reference Note 16, *Postretirement Benefit Plans*, to the consolidated financial statements for more information.
- (d) The income tax impacts of the components of other comprehensive income are calculated using the 21 percent statutory tax rate for 2020, 2019 and 2018.

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

(Dollars in thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<b>Balance, January 1, 2018</b>	\$ —	\$ 4,242	\$ 40,970	\$ 32,565	\$ (2,074)	\$ —	\$ 75,703
Impact of adoption of new accounting standard (a)	—	—	—	(44)	35	—	(9)
Balance at January 1, 2018, adjusted	—	4,242	40,970	32,521	(2,039)	—	75,694
Net income	—	—	—	10,596	—	—	10,596
Total other comprehensive loss, net of taxes	—	—	—	—	(339)	—	(339)
Series D preferred stock issued in connection with the First Priority acquisition	3,404	—	—	—	—	—	3,404
Series D preferred stock dividends	—	—	—	(102)	—	—	(102)
Series D preferred stock redemption	(3,404)	—	—	—	—	—	(3,404)
Common stock dividends declared	—	—	—	(3,453)	—	—	(3,453)
Common stock issued to Scottdale shareholders (1,878,827 shares) (b)	—	1,879	62,302	—	—	—	64,181
Common stock issued to First Priority shareholders (2,320,800 shares) (c)	—	2,321	73,801	—	—	—	76,122
Employee Stock Purchase Plan (4,132 shares)	—	4	115	—	—	—	119
Director Stock Purchase Plan (4,296 shares)	—	4	120	—	—	—	124
Restricted stock activity (9,647 shares)	—	10	257	—	—	—	267
<b>Balance, December 31, 2018</b>	<u>\$ 0</u>	<u>\$ 8,460</u>	<u>\$ 177,565</u>	<u>\$ 39,562</u>	<u>\$ (2,378)</u>	<u>\$ 0</u>	<u>\$ 223,209</u>
Impact of adoption of new accounting standard (d)	—	—	—	316	—	—	316
Balance at January 1, 2019, adjusted	—	8,460	177,565	39,878	(2,378)	—	223,525
Net income	—	—	—	17,701	—	—	17,701
Total other comprehensive income, net of taxes	—	—	—	—	2,721	—	2,721
Common stock dividends declared	—	—	—	(6,688)	—	—	(6,688)
Employee Stock Purchase Plan (5,151 shares)	—	5	129	—	—	—	134
Director Stock Purchase Plan (5,232 shares)	—	5	130	—	—	—	135
Restricted stock activity (10,637 shares)	—	11	335	—	—	—	346
<b>Balance, December 31, 2019</b>	<u>\$ 0</u>	<u>\$ 8,481</u>	<u>\$ 178,159</u>	<u>\$ 50,891</u>	<u>\$ 343</u>	<u>\$ 0</u>	<u>\$ 237,874</u>
Net income	—	—	—	26,209	—	—	26,209
Total other comprehensive loss, net of taxes	—	—	—	—	(400)	—	(400)
Common stock dividends declared	—	—	—	(6,925)	—	—	(6,925)
Repurchased stock (12,129 shares)	—	—	—	—	—	(1,795)	(1,795)
Employee Stock Purchase Plan (8,005 shares)	—	8	147	—	—	—	155
Director Stock Purchase Plan (8,121 shares)	—	8	148	—	—	—	156
Restricted stock activity (14,771 shares)	—	15	399	—	—	—	414
<b>Balance, December 31, 2020</b>	<u>\$ 0</u>	<u>\$ 8,512</u>	<u>\$ 178,853</u>	<u>\$ 70,175</u>	<u>\$ (57)</u>	<u>\$ (1,795)</u>	<u>\$ 255,688</u>

- (a) Represents the impact of adopting Accounting Standard Update ASU 2016-01. See Note 25, *Recent Accounting Pronouncements*, to the consolidated financial statements for more information.
- (b) Shares issued on January 8, 2018 as a result of the acquisition of The Scottdale Bank & Trust Company (“Scottdale”). See Note 4, *Acquisition of The Scottdale Bank and Trust Company*, to the consolidated financial statements for more information.
- (c) Shares issued on July 31, 2018 as a result of the acquisition of First Priority Financial Corp. (“First Priority”). See Note 5, *Acquisition of First Priority Financial Corp.*, to the consolidated financial statements for more information.
- (d) Represents the impact of adopting Accounting Standard Update ASU 2016-02. See Note 25, *Recent Accounting Pronouncements*, to the consolidated financial statements for more information.

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

**MID PENN BANCORP, INC.**
**Consolidated Statements of Cash Flows**
*(Dollars in thousands)*

	Years Ended December 31,		
	2020	2019	2018
<b>Operating Activities:</b>			
Net Income	\$ 26,209	\$ 17,701	\$ 10,596
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	4,200	1,390	500
Depreciation	3,204	2,815	2,395
Amortization of intangibles	1,398	1,430	1,224
Net amortization of security premiums	782	755	517
Amortization of operating lease right of use assets	1,670	1,678	—
Amortization of finance lease right of use asset	180	150	—
Gain on sales of investment securities	(467)	(1,878)	(137)
Earnings on cash surrender value of life insurance	(301)	(331)	(286)
Mortgage loans originated for sale	(356,158)	(163,228)	(46,264)
Proceeds from sales of mortgage loans originated for sale	348,756	160,279	46,353
Gain on sale of mortgage loans	(9,682)	(3,771)	(751)
SBA loans originated for sale	(6,487)	(13,792)	(7,734)
Proceeds from sales of SBA loans originated for sale	6,929	14,622	8,296
Gain on sale of SBA loans	(442)	(831)	(561)
Loss on write-down/disposal of property, plant, and equipment	242	168	71
Loss (gain) on sale / write-down of foreclosed assets	333	(15)	4
Restricted stock compensation expense	414	346	267
Deferred income tax (benefit) expense	(1,367)	665	1,317
(Increase) decrease in accrued interest receivable	(5,007)	280	(398)
Increase in other assets	(1,971)	(8,193)	(1,779)
(Decrease) increase in accrued interest payable	(201)	(54)	528
Net change in operating lease liability	(1,714)	(1,782)	—
Increase (decrease) in other liabilities	3,549	(573)	(3,175)
<b>Net Cash Provided By Operating Activities</b>	<b>14,069</b>	<b>7,831</b>	<b>10,983</b>
<b>Investing Activities:</b>			
Proceeds from the sale of available-for-sale securities	101,739	154,307	158,271
Proceeds from the maturity or call of available-for-sale securities	8,538	13,659	17,235
Purchases of available-for-sale securities	(78,542)	(20,406)	(24,830)
Proceeds from the maturity or call of held-to-maturity securities	107,583	23,160	14,493
Purchases of held-to-maturity securities	(100,029)	(58,848)	(75,375)
Net cash received from acquisitions	—	—	72,616
(Purchases) redemptions of restricted investment in bank stocks	(2,692)	1,744	72
Net increase in loans and leases	(623,153)	(139,430)	(132,097)
Proceeds from bank owned life insurance	—	140	—
Purchases of bank premises and equipment	(3,685)	(3,885)	(8,958)
Proceeds from sale of bank premises and equipment	65	1,268	—
Proceeds from sale of foreclosed assets	1,264	1,306	420
<b>Net Cash (Used In) Provided By Investing Activities</b>	<b>(588,912)</b>	<b>(26,985)</b>	<b>21,847</b>
<b>Financing Activities:</b>			
Net increase (decrease) in deposits	562,186	186,368	(12,469)
Net increase (decrease) in short-term borrowings	125,617	(43,100)	(25,836)
Proceeds from long-term debt borrowings	70,000	13,500	30,000
Series D preferred stock dividends paid	—	—	(102)
Series D preferred stock redemption	—	—	(3,404)
Common stock dividends paid	(6,504)	(6,688)	(4,513)
Proceeds from Employee Stock Purchase Plan stock issuance	155	134	119
Proceeds from Director Stock Purchase Plan stock issuance	156	135	124
Treasury stock purchased	(1,795)	—	—
Net change in finance lease liability	(83)	(46)	—
Long-term debt repayment	(27,705)	(32,184)	(198)
Subordinated debt redemption	(9,640)	—	—
Subordinated debt issuance	27,150	—	—
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>739,537</b>	<b>118,119</b>	<b>(16,279)</b>
Net increase in cash and cash equivalents	164,694	98,965	16,551
Cash and cash equivalents, beginning of year	139,030	40,065	23,514
Cash and cash equivalents, end of year	<u>\$ 303,724</u>	<u>\$ 139,030</u>	<u>\$ 40,065</u>

**MID PENN BANCORP, INC.**

**Consolidated Statements of Cash Flows**

(Dollars in thousands)

	Years Ended December 31,		
	2020	2019	2018
Supplemental Disclosures of Cash Flow Information:			
Interest paid	\$ 19,928	\$ 25,218	\$ 11,103
Income taxes paid	\$ 7,740	\$ 3,770	\$ 1,425
Supplemental Noncash Disclosures:			
Recognition of operating lease right-of-use assets	\$ 385	\$ 13,120	\$ —
Recognition of operating lease liabilities	\$ 370	\$ 14,326	\$ —
Recognition of finance lease right-of-use asset	\$ —	\$ 3,597	\$ —
Recognition of finance lease liability	\$ —	\$ 3,597	\$ —
Loan transfers to foreclosed assets held for sale	\$ 1,535	\$ 470	\$ 1,116
Debt securities transferred from held-to-maturity to available-for-sale	\$ —	\$ 67,096	\$ —
Common stock issued to First Priority and Scottsdale shareholders	\$ —	\$ —	\$ 4,200
Dividends declared and not paid before year-end	\$ 421	\$ —	\$ —

Assets, Liabilities, and Equity in Connection with Mergers (a):

(Dollars in thousands)

Assets Acquired:			
Securities	\$ —	\$ —	\$ 177,016
Loans	—	—	582,392
Restricted stock	—	—	2,334
Property and equipment	—	—	2,643
Foreclosed assets	—	—	136
Deferred income taxes	—	—	4,190
Accrued interest receivable	—	—	3,282
Core deposit and other intangible assets	—	—	7,976
Cash surrender value of life insurance	—	—	3,363
Other assets	—	—	1,100
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 784,432</u>
Liabilities Assumed:			
Deposits	\$ —	\$ —	\$ 714,927
Borrowings	—	—	49,939
Accrued interest payable	—	—	1,089
Other liabilities	—	—	6,309
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 772,264</u>
Equity Acquired:			
Preferred stock	\$ —	\$ —	\$ 3,404

- (a) This disclosure includes the impact of both the acquisition of The Scottsdale Bank and Trust Company, effective January 8, 2018, and the acquisition of First Priority Financial Corp., effective July 31, 2018. See Note 4, *Acquisition of The Scottsdale Bank and Trust Company*, and Note 5, *Acquisition of First Priority Financial Corp.*, to the consolidated financial statements for more information.

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



**(1) Basis of Presentation**

For all periods presented, the accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. (“Mid Penn” or the “Corporation”), its wholly-owned subsidiary, Mid Penn Bank (the “Bank”), and three nonbank subsidiaries which were established during 2020, including MPB Financial Services, LLC, under which two additional nonbank subsidiaries have been established: (i) MPB Wealth Management, LLC, created to expand the wealth management services and capabilities of the Corporation, and (ii) MPB Risk Services, LLC, created to fulfill the insurance needs of both existing and potential customers of the Corporation. As of December 31, 2020, the accounts and activities of these nonbank subsidiaries established in 2020 were not material to warrant separate disclosure or segment reporting. As a result, Mid Penn has only one reportable segment for financial reporting purposes. All material intercompany accounts and transactions have been eliminated in consolidation.

On January 8, 2018, Mid Penn completed its acquisition of The Scottdale Bank & Trust Company (“Scottdale”), a Pennsylvania bank and trust company, through the merger of Scottdale with and into Mid Penn Bank pursuant to the previously announced Agreement and Plan of Merger, dated as of March 29, 2017, among Mid Penn, Mid Penn Bank and Scottdale. Refer to Note 4, *Acquisition of The Scottdale Bank & Trust Company*, as well as the Company’s Current Report on Form 8-K filed on January 8, 2018, for more information.

On July 31, 2018, Mid Penn completed its acquisition of First Priority Financial Corp. (“First Priority”), pursuant to the previously announced Agreement and Plan of Merger dated as of January 16, 2018. On July 31, 2018, First Priority was merged with and into Mid Penn, with Mid Penn being the surviving corporation. Refer to Note 5, *Acquisition of First Priority Financial Corp.*, as well as the Company’s Current Report on Form 8-K filed on August 1, 2018, for more information.

The comparability of Mid Penn’s results of operations for the year ended December 31, 2020, compared to the years ended December 31, 2019 and 2018, in general, has been materially impacted by these two acquisitions, as further described in Note 4 and Note 5, as well as events and legislation related to the COVID-19 pandemic in 2020, as further described in Note 27, *COVID-19 Pandemic Implications*. For comparative purposes, the December 31, 2019 and December 31, 2018 balances have been reclassified, when necessary, to conform to the 2020 presentation. Such reclassifications had no impact on net income or total shareholders’ equity. In the opinion of management, all adjustments necessary for fair presentation of the periods presented have been reflected in the accompanying consolidated financial statements. All such adjustments are of a normal, recurring nature.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2020, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the issuance date of these consolidated financial statements.

**(2) Nature of Business**

Mid Penn, through operations conducted by the Bank and its nonbank subsidiaries, 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, 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 and wealth management 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 thirty-six retail banking offices located in the Pennsylvania counties of Berks, Bucks, Chester, Cumberland, Dauphin, Fayette, Lancaster, Luzerne, Montgomery, Northumberland, Schuylkill and Westmoreland.

During 2020, Mid Penn established three nonbank subsidiaries consisting of MPB Financial Services, LLC, under which two additional nonbank subsidiaries have been established: (i) MPB Wealth Management, LLC, created to expand the wealth management services and capabilities of the Corporation, and (ii) MPB Risk Services, LLC, created to fulfill the insurance needs of both existing and potential customers of the Corporation.

3) **Summary of Significant Accounting Policies**

The accounting and reporting policies of Mid Penn conform with accounting principles generally accepted in the United States of America (“GAAP”) and to general practice within the financial industry. The following is a description of the more significant accounting policies.

(a) **Use of Estimates**

The preparation of financial statements 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 and lease losses, the assessment of other-than-temporary impairment of investment securities, the valuation of goodwill and assessment for impairment, and the valuation of assets acquired and liabilities assumed in business combinations.

(b) **Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

(c) **Restrictions on Cash and Due from Bank Accounts**

The Bank is required by banking regulations to maintain certain minimum cash reserves. As of both December 31, 2020 and 2019, there was no cash reserve balances required to be maintained at the Federal Reserve of Philadelphia because the Bank had sufficient vault cash available.

(d) **Interest-bearing Time Deposits with Other Financial Institutions**

Interest-bearing time deposits with other financial institutions consist of certificates of deposits in other financial institutions with maturities within one year.

(e) **Investment Securities**

Securities to be held for indefinite periods, but not intended to be held to maturity, are classified as available for sale and carried at fair value. Available-for-sale securities are those that management intends to use as part of its asset and liability management strategy and that may be sold in response to liquidity needs, changes in interest rates, resultant prepayment risk, pledging requirements, and other factors related to effective portfolio management. For available-for-sale debt securities, realized gains and losses on dispositions are based on the difference between net proceeds and the amortized cost of the securities sold, using the specific identification method. Unrealized gains and losses on debt securities are based on the difference between the amortized cost and fair value of each security as of the respective reporting date. Unrealized gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through Mid Penn's consolidated statement of income for the respective period.

Securities to be held to maturity are carried at amortized cost. Unrealized holding gains and losses on held-to-maturity securities are excluded from earnings, and are not a component of accumulated other comprehensive income (loss) within shareholders' equity.

Premiums and discounts on debt securities are amortized as an adjustment to interest income using the interest method. Realized gains and losses on sales of investment securities are computed on the basis of specific identification of the cost of each security.

ASC Topic 320, *Investments – Debt Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess, in addition to the credit condition of the underlying issuer, whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the Company will recover the cost basis of the investment.

In instances when a determination is made that an other-than-temporary impairment exists but the Company does not intend to sell the respective debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

(f) **Equity Securities**

As a result of Mid Penn's adoption of ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* on January 1, 2018, the Corporation reports its equity securities with readily determinable fair values at fair value on the Consolidated Balance Sheet, with realized and unrealized gains and losses reported in other expense on the Consolidated Statements of Income. Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income or loss, net of tax. The adoption of ASU 2016-01 on January 1, 2018 resulted in net unrealized losses of \$44,000 being reclassified out of accumulated other comprehensive loss and into retained earnings as reflected on the Consolidated Statement of Changes in Shareholders' Equity for the period ended December 31, 2018.

As of December 31, 2020 and 2019, Mid Penn's equity securities consisted of Community Reinvestment Act funds totaling \$515,000 and \$507,000, respectively. An equity security consisting of \$1,000,000 of preferred stock of another financial institution was purchased and subsequently sold during the year ended December 31, 2020, resulting in a gain on sale of \$6,000. No equity securities were sold during the year ended December 31, 2019.

(g) **Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are included in loans held for sale and are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements. Gains and losses on sales of mortgage loans are included in noninterest income in the Consolidated Statements of Income.

(h) **Loans and Allowance for Loan and Lease Losses**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Residential loans held for sale are carried at fair value and are included in loans held for sale on the balance sheet. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans, generally being amortized over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, commercial real estate-construction and lease financing. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

For all classes of loans, the accrual of interest generally is discontinued when the contractual payment of principal or interest has become 90 days or more past due, or management has serious doubts about further collectability of principal or interest even though the loan is currently performing. A loan past due 90 days or more may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest is credited to income. Interest received on nonaccrual loans, including impaired loans, is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Nonaccrual loans may be restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally, at least nine consecutive months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

*Commercial and industrial*

Mid Penn originates commercial and industrial loans. Most of the Bank's commercial and industrial loans have been credits extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory, and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80 percent of the value of the collateral securing the loan. The Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present, and future cash flows is also an important aspect of the Bank's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than other extensions of credit.

Commercial and industrial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself, which, in turn, is likely to be dependent upon the general economic environment. Mid Penn's commercial and industrial loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business.

*Commercial real estate and commercial real estate - construction*

Commercial real estate and commercial real estate construction loans generally present a higher level of risk than loans secured by one-to-four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. In addition, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

*Residential mortgage*

Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan-to-value ratios up to 100 percent of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85 percent loan-to-value level. Residential mortgage loans generally do not include prepayment penalties.

In underwriting residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by Mid Penn are appraised by independent fee appraisers. The Bank generally requires borrowers to obtain title insurance and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Bank underwrites residential mortgage loans to the standards established by the secondary mortgage market, i.e., Fannie Mae, Ginnie Mae, Freddie Mac, Federal Home Loan Bank or Pennsylvania Housing Finance Agency standards, with the intention of selling the majority of residential mortgages originated into the secondary market. In the event that the facts and circumstances surrounding a residential mortgage application do not meet all underwriting conditions of the secondary mortgage market, the Bank will evaluate the failed conditions and evaluate the potential risk of holding the residential mortgage in the Bank's portfolio rather than rejecting the loan request. In the event that the loan is funded and held in the Bank's portfolio, the interest rate on the residential mortgage would be increased to compensate for the added portfolio risk.

*Consumer, including home equity*

Mid Penn offers a variety of secured consumer loans, including home equity, automobile, and deposit secured loans. In addition, the Bank offers other secured and unsecured consumer loans. Most consumer loans are originated in Mid Penn's primary market and surrounding areas.

The largest component of Mid Penn's consumer loan portfolio consists of fixed rate home equity loans and variable rate home equity lines of credit. Substantially all home equity loans and lines of credit are secured by junior lien mortgages on principal residences. The Bank will lend amounts, which, together with all prior liens, typically may be up to 85 percent of the appraised value of the property securing the loan. Home equity term loans may have maximum terms up to 20 years, while home equity lines of credit generally have maximum terms of five years.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant's payment history on other debts, and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a higher security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market weakens and property values deteriorate.

*Payroll Protection Program (“PPP”) Loans*

On March 27, 2020, in response to the novel coronavirus (“COVID-19”) pandemic, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law by President Donald Trump. This legislation created the federal Paycheck Protection Program (“PPP”) which permitted eligible business entities to apply for loans through a participating financial institution to cover payroll, rent, and other business expenses during the COVID-19 pandemic. The PPP loans, which are 100 percent guaranteed by the Small Business Administration (“SBA”), have up to a five-year term to maturity and carry a low interest rate of 1 percent throughout the loan term. The vast majority of Mid Penn’s PPP loans have a two-year term to maturity. The SBA may forgive the PPP loans if, among other criteria, at least 60 percent of the proceeds are used for payroll costs. Also, the borrowers will not have to make any payments for six months following the date of disbursement of the loan, though interest will continue to accrue during the deferment period. The SBA also provided a processing fee per loan to financial institutions who participated in the PPP, with the amount of such fee ranging from 1 percent to 5 percent as pre-determined by the SBA dependent upon the size of each respective credit. In addition to the processing fees, Mid Penn recorded related loan origination costs. As of December 31, 2020, Mid Penn had received \$20,883,000 of nonrefundable loan processing fees related to the loans disbursed as a result of Mid Penn’s participation in the PPP initiative. The balance of these fees that have not yet been realized as income, and the related loan origination costs, are deferred in accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs* and will be amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of each respective loan. During the year ended December 31, 2020, Mid Penn recognized \$13,137,000 of PPP processing fees within interest and fees on loans and leases on the Consolidated Statements of Income.

As of December 31, 2020, Mid Penn had \$388,313,000 of net PPP loans outstanding (\$396,059,000 of gross PPP loans, net of deferred PPP processing fees of \$7,746,000) with all of these loans being recorded in the commercial and industrial loan portfolio classification.

On February 22, 2021, on a Form 8-K filed with the Securities and Exchange Commission (“SEC”), Mid Penn reported that through February 18, 2021 it had received 2021 Paycheck Protection Program (“2021 PPP”) loan funding approvals through the Small Business Administration (“SBA”), and made subsequent loan disbursements, for 2,047 business customers totaling more than \$290 million in loans. These businesses collectively employ more than 26,000 individuals. The 2021 PPP application window remains open as of the date of this report, and Mid Penn is continuing to process existing applications for loans that have not yet been approved or disbursed, and is continuing to receive new applications for submission to the SBA for additional PPP loan support of customers. See Note 27, *COVID-19 Pandemic Implications*, for more details.

*Allowance for Loan and Lease Losses*

The allowance for credit losses (“allowance”) consists of (i) the allowance for loan and lease losses, and (ii) the reserve for unfunded lending commitments. The allowance for loan and lease losses represents management’s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management’s estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The reserve for unfunded lending commitments was \$66,000 at December 31, 2020 and \$80,000 at December 31, 2019.

The allowance is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged off to the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, or earlier in the event of bankruptcy or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance is maintained at a level considered by management to be adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on Mid Penn’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan.

The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in collateral values, changes in the experience of the lending staff and loan review systems, changes in lending policies and procedures (including underwriting standards), changes in the mix and volume of loans originated, the effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio, shifting industry or portfolio concentrations, and other relevant factors.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions and a narrative accompanying the allowance for loan loss calculation.

The unallocated component of the allowance for loan and lease losses covers several considerations that are not specifically measurable through either the specific and general components. For example, at times Mid Penn could face increasing credit risks and uncertainties, not yet reflected in recent historical losses or qualitative factor assessments, including but not limited to (i) the unknown long-term impact of the ongoing COVID-19 pandemic which may not be reflected in current portfolio performance, (ii) unpredictable changes in economic growth or business conditions in our markets or for certain industries in which we have commercial loan borrowers, or (iii) unanticipated stresses to the values of real estate held as collateral. Any or all of these additional issues can adversely affect our borrowers' ability to timely repay their loans. Additionally, we have experienced continued strong commercial loan growth, including growth in newer markets where we have less of a loss history. Also, the unallocated component allocation recognizes the inherent imprecision in our allowance for loan and lease loss methodology, or any alternative methodology, for estimating specific and general loan losses, including the unpredictable timing and amounts of charge-offs, the fact that historical loss averages don't necessarily correlate to future loss trends, and unexpected changes to specific-credit or general portfolio future cash flows and collateral values which could negatively impact unimpaired portfolio loss factors.

Mid Penn generally considers a commercial loan (consisting of commercial and industrial, commercial real estate, commercial real estate-construction, and lease financing loan classes) to be impaired when it becomes 90 days or more past due and not in the process of collection, or sooner when it is probable that Mid Penn will be unable to collect all contractual principal and interest due. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time, the loan would generally be considered collateral dependent as the discounted cash flows method would generally indicate no operating income available for evaluating the collateral position; therefore, most impaired loans are deemed to be collateral dependent.

In addition, Mid Penn's rating system assumes any loans classified as nonaccrual, included in the substandard rating, to be impaired, and most of these loans are considered collateral dependent; therefore, most of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans classified as substandard nonaccrual, doubtful, having probable loss will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. The remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. Commercial real estate loans determined to be impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall. The remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charging off a residential mortgage loan begins when a loan becomes delinquent for 90 days and is not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management, and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, or earlier in the event of either bankruptcy or if there is an amount deemed uncollectible. The collateral shortfall of the consumer loan is recommended for charge-off at this point.

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As noted above, Mid Penn assesses a specific allocation for commercial loans and commercial real estate loans. The remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan becomes classified under its internal classification system. A preliminary collateral evaluation, in accordance with the guidance on impaired loans, is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary, but allows Mid Penn to determine if any potential collateral shortfalls exist.

It is Mid Penn's policy to obtain updated third-party collateral valuations on all impaired loans secured by real estate as soon as practically possible following the credit being classified as substandard nonaccrual. Prior to receipt of the updated real estate valuation, Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however, no allowance recommendation will be made until such time Mid Penn is in receipt of the updated valuation. The Asset Recovery department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no material time lapses noted with the above processes.

In some instances, Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances, a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary.

For impaired loans with no valuation allowance required, the independent third party market valuations on the subject property obtained by Mid Penn as soon as practically possible following the credit being placed on nonaccrual status sometimes indicates that the loan-to-value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every twelve months for revaluation by an independent third party.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Mid Penn does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for nine consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Any loans not classified as noted above are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.



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As of December 31, 2020, Mid Penn had \$388,313,000 of PPP loans outstanding, net of deferred fees, which are guaranteed by the Small Business Administration and, thus, have no loss reserve allocated to that pool.

### *Acquired Loans*

Loans that Mid Penn acquires in connection with business combinations are recorded at fair value with no carryover of predecessor institutions' related allowance for loan losses. The balance of loans acquired at fair value and included in the balance of loans and leases, net of unearned interest on the Consolidated Balance Sheets totaled \$276,701,000 and \$414,498,000 as of December 31, 2020 and December 31, 2019, respectively. Determining the fair value of acquired loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

Loans acquired with credit deterioration are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. For these loans, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount includes estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows will require Mid Penn to evaluate the need for an additional allowance. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable discount which Mid Penn will then reclassify as accretable discount that will be recognized into interest income over the remaining life of the loan.

Loans acquired through business combinations that meet the specific criteria of ASC 310-30 are individually evaluated each period to analyze expected cash flows. To the extent that the expected cash flows of a loan have decreased due to credit deterioration, Mid Penn establishes an allowance.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30 are accounted for under ASC 310-20. These loans are initially recorded at fair value, and include credit and interest rate marks associated with acquisition accounting adjustments. Purchase premiums or discounts are subsequently amortized as an adjustment to yield, using the level yield method, over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. An allowance for loan losses is recorded for any credit deterioration in these loans subsequent to acquisition.

Acquired loans that met the criteria for impaired or nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if Mid Penn expects to fully collect the new carrying value (i.e. fair value) of the loans established at the time of acquisition. As such, Mid Penn may no longer consider the loan to be nonaccrual or nonperforming at the date of acquisition and may accrue interest on these loans, including the impact of any accretable discount. In addition, charge-offs on such loans would be first applied to the nonaccretable difference portion of the fair value adjustment.

### *Loan-Level Interest Rate Swaps*

Beginning during the second quarter of 2020, Mid Penn entered into loan-level interest rate swaps ("swaps") to facilitate certain customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. A loan-level interest rate swap is a contract in which the series of interest rate flows (fixed and variable) are exchanged over the term of a loan with certain qualifying commercial loan customers, and Mid Penn simultaneously enters into an interest rate swap with a dealer counterparty with identical notional amounts and terms. The net result of these swaps is that the customer pays a fixed interest rate and Mid Penn receives a floating interest rate. The swap positions with customers are equally offset with the dealer counterparties to minimize the potential impact on Mid Penn's financial statements.

Pursuant to our agreements with the dealer counterparties, we may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon our current positions and related future collateral requirements relating to them, we believe any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, including the possibility that we will incur a loss because a party to the agreements, which may be a dealer counterparty or a customer, fails to meet its contractual obligations. Derivative contracts may only be executed with dealer counterparties as approved by our Board of Directors. Similarly, derivatives with customers may only be executed with customers within credit exposure limits as approved by our Board of Directors. Loan-level interest rate swaps are considered derivatives but are not accounted for using hedge accounting.

(i) **Bank Premises and Equipment**

Land is carried at cost. Buildings, furniture, fixtures, equipment, land improvements, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Building assets are depreciated using an estimated useful life of five to fifty years. Furniture, fixtures, and equipment are depreciated using an estimated useful life of three to ten years. Land improvements are depreciated over an estimated useful life of ten to twenty years. Leasehold improvements are depreciated using an estimated useful life that is the lesser of the remaining life of the lease or ten to fifteen years. Maintenance and normal repairs are charged to expense when incurred, while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations.

(j) **Bank Premises and Equipment Held For Sale**

Bank premises and equipment designated as held for sale are carried at the lower of cost or market value, and, at December 31, 2020, totaled \$210,000 related to a retail banking property which was closed and listed for sale on December 31, 2020. There were no premises and equipment classified as held for sale as of December 31, 2019. During 2019, Mid Penn sold the land and facility formerly used as a full-service retail banking property. An impairment charge of \$105,000 was recorded during the year ended December 31, 2019 related to this property and is included in other expenses on the Consolidated Statement of Income. There were no impairment charges recorded during the year ended December 31, 2020.

(k) **Leases**

Mid Penn leases certain premises and equipment, and as of January 1, 2019, for all leases in effect upon adoption of Accounting Standards Update 2016-02, *Leases* (Topic 842), as well as any leases commencing thereafter, Mid Penn has recognized a right-of-use asset and a related lease liability for each distinct lease agreement. The lease right-of-use asset consists of the amount of the initial measurement of the lease liability, adjusted for (i) any lease payments made to the lessor at or before the commencement date, minus any lease incentives received, and (ii) any initial direct costs incurred by the lessee (defined as costs of a lease that would not have been incurred had the lease not been executed). The related lease liability is equal to the present value of the future lease payments, discounted using the rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Given that the rate implicit in the lease is rarely available, all lease liability amounts were calculated using Mid Penn's incremental borrowing rate at lease inception, on a collateralized basis, for a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

Operating lease expense, recognized as a component of occupancy expense on the Consolidated Statements of Income, consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis. Operating lease expense also includes variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Finance lease expense consists of the amortization of the right-of-use asset, recognized as a component of occupancy expense on the Consolidated Statements of Income, and interest expense on the lease liability, which is recorded as a component of other interest expense on the Consolidated Statements of Income.

In assessing whether a contract contains a lease, Mid Penn reviews third-party agreements to determine if the contract conveys the right to control the use of identified property, plant, or equipment (defined as an identified asset by Topic 842) for a period of time in exchange for consideration, and grants Mid Penn the right to both (i) obtain substantially all of the economic benefits from the identified asset's use, and (ii) direct the use of the identified asset throughout the term of the agreement.

Upon identification that a lease agreement exists, Mid Penn performs an assessment of the consideration to be paid related to the identified asset and quantifies both the (i) lease components, consisting of consideration paid to transfer a good or service to Mid Penn, and (ii) non-lease components, consisting of consideration paid for distinct elements of the contract that are not related to securing the use of the leased asset, such as property taxes, common area maintenance, utilities, and insurance.

Many of Mid Penn's lease agreements include options to extend or renew contracts subsequent to the expiration of the initial lease term. These renewal and extension options were not included in the calculation of the right-of-use assets and lease liabilities as Mid Penn is not reasonably certain that these renewals and extensions will be utilized. Additionally, for leases that contain escalation clauses related to consumer or other price indices, Mid Penn includes the known lease payment amount as of the commencement date in the calculation of right-of-use assets and related lease liabilities. Subsequent increases in rental payments over the known amount at the commencement date due to increase in the indices will be expensed as incurred.

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None of Mid Penn's lease agreements include residual value guarantees or material variable lease payments. Mid Penn does not have material restrictions or covenants imposed by leases that would impact Mid Penn's ability to pay dividends or cause Mid Penn to incur additional financial obligations.

### (l) **Bank-Owned Life Insurance**

Mid Penn is the owner and beneficiary of bank-owned life insurance ("BOLI") policies on current and former Mid Penn directors, as well as BOLI policies acquired through the Phoenix and First Priority acquisitions covering certain former Miners Bank and First Priority Financial Corp. employees. The earnings from the BOLI policies are an asset that can be liquidated, if necessary, with associated tax costs. However, Mid Penn intends to hold these policies and, accordingly, Mid Penn has not provided deferred income taxes on the earnings from the increase in cash surrender value.

Mid Penn is also party to certain Split-Dollar Life Insurance Arrangements, and in accordance with GAAP, has accrued a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement, and a liability for the future death benefit.

### (m) **Restricted Investments in Bank Stocks**

Restricted investments in bank stocks represent required investments in the common stock of correspondent banks. As a member of the FHLB and Atlantic Community Bankers Bank ("ACBB"), the Bank is required to own restricted stock investments in these correspondent banks, which is carried at cost. The level of stock ownership in the FHLB is adjusted by the FHLB throughout the year based upon the level of outstanding borrowings of the Bank (in general, a higher amount of borrowings, requires a higher amount of FHLB stock ownership). During the years ended December 31, 2020, 2019, and 2018 dividends received from the FHLB totaled \$360,000, \$424,000, and \$275,000 respectively.

### (n) **Income Taxes**

Mid Penn accounts for income taxes in accordance with income tax accounting guidance ASC Topic 740, *Income Taxes*.

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Mid Penn determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Mid Penn accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Mid Penn recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

In December 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted, reducing the corporate tax rate applicable to Mid Penn, for tax years beginning after 2017, to a flat 21 percent statutory federal tax rate, which remains the applicable statutory federal tax rate through December 31, 2020.

(o) **Goodwill**

Goodwill is the excess of the purchase price over the fair value of assets acquired in connection with past business acquisitions. The goodwill balance totaled \$62,840,000 at both December 31, 2020 and December 31, 2019 and was comprised of, (i) \$39,744,000 related to the July 31, 2018 First Priority acquisition, (ii) \$19,178,000 related to the January 8, 2018 Scottsdale acquisition and (iii) \$3,918,000 recorded as a result of the Phoenix acquisition in 2015. Goodwill is evaluated annually for impairment; however, if certain events occur which indicate goodwill might be impaired between annual tests, goodwill must be tested when such events occur. In making this goodwill potential impairment assessment, Mid Penn considers a number of factors including operating results, business plans, economic projections, anticipated future cash flows, current market data, stock price, etc. There are inherent uncertainties related to these factors and Mid Penn's judgment in applying them to the analysis of goodwill impairment. Changes in economic and operating conditions could result in goodwill impairment in future periods.

In support of its March 31, 2020 financial reports, Mid Penn management performed a "Step One" goodwill analysis to determine whether the current or expected impact from the COVID-19 global pandemic resulted in any impairment to the recorded value of its goodwill intangible asset. Based upon this goodwill analysis, Mid Penn management determined that there was no impairment to its goodwill as a result of the COVID-19 pandemic. Additionally, Mid Penn did not identify any impairment on its outstanding goodwill from its most recent annual evaluation, which was performed as of October 31, 2020 using a qualitative analysis. Similar qualitative analyses were performed in 2019 and 2018 with no goodwill impairment recognized.

(p) **Core Deposit Intangible**

Core deposit intangible is a measure of the value of consumer demand and savings deposits acquired in business combinations accounted for as purchases. The carrying amount of core deposit intangibles was \$4,311,000 and \$5,526,000 at December 31, 2020 and 2019, respectively. Amortization expense is reflected in the Consolidated Statements of Income in intangible amortization and was \$1,215,000, \$1,367,000, and \$1,188,000 for the years 2020, 2019, and 2018, respectively. The core deposit intangible for each respective acquisition (Phoenix in 2015, and Scottsdale and First Priority in 2018) is being amortized over a ten-year period starting at the respective acquisition date and using a sum-of-the-year's digits basis. Core deposit intangibles are subject to impairment testing whenever events or changes in circumstances indicate the need for such evaluation. During 2020 and continuing through the period subsequent to December 31, 2020, the novel coronavirus ("COVID-19") global pandemic has impacted the United States including the State of Pennsylvania and Mid Penn's market area and communities and customers. Accordingly, Mid Penn management evaluated whether this COVID-19 event resulted in any impairment to the value of its acquired consumer demand and savings deposit base. Management's determination was that there was no impairment to its core deposit intangible to date as a result of the pandemic or related factors. Supporting this assertion, as reflected in the Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, Mid Penn has recognized substantial total deposit growth of \$562,186,000 or over 29 percent during 2020, with none of this growth attributable to brokered deposits. Subsequent to December 31, 2020, and through the date of this filing, these increased deposit levels were sustained and continued to reflect no evidence of impairment. Mid Penn did not identify any core deposit intangible impairment in either 2019 or 2018.

(q) **Foreclosed Assets Held for Sale**

Foreclosed assets held for sale consist primarily of real estate acquired through, or in lieu of, foreclosure in settlement of debt, and are recorded at fair value less cost to sell at the date of transfer, establishing a new cost basis. 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 fair value less costs of disposal, based upon periodic evaluations that consider changes in market conditions and development and disposal 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. As of December 31, 2020, Mid Penn had \$134,000 of residential real estate held in other real estate owned. There was also \$13,000 in loans for which formal foreclosure proceedings were in process at December 31, 2020. As of December 31, 2019, Mid Penn had \$78,000 of residential real estate held in other real estate owned and \$84,000 in loans for which formal foreclosure proceedings were in process.

(r) **Mortgage Servicing Rights**

Mortgage servicing rights are recognized as assets upon the sale of a mortgage loan. A portion of the cost of the loan is allocated to the servicing right based upon relative fair value. The fair value of servicing rights is based on the present value of estimated future cash flows of mortgages sold, stratified by rate and maturity date. Assumptions that are incorporated in the valuation of servicing rights include assumptions about prepayment speeds on mortgages and the cost to service loans. Servicing rights are reported in core deposit and other intangibles in the Consolidated Balance Sheets and are amortized over the estimated period of future servicing income to be received on the underlying mortgage loans. The carrying amount of mortgage servicing rights was \$49,000 and \$78,000 at December 31, 2020 and 2019, respectively. Amortization expense is reflected in the Consolidated Statements of Income in intangible amortization and was \$29,000, \$28,000, and \$20,000 for the years 2020, 2019, and 2018, respectively. Servicing rights are evaluated for impairment based upon estimated fair value as compared to unamortized carrying value. No servicing right impairments were identified or recorded for the three-year period ended December 31, 2020. The principal balance of loans serviced for others was \$9,384,000 and \$12,357,000 for December, 31 2020 and 2019, respectively.

(s) **Investment in Limited Partnership**

Mid Penn is a limited partner in a partnership that provides low-income housing in Enola, Pennsylvania. The carrying value of Mid Penn's investment in the limited partnership was \$146,000 at December 31, 2020 and \$190,000 at December 31, 2019, net of amortization, using the straight-line method and is reported in other assets on the Consolidated Balance Sheets. Mid Penn's maximum exposure to loss is limited to the carrying value of its investment. Mid Penn received \$31,000 in low-income housing tax credits for the tax year ended December 31, 2019, and \$76,000 for the tax year ended December 31, 2018.

Mid Penn also owns a limited partnership interest in a low-income housing project to construct thirty-seven apartments and common amenities in Dauphin County, Pennsylvania. The total investment in this limited partnership, net of amortization, was \$6,682,000 and \$7,249,000 on December 31, 2020 and December 31, 2019, respectively, and was included in the reported balance of other assets on the Consolidated Balance Sheet. All of the units qualified for Federal Low-Income Housing Tax Credits ("LIHTCs") as provided for in Section 42 of the Internal Revenue Code of 1986, as amended. Mid Penn's limited partner capital contribution commitment is \$7,579,000. Investments made to date, and any future payments under this commitment, are paid in installments over the course of the construction and completion phases of the low-income housing facilities. Each installment payment is conditional upon both Mid Penn's review and approval of the installment payment certificate and continued compliance with the terms of the original partnership agreement. The investment in the limited partnership is reported in other assets on the Consolidated Balance Sheet and is being amortized over a ten-year period, as the facilities became operational and began to be occupied beginning in December 2019. The project has been conditionally awarded \$8,613,000 in total LIHTCs by the Pennsylvania Housing Finance Agency, with an annual LIHTC amount of approximately \$861,000 to be awarded to Mid Penn in the year-ended December 31, 2020 and each full year thereafter during the ten-year amortization period. Mid Penn's commitment to initiate investments in the limited partnership interest was conditional upon (i) the review and approval of all closing documents, (ii) an opinion letter for tax counsel to the Partnership that the project qualifies for the LIHTCs, and (iii) review and approval by Mid Penn of other documents it deemed necessary. All such initial conditions were satisfied and Mid Penn began funding the investment during 2018, and the investment is expected to be fully funded during 2021. Similar to the recognition period of the tax credits, Mid Penn intends to amortize this low-income housing investment using the cost amortization method over a ten-year period.

(t) **Marketing and Advertising Costs**

Marketing and advertising costs are expensed as incurred.

(u) **Postretirement Benefit Plans**

Mid Penn follows the guidance in ASC Topic 715, *Compensation-Retirement Benefits*, related to postretirement benefit plans. This guidance requires additional disclosures about defined benefit pension plans and other postretirement defined benefit plans.

As a result of the acquisition of Scottsdale on January 8, 2018, Mid Penn assumed a noncontributory defined benefit pension plan covering certain former employees of Scottsdale. Liabilities of \$461,000 and \$183,000, representing the funded status of the plan, were included in other liabilities as of December 31, 2020 and December 31, 2019, respectively. Additionally, for the years ended December 31, 2020 and December 31, 2019, Mid Penn recognized \$3,000 and \$34,000, respectively, of settlement gains as a result of certain lump sum payouts to participants of the defined benefit pension plan. The settlement gains were recorded in noninterest income as a component of other income for the years ended December 31, 2020 and December 31, 2019.

(v) **Other Benefit Plans**

A funded contributory defined-contribution plan is maintained for substantially all employees. The cost of the Mid Penn defined contribution plan is charged to current operating expenses and is funded annually.

During 2018, Mid Penn assumed the 401(k) plans of Scottsdale and First Priority. During the year ended December 31, 2020, the First Priority plan was terminated, and all remaining assets were either transferred to the Mid Penn 401(k) Plan or distributed to former employee participants. The Scottsdale 401(k) Plan continues to be managed by Mid Penn's human resources and trust areas; however, since the January 2018 Scottsdale acquisition, the plan has been frozen resulting in no new participants added and no further contributions being made to the plans for the period subsequent to the acquisition through December 31, 2020.

(w) **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 consolidated financial statements since such items are not assets of the Bank. Trust assets under management totaled \$148,621,000 and \$152,492,000 at December 31, 2020 and 2019, respectively. Most trust income is recognized on the cash basis, which is not materially different than if it were reported on the accrual basis.

(x) **Revenue Recognition**

Mid Penn recognizes revenues when earned based upon (i) contractual terms as transactions occur, or (ii) as related services are provided and collectability is reasonably assured. The largest source of revenue for Mid Penn is interest income, which is primarily recognized on an accrual basis according to a written contract, such as loan and lease agreements or investment securities contracts. Mid Penn earns noninterest income through a variety of financial and transactional services such as trust and wealth management services, deposit account transaction fees, ATM debit card fees, and mortgage banking fees. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed. In certain circumstances, noninterest income is reported net of associated expenses.

On January 1, 2018, Mid Penn adopted FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous accounting guidance under ASC 605. This ASU establishes principles for reporting information about the nature, timing, and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods and services to customers. ASU 2014-09 applies primarily to transactional-based non-interest income revenue streams and excludes mortgage banking income, earnings from cash surrender value of life insurance, and gains on SBA loans.

Mid Penn's non-interest income revenue streams of income from fiduciary and wealth management activities, service charges on deposits, ATM debit card interchange income, merchant service fees and certain components of other income are within the scope of Topic 606 and are discussed in greater detail below.

## MID PENN BANCORP, INC.

### *Income from Fiduciary and Wealth Management Activities*

Income from fiduciary and wealth management activities consist of trust, wealth management, and investment management fee income, brokerage transaction fee income, and estate fee income. Trust, wealth management, and investment management fee income consists of advisory fees that are typically based on market values of clients' managed portfolios and transaction fees for fiduciary services performed, both of which are recognized as earned. Brokerage transaction fee income includes advisory fees, which are recognized as earned on a monthly basis and transaction fees that are recognized when transactions occur. Payment is typically received in the following month. Estate fee income is recognized as services are performed over the service period, generally eighteen months.

### *Service Charges on Deposits*

Service charges on deposits consist of cash management, overdraft, non-sufficient fund fees and other service charges on deposit accounts. Revenue is primarily transactional and recognized when earned, which is at the time the respective initiating transaction occurs and the related service charge is subsequently processed. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to the customers' accounts.

### *ATM Debit Card Interchange Income*

ATM debit card interchange income consists interchange fees earned when Mid Penn's debit cards are processed through card payments networks. The interchange fee is calculated as a percentage of the total electronic funds transfer (EFT) transaction plus a per-transaction fee, which varies based on the type of card used, the method used to process the EFT transaction, and the type of business at which the transaction was processed. Revenue is recognized daily as transactions occur and interchange fees are subsequently processed. Payment for interchange activity is received primarily daily, while some fees are aggregated and payment is received in the following month.

### *Merchant Services Income*

Merchant services income is processed through a third-party provider with whom Mid Penn has partnered to provide merchant services to its business customers. Fees are charged to merchants to process their debit card transactions, cash advance services, and other related products. Mid Penn receives a percentage of the revenue generated from each joint customer relationship after the third party has collected the fee income from the merchant. Payment is primarily received in the following month.

### *Other Income*

Certain aspects of other income, such as credit card royalties, check orders, and letter of credit fees, are within the scope of Topic 606. These fees are primarily transactional, and revenue is recognized when transactions occur and the related services are subsequently processed. Payment is primarily received immediately or in the following month.

Mid Penn does not exercise significant judgements in the recognition of income, as typically income is not recognized until the performance obligation has been satisfied. Mid Penn has not recognized any assets from the costs to obtain or fulfill a contract with customers for revenue streams that fall within the guidance of Topic 606.

## (y) **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes changes in unrealized gains and losses on securities available for sale arising during the period and reclassification adjustments for realized gains and losses on securities available for sale included in net income. Mid Penn has an unfunded noncontributory defined benefit plan for directors and other postretirement benefit plans covering full-time employees. These plans utilize assumptions and methods to calculate the fair value of plan assets and recognizing the overfunded and underfunded status of the plans on its consolidated balance sheet. Gains and losses, prior service costs and credits are recognized in other comprehensive income (loss), net of tax, until they are amortized, or immediately upon curtailment.

**MID PENN BANCORP, INC.**

The components of accumulated other comprehensive income (loss), net of taxes, are as follows:

*(Dollars in thousands)*

	Unrealized Loss on Securities	Defined Benefit Plan	Accumulated Other Comprehensive (Loss) Income
Balance - December 31, 2020	\$ (3)	\$ (54)	\$ (57)
Balance - December 31, 2019	\$ (128)	\$ 471	\$ 343

**(z) Restricted Common Stock**

On May 6, 2014, Mid Penn shareholders approved the 2014 Restricted Stock Plan (the “Plan”), which authorizes the issuance of awards that shall not exceed, in the aggregate, 100,000 shares of common stock. At the August 26, 2020 annual shareholder meeting, Mid Penn shareholders approved an amendment to the Plan to increase the number of shares of common stock authorized for issuance from 100,000 shares to 200,000 shares. Awards under the Plan are limited to employees and directors of the Company and the Bank selected by the Compensation Committee of the Board of Directors, to advance the best interest of Mid Penn and its shareholders.

Share-based compensation expense relating to restricted stock is recognized on a straight-line basis over the vesting periods of the awards and is a component of salaries and benefits expense. The restricted stock is non-voting and non-participating until the granted shares vest. Once the shares vest, the recipient has full voting rights and is entitled to common stock dividends.

**(aa) Earnings Per Share**

Basic earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each of the years presented. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding plus common shares that would have been outstanding if dilutive potential common shares, consisting of unvested restricted stock, had been issued.

The following data show the amounts used in computing basic and diluted earnings per common share.

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

	2020	2019	2018
Net income	\$ 26,209	\$ 17,701	\$ 10,596
Less: Dividends on Series D preferred stock	—	—	102
Net income available to common shareholders	\$ 26,209	\$ 17,701	\$ 10,494
Weighted average shares outstanding (basic)	8,439,427	8,468,586	7,071,091
Effect of dilutive unvested restricted stock grants	3,665	23,487	20,706
Weighted average shares outstanding (diluted)	8,443,092	8,492,073	7,091,797
Basic earnings per common share	\$ 3.11	\$ 2.09	\$ 1.48
Diluted earnings per common share	\$ 3.10	\$ 2.09	\$ 1.48

There were no antidilutive shares at December 31, 2020, 2019, and 2018.

**(4) Acquisition of The Scottdale Bank and Trust Company**

On January 8, 2018, Scottdale merged with and into Mid Penn Bank, with Mid Penn Bank continuing as the surviving entity.

Pursuant to the merger agreement, each share of Scottdale common stock issued and outstanding immediately prior to January 8, 2018 converted into the right to receive (i) \$1,166 in cash without interest or (ii) 38.88 shares of Mid Penn common stock. As a result, Mid Penn issued 1,878,827 shares of Mid Penn common stock with an acquisition date fair value of approximately \$64,181,000, based on the closing stock price of Mid Penn’s common stock on January 8, 2018 of \$34.16, and cash of \$2,792,000. Including an insignificant amount of cash paid in lieu of fractional shares, the fair value of total consideration paid was \$66,973,000.



**MID PENN BANCORP, INC.**

The assets and liabilities of Scottdale were recorded on the consolidated balance sheet of the Company at their estimated fair value as of January 8, 2018, and their results of operations have been included in the consolidated income statement of the Company since such date. Scottdale has been fully integrated into Mid Penn; therefore, the amount of revenue and earnings of Scottdale included in the consolidated income statement since the acquisition date is impracticable to provide.

Included in the purchase price was goodwill of \$19,178,000 and a core deposit intangible of \$4,940,000. The core deposit intangible will be amortized over a ten-year period using a sum of the years' digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. During the years ended December 31, 2020 and 2019, core deposit intangible amortization expense related to the Scottdale acquisition totaled \$719,000 and \$808,000, respectively. Core deposit intangible amortization related to the Scottdale acquisition for the five years beginning 2021 through 2025 is estimated to be \$629,000, \$539,000, \$449,000, \$359,000, and \$269,000 per year, respectively, and \$270,000 in total for the two years after 2025.

The allocation of the purchase price is as follows:

*(Dollars in thousands)*

Assets acquired:	
Cash and cash equivalents	\$ 67,817
Investment securities	114,039
Restricted stock	97
Loans	70,769
Goodwill	19,178
Core deposit intangible	4,940
Premises and equipment	1,496
Foreclosed assets	11
Deferred income taxes	1,050
Accrued interest receivable	989
Other assets	266
Total assets acquired	280,652
Liabilities assumed:	
Deposits	209,981
Accrued interest payable	16
Other liabilities	3,682
Total liabilities assumed	213,679
Consideration paid	<u>\$ 66,973</u>
Cash paid	\$ 2,792
Fair value of common stock issued	64,181

**MID PENN BANCORP, INC.**

The following table summarizes the final estimated fair value of the assets acquired and liabilities and equity assumed in the Scottsdale transaction.

*(Dollars in thousands)*

Total purchase price (consideration paid)	\$ 66,973
Net assets acquired:	
Cash and cash equivalents	67,817
Investment securities	114,039
Restricted stock	97
Loans	70,769
Core deposit intangible	4,940
Premises and equipment	1,496
Foreclosed assets	11
Deferred income taxes	1,050
Accrued interest receivable	989
Other assets	266
Deposits	(209,981)
Accrued interest payable	(16)
Other liabilities	(3,682)
	47,795
Goodwill	<u>\$ 19,178</u>

In general, factors contributing to goodwill recognized as a result of the Scottsdale acquisition include expected cost savings from combined operations, opportunities to expand into several new markets, and growth and profitability potential from the repositioning of short-term investments into higher-yielding loans. The goodwill acquired as a result of the Scottsdale acquisition is not tax deductible.

The fair value of the financial assets acquired included loans receivable with a net amortized cost basis of \$70,769,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

*(Dollars in thousands)*

Gross amortized cost basis at January 8, 2018	\$ 71,809
Market rate adjustment	601
Credit fair value adjustment on pools of homogeneous loans	(995)
Credit fair value adjustment on impaired loans	(646)
Fair value of purchased loans at January 8, 2018	<u>\$ 70,769</u>

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the contractual rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from loan inception to the acquisition date. The credit adjustment on impaired loans is derived in accordance with ASC 310-30-30 and represents the portion of the loan balance that has been deemed uncollectible based on our expectations of future cash flows for each respective loan.

The information about the acquired Scottsdale impaired loan portfolio as of January 8, 2018 is as follows:

*(Dollars in thousands)*

Contractually required principal and interest at acquisition	\$ 2,586
Contractual cash flows not expected to be collected (nonaccretable discount)	(1,010)
Expected cash flows at acquisition	1,576
Interest component of expected cash flows (accretable discount)	(305)
Fair value of acquired loans	<u>\$ 1,271</u>

The following table presents pro forma information as if the merger between Mid Penn Bank and Scottsdale had been completed on January 1, 2017. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn Bank merged with Scottsdale at the beginning of 2017. The supplemental pro forma earnings for the year ended December 31, 2018 exclude both (i) adjustments to estimate the eight-day impact of Scottsdale due to immateriality and impracticality and (ii) \$1,304,000 of merger related costs incurred in 2018 related to the Scottsdale acquisition, of which \$205,000 was not deductible for federal income tax purposes. Scottsdale merger related costs also included approximately \$518,000 of severance and retention bonus expenses. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, or other factors.

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

	For the Year Ended December 31, 2018	
	2018	2017
Net interest income after loan loss provision	\$ 55,434	\$ 43,371
Noninterest income	7,462	6,094
Noninterest expense	48,867	38,403
Net income	11,736	8,075
Net income per common share	1.64	1.32

(5) **Acquisition of First Priority Financial Corp.**

On July 31, 2018, Mid Penn completed its acquisition of First Priority, through the merger of First Priority with and into Mid Penn. In connection with this acquisition, First Priority Bank, First Priority's wholly-owned bank subsidiary, was merged with and into Mid Penn Bank.

Pursuant to the merger agreement between Mid Penn and First Priority, the common shareholders of First Priority received 0.3481 shares of Mid Penn common stock for each share of First Priority common stock owned. Additionally, outstanding options to purchase First Priority common stock at the time of the merger were converted into the right to receive cash at a per-option value of \$11.07 less the applicable exercise price, without interest. As a result of the acquisition, Mid Penn's fulfillment of the merger consideration requirements resulted in (i) the issuance of 2,320,800 shares of Mid Penn common stock with an acquisition date fair value of approximately \$76,122,000 based on the closing stock price of Mid Penn's common stock of \$32.80 on July 31, 2018, (ii) the payment \$3,801,000 related to cashing out the stock options, (iii) cash paid of \$6,000 in lieu of fractional shares, and (iv) the issuance of 3,404 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D totaling \$3,404,000 in replacement of similarly valued preferred shares previously issued by First Priority. Aggregately, this resulted in a combined fair value of total consideration paid of \$79,929,000.

The assets and liabilities of First Priority were recorded on the consolidated balance sheet of the Company at their estimated fair value as of July 31, 2018, and their results of operations have been included in the consolidated income statement of the Company since such date. First Priority has been fully integrated into Mid Penn; therefore, the amount of revenue and earnings of First Priority included in the consolidated income statement since the acquisition date is impracticable to provide.

Included in the purchase price was \$39,744,000 of goodwill, a core deposit intangible of \$2,832,000, and a trade name intangible of \$205,000. The core deposit intangible will be amortized over a ten-year period using a sum of the years' digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. Core deposit intangible amortization expense recognized in 2020 and 2019 related to the First Priority acquisition totaled \$442,000 and \$493,000, respectively. Core deposit intangible amortization expense related to the First Priority acquisition for the five years beginning 2020 through 2024 is estimated to be \$390,000, \$339,000, \$288,000, \$236,000 and \$185,000 per year, respectively, and \$244,000 in total for the three years after 2025.

**MID PENN BANCORP, INC.**

The allocation of the purchase price is as follows:

*(Dollars in thousands)*

Assets acquired:	
Cash and cash equivalents	\$ 11,398
Investment securities	62,977
Restricted stock	2,237
Loans	511,623
Goodwill	39,744
Core deposit intangible	2,832
Trade name intangible	205
Premises and equipment	1,147
Foreclosed assets	125
Deferred income taxes	3,140
Accrued interest receivable	2,293
Other assets	4,197
Total assets acquired	641,918
Liabilities assumed:	
Deposits	504,946
Borrowings	49,939
Accrued interest payable	1,073
Other liabilities	2,627
Total liabilities assumed	558,585
Equity acquired:	
Preferred stock	3,404
Total equity acquired and liabilities assumed	561,989
Consideration paid	\$ 79,929
Cash paid	\$ 3,807
Fair value of common stock issued	76,122

**MID PENN BANCORP, INC.**

The following table summarizes the final estimated fair value of the assets acquired and liabilities and equity assumed in the First Priority transaction.

*(Dollars in thousands)*

Total purchase price (consideration paid)	\$ 79,929
Net assets acquired:	
Cash and cash equivalents	11,398
Investment securities	62,977
Restricted stock	2,237
Loans	511,623
Core deposit intangible	2,832
Trade name intangible	205
Premises and equipment	1,147
Foreclosed assets	125
Deferred income taxes	3,140
Accrued interest receivable	2,293
Other assets	4,197
Deposits	(504,946)
Borrowings	(49,939)
Accrued interest payable	(1,073)
Other liabilities	(2,627)
Preferred stock	(3,404)
	40,185
Goodwill	<u>\$ 39,744</u>

In general, factors contributing to goodwill recognized as a result of the First Priority acquisition include expected cost savings from combined operations, opportunities to expand into several new markets, and growth and profitability potential from the repositioning of short-term investments into higher-yielding loans. The goodwill acquired as a result of the First Priority acquisition is not tax deductible.

The fair value of the financial assets acquired included loans receivable with a net amortized cost basis of \$511,623,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

*(Dollars in thousands)*

Gross amortized cost basis at July 31, 2018	\$ 521,644
Market rate adjustment	(3,023)
Credit fair value adjustment on pools of homogeneous loans	(6,742)
Credit fair value adjustment on impaired loans	(256)
Fair value of purchased loans at July 31, 2018	<u>\$ 511,623</u>

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the contractual rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from loan inception to the acquisition date. The credit adjustment on impaired loans is derived in accordance with ASC 310-30-30 and represents the portion of the loan balance that has been deemed uncollectible based on our expectations of future cash flows for each respective loan.

**MID PENN BANCORP, INC.**

The information about the acquired First Priority impaired loan portfolio as of July 31, 2018 is as follows:

*(Dollars in thousands)*

Contractually required principal and interest at acquisition	\$ 1,855
Contractual cash flows not expected to be collected (nonaccretable discount)	(858)
Expected cash flows at acquisition	997
Interest component of expected cash flows (accretable discount)	(125)
Fair value of acquired loans	<u>\$ 872</u>

The following table presents pro forma information as if the merger between Mid Penn and First Priority had been completed on January 1, 2017. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn merged with First Priority at the beginning of 2017. The supplemental pro forma earnings for the year ended December 31, 2018 excludes \$3,486,000 of merger related costs related to the First Priority acquisition, of which \$714,000 was not deductible for federal income tax purposes. First Priority merger related costs also included approximately \$1,475,000 of severance and retention bonus expenses. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, or other factors.

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

	For the Year Ended December 31,	
	2018	2017
Net interest income after loan loss provision	\$ 66,370	\$ 55,082
Noninterest income	7,845	6,748
Noninterest expense	55,689	49,268
Net income	15,469	9,170
Net income per common share	1.84	1.40

**(6) Investment Securities**

The majority of the investment portfolio is comprised of securities issued by U.S. government agencies and state and political subdivision obligations. The amortized cost, fair value, and unrealized gains and losses on investment securities at December 31, 2020 and December 31, 2019 are as follows:

*(Dollars in thousands)*

<b>December 31, 2020</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
Available for sale securities:				
Mortgage-backed U.S. government agencies	\$ 2	\$ —	\$ —	\$ 2
Corporate debt securities	5,750	—	4	5,746
Total available for sale securities	5,752	—	4	5,748
Held to maturity securities:				
U.S. Treasury and U.S. government agencies	11,511	66	—	11,577
Mortgage-backed U.S. government agencies	40,810	948	15	41,743
State and political subdivision obligations	65,449	3,295	6	68,738
Corporate debt securities	10,522	215	1	10,736
Total held to maturity securities	128,292	4,524	22	132,794
Total	<u>\$ 134,044</u>	<u>\$ 4,524</u>	<u>\$ 26</u>	<u>\$ 138,542</u>

MID PENN BANCORP, INC.

(Dollars in thousands)

<b>December 31, 2019</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
Available for sale securities:				
U.S. government agencies	\$ 22,894	\$ 6	\$ 70	\$ 22,830
Mortgage-backed U.S. government agencies	12,996	7	113	12,890
State and political subdivision obligations	30	—	—	30
Corporate debt securities	1,250	9	—	1,259
Total available-for-sale debt securities	37,170	22	183	37,009
Held-to-maturity debt securities:				
U.S. Treasury and U.S. government agencies	50,210	46	220	50,036
Mortgage-backed U.S. government agencies	42,098	95	102	42,091
State and political subdivision obligations	44,169	1,193	13	45,349
Total held-to-maturity debt securities	136,477	1,334	335	137,476
Total	<u>\$ 173,647</u>	<u>\$ 1,356</u>	<u>\$ 518</u>	<u>\$ 174,485</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. Please refer to Note 15, *Fair Value Measurement*, for more information on the fair value of investment securities.

During the fourth quarter of 2019, Mid Penn early adopted Accounting Standards Update (“ASU”) 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*), and as part of the adoption, reclassified 113 held-to-maturity debt securities with an aggregate amortized cost of \$67,096,000 to the available for sale category. All 113 securities were subsequently sold during the fourth quarter and Mid Penn recognized a pre-tax gain on the sales of \$1,779,000. Please refer to Note 25, *Recent Accounting Pronouncements*, for more information regarding the adoption of ASU 2019-04.

Investment securities having a fair value of \$102,959,000 at December 31, 2020, and \$147,283,000 at December 31, 2019, were pledged primarily to secure public fund deposits. Mid Penn also obtains letters of credit from the Federal Home Loan Bank of Pittsburgh (“FHLB”) to secure certain public fund deposits of municipality and school district customers who agree to use of the FHLB letters of credit. These FHLB letter of credit commitments totaled \$288,950,000 as of December 31, 2020 and \$169,051,000 as of December 31, 2019.

**MID PENN BANCORP, INC.**

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

*(Dollars in thousands)*

	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
<b>December 31, 2020</b>									
Available for sale securities:									
Corporate debt securities	2	\$ 3,497	\$ 4	0	\$ —	\$ —	2	\$ 3,497	\$ 4
Total temporarily impaired available for sale securities	2	3,497	4	0	—	—	2	3,497	4
Held to maturity securities:									
Mortgage-backed U.S. government agencies	8	\$ 5,336	\$ 15	0	\$ —	\$ —	8	\$ 5,336	\$ 15
State and political subdivision obligations	2	801	6	0	—	—	2	801	6
Corporate debt securities	1	449	1	0	—	—	1	449	1
Total temporarily impaired held to maturity securities	11	6,586	22	0	—	—	11	6,586	22
<b>Total</b>	<b>13</b>	<b>\$10,083</b>	<b>\$ 26</b>	<b>0</b>	<b>\$ —</b>	<b>\$ —</b>	<b>13</b>	<b>\$10,083</b>	<b>\$ 26</b>

*(Dollars in thousands)*

	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
<b>December 31, 2019</b>									
Available for sale securities:									
U.S. government agencies	4	\$ 4,652	\$ 24	7	\$11,982	\$ 46	11	\$16,634	\$ 70
Mortgage-backed U.S. government agencies	1	1,643	4	14	10,603	109	15	12,246	113
Total temporarily impaired available for sale securities	5	6,295	28	21	22,585	155	26	28,880	183
Held to maturity securities:									
U.S. Treasury and U.S. government agencies	18	\$ 29,024	\$ 219	1	\$ 2,999	\$ 1	19	\$32,023	\$ 220
Mortgage-backed U.S. government agencies	6	8,445	35	13	11,050	67	19	19,495	102
State and political subdivision obligations	3	1,383	13	0	—	—	3	1,383	13
Total temporarily impaired held to maturity securities	27	38,852	267	14	14,049	68	41	52,901	335
<b>Total</b>	<b>32</b>	<b>\$45,147</b>	<b>\$ 295</b>	<b>35</b>	<b>\$36,634</b>	<b>\$ 223</b>	<b>67</b>	<b>\$81,781</b>	<b>\$ 518</b>



## MID PENN BANCORP, INC.

Management evaluates securities for other-than-temporary impairment at least on quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer. In addition, for debt securities, Mid Penn considers (a) whether management has the intent to sell the security, (b) it is more likely than not that management will be required to sell the security prior to its anticipated recovery, and (c) whether management expects to recover the entire amortized cost basis. For equity securities, management considers the intent and ability to hold securities until recovery of unrealized losses.

At December 31, 2020, the majority of the unrealized losses on securities in an unrealized loss position were attributable to mortgage-backed U.S. government agencies. At December 31, 2019, the majority of the unrealized losses on securities in an unrealized loss position were attributed to U.S. government agencies and mortgage-backed U.S. government agencies.

Mid Penn had no securities considered by management to be other-than-temporarily impaired as of December 31, 2020 and December 31, 2019, and did not record any securities impairment charges in the respective periods ended on these dates. Mid Penn does not consider the securities with unrealized losses on the respective dates to be other-than-temporarily impaired as the unrealized losses were deemed to be temporary changes in value related to market movements in interest yields at various periods similar to the maturity dates of holdings in the investment portfolio, and not reflective of an erosion of credit quality.

Gross realized gains and losses on sales of available-for-sale securities for the years ended December 31, 2020, 2019, and 2018 are shown in the table below.

*(Dollars in thousands)*

	For the year ended December 31,		
	2020	2019	2018
Realized gains	\$ 479	\$ 1,951	\$ 150
Realized losses	(12)	(73)	(13)
Net gains	<u>\$ 467</u>	<u>\$ 1,878</u>	<u>\$ 137</u>

The table below illustrates the maturity distribution of investment securities at amortized cost and fair value at December 31, 2020.

*(Dollars in thousands)*

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>December 31, 2020</b>				
Due in 1 year or less	\$ —	\$ —	\$ —	\$ —
Due after 1 year but within 5 years	4,750	4,747	33,983	35,196
Due after 5 years but within 10 years	1,000	999	51,364	53,659
Due after 10 years	—	—	\$ 2,135	\$ 2,196
	<u>5,750</u>	<u>5,746</u>	<u>87,482</u>	<u>91,051</u>
Mortgage-backed securities	2	2	40,810	41,743
	<u>\$ 5,752</u>	<u>\$ 5,748</u>	<u>\$ 128,292</u>	<u>\$ 132,794</u>

7) **Loans and Allowance for Loan and Lease Losses**

The types of loans in Mid Penn’s portfolio, summarized by those rated as “pass” (net of deferred fees and costs of \$9,084,000 as of December 31, 2020 and \$1,081,000 as of December 31, 2019), and the loans classified as “special mention” and “substandard” within Mid Penn’s internal risk rating system as of December 31, 2020 and December 31, 2019, are as follows:

*(Dollars in thousands)*

<b>December 31, 2020</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Total</b>
Commercial and industrial	\$ 739,306	\$ 9,928	\$ 3,120	\$ 752,354
Commercial real estate	1,084,123	1,708	13,825	1,099,656
Commercial real estate - construction	248,882	—	31	248,913
Residential mortgage	200,544	53	1,244	201,841
Home equity	71,856	3	2,365	74,224
Consumer	7,053	—	—	7,053
	<u>\$ 2,351,764</u>	<u>\$ 11,692</u>	<u>\$ 20,585</u>	<u>\$ 2,384,041</u>

*(Dollars in thousands)*

<b>December 31, 2019</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Total</b>
Commercial and industrial	\$ 326,573	\$ 9,558	\$ 3,016	\$ 339,147
Commercial real estate	913,001	2,426	13,711	929,138
Commercial real estate - construction	181,650	—	40	181,690
Residential mortgage	235,252	55	1,417	236,724
Home equity	68,224	—	47	68,271
Consumer	7,786	—	—	7,786
	<u>\$ 1,732,486</u>	<u>\$ 12,039</u>	<u>\$ 18,231</u>	<u>\$ 1,762,756</u>

The increase in deferred fees and costs from December 31, 2019 to December 31, 2020 was the result of collected but unearned PPP loan processing fees related to the PPP loans which Mid Penn processed and disbursed during the second and third quarters of 2020. PPP loans are included in commercial and industrial loans and are fully guaranteed by the SBA; therefore, all PPP loans outstanding (net of the related deferred PPP fees) are classified as “pass” within Mid Penn’s internal risk rating system as of December 31, 2020.

Mid Penn had no loans classified as “Doubtful” as of December 31, 2020 and December 31, 2019.

**MID PENN BANCORP, INC.**

Impaired loans by loan portfolio class as of December 31, 2020 and 2019 are summarized as follows:

(Dollars in thousands)

	December 31, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<u>With no related allowance recorded:</u>						
Commercial and industrial	\$ 899	\$ 931	\$ —	\$ 890	\$ 890	\$ —
Commercial real estate	8,215	8,574	—	7,973	8,366	—
Commercial real estate - construction	31	34	—	40	61	—
Residential mortgage	818	842	—	817	838	—
Home equity	2,365	2,395	—	25	27	—
Consumer	—	—	—	—	—	—
<u>With no related allowance recorded and acquired with credit deterioration: *</u>						
Commercial and industrial	\$ —	\$ —	\$ —	\$ 3	\$ 68	\$ —
Commercial real estate	1,419	1,693	—	1,423	1,708	—
Commercial real estate - construction	—	—	—	—	—	—
Residential mortgage	323	568	—	381	578	—
Home equity	—	13	—	1	5	—
Consumer	—	—	—	—	—	—
<u>With an allowance recorded:</u>						
Commercial and industrial	\$ 553	\$ 574	\$ 533	\$ —	\$ —	\$ —
Commercial real estate	887	994	274	338	380	166
Commercial real estate - construction	—	—	—	—	—	—
Residential mortgage	—	—	—	—	—	—
Home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
<u>Total:</u>						
Commercial and industrial	\$ 1,452	\$ 1,505	\$ 533	\$ 893	\$ 958	\$ —
Commercial real estate	10,521	11,261	274	9,734	10,454	166
Commercial real estate - construction	31	34	—	40	61	—
Residential mortgage	1,141	1,410	—	1,198	1,416	—
Home equity	2,365	2,408	—	26	32	—
Consumer	—	—	—	—	—	—

\* Loans acquired with credit deterioration are presented net of credit fair value adjustment.

**MID PENN BANCORP, INC.**

The average recorded investment of impaired loans and related interest income recognized for the years ended December 31, 2020, 2019, and 2018 are summarized as follows:

(Dollars in thousands)

	December 31, 2020		December 31, 2019		December 31, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>With no related allowance recorded:</u>						
Commercial and industrial	\$ 1,136	\$ —	\$ 178	\$ 3	\$ —	\$ —
Commercial real estate	9,379	5	3,363	20	3,048	3
Commercial real estate - construction	44	—	32	—	—	—
Residential mortgage	998	26	854	30	754	29
Home equity	1,801	—	27	—	101	—
Consumer	—	—	—	—	—	—

With no related allowance recorded and acquired with credit deterioration:

Commercial and industrial	\$ 1	\$ —	\$ 18	\$ —	\$ 23	\$ —
Commercial real estate	1,423	—	1,597	—	1,414	23
Commercial real estate - construction	—	—	—	—	—	—
Residential mortgage	361	—	991	—	832	—
Home equity	1	—	4	—	1	—
Consumer	—	—	—	—	—	—

With an allowance recorded:

Commercial and industrial	\$ 205	\$ —	\$ 962	\$ —	\$ 4,437	\$ —
Commercial real estate	752	—	424	—	541	—
Commercial real estate - construction	—	—	147	—	367	—
Residential mortgage	—	—	—	—	—	—
Home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—

Total:

Commercial and industrial	\$ 1,342	\$ —	\$ 1,158	\$ 3	\$ 4,460	\$ —
Commercial real estate	11,554	5	5,384	20	5,003	26
Commercial real estate - construction	44	—	179	—	367	—
Residential mortgage	1,359	26	1,845	30	1,586	29
Home equity	1,802	—	31	—	102	—

Nonaccrual loans by loan portfolio class, including loans acquired with credit deterioration, as of December 31, 2020 and 2019 are summarized as follows:

(Dollars in thousands)

	2020	2019
Commercial and industrial	\$ 1,452	\$ 894
Commercial real estate	10,520	9,800
Commercial real estate - construction	31	40
Residential mortgage	679	711
Home equity	2,365	26
	<u>\$ 15,047</u>	<u>\$ 11,471</u>

If nonaccrual loans and leases had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period, Mid Penn would have recorded interest income on these loans of \$638,000, \$333,000, and \$536,000, in the years ended December 31, 2020, 2019, and 2018, respectively. Mid Penn has no commitments to lend additional funds to borrowers with impaired or nonaccrual loans.

**MID PENN BANCORP, INC.**

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of December 31, 2020 and 2019 are summarized as follows:

*(Dollars in thousands)*

<b>December 31, 2020</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Greater than 90 Days</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>	<b>Loans Receivable &gt; 90 Days and Accruing</b>
Commercial and industrial	\$ 365	\$ 1,017	\$ 1,377	\$ 2,759	\$ 749,595	\$ 752,354	\$ —
Commercial real estate	1,096	—	7,668	8,764	1,089,473	1,098,237	—
Commercial real estate - construction	—	—	—	—	248,913	248,913	—
Residential mortgage	126	—	282	408	201,110	201,518	—
Home equity	71	22	2,343	2,436	71,788	74,224	—
Consumer	—	6	—	6	7,047	7,053	—
<u>Loans acquired with credit deterioration:</u>							
Commercial and industrial	—	—	—	—	—	—	—
Commercial real estate	9	—	1,402	1,411	8	1,419	—
Commercial real estate - construction	—	—	—	—	—	—	—
Residential mortgage	—	—	168	168	155	323	—
Home equity	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 1,667</b>	<b>\$ 1,045</b>	<b>\$ 13,240</b>	<b>\$ 15,952</b>	<b>\$2,368,089</b>	<b>\$2,384,041</b>	<b>\$ —</b>

*(Dollars in thousands)*

<b>December 31, 2019</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Greater than 90 Days</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>	<b>Loans Receivable &gt; 90 Days and Accruing</b>
Commercial and industrial	\$ —	\$ 1,059	\$ 890	\$ 1,949	\$ 337,195	\$ 339,144	\$ —
Commercial real estate	1,298	11	7,819	9,128	918,587	927,715	—
Commercial real estate - construction	—	—	—	—	181,690	181,690	—
Residential mortgage	145	—	326	471	235,872	236,343	—
Home equity	34	—	—	34	68,236	68,270	—
Consumer	5	3	—	8	7,778	7,786	—
<u>Loans acquired with credit deterioration:</u>							
Commercial and industrial	—	—	3	3	—	3	—
Commercial real estate	16	473	934	1,423	—	1,423	—
Commercial real estate - construction	—	—	—	—	—	—	—
Residential mortgage	5	—	203	208	173	381	—
Home equity	—	—	—	—	1	1	—
Consumer	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 1,503</b>	<b>\$ 1,546</b>	<b>\$ 10,175</b>	<b>\$ 13,224</b>	<b>\$1,749,532</b>	<b>\$1,762,756</b>	<b>\$ —</b>

**MID PENN BANCORP, INC.**

Activity in the allowance for loan and lease losses for the years ended December 31, 2020, 2019, and 2018, and the recorded investment in loans receivable as of December 31, 2020, 2019, and 2018 are as follows:

*(Dollars in thousands)*

<b>Dec. 31, 2020</b>	<b>Commercial and industrial</b>	<b>Commercial real estate</b>	<b>Commercial real estate - construction</b>	<b>Lease Financing</b>	<b>Residential mortgage</b>	<b>Home equity</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
<b>Allowance for loan and lease losses:</b>									
Beginning balance	\$ 2,341	\$ 6,259	\$ 51	\$ —	\$ 417	\$ 442	\$ 2	\$ 3	\$ 9,515
Charge-offs	(45)	(258)	(7)	—	(4)	—	(58)	—	(372)
Recoveries	3	1	2	—	3	3	27	—	39
Provisions	767	2,653	88	—	13	62	30	587	4,200
Ending balance	3,066	8,655	134	—	429	507	1	590	13,382
Ending balance: individually evaluated for impairment	533	274	—	—	—	—	—	—	807
Ending balance: collectively evaluated for impairment	<u>\$ 2,533</u>	<u>\$ 8,381</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ 429</u>	<u>\$ 507</u>	<u>\$ 1</u>	<u>\$ 590</u>	<u>\$ 12,575</u>
<b>Loans receivable:</b>									
Ending balance	\$ 752,354	\$ 1,099,656	\$ 248,913	\$ —	\$ 201,841	\$ 74,224	\$ 7,053	\$ —	\$ 2,384,041
Ending balance: individually evaluated for impairment	1,452	9,102	31	—	818	2,365	—	—	13,768
Ending balance: acquired with credit deterioration	—	1,419	—	—	323	—	—	—	1,742
Ending balance: collectively evaluated for impairment	<u>\$ 750,902</u>	<u>\$ 1,089,135</u>	<u>\$ 248,882</u>	<u>\$ —</u>	<u>\$ 200,700</u>	<u>\$ 71,859</u>	<u>\$ 7,053</u>	<u>\$ —</u>	<u>\$ 2,368,531</u>

**MID PENN BANCORP, INC.**

*(Dollars in thousands)*

<b>Dec. 31, 2019</b>	<b>Commercial and industrial</b>	<b>Commercial real estate</b>	<b>Commercial real estate - construction</b>	<b>Lease Financing</b>	<b>Residential mortgage</b>	<b>Home equity</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
<b>Allowance for loan and lease losses:</b>									
Beginning balance	\$ 2,391	\$ 4,703	\$ 75	\$ —	\$ 453	\$ 528	\$ 7	\$ 240	\$ 8,397
Charge-offs	(217)	(60)	(40)	—	(29)	(18)	(64)	—	(428)
Recoveries	45	82	—	—	9	5	15	—	156
Provisions	122	1,534	16	—	(16)	(73)	44	(237)	1,390
Ending balance	2,341	6,259	51	—	417	442	2	3	9,515
Ending balance: individually evaluated for impairment	—	166	—	—	—	—	—	—	166
Ending balance: collectively evaluated for impairment	\$ 2,341	\$ 6,093	\$ 51	\$ —	\$ 417	\$ 442	\$ 2	\$ 3	\$ 9,349

<b>Loans receivable:</b>									
Ending balance	\$ 339,147	\$ 929,138	\$ 181,690	\$ —	\$ 236,724	\$ 68,271	\$ 7,786	\$ —	\$ 1,762,756
Ending balance: individually evaluated for impairment	890	8,311	40	—	817	25	—	—	10,083
Ending balance: acquired with credit deterioration	3	1,423	—	—	381	1	—	—	1,808
Ending balance: collectively evaluated for impairment	\$ 338,254	\$ 919,404	\$ 181,650	\$ —	\$ 235,526	\$ 68,245	\$ 7,786	\$ —	\$ 1,750,865

MID PENN BANCORP, INC.

(Dollars in thousands)

Dec. 31, 2018	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease Financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
<b>Allowance for loan and lease losses:</b>									
Beginning Balance	\$ 1,795	\$ 4,435	\$ 178	\$ —	\$ 428	\$ 423	\$ 3	\$ 344	\$ 7,606
Charge-offs	(142)	(64)	(40)	—	(60)	(185)	(37)	—	(528)
Recoveries	1	808	—	—	—	1	9	—	819
Provisions	737	(476)	(63)	—	85	289	32	(104)	500
Ending balance	2,391	4,703	75	—	453	528	7	240	8,397
Ending balance: individually evaluated for impairment	500	204	38	—	—	—	—	—	742
Ending balance: collectively evaluated for impairment	\$ 1,891	\$ 4,499	\$ 37	\$ —	\$ 453	\$ 528	\$ 7	\$ 240	\$ 7,655
<b>Loans receivable:</b>									
Ending balance	\$ 286,518	\$ 861,369	\$ 142,173	\$ 53	\$ 253,543	\$ 70,096	\$ 10,315	\$ —	\$ 1,624,067
Ending balance: individually evaluated for impairment	4,527	2,728	367	—	811	30	—	—	8,463
Ending balance: acquired with credit deterioration	28	1,563	—	—	1,208	4	—	—	2,803
Ending balance: collectively evaluated for impairment	\$ 281,963	\$ 857,078	\$ 141,806	\$ 53	\$ 251,524	\$ 70,062	\$ 10,315	\$ —	\$ 1,612,801



**MID PENN BANCORP, INC.**

The recorded investments in troubled debt restructured loans at December 31, 2020 and 2019 are as follows:

*(Dollars in thousands)*

<b>December 31, 2020</b>	<b>Pre-Modification</b>		<b>Post-Modification</b>	
	<b>Outstanding</b>	<b>Recorded</b>	<b>Outstanding</b>	<b>Recorded</b>
	<b>Investment</b>	<b>Investment</b>	<b>Investment</b>	<b>Recorded Investment</b>
Commercial and industrial	\$ 8	\$ 8	\$ 8	\$ 6
Commercial real estate	1,806	1,707	1,707	933
Commercial real estate - construction	40	40	40	31
Residential mortgage	728	725	725	510
	<u>\$ 2,582</u>	<u>\$ 2,480</u>	<u>\$ 2,480</u>	<u>\$ 1,480</u>

*(Dollars in thousands)*

<b>December 31, 2019</b>	<b>Pre-Modification</b>		<b>Post-Modification</b>	
	<b>Outstanding</b>	<b>Recorded</b>	<b>Outstanding</b>	<b>Recorded</b>
	<b>Investment</b>	<b>Investment</b>	<b>Investment</b>	<b>Recorded Investment</b>
Commercial and industrial	\$ 3	\$ 3	\$ 3	\$ 3
Commercial real estate	2,562	2,463	2,463	1,705
Commercial real estate - construction	40	40	40	40
Residential mortgage	677	675	675	490
	<u>\$ 3,282</u>	<u>\$ 3,181</u>	<u>\$ 3,181</u>	<u>\$ 2,238</u>

Mid Penn's troubled debt restructured loans at December 31, 2020 totaled \$1,480,000, and included three accruing impaired residential mortgage loans to unrelated borrowers in compliance with the terms of the modifications totaling \$463,000. The remaining \$1,017,000 of troubled debt restructurings were attributable to nine loans among seven relationships which were classified as nonaccrual impaired based upon a collateral evaluation in accordance with the guidance on impaired loans. One large relationship accounted for \$535,000 of the total \$1,017,000 in nonaccrual impaired troubled debt restructured loans. As of December 31, 2020, there were no defaulted troubled debt restructured loans, as all troubled debt restructured loans were current with respect to their associated forbearance agreements. There were also no defaults on troubled debt restructured loans within twelve months of restructure during 2020.

Mid Penn's troubled debt restructured loans at December 31, 2019 totaled \$2,238,000, and included three accruing impaired residential mortgage loans to unrelated borrowers in compliance with the terms of the modifications totaling \$490,000. The remaining \$1,748,000 of troubled debt restructurings was attributable to eight loans among five relationships which were classified as nonaccrual impaired based upon a collateral evaluation in accordance with the guidance on impaired loans. One large relationship accounted for \$1,252,000 of the total \$1,748,000 in nonaccrual impaired troubled debt restructured loans. As of December 31, 2019, there were no defaulted troubled debt restructured loans, as all troubled debt restructured loans were current with respect to their associated forbearance agreements. There were also no defaults on troubled debt restructured loans within twelve months of restructure during 2019.

Mid Penn entered into forbearance agreements on all loans currently classified as troubled debt restructurings and all of these agreements have resulted in additional principal repayment. The terms of these forbearance agreements vary whereby principal payments have been decreased, interest rates have been reduced and/or the loan will be repaid as collateral is sold.

There were three loans modified in 2020, two loans modified in 2019, and one loan modified in 2018 that resulted in troubled debt restructurings. The following table summarizes the loans whose terms have been modified resulting in troubled debt restructurings during the years ended December 31, 2020, 2019, and 2018.

*(Dollars in thousands)*

<b>December 31, 2020</b>	<b>Number of Contracts</b>	<b>Pre-Modification</b>		<b>Post-Modification</b>	
		<b>Outstanding</b>	<b>Recorded</b>	<b>Outstanding</b>	<b>Recorded</b>
		<b>Investment</b>	<b>Investment</b>	<b>Investment</b>	<b>Investment</b>
Commercial real estate	1	\$ 593	\$ 593	\$ 593	\$ 535
Residential mortgage	2	51	51	51	47
	<u>3</u>	<u>\$ 644</u>	<u>\$ 644</u>	<u>\$ 644</u>	<u>\$ 582</u>

**MID PENN BANCORP, INC.**

*(Dollars in thousands)*

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Recorded Investment
<b>December 31, 2019</b>				
Commercial and industrial	1	\$ 3	\$ 3	\$ 3
Commercial real estate - construction	1	40	40	40
	<u>2</u>	<u>\$ 43</u>	<u>\$ 43</u>	<u>\$ 43</u>

*(Dollars in thousands)*

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Recorded Investment
<b>December 31, 2018</b>				
Commercial real estate	1	\$ 270	\$ 270	\$ 266
	<u>1</u>	<u>\$ 270</u>	<u>\$ 270</u>	<u>\$ 266</u>

The CARES Act, signed into law in March 2020, along with a joint agency statement issued by banking agencies, provided that short-term modifications made in response to COVID-19 to current and performing borrowers did not need to be accounted for as troubled debt restructurings. Depending upon the specific needs and circumstances affecting each borrower, the majority of these modifications ranged from deferrals of both principal and interest payments, with some borrowers reverting to interest-only payments. The majority of the deferrals were granted for a period of three months, but some as long as six months, depending upon management's specific evaluation of each borrower's circumstances. Interest continued to accrue on loans modified under the CARES Act during the deferral period. During 2020, Mid Penn had provided loan modifications meeting the CARES Act qualifications to over 1,000 borrowers. Mid Penn remains in communication with each of these borrowers to assess the ongoing credit status of the borrowers, and may make further adjustments to a borrower's relationship at some future time if warranted for the specific situation. As of December 31, 2020, the principal balance of loans remaining in this CARES Act qualifying deferment status totaled \$11,681,000, or less than 1 percent of the total loan portfolio. Most borrowers granted a CARES Act deferral have returned to regular payment status.

The following table provides activity for the accretable yield of purchased impaired loans for the years ended December 31, 2020 and 2019.

*(Dollars in thousands)*

	For the year ended December 31,	
	2020	2019
Accretable yield, beginning of period	\$ 89	\$ 309
Accretable yield amortized to interest income	(49)	(220)
Accretable yield, end of period	<u>\$ 40</u>	<u>\$ 89</u>

The Bank has granted loans to certain of its executive officers, directors, and their related interests. The aggregate amount of these loans was \$12,567,000 and \$11,220,000 at December 31, 2020 and 2019, respectively. During 2020, \$6,511,000 of new loans and advances were extended and repayments totaled \$5,164,000. None of these loans were past due, in nonaccrual status, or restructured at December 31, 2020.

**(8) Bank Premises and Equipment**

At December 31, 2020 and 2019, bank premises and equipment are as follows:

(Dollars in thousands)

	2020	2019
Land	\$ 4,333	\$ 3,911
Buildings	19,863	18,141
Furniture, fixtures, and equipment	13,890	12,491
Leasehold improvements	1,680	1,486
Construction in progress	351	2,001
Total cost	40,117	38,030
Less accumulated depreciation	(15,231)	(13,093)
Total bank premises and equipment	<u>\$ 24,886</u>	<u>\$ 24,937</u>

The construction in progress as of December 31, 2020 consisted primarily of computer equipment upgrades to be placed in service at Mid Penn's offsite disaster recovery location, as well as some facility renovations in process of completion at year-end. The construction in progress as of December 31, 2019 included furniture and fixtures, computer equipment, and facility improvements associated with a commercial building in Harrisburg, Pennsylvania that will serve as a central training and meeting facility for Mid Penn. The renovations were substantially completed in January 2020 and Mid Penn employees took occupancy at that time.

Depreciation expense was \$3,204,000 in 2020, \$2,815,000 in 2019, and \$2,395,000 in 2018.

**(9) Leases**

On January 1, 2019, Mid Penn adopted ASU No. 2016-02, *Leases* (Topic 842), and all subsequent ASUs that modified Topic 842, which primarily affected the accounting treatment for operating lease agreements in which Mid Penn is the lessee. As of the January 1, 2019 adoption date, Mid Penn leased twenty-four branch locations under non-cancelable operating leases, which expire at various dates through the year ending December 31, 2035. Three of Mid Penn's operating leases are with related parties. Subsequent to the adoption of Topic 842, Mid Penn entered into a lease agreement for one facility under a non-cancelable finance lease, which commenced March 1, 2019 and expires February 28, 2039.

In 2016, Mid Penn entered into two subleasing agreements with unrelated parties on one of its properties under an operating lease. Both subleases included escalation clauses. The first sublease agreement began on April 1, 2016, while the second sublease began on July 1, 2016. One sublease was terminated during the first quarter of 2019 due to the bankruptcy of the tenant. The remaining sublease ends on March 31, 2021.

As a result of the adoption of ASU 2016-02, the remaining balance of a deferred sale/leaseback gain originated in 2017 was eliminated through an opening adjustment to retained earnings. The adoption of this standard also resulted in an increase to both other assets and other liabilities to record right-of-use lease assets and corresponding lease liabilities for all of Mid Penn's leased facilities. Please reference Note 25, *Recent Accounting Pronouncements*, for more information.

Operating and finance lease right-of-use assets, as well as operating lease liabilities, are presented as separate line items on the Consolidated Balance Sheet, while finance lease liabilities are classified as a component of long-term debt. Mid Penn has elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheet.

There were no sale and leaseback transactions or leveraged leases as of December 31, 2020. Mid Penn had executed a lease agreement for a full-service branch location commencing February 1, 2021.

Below is a summary of the operating and finance lease right-of-use assets and related lease liabilities, as well as the weighted average lease term (in years) and weighted average discount rate for each of the lease classifications as of December 31, 2020 and December 31, 2019.

**MID PENN BANCORP, INC.**
*(Dollars in thousands)*

	December 31, 2020		December 31, 2019	
	Operating Leases	Finance Lease	Operating Leases	Finance Lease
Right of use asset	\$ 10,157	\$ 3,267	\$ 11,442	\$ 3,447
Lease liability	\$ 11,200	\$ 3,467	\$ 12,544	\$ 3,551
Weighted average remaining lease term (in years)	8.05	18.17	8.64	19.17
Weighted average discount rate	3.30%	3.81%	3.33%	3.81%

A summary of lease costs during the years ended December 31, 2020 and December 31, 2019 is presented below. Interest expense on finance lease liabilities is included in other interest expense, while all other lease costs are included in occupancy expense on Mid Penn's Consolidated Statements of Income.

*(Dollars in thousands)*

	Year Ended	
	December 31, 2020	December 31, 2019
Finance lease cost:		
Amortization of right-of-use asset	\$ 180	\$ 150
Interest expense on lease liability	133	113
Total finance lease cost	313	263
Operating lease cost	2,061	2,077
Short-term and equipment lease costs	40	55
Variable lease cost	—	—
Sublease income	(21)	(24)
Total lease costs	<u>\$ 2,393</u>	<u>\$ 2,371</u>

A summary of cash paid for amounts included in the measurement of lease liabilities is presented below.

*(Dollars in thousands)*

	Year Ended	
	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 133	\$ 113
Operating cash flows from operating leases	2,105	2,181
Financing cash flows from finance leases	83	46

A maturity analysis of operating and finance lease liabilities and a reconciliation of the undiscounted cash flows to the total operating and finance lease liability amounts is presented below.

*(Dollars in thousands)*

	December 31, 2020	
	Operating Leases	Finance Lease
Lease payments due:		
Within one year	\$ 1,942	\$ 217
After one but within two years	1,909	217
After two but within three years	1,660	217
After three but within four years	1,602	252
After four but within five years	1,212	259
After five years	4,466	3,732
Total undiscounted cash flows	12,791	4,894
Discount on cash flows	(1,591)	(1,427)
Total lease liability	<u>\$ 11,200</u>	<u>\$ 3,467</u>

The following summary reflects the future minimum rental payments by year under Mid Penn's operating and finance leases as of December 31, 2020, including a breakdown of the sublease rental income and future minimum payments owed to related parties.

As of December 31, 2020

<i>(Dollars in thousands)</i>	As of December 31, 2020		
	Lease Obligation	Sublease Rental Income	Net Rental Expense
2021	2,445	21	2,424
2022	2,426	—	2,426
2023	2,179	—	2,179
2024	2,013	—	2,013
2025	1,632	—	1,632
thereafter	8,543	—	8,543
	<u>\$ 19,238</u>	<u>\$ 21</u>	<u>\$ 19,217</u>

The rental expense paid to related parties was \$269,000 in 2020, \$279,000 in 2019, and \$320,000 in 2018. The future minimum payments to related parties are \$274,000 (2021), \$274,000 (2022), \$274,000 (2023), \$274,000 (2024), \$185,000 (2025), and \$1,349,000 thereafter.

The following summary reflects the future minimum rental payments by year under Mid Penn's operating leases as of December 31, 2019, including a breakdown of the sublease rental income and future minimum payments owed to related parties.

As of December 31, 2019

<i>(Dollars in thousands)</i>	As of December 31, 2019		
	Lease Obligation	Sublease Rental Income	Net Rental Expense
2020	2,558	24	2,534
2021	2,308	6	2,302
2022	2,183	—	2,183
2023	1,891	—	1,891
2024	1,717	—	1,717
thereafter	9,549	—	9,549
	<u>\$ 20,206</u>	<u>\$ 30</u>	<u>\$ 20,176</u>

Rental expense in connection with leases was \$2,371,000 in 2019 and \$1,672,000 in 2018.

#### (10) Deposits

At December 31, 2020 and 2019, time deposits amounted to \$417,245,000 and \$477,422,000, respectively. Interest expense on certificates of deposit amounted to \$8,558,000, \$9,223,000, and \$4,906,000 for the years ended December 31, 2020, 2019, and 2018, respectively. The aggregate amount of demand deposit overdrafts that were reclassified as loans were \$116,000 at December 31, 2020, compared to \$84,000 as of December 31, 2019.

Time deposits at December 31, 2020 mature as follows:

<i>(Dollars in thousands)</i>	Time Deposits	
	Less than \$250,000	\$250,000 or more
Maturing in 2021	\$ 210,964	\$ 42,285
Maturing in 2022	69,800	18,072
Maturing in 2023	47,412	4,874
Maturing in 2024	8,475	2,114
Maturing in 2025	11,866	782
Maturing thereafter	601	—
	<u>\$ 349,118</u>	<u>\$ 68,127</u>

**MID PENN BANCORP, INC.**

Mid Penn had no brokered certificates of deposits as of December 31, 2020 compared to brokered certificates of deposits totaling \$13,326,000 at December 31, 2019. The decrease in the balance during 2020 was the result of a portfolio of brokered certificates of deposit assumed in the First Priority and Phoenix acquisitions which matured and were not replaced.

Deposits and other funds from related parties held by Mid Penn at December 31, 2020 and 2019 amounted to \$60,125,000 and \$54,360,000, respectively.

**(11) Short-term Borrowings**

***Short-term FHLB and Correspondent Bank Borrowings***

Short-term borrowings generally consist of federal funds purchased and advances from the FHLB with an original maturity of less than a year. Federal funds purchased from correspondent banks mature in one business day and reprice daily based on the Federal Funds rate. Advances from the FHLB are collateralized by our investment in the common stock of the FHLB and by a blanket lien on selected loan receivables comprised principally of real estate secured loans within the Bank’s portfolio totaling \$1,222,193,000 at December 31, 2020. The Bank had short-term borrowing capacity from the FHLB up to the Bank’s unused borrowing capacity of \$490,048,000 (equal to \$852,568,000 of maximum borrowing capacity less letter of credit and other FHLB advances outstanding) at December 31, 2020 upon satisfaction of any stock purchase requirements of the FHLB. No draws were outstanding on short-term FHLB or correspondent bank borrowings as of December 31, 2020 or 2019.

The Bank also has unused overnight lines of credit with other correspondent banks amounting to \$35,000,000 at December 31, 2020. No draws have been made on these lines of credit and on December 31, 2020 and 2019, the balance was zero.

***PPPLF Borrowings***

The entire balance of short-term borrowings of \$125,617,000 at December 31, 2020 consisted of funding obtained from the Federal Reserve through the Paycheck Protection Program Liquidity Facility (“PPPLF”). The PPPLF allows banks to pledge PPP loans as collateral to borrow funds for up to a term of five years (to match the term of the respective PPP loans) at an interest rate of 0.35%. Draws of PPPLF funds must be repaid to the Federal Reserve immediately after the specific PPP loans collateralizing the related draws are repaid to the Bank. Mid Penn had no short-term PPPLF borrowings as of December 31, 2019.

The following table outlines Mid Penn’s various sources of short-term borrowed funds at or for the years ended December 31, 2020 and 2019. The maximum balance represents the highest indebtedness for each category of short-term borrowed funds at any month-end during each of the years shown.

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<i>(Dollars in thousands)</i>		
<b>Federal funds purchased:</b>		
Balance at year end	\$ —	\$ —
Weighted average rate at year end	—	—
Maximum month-end balance	\$ —	\$ 37,573
Average daily balance during the year	\$ —	\$ 3,739
Weighted average rate during the year	—	2.97%
<b>FHLB short-term borrowings:</b>		
Balance at year end	\$ —	\$ —
Weighted average rate at year end	—	—
Maximum month-end balance	\$ —	\$ 54,667
Average daily balance during the year	\$ —	\$ 12,819
Weighted average rate during the year	—	2.80%
<b>FRB PPPLF borrowings:</b>		
Balance at year end	\$ 125,617	\$ —
Weighted average rate at year end	0.35%	—
Maximum month-end balance	\$ 203,937	\$ —
Average daily balance during the year	\$ 106,233	\$ —
Weighted average rate during the year	0.35%	—

**MID PENN BANCORP, INC.****(12) Long-term Debt**

As a member of the FHLB, the Bank can access a number of credit products which are utilized to provide liquidity. As of December 31, 2020, and 2019, the Bank had long-term debt outstanding in the amount of \$75,115,000 and \$32,903,000, respectively, consisting of FHLB fixed rate instruments, and a finance lease liability executed in 2019.

The FHLB fixed rate instruments are secured under the terms of a blanket collateral agreement with the FHLB consisting of FHLB stock and qualifying Mid Penn loan receivables, principally real estate secured loans. Mid Penn also obtains letters of credit from the FHLB to secure certain public fund deposits of municipality and school district customers who agree to use of the FHLB letters of credit. These FHLB letter of credit commitments totaled \$288,950,000 as of December 31, 2020 and \$169,051,000 as of December 31, 2019.

During the first quarter of 2019, Mid Penn entered into a lease agreement for one facility under a non-cancelable finance lease, which commenced March 1, 2019 and expires February 28, 2039 and is included in long-term debt on the Consolidated Balance Sheets. Please reference Note 9, *Leases*, for more information related to Mid Penn's finance lease obligation.

The following table presents a summary of long-term debt as of December 31, 2020 and December 31, 2019.

<i>(Dollars in thousands)</i>	<b>At December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>FHLB fixed rate instruments:</b>		
Due June 2020, 1.72%	\$ —	\$ 2,000
Due July 2020, 2.45%	—	5,000
Due August 2020, 3.05%	—	5,000
Due September 2020, 2.38%	—	2,500
Due October 2020, 3.06%	—	5,000
Due November 2020, 2.32%	—	3,000
Due December 2020, 1.78%	—	2,000
Due December 2020, 2.31%	—	3,000
Due April 2022, 0.86343%	70,000	—
Due August 2026, 4.80%	1,606	1,846
Due February 2027, 6.71%	42	47
Less: fair value adjustments on debt assumed in acquisitions	—	(41)
<b>Total FHLB fixed rate instruments</b>	<b>71,648</b>	<b>29,352</b>
Lease obligations included in long-term debt	3,467	3,551
<b>Total long-term debt</b>	<b>\$ 75,115</b>	<b>\$ 32,903</b>

During 2020, Mid Penn prepaid \$25,000,000 of FHLB fixed rate instruments and recognized prepayment penalties of \$165,000 that is included in other expenses on the Consolidated Statement of Income for the year ended December 31, 2020. During 2019, Mid Penn prepaid \$20,000,000 of FHLB fixed rate instruments and recognized a prepayment penalty of \$93,000 for the year ended December 31, 2019. No prepayment penalties were recognized during the year ended December 31, 2018.

The aggregate principal amounts due on FHLB fixed rate instruments subsequent to December 31, 2020 are \$258,000 (2021), \$70,271,000 (2022), \$284,000 (2023), \$299,000 (2024), \$313,000 (2025) and \$223,000 thereafter.

**(13) Subordinated Debt***Subordinated Debt Issued December 2020*

On December 22, 2020, Mid Penn Bancorp, Inc. ("Mid Penn"), the parent company of Mid Penn Bank, entered into agreements for and sold, at 100% of their principal amount, an aggregate of \$12,150,000 of its Subordinated Notes due December 2030 (the "December 2020 Notes") on a private placement basis to accredited investors. The December 2020 Notes are treated as Tier 2 capital for regulatory capital purposes.

## MID PENN BANCORP, INC.

The December 2020 Notes bear interest at a rate of 4.5% per year for the first five years and then float at the Wall Street Journal's Prime Rate, provided that the interest rate applicable to the outstanding principal balance during the period the December 2020 Notes are floating will at no time be less than 4.5%. Interest is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, beginning on March 31, 2021. The December 2020 Notes will mature on December 31, 2030 and are redeemable, in whole or in part, without premium or penalty, on any interest payment date on or after December 31, 2025 and prior to December 31, 2030, subject to any required regulatory approvals. Additionally, if (A) all or any portion of the December 2020 Notes cease to be deemed Tier 2 Capital, (B) interest on the December 2020 Notes fails to be deductible for United States federal income tax purposes or (C) Mid Penn will be considered an "investment company," Mid Penn may redeem the December 2020 Notes, in whole but not in part, by giving 10 days' notice to the holders of the December 2020 Notes. In the event of a redemption described in the previous sentence, Mid Penn will redeem the December 2020 Notes at 100% of the principal amount of the December 2020 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holders of the December 2020 Notes may not accelerate the maturity of the December 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of Mid Penn or Mid Penn Bank, its principal banking subsidiary. Related parties held \$750,000 of the December 2020 Notes as of December 31, 2020.

### *Subordinated Debt Issued March 2020*

On March 20, 2020, Mid Penn entered into agreements with accredited investors who purchased \$15,000,000 aggregate principal amount of Mid Penn Subordinated Notes due March 2030 (the "March 2020 Notes"). The March 2020 Notes are treated as Tier 2 capital for regulatory capital purposes.

The March 2020 Notes bear interest at a rate of 4.0% per year for the first five years and then float at the Wall Street Journal's Prime Rate, provided that the interest rate applicable to the outstanding principal balance during the period the March 2020 Notes are floating will at no time be less than 4.25%. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, beginning on June 30, 2020, for the first five years after issuance and will be payable quarterly in arrears thereafter on March 30, June 30, September 30 and December 30. The March 2020 Notes will mature on March 30, 2030 and are redeemable in whole or in part, without premium or penalty, at any time on or after March 30, 2025 and prior to March 30, 2030. Additionally, if all or any portion of the March 2020 Notes cease to be deemed Tier 2 Capital, Mid Penn may redeem, on any interest payment date, all or part of the 2020 Notes. In the event of a redemption described in the previous sentence, Mid Penn will redeem the March 2020 Notes at 100% of the principal amount of the March 2020 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holders of the March 2020 Notes may not accelerate the maturity of the March 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of Mid Penn or Mid Penn Bank, its principal banking subsidiary. Related parties held \$1,700,000 of the March 2020 Notes as of December 31, 2020.

### *Subordinated Debt Issued December 2017*

On December 19, 2017, Mid Penn entered into agreements with investors to purchase \$10,000,000 aggregate principal amount of its Subordinated Notes due 2028 (the "2017 Notes"). The 2017 Notes are treated as Tier 2 capital for regulatory capital purposes. The offering closed in December 2017.

The 2017 Notes bear interest at a rate of 5.25% per year for the first five years and then float at the Wall Street Journal's Prime Rate plus 0.50%, provided that the interest rate applicable to the outstanding principal balance will at no times be less than 5.0%. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on July 15, 2018, for the first five years after issuance and will be payable quarterly in arrears thereafter on January 15, April 15, July 15, and October 15. The 2017 Notes will mature on January 1, 2028 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 21, 2022, and prior to January 1, 2028. Additionally, Mid Penn may redeem the 2017 Notes in whole at any time, or in part from time to time, upon at least 30 days' notice if: (i) a change or prospective change in law occurs that could prevent Mid Penn from deducting interest payable on the 2017 Notes for U.S. federal income tax purposes; (ii) an event occurs that precludes the 2017 Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) Mid Penn becomes required to register as an investment company under the Investment Company Act of 1940, as amended. In the event of a redemption described in the previous sentence, Mid Penn will redeem the 2017 Notes at 100% of the principal amount of the 2017 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.



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Holder of the 2017 Notes may not accelerate the maturity of the 2017 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar event of Mid Penn or Mid Penn Bank, its principal banking subsidiary. As of December 31, 2020 and 2019, related parties held \$1,450,000 of the 2017 Notes.

### *Subordinated Debt Issued December 2015*

On December 9, 2015, Mid Penn sold \$7,500,000 aggregate principal amount of its Subordinated Notes due 2025 (the “2015 Notes”). Eighty-percent of the balance of the 2015 Notes are treated as Tier 2 capital for regulatory capital purposes as of December 31, 2020.

The 2015 Notes bear interest at a rate of 5.15% per year for the first five years and then float at the Wall Street Journal’s Prime Rate plus 0.50%, provided that the interest rate applicable to the outstanding principal balance will at no times be less than 4.0%. Interest is payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, and began on January 1, 2016. The 2015 Notes will mature on December 9, 2025 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 9, 2020, and prior to December 9, 2025. Additionally, Mid Penn may redeem the 2015 Notes in whole at any time, or in part from time to time, upon at least 30 days’ notice if: (i) a change or prospective change in law occurs that could prevent Mid Penn from deducting interest payable on the 2015 Notes for U.S. federal income tax purposes; (ii) an event occurs that precludes the 2015 Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) Mid Penn becomes required to register as an investment company under the Investment Company Act of 1940, as amended, in each case at 100% of the principal amount of the 2015 Notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holder of the 2015 Notes may not accelerate the maturity of the 2015 Notes, except upon Mid Penn’s or Mid Penn Bank, its principal banking subsidiary’s, bankruptcy, insolvency, liquidation, receivership or similar event. As of December 31, 2020 and 2019, related parties held \$1,930,000 of the 2015 Notes.

### *Subordinated Debt Assumed July 2018 with the First Priority Acquisition*

On July 31, 2018, Mid Penn completed its acquisition of First Priority and assumed \$9,500,000 of Subordinated Notes (the “First Priority Notes”). In accordance with purchase accounting principles, the First Priority Notes were assigned a fair value premium of \$247,000. The notes were intended to be treated as Tier 2 capital for regulatory reporting purposes.

The First Priority Notes agreements were entered into by First Priority on November 13, 2015 with five accredited investors pursuant to which First Priority issued subordinated notes totaling \$9,500,000. The First Priority Notes had a maturity date of November 30, 2025, and paid interest at a fixed rate of 7.00% per annum. The Notes were non-callable for an initial period of five years and include provisions for redemption pricing between 101.5% and 100.5% of the liquidation value if called after five years but prior to the stated maturity date.

On December 18, 2020, Mid Penn redeemed this \$9,500,000 in subordinated debt assumed in 2018 in conjunction with Mid Penn’s acquisition of First Priority Bank. The First Priority subordinated debt was redeemed promptly following the expiration of the noncallable period and upon receipt of the required regulatory approval. Mid Penn recognized redemption pricing fees of \$143,000 related to the early redemption, which are included in other noninterest expenses.

ASC Subtopic 835-30, *Simplifying the Presentation of Debt Issuance Costs*, requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the liability. The unamortized debt issuance costs associated with the 2015 Notes and the 2017 Notes were collectively \$70,000 at December 31, 2020 and \$103,000 at December 31, 2019.

## **(14) Loan-Level Interest Rate Swaps**

Mid Penn enters into loan-level interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. Mid Penn simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of the offsetting customer and dealer counterparty swap agreements is that the customer pays a fixed rate of interest and Mid Penn receives a floating rate. Mid Penn’s loan-level interest rate swaps are considered derivatives but are not accounted for using hedge accounting.

## MID PENN BANCORP, INC.

The fair value, notional amount, and collateral posted related to six outstanding loan-level interest rate swaps are presented below.

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
<b>Interest Rate Swap Contracts - Commercial Loans:</b>		
Fair Value (a)	489	\$ —
Notional Amount	22,331	—
Cash Collateral Posted (b)	500	—

(a) Included in other assets on the Consolidated Balance Sheets

(b) Included in cash and due from banks on the Consolidated Balance Sheet

The gross amounts of commercial loan swap derivatives, the amounts offset and the carrying values in the Consolidated Balance Sheets, and the collateral pledged to support such agreements are presented below.

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
<b>Interest Rate Swap Contracts - Commercial Loans:</b>		
Gross amounts recognized	\$ 489	\$ —
Gross amounts offset	489	—
Net Amounts Presented in the Consolidated Balance Sheets	—	—
<b>Gross amounts not offset:</b>		
Financial instruments	—	—
Cash collateral	500	—
Net Amounts	<u>\$ 500</u>	<u>\$ —</u>

### (15) Fair Value Measurement

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes information on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with the fair value measurement and disclosure guidance.

This guidance clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Inputs to valuation techniques refer to the assumptions that market participants would use in measuring the fair value of an asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own belief about the assumptions market participants would use in pricing the asset or liability based upon the best information available in the circumstances. Fair value measurement and disclosure guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. An asset's or liability's placement in the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement or disclosure. The fair value hierarchy is as follows:

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**Level 1 Inputs** - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

**Level 2 Inputs** - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

**Level 3 Inputs** - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

There were no transfers of assets between fair value Level 1 and Level 2 for the years ended December 31, 2020 or 2019.

The following tables illustrate the assets measured at fair value on a recurring basis segregated by hierarchy fair value levels:

**Fair value measurements at December 31, 2020**

**using:**

*(Dollars in thousands)*

	Total carrying value at December 31, 2020	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Available-for-sale debt securities:				
Mortgage-backed U.S. government agencies	\$ 2	\$ —	\$ 2	\$ —
Corporate debt securities	5,746	—	5,746	—
Other assets:				
Equity securities	515	515	—	—
Interest rate swap agreements	489	—	489	—
	<u>\$ 6,752</u>	<u>\$ 515</u>	<u>\$ 6,237</u>	<u>\$ —</u>

**Fair value measurements at December 31, 2019**

**using:**

*(Dollars in thousands)*

	Total carrying value at December 31, 2019	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Available-for-sale debt securities:				
U.S. government agencies	\$ 22,830	\$ —	\$ 22,830	\$ —
Mortgage-backed U.S. government agencies	12,890	—	12,890	—
State and political subdivision obligations	30	—	30	—
Corporate debt securities	1,259	—	1,259	—
Other assets:				
Equity securities	507	507	—	—
	<u>\$ 37,516</u>	<u>\$ 507</u>	<u>\$ 37,009</u>	<u>\$ —</u>

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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The following tables illustrate the assets measured at fair value on a nonrecurring basis segregated by hierarchy fair value levels.

(Dollars in thousands)

	Total carrying value at December 31, 2020	Fair value measurements at December 31, 2020 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Impaired Loans	\$ 800	\$ —	\$ —	\$ 800
Foreclosed Assets Held for Sale	77	—	—	77

(Dollars in thousands)

	Total carrying value at December 31, 2019	Fair value measurements at December 31, 2019 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Impaired Loans	\$ 271	\$ —	\$ —	\$ 271
Foreclosed Assets Held for Sale	122	—	—	122

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Mid Penn has utilized Level 3 inputs to determine the fair value.

(Dollars in thousands)

December 31, 2020	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired Loans	\$ 800	Appraisal of collateral (a), (b)	Appraisal adjustments (b)	25%-100%	40%
Foreclosed Assets Held for Sale	77	Appraisal of collateral (a), (b)	Appraisal adjustments (b)	27%-27%	27%

(Dollars in thousands)

December 31, 2019	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired Loans	\$ 271	Appraisal of collateral (a), (b)	Appraisal adjustments (b)	26% - 85%	36%
Foreclosed Assets Held for Sale	\$ 122	Appraisal of collateral (a), (b)	Appraisal adjustments (b)	8% - 27%	16%

- (a) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various level 3 inputs which are not observable.
- (b) Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal. Higher downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received, or age of the appraisal.

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The following methodologies and assumptions were used to estimate the fair value of certain assets and liabilities:

### Securities Available for Sale:

The fair value of equity and debt securities classified as available for sale is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather, relying on the securities' relationship to other benchmark quoted prices.

### Interest Rate Swap Agreements

Interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as Level 2.

### Impaired Loans (Included in "Net Loans and Leases" in the following table):

All performing troubled debt restructured loans and loans classified as nonaccrual are deemed to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allowance allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third-party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as substandard nonaccrual. Prior to receipt of the updated real estate valuation, Mid Penn will use existing real estate valuations to determine any potential allowance for loan loss issues, and will update the allowance impact calculation upon receipt of the updated real estate valuation.

In some instances, Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary. Mid Penn considers the estimates used in its impairment analysis to be Level 3 inputs.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values, either in a positive or negative way, due to the passage of time or some other change in one or more valuation inputs. Collateral values for impaired loans will be reassessed by management at least every twelve months for possible revaluation by an independent third party.

### Foreclosed Assets Held for Sale:

Certain assets included in foreclosed assets held for sale are carried at fair value and accordingly is presented as measured on a non-recurring basis. Values are estimated using Level 3 inputs, based on appraisals that consider the sales prices of property in the proximate vicinity.

**MID PENN BANCORP, INC.**

The following table summarizes the carrying value and fair value of financial instruments at December 31, 2020 and 2019.

*(Dollars in thousands)*

	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 303,724	\$ 303,724	\$ 139,030	\$ 139,030
Available for sale investment securities	5,748	5,748	37,009	37,009
Held to maturity investment securities	128,292	132,794	136,477	137,476
Loans held for sale	25,506	26,262	8,422	8,630
Equity securities	515	515	507	507
Net loans and leases	2,370,659	2,444,105	1,753,241	1,789,402
Restricted investment in bank stocks	7,594	7,594	4,902	4,902
Accrued interest receivable	3,619	3,619	2,810	2,810
Interest rate swap agreements	489	489	—	—
<b>Financial liabilities:</b>				
Deposits	\$ 2,474,580	\$ 2,496,799	\$ 1,912,394	\$ 1,916,624
Short-term borrowings	125,617	125,617	—	—
Long-term debt (a)	71,648	70,498	29,352	30,216
Subordinated debt	44,580	43,098	27,070	25,273
Accrued interest payable	2,007	2,007	2,208	2,208

(a) Long-term debt excludes finance lease obligations.

The Bank's outstanding and unfunded credit commitments and financial standby letters of credit were deemed to have no significant fair value as of December 31, 2020 and 2019.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of Mid Penn's financial instruments as of December 31, 2020 and 2019. Carrying values approximate fair values for cash and cash equivalents, equity securities, restricted investment in bank stocks, accrued interest receivable and payable, interest rate swap agreements and short-term borrowings. Other than cash and cash equivalents, which are considered as valued using Level 1 Inputs, these instruments are valued using Level 2 Inputs. The following tables exclude financial instruments for which the placement in the fair value hierarchy has been disclosed elsewhere or for which the carrying amount approximates fair value.

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2020</b>					
Financial instruments - assets					
Held-to-maturity investment securities	\$ 128,292	\$ 132,794	\$ —	\$ 132,794	\$ —
Loans held for sale	25,506	26,262	—	26,262	—
Net loans and leases	2,370,659	2,444,105	—	—	2,444,105
Financial instruments - liabilities					
Deposits	\$2,474,580	\$2,496,799	\$ —	\$ 2,496,799	\$ —
Long-term debt (a)	71,648	70,498	—	70,498	—
Subordinated debt	44,580	43,098	—	43,098	—

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(Dollars in thousands)

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2019</b>					
<b>Financial instruments - assets</b>					
Held-to-maturity investment securities	\$ 136,477	\$ 137,476	\$ —	\$ 137,476	\$ —
Loans held for sale	8,422	8,630	—	8,630	—
Net loans and leases	1,753,241	1,789,402	—	—	1,789,402
<b>Financial instruments - liabilities</b>					
Deposits	\$ 1,912,394	\$ 1,916,624	\$ —	\$ 1,916,624	\$ —
Long-term debt	29,352	30,216	—	30,216	—
Subordinated debt	27,070	25,273	—	25,273	—

(16) **Postretirement Benefit Plans**

Mid Penn has an unfunded noncontributory defined benefit plan for directors, which provides defined benefits based on the respective director's years of service, as well as a postretirement healthcare and life insurance benefit plan, which is noncontributory, covering certain full-time employees. Mid Penn also assumed a noncontributory defined benefit pension plan as a result of the acquisition of Scottsdale on January 8, 2018.

Service costs related to plans benefiting Mid Penn employees are reported as a component of salaries and employee benefits on the Consolidated Statements of Income, while interest costs, expected return on plan assets, amortization (accretion) of prior service cost, and settlement gain are reported as a component of other income. Service costs, interest costs, and amortization of prior service costs related to plans benefiting Mid Penn's nonemployee directors are reported as a component of director fees and benefits expense within the other expense line item on the Consolidated Statement of Income.

The accrued benefit liability, related income statement impacts, and other significant aspects of the plans are detailed below.

(a) **Life Insurance**

Full-time employees who had at least ten years of service as of January 1, 2008 and retire with the Bank after age 55 and at least 20 years of service are eligible for term life insurance coverage. The insurance amount will be \$50,000 until age 65. After age 65, the insurance amount will decrease by \$5,000 per year until age 74. Thereafter, the insurance amount will be \$5,000.

**(b) Health and Life Benefit Plan**

Full-time employees who had at least 10 years of service as of January 1, 2008 and who retire at age 55 or later, after completion of at least 20 years of service, are eligible for medical benefits. Medical benefits are provided for up to five years after retirement. Employees who retired prior to December 31, 2015 may elect the least expensive single coverage in the employer's group medical plan. If the retiree becomes eligible for Medicare during the five year duration of coverage, the Bank will pay, at its discretion, premiums for single 65-special coverage or similar supplemental coverage. For those employees who retired between September 18, 2015 and December 31, 2015, the Bank will only pay up to \$5,000 towards such medical coverage. Employees who retired after December 31, 2015 may not participate in the employer's group medical plan. Instead, the Bank will reimburse the retiree for up to \$5,000 (grossed up by 36.79 percent as of December 31, 2020) in medical costs.

The following tables provide a reconciliation of the changes in the plan's health and life insurance benefit obligations and fair value of plan assets for the years ended December 31, 2020 and 2019, and a statement of the funded status at December 31, 2020 and 2019.

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligations:		
Benefit obligations, January 1	\$ 404	\$ 475
Service cost	3	3
Interest cost	13	17
Change in experience	45	(13)
Change in assumptions	27	34
Benefit payments	(150)	(112)
Benefit obligations, December 31	<u>\$ 342</u>	<u>\$ 404</u>
Change in fair value of plan assets:		
Fair value of plan assets, January 1	\$ —	\$ —
Employer contributions	150	112
Benefit payments	(150)	(112)
Fair value of plan assets, December 31	\$ —	\$ —
Funded status at year end	<u>\$ (342)</u>	<u>\$ (404)</u>

Mid Penn has capped the benefit to future retirees under its post-retirement health benefit plan. Employees who had achieved ten years of service as of January 1, 2008 and subsequently retire after at least 20 years of service are eligible for reimbursement of major medical insurance premiums up to \$5,000, if the employee has not yet reached age 65. Upon becoming eligible for Medicare, Mid Penn will reimburse up to \$5,000 in premiums for Medicare Advantage or a similar supplemental coverage. The maximum reimbursement period will not exceed five years regardless of retirement age and will end upon the participant obtaining other employment where major medical coverage is available or the participant's death.

The amount recognized in other liabilities on the consolidated balance sheets at December 31, 2020 and 2019, is as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
Accrued benefit liability	\$ 342	\$ 404

The amounts recognized in accumulated other comprehensive loss consist of:

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net loss (gain), pretax	\$ 22	\$ (50)
Net prior service cost, pretax	(40)	(64)

The accumulated benefit obligation for health and life insurance plans was \$342,000 and \$404,000 at December 31, 2020 and 2019, respectively.



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There will be \$25,000 in estimated prior service costs amortized from accumulated other comprehensive income into net periodic benefit cost during 2021.

The components of net periodic postretirement benefit (income) cost for 2020, 2019 and 2018 are as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost	\$ 3	\$ 3	\$ 4
Interest cost	13	17	17
Amortization of prior service cost	(25)	(25)	(25)
Amortization of net (gain) or loss	—	(5)	(1)
Net periodic postretirement benefit (income) cost	<u>\$ (9)</u>	<u>\$ (10)</u>	<u>\$ (5)</u>

Assumptions used in the measurement of Mid Penn's benefit obligations at December 31, 2020 and 2019 are as follows:

Weighted-average assumptions:	<b>2020</b>	<b>2019</b>
Discount rate	2.25%	3.00%
Rate of compensation increase	2.00%	2.00%

Assumptions used in the measurement of Mid Penn's net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 are as follows:

Weighted-average assumptions:	<b>2020</b>	<b>2019</b>	<b>2018</b>
Discount rate	3.00%	4.00%	3.50%
Rate of compensation increase	2.00%	3.00%	2.50%

Assumed health care cost trend rates at December 31, 2020, 2019 and 2018 are as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Health care cost trend rate assumed for next year	5.50%	5.50%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.40%	5.40%	5.40%
Year that the rate reaches the ultimate trend rate	2024	2024	2022

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. At December 31, 2020, a one-percentage-point change in assumed health care cost trend rates would have the following effects:

*(Dollars in thousands)*

	<b>One-Percentage Point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on total of service and interest cost	\$ —	\$ —
Effect on accumulated postretirement benefit obligation	5	(7)

Mid Penn expects to contribute \$36,000 to its life and health benefit plans in 2021. The following table shows the estimated benefit payments for future periods.

*(Dollars in thousands)*

1/1/2021 to 12/31/2021	\$ 36
1/1/2022 to 12/31/2022	37
1/1/2023 to 12/31/2023	34
1/1/2024 to 12/31/2024	31
1/1/2025 to 12/31/2025	32
1/1/2026 to 12/31/2030	170

(c) **Directors' Retirement Plan**

Mid Penn 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 had been amortized over the expected future years of service of active directors, of which \$22,000 was recognized in 2018 and was fully amortized as of December 31, 2018.

The following tables provide a reconciliation of the changes in the directors' defined benefit plan's benefit obligations and fair value of plan assets for the years ended December 31, 2020 and 2019, and a statement of the status at December 31, 2020 and 2019. This Plan is unfunded.

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligations:		
Benefit obligations, January 1	\$ 1,077	\$ 1,100
Service cost	49	51
Interest cost	31	42
Actuarial loss (gain)	7	(17)
Change in assumptions	65	(12)
Benefit payments	(87)	(87)
Benefit obligations, December 31	<u>\$ 1,142</u>	<u>\$ 1,077</u>
Change in fair value of plan assets:		
Fair value of plan assets, January 1	\$ —	\$ —
Employer contributions	87	87
Benefit payments	(87)	(87)
Fair value of plan assets, December 31	\$ —	\$ —
Funded status at year end	<u>\$ (1,142)</u>	<u>\$ (1,077)</u>

Amounts recognized in other liabilities on the consolidated balance sheet at December 31, 2020 and 2019 are as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
Accrued benefit liability	\$ 1,142	\$ 1,077

Amounts recognized in accumulated other comprehensive loss consist of:

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net prior service cost, pretax	\$ —	\$ —
Net loss, pretax	110	38

The accumulated benefit obligation for the retirement plan was \$1,142,000 at December 31, 2020 and \$1,077,000 at December 31, 2019.

No estimated prior service costs will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2020 as the amount is fully amortized.

The components of net periodic retirement cost for 2020, 2019 and 2018 are as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost	\$ 49	\$ 51	\$ 36
Interest cost	31	42	38
Amortization of prior-service cost	—	—	22
Net periodic retirement cost	<u>\$ 80</u>	<u>\$ 93</u>	<u>\$ 96</u>

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Assumptions used in the measurement of Mid Penn’s benefit obligations at December 31, 2020 and 2019 are as follows:

Weighted-average assumptions:	2020	2019
Discount rate	2.25%	3.00%
Change in consumer price index	1.00%	1.00%

Assumptions used in the measurement of Mid Penn’s net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 are as follows:

Weighted-average assumptions:	2020	2019	2018
Discount rate	2.25%	3.00%	4.00%
Change in consumer price index	1.00%	1.00%	2.00%

Mid Penn expects to contribute \$100,000 to its retirement plan in 2020. The following table shows the estimated benefit payments for future periods.

*(Dollars in thousands)*

1/1/2021 to 12/31/2021	\$	100
1/1/2022 to 12/31/2022		102
1/1/2023 to 12/31/2023		102
1/1/2024 to 12/31/2024		83
1/1/2025 to 12/31/2025		85
1/1/2026 to 12/31/2030		328

The Bank is the owner and beneficiary of insurance policies on the lives of certain officers and directors, which informally fund the retirement plan obligation. The aggregate cash surrender value of these policies was \$3,987,000 and \$3,921,000 at December 31, 2020 and 2019, respectively.

**(e) Scottdale Defined Benefit Pension Plan**

As a result of the acquisition of Scottdale on January 8, 2018, Mid Penn has assumed a noncontributory defined benefit pension plan covering certain former employees of Scottdale. After the acquisition, Mid Penn does not allow for any further participants to join the Plan. Mid Penn’s policy is to fund pension benefits as accrued. The Plan’s assets are managed by the Trust Department of the Bank and were primarily invested in corporate equity securities at the time of acquisition, but have since been diversified into a more conservative investment profile, including fixed income debt securities. The investment objective of the plan is “Balanced” to provide relatively stable growth from assets offset by a moderate level of income with target portfolio allocations of up to 20% cash, 30-50% fixed income securities, and 40-60% equity securities. The valuation of the plan’s assets is subject to market fluctuations.

For the years ended December 31, 2020 and 2019, Mid Penn recognized \$3,000 and \$34,000 of settlement gains, respectively, as a result of certain lump sum payouts to participants of the defined benefit pension plan. The settlement gains were recorded in noninterest income as a component of other income in the Consolidated Statements of Income for the years ended December 31, 2020 and 2019.

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The following tables provide a reconciliation of the changes in the defined benefit pension plan's benefit obligations and fair value of plan assets for the year ended December 31, 2020 and 2019, and a statement of the status at December 31, 2020 and 2019.

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligations:		
Benefit obligations, January 1	\$ 5,587	\$ 5,163
Service cost	79	92
Interest cost	180	217
Settlement (gain) loss	(85)	(91)
Actuarial loss (gain)	495	655
Settlement payments	(769)	(363)
Benefit payments	(86)	(86)
Benefit obligations, December 31	<u>\$ 5,401</u>	<u>\$ 5,587</u>
Change in fair value of plan assets:		
Fair value of plan assets, January 1	\$ 5,404	\$ 4,818
Return on plan assets	229	498
Employer contributions	200	600
Benefit payments	(86)	(86)
Administrative expenses	(39)	(63)
Settlement payments	(769)	(363)
Fair value of plan assets, December 31	\$ 4,939	\$ 5,404
Funded status at year end	<u>\$ (462)</u>	<u>\$ (183)</u>

Amounts recognized in other liabilities on the consolidated balance sheet at December 31, 2020 and 2019 are as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
Accrued benefit liability	\$ 462	\$ 183

Amounts recognized in accumulated other comprehensive loss consist of the following as of December 31 2020 and 2019:

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Unrecognized actuarial gain	\$ 24	\$ 519

The accumulated benefit obligation for the retirement plan was \$5,401,000 at December 31, 2020 and \$5,587,000 at December 31, 2019.

The components of net periodic retirement cost for December 31, 2020 and 2019 are as follows:

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
Service cost	\$ 79	\$ 92
Interest cost	180	217
Expected return on plan assets	(273)	(254)
Recognized net actuarial gain	—	(59)
Net periodic retirement cost	<u>\$ (14)</u>	<u>\$ (4)</u>

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Assumptions used in the measurement of Mid Penn’s benefit obligations and net periodic pension costs at December 31, 2020 and 2019 are as follows:

Weighted-average assumptions:	2020	2019
Discount rate	2.50%	3.25%
Expected long-term return on plan assets	4.50%	5.00%
Rate of compensation increases	2.50%	3.00%

The plan’s weighted-average asset allocations by investment category as of December 31, 2020 and 2019 are as follows:

Weighted-average asset allocations:	2020	2019
Cash and cash equivalents	10.57%	51.76%
Common stock	58.45%	35.23%
Corporate bonds	30.98%	13.01%
	<u>100.00%</u>	<u>100.00%</u>

The following tables set forth by level, within the fair value hierarchy, the plan’s assets at fair value as of December 31, 2020 and 2019.

	Fair Value Measurements		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(Dollars in thousands)</i>			
<b>December 31, 2020</b>			
Cash and cash equivalents	\$ 522	\$ —	\$ —
Common stock:			
Mining	23	—	—
Manufacturing	807	—	—
Transportation, Communications, Electric, Gas, and Sanitary Services	555	—	—
Wholesale Trade	17	—	—
Finance, Insurance, and Real Estate Services	1,348	—	—
137			
Corporate bonds	—	1,530	—
	<u>\$ 3,409</u>	<u>\$ 1,530</u>	<u>\$ —</u>

	Fair Value Measurements		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(Dollars in thousands)</i>			
<b>December 31, 2019</b>			
Cash and cash equivalents	\$ 2,797	\$ —	\$ —
Common stock:			
Mining	34	—	—
Manufacturing	830	—	—
Transportation, Communications, Electric, Gas, and Sanitary Services	543	—	—
Finance, Insurance, and Real Estate Services	330	—	—
155			
Other	12	—	—
Corporate bonds	—	703	—
	<u>\$ 4,701</u>	<u>\$ 703</u>	<u>\$ —</u>

A description of the valuation methodologies used for assets measured at fair value is disclosed below.

**Common Stocks**

Valued at the closing price reported on the active market on which the individual securities are traded.

**Corporate Bonds**

Valued using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Mid Penn expects to contribute \$300,000 to the defined benefit pension plan in 2021. The following table shows the estimated benefit payments for future periods.

*(Dollars in thousands)*

1/1/2021 to 12/31/2021	\$	85
1/1/2022 to 12/31/2022		102
1/1/2023 to 12/31/2023		104
1/1/2024 to 12/31/2024		226
1/1/2025 to 12/31/2025		282
1/1/2026 to 12/31/2030		1,595

**(17) Other Benefit Plans**

Mid Penn maintains several benefit plans for both current and former employees of the Bank. Liabilities related to the plans are recorded in other liabilities on the balance sheet, and aggregate cash surrender values assets related to the life insurance plans are recorded in the cash surrender value of life insurance line item on the balance sheet. Significant aspects of the plans are detailed below.

**(a) 401(k) Plan**

The Bank has a 401(k) plan that covers substantially all full-time employees. The plan allows employees to contribute a portion of their salaries and wages to the plan and provides for the Bank to match a portion of employee-elected salary deferrals, subject to certain percentage maximums of their salaries and wages. The Bank's contribution to the 401(k) Plan was \$913,000, \$680,000, and \$514,000 for the years ending December 31, 2020, 2019, and 2018, respectively and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

During 2018, Mid Penn assumed the 401(k) plans of Scottdale and First Priority. During the year ended December 31, 2020, the First Priority plan was terminated and all remaining assets were either transferred to the Mid Penn 401(k) Plan or distributed to former employee participants. The Scottdale 401(k) Plan continues to be managed by Mid Penn's human resources and trust areas; however, since the January 2018 Scottdale acquisition, the plan has been frozen resulting in no new participants added and no further contributions being made to the plans for the period subsequent to the acquisition through December 31, 2020.

**(b) Defined-Contribution Plan**

The Bank has a funded contributory defined-contribution plan covering substantially all employees. The Bank did not contribute to the plan in 2020, 2019, or 2018.

(c) **Deferred Compensation Plans**

The Bank has an executive deferred compensation plan, which allows executive officers to defer compensation for a specified period in order to provide future retirement income. The only participant in the plan is a former executive officer. The Bank accrued a liability for the plan of approximately \$67,000 at December 31, 2020 and \$87,000 at December 31, 2019. The expense related to the plan was \$3,000 in 2020, \$4,000 in 2019, and \$5,000 in 2018 and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

The Bank also has a directors' deferred compensation plan, which allows directors to defer receipt of director fees for a specified period in order to provide future retirement income. At December 31, 2020 and 2019, the Bank accrued a liability of \$1,308,000 and \$1,044,000, respectively, for this plan. The expense related to the plan was \$42,000 in 2020, \$41,000 in 2019, and \$31,000 in 2018 and is included as a component of other expense in the Consolidated Statements of Income.

(d) **Salary Continuation Agreement**

The Bank maintains a Salary Continuation Agreement ("Agreement") for a former executive officer. The Agreement provides the former executive officer with a fixed annual benefit. The benefit is payable beginning at age 65 for a period of 15 years. At December 31, 2020 and 2019, the Bank accrued a liability of approximately \$214,000 and \$224,000, respectively, for the Agreement. The expense related to the Agreement was \$17,000 for 2020, \$16,000 for 2019, and \$17,000 for 2018 and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

The Bank is the owner and beneficiary of an insurance policy on the life of the participating former executive officer, which supports the funding of the benefit obligation. The aggregate cash surrender value of this policy was approximately \$1,422,000 and \$1,387,000 at December 31, 2020 and 2019, respectively.

(e) **Split Dollar Life Insurance Arrangements**

At December 31, 2020 and 2019, the Bank had Split Dollar Life Insurance arrangements with two former executives for which the aggregate collateral assignment and cash surrender values are approximately \$1,404,000 and \$1,396,000, respectively. Mid Penn acquired Phoenix's Split Dollar Life Insurance arrangements in 2015 on select employees, which had aggregate cash surrender values of \$4,174,000 at December 31, 2020 and \$4,094,000 at December 31, 2019. Mid Penn acquired First Priority's Split Dollar Life Insurance arrangements in 2018 on select employees, which had aggregate cash surrender values of \$3,516,000 at December 31, 2020 and \$3,453,000 at December 31, 2019.

(f) **Employee Stock Purchase Plan**

Mid Penn has an Employee Stock Purchase Plan ("ESPP") in which all employees are eligible to participate. The plan allows employees to use a portion of their salaries and wages to purchase shares of Mid Penn common stock at the market value of shares at the end of each calendar quarter. A summary of shares purchased and average purchase price for the years ended December 31, 2020, 2019, and 2018 is presented below.

	2020	2019	2018
ESPP shares purchased	8,005	5,151	4,132
Average purchase price per share	\$19.324	\$26.015	\$28.716

(g) **Director Stock Purchase Plan**

On May 24, 2017, the Board of Directors of Mid Penn approved the Director Stock Purchase Plan ("DSPP"). The purpose of the DSPP is to provide non-employee directors of Mid Penn with a convenient means to purchase Corporation common stock at fair market value on the last day of each calendar quarter. The plan was effective beginning July 1, 2017. A summary of shares purchased and average purchase price for the years ended December 31, 2020, 2019, and 2018 is presented below.

	2020	2019	2018
DSPP shares purchased	8,121	5,232	4,296
Average purchase price per share	\$19.217	\$25.852	\$28.940

**(h) Supplemental Executive Retirement Plan**

During August 2018, Mid Penn entered into supplemental executive retirement plan agreements (“SERPs”) with four named executive officers. A fifth named executive officer entered into a SERP during May of 2019. Additional SERP agreements were entered into with two other members of the Bank’s executive management team in 2020. Each SERP provides for the monthly payment of a fixed cash benefit over a period of fifteen (15) years, commencing on the first day of the month following the Executive’s separation from service: (i) occurring on or after reaching normal retirement age (age 70); (ii) due to disability; (iii) due to death; or (iv) within two years following a change in control of the Bank. In December 2020, Mid Penn amended the supplemental executive retirement plan agreements to provide solely for a modification of the vesting schedule under the original agreements. Prior to the amendment, one-half of the annual benefit was scheduled to vest on January 1, 2022, with an additional ten percent vesting on each January 1 thereafter until fully vested on January 1, 2027. As amended, the annual benefit will vest ten percent each year, applied retroactively, such that forty percent of each named executive officer’s benefit is vested as of January 1, 2021. All other terms of the supplemental executive retirement plan agreements remain unchanged. Any unvested portion of the benefit fully vests upon a change in control of the Bank. The accrued liability for the supplemental retirement plans was \$595,000 at December 31, 2020 and \$296,000 as of December 31, 2019. The expense related to the plan was \$299,000 in 2020, \$223,000 in 2019 and \$73,000 in 2018 and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

**(18) Income Taxes**

Significant components of the Corporation’s net deferred tax asset at December 31, 2020 and 2019 are shown below.

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for loan and lease losses	\$ 2,810	\$ 1,998
Loan fees	1,908	227
Deferred compensation	722	581
Benefit plans	68	127
Unrealized loss on securities	—	34
Sale/leaseback adjustment	—	—
Lease adjustments	219	231
Business combination adjustments	148	164
Acquired NOL, Section 1231, and charitable contribution carryforwards	91	862
Acquired AMT carryforward	—	860
Other	101	114
	<u>6,067</u>	<u>5,198</u>
Deferred tax liabilities:		
Depreciation	(394)	(717)
Bond accretion	(30)	(23)
Goodwill and intangibles	(359)	(354)
Prepaid expenses	(474)	(405)
Business combination adjustments	(641)	(240)
Benefit plans	(549)	(649)
Unrealized gain on securities	(1)	—
	<u>(2,448)</u>	<u>(2,388)</u>
Deferred tax asset, net	<u>\$ 3,619</u>	<u>\$ 2,810</u>



## MID PENN BANCORP, INC.

In assessing the Corporation's ability to realize deferred federal tax assets, management considers whether it is more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent, feasible and permissible as well as available tax planning strategies in making this assessment. At December 31, 2020, based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Mid Penn will realize the benefits of these deferred tax assets and has no valuation allowances recorded against any components of its deferred tax asset, including the carryforward balances related to net operating losses (NOL), Section 1231 losses, and charitable contribution carryforwards.

The annual usage of acquired NOL, charitable contribution carryforwards, and Section 1231 losses is limited by IRS Section 382 regulations. These limitations are calculated separately for each acquisition as the federal long-term tax-exempt rate at the date of acquisition multiplied by the valuation of the selling company as calculated in accordance with GAAP. As a result, the usage of acquired NOLs, charitable contribution carryforwards, and Section 1231 losses to offset taxable income related to the Scottsdale acquisition is limited to \$1,313,000 per year, and \$1,854,000 per year for the First Priority acquisition.

At December 31, 2020 and 2019, Mid Penn had net operating loss ("NOL") carryforwards of \$119,000 and \$3,008,000 resulting from the 2018 acquisitions First Priority and Scottsdale. The Coronavirus Aid, Relief, and Economic Security ("CARES") Act, signed into law on March 27, 2020 to mitigate the economic effects of the COVID-19 pandemic, implemented a five-year carryback period for NOLs generated in tax years beginning in 2018, 2019, or 2020. As a result of this CARES Act provision, during the year ended December 31, 2020, Mid Penn filed the required federal tax returns to carryback NOLs to the 2017 tax year, comprised of (i) \$1,238,000 of NOLs generated in 2018 and acquired from Scottsdale, and (ii) \$1,214,000 of NOLs generated in 2018 and acquired from First Priority. The carryback of these NOLs to the 2017 tax year when the tax rate was 34 percent (versus 21 percent in 2018) generated a federal tax benefit of \$318,000 recorded in the provision for income taxes on the Consolidated Statements of Income for the year ended December 31, 2020. The remaining NOL balance of \$119,000 at December 31, 2020 was generated in the 2012 tax year, was acquired from First Priority, and expires in 2032. Mid Penn is limited to a deduction of the lesser of the available NOL carryforward or 80 percent of pre-NOL taxable income in a single tax year as set forth in the Tax Cuts and Jobs Act.

At December 31, 2020, Mid Penn had no charitable contribution carryforwards, while at December 31, 2019, charitable contribution carryforwards totaled \$785,000. During the year ended December 31, 2020, Mid Penn generated sufficient taxable income to utilize all charitable contribution carryforwards. During 2019, \$211,000 of charitable contribution carryforwards were written off, resulting in \$44,000 of additional tax expense recorded upon the filing of the final 2018 tax return during the third quarter of 2019. Mid Penn expects to generate sufficient taxable income to utilize all charitable contribution carryforwards in the future.

The CARES Act also updated Alternative Minimum Tax (AMT) credit rules to permit AMT credit to be 100 percent refundable in the 2018 tax year. As a result, during the year ended December 31, 2020, Mid Penn filed the required federal tax returns to request a full refund of the AMT credits that had been acquired from First Priority and Scottsdale.

Acquired Section 1231 losses totaling \$314,000 were recorded as a result of filing the final First Priority return in 2019 and expire in 2022.

The provision for income taxes consists of the following:

<i>(Dollars in thousands)</i>	2020	2019	2018
Current tax provision			
Federal	\$ 6,340	\$ 2,875	\$ 812
State	157	185	—
Total current tax provision	6,497	3,060	812
Deferred tax (benefit) expense			
Federal	\$ (1,367)	665	\$ 1,317
State	—	—	—
Total deferred tax expense	\$ (1,367)	665	1,317
Total provision for income taxes	\$ 5,130	\$ 3,725	\$ 2,129

## MID PENN BANCORP, INC.

A reconciliation of the federal income tax provision at the statutory rate of 21% for 2020, 2019 and 2018 to Mid Penn's actual federal income tax provision at its effective rate is as follows:

<i>(Dollars in thousands)</i>	2020	2019	2018
Provision at the expected statutory rate	\$ 6,581	\$ 4,499	\$ 2,672
Effect of tax-exempt income	(499)	(683)	(704)
Effect of investment in life insurance	(63)	(66)	(60)
State income taxes, net of federal tax benefit	124	146	—
Nondeductible interest	26	59	40
Low income housing partnership tax credits	(861)	(83)	(168)
Nondeductible merger and acquisition expense	—	—	193
Rate change adjustment	—	—	—
Other items	(178)	(147)	156
Provision for income taxes	<u>\$ 5,130</u>	<u>\$ 3,725</u>	<u>\$ 2,129</u>

Mid Penn has no unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. Mid Penn does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

No amounts for interest and penalties were recorded in income tax expense in the consolidated statement of income for the years ended December 31, 2020, 2019, or 2018. There were no amounts accrued for interest and penalties at December 31, 2020 or 2019.

Mid Penn and its subsidiaries are subject to U.S. federal income tax and income tax for the states of Pennsylvania, New Jersey, Delaware, and Maryland. With limited exceptions, Mid Penn is no longer subject to examination by taxing authorities for years before 2017.

### (19) Regulatory Matters

Mid Penn Bancorp, Inc., is a financial holding company and maintains a well-capitalized status in both the consolidated Corporation and in its bank subsidiary. Quantitative measures established by regulation to ensure capital adequacy require Mid Penn to maintain minimum amounts and ratios (set forth below) of Tier 1 Capital to average assets and of Total Capital (as defined in the regulations) to risk-weighted assets. As of December 31, 2020 and December 31, 2019, Mid Penn met all capital adequacy requirements to which the Bank is subject, and the Bank is considered "well-capitalized". However, future changes in regulations could increase capital requirements and may have an adverse effect on capital resources.

The federal banking agencies have substantially amended the regulatory risk-based capital rules applicable to Mid Penn. The amendments implemented the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The amended rules included new minimum risk-based capital and leverage ratios, which became effective in January 2015, with certain requirements phased in beginning in 2016, and refined the definition of what constitutes "capital" for purposes of calculating those ratios.

## MID PENN BANCORP, INC.

The revised minimum capital level requirements applicable to Mid Penn include: (i) a new common equity Tier I capital ratio of 4.5%; (ii) a Tier I capital ratio of 6.0% (increased from 4.0 %); (iii) a Total Capital ratio of 8.0% (unchanged from prior rules); and (iv) a Tier I leverage ratio of 4.0% for all institutions. The amended rules also established a "capital conservation buffer" of 2.5% above the revised regulatory minimum capital ratios, which result in the following minimum ratios: (i) a common equity Tier I capital ratio of 7.0%; (ii) a Tier I capital ratio of 8.5%; and (iii) a Total Capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

The final rules allowed community banks to make a one-time election not to include the additional components of accumulated other comprehensive income ("AOCI") in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. Mid Penn made the election not to include the additional components of AOCI in regulatory capital.

The final rules permanently grandfathered non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the Tier 1 capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010.

Consistent with the Dodd-Frank Act, the new rules replaced the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-ups approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250% risk weight.

Under the new rules, mortgage servicing assets ("MSAs") and certain deferred tax assets ("DTAs") are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain risk weights and credit conversion factors.

Mid Penn has implemented these changes in determining and reporting the regulatory ratios of Mid Penn and the Bank, and has concluded that the new rules did not have a material adverse effect on Mid Penn's financial condition.

**MID PENN BANCORP, INC.**

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans, or advances. The amount of dividends that may be paid from the Bank to the Corporation in any calendar year is limited to the Bank's current year's net profits, combined with the retained net profits of the preceding two years. For the year ended December 31, 2020, \$22,434,000 of undistributed earnings of the Bank, included in the consolidated shareholders' equity balance, was available for distribution to the Corporation as dividends without prior regulatory approval, subject to regulatory capital requirements below.

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2020, and December 31, 2019:

*(Dollars in thousands)*

	<b>Capital Adequacy</b>					
	<b>Actual</b>		<b>Minimum Capital Required (1)</b>		<b>To Be Well-Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>Mid Penn Bancorp, Inc.</b>						
<b>As of December 31, 2020</b>						
Tier 1 Capital (to Average Assets)	\$ 188,501	6.8%	\$ 111,201	4.00%	\$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	188,501	9.6%	137,351	7.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	188,501	9.6%	166,783	8.50%	N/A	N/A
Total Capital (to Risk Weighted Assets)	246,529	12.6%	206,026	10.50%	N/A	N/A
<b>Mid Penn Bank</b>						
<b>As of December 31, 2020</b>						
Tier 1 Capital (to Average Assets)	\$ 218,676	7.9%	\$ 111,166	4.00%	\$ 138,958	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	218,676	11.1%	137,288	7.00%	127,482	6.5%
Tier 1 Capital (to Risk Weighted Assets)	218,676	11.1%	166,707	8.50%	156,901	8.0%
Total Capital (to Risk Weighted Assets)	232,124	11.8%	205,933	10.50%	196,126	10.0%
<b>Mid Penn Bancorp, Inc.</b>						
<b>As of December 31, 2019</b>						
Tier 1 Capital (to Average Assets)	\$ 168,146	7.8%	\$ 86,773	4.00%	\$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	168,146	9.8%	120,020	7.000%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	168,146	9.8%	145,738	8.500%	N/A	N/A
Total Capital (to Risk Weighted Assets)	204,811	11.9%	180,030	10.500%	N/A	N/A
<b>Mid Penn Bank</b>						
<b>As of December 31, 2019</b>						
Tier 1 Capital (to Average Assets)	\$ 185,101	8.5%	\$ 86,760	4.00%	\$ 108,450	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	185,101	10.8%	119,995	7.000%	111,424	6.5%
Tier 1 Capital (to Risk Weighted Assets)	185,101	10.8%	145,708	8.500%	137,137	8.0%
Total Capital (to Risk Weighted Assets)	204,196	11.9%	179,992	10.500%	171,421	10.0%

(1) The minimum amounts and ratios as of December 31, 2020 and December 31, 2019 include the full phase in of the capital conservation buffer of 2.5 percent required by the Basel III framework.

**(20) 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 sheets.

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 direct, funded loans.

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. The amount of the liability as of December 31, 2020 and 2019 for guarantees under letters of credit issued is not considered material.

As of December 31, 2020, commitments to extend credit amounted to \$654,977,000 and standby letters of credit amounted to \$39,468,000. As of December 31, 2019, commitments to extend credit amounted to \$435,553,000 and standby letters of credit amounted to \$26,574,000.

Additionally, Mid Penn has sold loans to the FHLB as part of its Mortgage Partnership Finance Program ("Program"). Under the terms of the Program, there is limited recourse back to Mid Penn for loans that do not perform in accordance with the terms of the loan agreement. Each loan that is sold under the Program is "credit enhanced" such that the individual loan's rating is raised to "BBB", as determined by the FHLB. The Program can be terminated by either the FHLB or Mid Penn, without cause, by giving notice to the other party. The FHLB has no obligation to commit to purchase any mortgage through, or from, Mid Penn. The total balance of loans sold under the Program was \$290,000 and \$4,610,000 for the years ended December 31, 2020 and 2019, respectively.

Significant concentration of credit risk may occur when obligations of parties engaged in similar activities occur and accumulate in significant amounts.

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., are 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, 2020, commercial real estate financing was the only similar activity that met the requirements to be classified as a 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 twelve counties in Pennsylvania.

The Bank's highest industry concentration within the loan portfolio is in commercial real estate financing, which was 56.6 % and 63.0% as of December 31, 2020 and 2019, respectively.

(21) **Commitments and Contingencies**

*Commitments*

Mid Penn owns a limited partnership interest in a low-income housing project to construct thirty-seven apartments and common amenities in Dauphin County, Pennsylvania. The total investment in this limited partnership, net of amortization, was \$6,682,000 and \$7,249,000 on December 31, 2020 and December 31, 2019, respectively, and was included in the reported balance of other assets on the Consolidated Balance Sheet. All of the units qualified for Federal Low-Income Housing Tax Credits (“LIHTCs”) as provided for in Section 42 of the Internal Revenue Code of 1986, as amended. Mid Penn’s limited partner capital contribution commitment is \$7,579,000. Investments made to date, and any future payments under this commitment, are paid in installments over the course of the construction and completion phases of the low-income housing facilities. Each installment payment is conditional upon both Mid Penn’s review and approval of the installment payment certificate and continued compliance with the terms of the original partnership agreement. The investment in the limited partnership is reported in other assets on the Consolidated Balance Sheet and is being amortized over a ten-year period, as the facilities became operational and began to be occupied beginning in December 2019. The project has been conditionally awarded \$8,613,000 in total LIHTCs by the Pennsylvania Housing Finance Agency, with an annual LIHTC amount of approximately \$861,000 to be awarded to Mid Penn in the year-ended December 31, 2020 and each full year thereafter during the ten-year amortization period. Mid Penn’s commitment to initiate investments in the limited partnership interest was conditional upon (i) the review and approval of all closing documents, (ii) an opinion letter for tax counsel to the Partnership that the project qualifies for the LIHTCs, and (iii) review and approval by Mid Penn of other documents it deemed necessary. All such initial conditions were satisfied and Mid Penn began funding the investment during 2018, and the investment is expected to be fully funded in 2021. Similar to the recognition period of the tax credits, Mid Penn intends to amortize this low-income housing investment using the cost amortization method over a ten-year period.

*Contingencies*

As of December 31, 2020, Mid Penn had received a total of \$20,883,000 of nonrefundable loan processing fees related to the loans disbursed as a result of the SBA’s Paycheck Protection Program (“PPP”) created when the CARES Act was signed into law on March 27, 2020. These fees, and any offsetting loan origination costs, were deferred in accordance with FASB ASC 310-20, Receivables—Nonrefundable Fees and Other Costs, and have since been and will continue to be amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of the respective loans.

The processing fees received from the SBA for administering the application for, and disbursing of, the PPP loans may be subject to clawback (or if the SBA has not yet paid the fee, the fee may not be paid), after full disbursement of a PPP loan if (i) the PPP loan is cancelled or voluntarily terminated and repaid after disbursement but before the borrower certification safe harbor date, (ii) the PPP loan is cancelled, terminated, or repaid after disbursement (and after the borrower certification safe harbor date) because the SBA conducted a loan review and determined that the borrower was ineligible for a PPP loan, or (iii) the lender has not fulfilled its obligations under the PPP regulations.

As of December 31, 2020, Mid Penn is not aware of any PPP loans outstanding, or for which fees have been received from the SBA, that have been cancelled, terminated, or repaid due to a borrower being determined to be ineligible for a PPP loan.

*Litigation*

Mid Penn is subject to lawsuits and claims arising out of its normal conduct of business. 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 Mid Penn.

(22) Common Stock

Treasury Stock Repurchase Program

During 2020, Mid Penn announced the adoption of a treasury stock repurchase program authorizing the repurchase of up to \$15,000,000 of Mid Penn's outstanding common stock, which represents approximately 8.0% of the issued shares based on Mid Penn's closing stock price and shares issued as of December 31, 2020. Under the treasury stock purchase program, Mid Penn may conduct repurchases of its common stock through open market transactions (which may be by means of a trading plan adopted under SEC Rule 10b5-1) or in privately negotiated transactions. Repurchases under the program are made at the discretion of management and are subject to market conditions and other factors. There is no guarantee as to the exact number of shares that Mid Penn may repurchase. The repurchase plan became effective March 19, 2020 and is authorized to continue through March 19, 2021, unless otherwise extended by Mid Penn's Board of Directors.

The repurchase plan may be modified, suspended or terminated at any time, in Mid Penn's discretion, based upon a number of factors, including liquidity, market conditions, the availability of alternative investment opportunities and other factors Mid Penn deems appropriate. The repurchase program does not obligate Mid Penn to repurchase any shares.

As of December 31, 2020, Mid Penn had repurchased 92,652 shares of common stock at an average price of \$19.37 per share under the treasury stock repurchase program.

Authorized Shares

At the May 14, 2019 annual shareholder meeting, Mid Penn shareholders approved an amendment to the Articles of Incorporation to increase the number of authorized shares of common stock from 10,000,000 shares to 20,000,000 shares.

Dividend Reinvestment Plan

Under Mid Penn's amended and restated dividend reinvestment plan ("DRIP"), 330,750 shares of Mid Penn's authorized but unissued common stock are reserved for issuance. The DRIP also allows for voluntary cash payments, within specified limits, to be used for the purchase of additional shares.

Restricted Stock Plan

Under Mid Penn's 2014 Restricted Stock Plan, which was amended in 2020, Mid Penn may grant awards not exceeding, in the aggregate, 200,000 shares of common stock. The Plan was established for employees and directors of Mid Penn and the Bank, selected by the Compensation Committee of the Board of Directors, to align the interest of plan participants with those of Mid Penn's shareholders. The plan provides those persons who have a responsibility for its growth with additional incentives by allowing them to acquire an ownership interest in Mid Penn and thereby encouraging them to contribute to the success of the company. As of December 31, 2020, 85,914 shares have been granted under the Plan, of which 2,446 shares were forfeited and available for reissuance. During 2020, Mid Penn granted 28,259 restricted shares, 19,759 of which were granted to employees, while 8,500 were granted to directors. As of December 31, 2019, 57,655 shares have been granted under the Plan, of which 2,346 shares were forfeited and available for reissuance. During 2019, Mid Penn granted 18,450 restricted shares, 11,650 of which were granted to employees, while 6,800 were granted to directors. Mid Penn granted 12,250 restricted shares in 2018, 7,450 of which were granted to employees, while 4,800 were granted to directors. During 2020, 100 shares were forfeited to Mid Penn due to the termination of employment of one plan participant. No restricted shares were forfeited in 2019. In 2018, 1,876 granted shares were forfeited to Mid Penn due to the termination of employment of three plan participants.

Share-based compensation expense relating to restricted stock is calculated using grant date fair value and is recognized on a straight-line basis over the vesting periods of the awards. Generally, restricted shares granted to employees vest in equal amounts on the anniversary of the grant date over a four-year vesting period, and the expense is a component of salaries and benefits expense on the Consolidated Statements of Income. Restricted shares granted to directors have a twelve-month vesting period, and the expense is a component of directors' fees and benefits within the other expense line item on the Consolidated Statements of Income.

## MID PENN BANCORP, INC.

The following table presents compensation expense and related tax benefits for restricted stock awards recognized on the consolidated statements of income.

<i>(Dollars in thousands)</i>	2020	2019	2018
Compensation expense	\$ 414	\$ 346	\$ 267
Tax benefit	(87)	(73)	(56)
Net income effect	<u>\$ 327</u>	<u>\$ 273</u>	<u>\$ 211</u>

At December 31, 2020 there was \$726,000 of unrecognized compensation cost related to all non-vested share-based compensation awards. This cost is expected to be recognized through July 2024 with a weighted average recognition period of 2.6 years. At December 31, 2019, there was \$630,000 of unrecognized compensation cost related to all non-vested share-based compensation awards. This cost was expected to be recognized through July 2023 with a weighted average recognition period of 2.9 years. Mid Penn recognizes the impact of forfeitures as of the forfeiture date.

The following table presents information regarding the non-vested restricted stock for the years ended December 31, 2020 and 2019.

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2020	28,039	\$ 27.05
Vested	(14,771)	25.89
Forfeited	(100)	26.06
Granted	28,259	19.28
Non-vested at December 31, 2020	<u>41,427</u>	22.08

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2019	20,226	\$ 28.76
Vested	(10,637)	28.21
Forfeited	—	—
Granted	18,450	26.06
Non-vested at December 31, 2019	<u>28,039</u>	27.05

### (23) Preferred Stock

In accordance with the terms and conditions of the Agreement and Plan of Merger dated January 16, 2018 between Mid Penn and First Priority (the “Merger Agreement”), each share of First Priority Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the “First Priority Preferred Stock”) outstanding as of July 31, 2018 was converted into the right to receive one share of Mid Penn Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a \$1,000 liquidation preference per share (the “Mid Penn Preferred Stock”). In connection with the Merger, Mid Penn issued 3,404 shares of Mid Penn Preferred Stock totaling \$3,404,000.

The terms of the Mid Penn Preferred Stock were no less favorable than those of the First Priority Preferred Stock as in effect immediately prior to the Merger. The Mid Penn Preferred Stock was redeemable at the option of Mid Penn, subject to the prior receipt of any requisite regulatory approval.

Dividends were payable quarterly on February 15, May 15, August 15 and November 15 of each year. The dividend rate on the Mid Penn Preferred Stock was fixed at 9%.

During the fourth quarter of 2018, the Federal Reserve Bank approved Mid Penn’s request to redeem all 3,404 shares of the Mid Penn Preferred Stock at the \$1,000 liquidation value. The redemption of the \$3,404,000 of the Mid Penn Preferred Stock was completed and final dividend payment made on December 14, 2018. Accordingly, no preferred stock was outstanding at December 31, 2020 and December 31, 2019, and no preferred dividends were paid during 2020 or 2019, while preferred dividends of \$102,000 were paid in 2018.



**MID PENN BANCORP, INC.**

**(24) Parent Company Statements**

**CONDENSED BALANCE SHEETS**

*(Dollars in thousands)*

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,247	\$ 426
Investment in subsidiaries	286,545	254,829
Other assets	268	357
Total assets	<u>\$ 301,060</u>	<u>\$ 255,612</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Subordinated debt	\$ 44,580	\$ 17,735
Other liabilities	792	3
Shareholders' equity	255,688	237,874
Total liabilities and shareholders' equity	<u>\$ 301,060</u>	<u>\$ 255,612</u>

**CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

*(Dollars in thousands)*

	<b>For Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Income</b>			
Dividends from subsidiaries	\$ 7,537	\$ 7,189	\$ 10,837
Other income	\$ 13	—	—
Total Income	7,550	7,189	10,837
<b>Expense</b>			
Other expenses	(3,715)	(2,495)	(5,668)
Total Expense	(3,715)	(2,495)	(5,668)
Income before income tax and equity in undistributed earnings (loss) of subsidiaries	3,835	4,694	5,169
Equity in undistributed earnings (loss) of subsidiaries	21,616	12,486	4,207
Income before income tax	25,451	17,180	9,376
Income tax benefit	758	521	1,220
Net income	26,209	17,701	10,596
Series D preferred stock dividends	—	—	102
Net income available to common shareholders	<u>\$ 26,209</u>	<u>\$ 17,701</u>	<u>\$ 10,494</u>
Comprehensive income	<u>\$ 25,809</u>	<u>\$ 20,422</u>	<u>\$ 10,257</u>

## CONDENSED STATEMENTS OF CASH FLOWS

*(Dollars in thousands)*

	For Years Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 26,209	\$ 17,701	\$ 10,596
Equity in undistributed (earnings) loss of subsidiaries	(21,616)	(12,486)	(4,207)
Other, net	582	139	1,071
Net cash provided by operating activities	5,175	5,354	7,460
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash paid for acquisition	—	—	(2,798)
Investment in subsidiary	(10,500)	—	—
Purchases of premises and equipment	—	(81)	—
Net cash used in investing activities	(10,500)	(81)	(2,798)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	(6,504)	(6,688)	(4,513)
Series D preferred stock dividends	—	—	(102)
Series D preferred stock redemption	—	—	(3,404)
Employee Stock Purchase Plan stock issuance	147	134	119
Director Stock Purchase Plan stock issuance	148	135	124
Treasury stock purchased	(1,795)	—	—
Subordinated debt issuance	27,150	—	—
Net cash provided by (used in) financing activities	19,146	(6,419)	(7,776)
Net increase (decrease) in cash and cash equivalents	13,821	(1,146)	(3,114)
Cash and cash equivalents, beginning of year	426	1,572	4,686
Cash and cash equivalents, end of year	<u>\$ 14,247</u>	<u>\$ 426</u>	<u>\$ 1,572</u>

**(25) Recent Accounting Pronouncements***Accounting Standards Adopted in 2020*

**ASU 2018-15:** The FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

This ASU requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an “other asset”). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Mid Penn adopted ASU 2018-15 effective January 1, 2020 on a prospective basis. ASU 2018-15 did not have a material impact on the results of operations.

**ASU 2018-13:** The FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

This ASU, issued as part of the FASB’s disclosure framework project to improve the effectiveness of disclosures in financial statements, amends the disclosure requirements related to recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures.

## MID PENN BANCORP, INC.

As a result of this ASU, several disclosures were removed from Topic 820, including: (i) disclosure of the valuation process for Level 3 fair value measurements, and (ii) amounts of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. However, some additional disclosures are required as a result of this ASU, including the requirement to disclose the changes in unrealized gains and losses included in other comprehensive income for the period related to Level 3 recurring fair value measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Mid Penn adopted ASU 2018-13 effective January 1, 2020 on a prospective basis. The adoption of this ASU resulted in disclosure changes only and did not impact Mid Penn's overall financial condition.

### *Accounting Standards Adopted in 2019*

**ASU 2019-04:** The FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*

In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. With respect to Topic 815, Derivatives and Hedging, ASU 2019-04 clarifies that the reclassification of a debt security from held-to-maturity to available-for-sale under the transition guidance in ASU 2017-12 would not (1) call into question the classification of other HTM securities, (2) be required to actually designate any reclassified security in a last-of-layer hedge, or (3) be restricted from selling any reclassified security. As part of the transition of ASU 2019-04, entities may reclassify securities that would qualify for designation as the hedged item in a last-of-layer hedging relationship from held-to-maturity to available-for-sale; however, entities that already made such a reclassification upon their adoption of ASU 2017-12 are precluded from reclassifying additional securities. The Company did not reclassify any securities from HTM to AFS upon adoption of ASU 2017-12.

As previously reported on a Form 8-K filed on November 20, 2019, Mid Penn early adopted ASU 2019-04, and as part of the adoption, reclassified 113 held-to-maturity debt securities consisting primarily of state and political subdivision obligations and mortgage-backed U.S. government agencies with an aggregate amortized cost of \$67,096,000 to the available-for-sale category. All 113 securities were subsequently sold during the fourth quarter of 2019, and Mid Penn realized a pre-tax gain on the sales of \$1,779,000. Proceeds from the sales are primarily intended to fund future loan growth or repay wholesale borrowings.

**ASU 2016-02:** The FASB issued ASU 2016-02, *Leases*.

The new leases standard applies a right-of-use (“ROU”) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification.

The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606.

Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new leases standard addresses other considerations including identification of a lease, separating lease and non-lease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and re-measurement of lease payments. It also contains comprehensive implementation guidance with practical examples.

On July 30, 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an option to apply the transition provisions of the new standard at the adoption date instead of the earliest comparative period presented. Additionally, the ASU provides a practical expedient permitting lessors to not separate non-lease components from the associated lease component if certain conditions are met.

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The amendments for both ASUs are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Specific transition requirements apply.

Mid Penn adopted this standard in the first quarter of 2019 using the option to apply the transition provisions of the new standard at the adoption date instead of the earliest period presented as provided in ASU 2018-11. Additionally, Mid Penn elected to apply all practical expedients as provided in ASU 2016-02, with the exception of the hindsight practical expedient, which was not elected. As a result of the adoption of this standard on January 1, 2019, Mid Penn recognized (i) an operating lease ROU asset of \$11,661,000, (ii) an operating lease liability of \$12,866,000, and (iii) an opening adjustment to retaining earnings of \$316,000 to eliminate the remaining balance of the deferred sale/leaseback gain on two retail branch locations which had originally been recorded in 2016. The operating lease liability represents the present value of future payments on twenty-four leased properties within the Mid Penn footprint as of the January 1, 2019 adoption date, while the ROU asset reflects the lease liability, adjusted for deferred/accrued rent balances and the balance of acquisition accounting fair value adjustments of the respective properties as of the adoption date of January 1, 2019.

Subsequent to the adoption of Topic 842, Mid Penn entered into a lease agreement for one facility under a non-cancelable finance lease which commenced March 1, 2019. Mid Penn recognized a finance lease ROU asset of \$3,597,000 and a finance lease liability of \$3,597,000 included in the reported amount of long-term debt as of the lease commencement date.

The adoption of this standard did not have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Cash Flow. See Note 9, *Leases* for more information.

In March 2019, the FASB issued ASU No. 2019-01, "*Leases: Codification Improvements.*" This ASU (1) states that for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there isn't a significant amount of time between acquisition of the asset and lease commencement; (2) clarifies that lessors in the scope of ASC 842 (such as Mid Penn) must classify principal payments received from sales-type and direct financing leases in investing activities in the statement of cash flows; and (3) clarifies the transition guidance related to certain interim disclosures provided in the year of adoption. To coincide with the adoption of ASU No. 2016-02, Mid Penn elected to early adopt ASU 2019-01 on January 1, 2019. The adoption of this ASU did not have a material impact on Mid Penn's Consolidated Financial Statements.

**ASU 2018-07:** The FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

This ASU makes certain changes to the accounting for nonemployee awards to align the accounting for share-based payment awards issued to employees and nonemployees. The changes require that the compensation expense associated with nonemployee equity awards with performance conditions be recognized when the achievement of the performance condition is probable, rather than upon achievement of the performance condition. Additionally, the new ASU requires that equity-classified share-based payment awards issued to nonemployees be measured on the grant date, versus the previous GAAP requirement to re-measure the awards through the performance completion date. The current requirement to reassess the classification (equity or liability) for the nonemployee awards upon vesting will be eliminated.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including interim periods.

Mid Penn currently issues restricted stock awards to nonemployee directors through the 2014 Restricted Stock Plan (the "Plan") as more fully described in Note 22, *Common Stock*. The single performance condition of the award is that the individual remain a director of Mid Penn through the duration of the vesting period. Mid Penn adopted this standard on January 1, 2019 and the adoption of this ASU did not have a material impact on our consolidated financial statements as the compensation expense related to nonemployee equity awards is immaterial to Mid Penn's overall financial condition.

*Accounting Standards Adopted in 2018*

**ASU 2016-01:** The FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.

This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The ASU allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The ASU also requires public companies to use exit prices to measure the fair value of financial instruments, eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost, and requires separate presentation of financial assets and liabilities based on form and measurement category. In addition, for liabilities measured at fair value under the fair value option, the changes in fair value due to changes in instrument-specific credit risk should be recognized in OCI.

This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and was adopted by Mid Penn effective January 1, 2018. The adoption of this ASU resulted in the reclassification of equity securities to other assets (equity securities had previously been classified as available-for-sale investment securities). Also, related to this reclassification, a one-time cumulative-effect adjustment was recorded on January 1, 2018 that decreased retained earnings by \$44,000, increased accumulated other comprehensive loss by \$35,000, and decreased the deferred tax asset by \$9,000. The impact on net income as a result of the adoption of this standard was immaterial for the year ended December 31, 2018.

Additionally, the adoption of this ASU resulted in the refinement of our loan fair value calculation to comply with the exit price measurement requirement. The adoption of the exit price measurement requirement portion of this ASU did not have a material impact on Mid Penn's fair value disclosures.

In February 2018, the FASB issued ASU 2018-03, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain amendments included in ASU 2016-01 primarily related to measurement of equity securities without a readily determinable fair value and financial liabilities for which the fair value option was elected. This ASU was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and was adopted by Mid Penn effective January 1, 2018. Mid Penn's equity securities have a determinable fair value and, as of December 31, 2018, we do not have any financial liabilities for which the fair value option was elected; therefore, the adoption of this ASU did not have a material impact on the results of operations.

*Accounting Standards Pending Adoption*

**ASU 2018-14:** The FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*

This ASU, issued as part of the FASB's disclosure framework project to improve the effectiveness of disclosures in financial statements, amends the disclosure requirements related to defined benefit pension and other postretirement plans by removing and adding certain disclosures.

The ASU is effective for public business entities for fiscal years ending after December 15, 2020. Early adoption is permitted.

As a result of this ASU, several disclosures were removed from Topic 715, including: (i) disclosures of the amounts in accumulated comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, and (ii) the effects of a one-percentage point change in the assumed health care cost trend rates on the aggregate of service and interest cost components of net periodic postretirement health care benefit costs. However, some additional disclosures will be required as a result of this ASU, including the requirement to disclose an explanation for significant gains and losses related to changes in the benefit obligation for the period. Mid Penn is currently evaluating the impact of this ASU on our current disclosures. The adoption of this standard will result in disclosure changes only and will not impact Mid Penn's overall financial condition.

## MID PENN BANCORP, INC.

**ASU 2016-13:** The FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as further amended.

The ASU requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (“CECL”) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”) should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. Certain incremental disclosures are required.

Subsequently, the FASB issued ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, and ASU 2019-11 and ASU 2020-02 to clarify, improve, or defer the adoption of ASU 2016-13.

In October 2019, the FASB issued ASU 2019-10 which deferred the implementation date of ASU 2016-13 for smaller reporting companies (SRCs) until January 1, 2023. The effective date for larger SEC filers would remain unchanged at January 1, 2020. Mid Penn qualified as an SRC as of the date this guidance was issued; therefore, Mid Penn has chosen to delay the adoption of ASU 2016-13.

Mid Penn is currently evaluating the details of this ASU and the impact the guidance will have on Mid Penn’s consolidated financial statements. Mid Penn expects that it is possible that the ASU may result in an increase in the allowance for credit losses resulting from the change to expected losses for the estimated life of the financial asset, including an allowance for debt securities. The amount of the change in the allowance for credit losses, if any, resulting from the new guidance will be impacted by the portfolio composition and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Mid Penn will continue to collect the required data elements needed to perform the calculation in advance of the January 1, 2023 adoption date.

MID PENN BANCORP, INC.

(26) **Summary of Quarterly Consolidated Financial Data (Unaudited)**

The following table presents summarized quarterly financial data for 2020 and 2019. Due to the methodology and rounding of quarterly earnings per share versus full-year earnings per share calculations, the quarterly measures may not equal the full-year measurement disclosed on the respective year's income statement.

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

	2020 Quarter Ended			
	March 31	June 30	September 30	December 31
Interest Income	\$ 23,699	\$ 26,188	\$ 26,122	\$ 31,926
Interest Expense	6,034	4,842	4,714	4,137
Net Interest Income	17,665	21,346	21,408	27,789
Provision for Loan and Lease Losses	550	1,050	1,100	1,500
Net Interest Income After Provision for Loan Losses	17,115	20,296	20,308	26,289
Noninterest Income	2,934	3,622	5,302	6,050
Noninterest Expense	15,581	15,403	18,174	21,419
Income Before Provision for Income Taxes	4,468	8,515	7,436	10,920
Provision for Income Taxes	650	1,682	889	1,909
Net Income	<u>\$ 3,818</u>	<u>\$ 6,833</u>	<u>\$ 6,547</u>	<u>\$ 9,011</u>
Per Share Data:				
Basic Earnings Per Common Share	\$ 0.45	\$ 0.81	\$ 0.78	\$ 1.07
Diluted Earnings Per Common Share	\$ 0.45	\$ 0.81	\$ 0.78	\$ 1.06
Cash Dividends Declared	0.23	0.18	0.18	0.23

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

	2019 Quarter Ended			
	March 31	June 30	September 30	December 31
Interest Income	\$ 22,866	\$ 23,998	\$ 24,513	\$ 23,935
Interest Expense	5,560	6,228	6,746	6,630
Net Interest Income	17,306	17,770	17,767	17,305
Provision for Loan and Lease Losses	125	465	565	235
Net Interest Income After Provision for Loan Losses	17,181	17,305	17,202	17,070
Noninterest Income	2,049	2,874	3,003	4,695
Noninterest Expense	14,303	14,796	14,683	16,171
Income Before Provision for Income Taxes	4,927	5,383	5,522	5,594
Provision for Income Taxes	850	980	709	1,186
Net Income	<u>\$ 4,077</u>	<u>\$ 4,403</u>	<u>\$ 4,813</u>	<u>\$ 4,408</u>
Per Share Data:				
Basic and Diluted Earnings Per Common Share	\$ 0.48	\$ 0.52	\$ 0.57	\$ 0.52
Cash Dividends Declared	0.25	0.18	0.18	0.18

(27) **COVID-19 Pandemic Implications**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency due the Novel Coronavirus (“COVID-19”), and on March 11, 2020, the WHO classified COVID-19 as a pandemic based on the rapid increase in exposure globally.

To curtail the spread of the virus, beginning March 17, 2020, Mid Penn temporarily closed all bank branch lobbies, and the branch lobbies have remained closed through December 31, 2020. Our retail employees continue to work providing access to customers through drive-through banking services and night depositories. Services that cannot be performed through drive-through (i.e. business cash orders, loan closings and new account openings) are accommodated in the branches by appointment. We are continuously cleaning bank facilities during business hours with disinfecting wipes to sanitize all facets of our common areas, including door handles, work stations, ATM’s and service counters. We have mandated that all employees who handle cash use latex gloves when doing so, and we are requiring all employees to use hand sanitizer after each transaction and wash their hands with soap and hot water several times every hour. Additionally, employees having face-to-face interaction with customers are required to wear a mask. Importantly, we maintain appropriate social distancing standards when individuals are required by their job duties to be in the same location.

Mid Penn has been a significant lender under the federal Paycheck Protection Program (“PPP”) which was created when the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law on March 27, 2020, by President Trump. Asset growth during the year ended December 31, 2020 included a significant volume of PPP loans processed by Mid Penn, with \$388,313,000 of PPP loans still outstanding, net of deferred fees, as of December 31, 2020. The Paycheck Protection Program permitted eligible business entities to apply for loans through a participating financial institution to cover payroll, rent, and other business expenses during the COVID-19 pandemic. The PPP loans, which are 100 percent guaranteed by the SBA, have up to a five-year term to maturity and carry a low interest rate of 1 percent throughout the loan term. The vast majority of Mid Penn’s PPP loans have a two-year term to maturity. The SBA may forgive the PPP loans if, among other criteria, at least 60 percent of the proceeds are used for payroll costs. Also, the borrowers will not have to make any payments for six months following the date of disbursement of the loan, though interest will continue to accrue during the deferment period.

The SBA provided a processing fee per loan ranging from 1 percent to 5 percent to financial institutions who participated in the PPP, with the amount of such fee pre-determined by the SBA dependent upon the size of each credit. As of December 31, 2020, Mid Penn had received \$20,883,000 of nonrefundable loan processing fees related to the loans disbursed as a result of Mid Penn’s participation in the PPP initiative. These fees, which are partially offset by loan origination costs, are deferred in accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*. The PPP loan processing fees will be amortized over the life of the respective loans. During the twelve months ended December 31, 2020, Mid Penn recognized \$13,137,000 of PPP processing fees within interest and fees on loans and leases on the Consolidated Statements of Income. As of December 31, 2020, the balance of deferred PPP processing fees totaled \$7,746,000 and are offset against gross PPP loans outstanding of \$396,059,000 which are included in Loans and leases, net of unearned interest on the Consolidated Balance Sheet.

The CARES Act, along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as troubled debt restructurings. Depending upon the specific needs and circumstances affecting each borrower, the majority of these modifications ranged from deferrals of both principal and interest payments with some borrowers reverting to interest-only payments. The majority of the deferrals were granted for a period of three months, but some as long as six months, depending upon management’s specific evaluation of each borrower’s circumstances. Interest has and will continue to accrue on loans modified under the CARES Act during the deferral period. During 2020, Mid Penn had provided loan modifications meeting the CARES Act qualifications to over 1,000 borrowers. Mid Penn remains in communication with each of these borrowers to assess the ongoing credit status of the borrowers, and may make further adjustments to a borrower’s modification at some future time if warranted for the specific situation. As of December 31, 2020, the principal balance of loans remaining in this CARES Act qualifying deferment status totaled \$11,681,000, or less than 1 percent of the total loan portfolio, a reduction compared to September 30, 2020, when \$32,851,000 of loans, representing 1 percent of the total loan portfolio, were in this deferment status. Most borrowers granted a CARES Act deferral have returned to regular payment status. As more borrowers completed their deferral period subsequent to year-end 2020, the remaining balances outstanding in deferment under the CARES Act qualifications as of January 26, 2021 decreased to \$8,126,000 of principal.



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On February 22, 2021, on a Form 8-K filed with the Securities and Exchange Commission (“SEC”), Mid Penn reported that through February 18, 2021 it had received 2021 Paycheck Protection Program (“2021 PPP”) loan funding approvals through the Small Business Administration (“SBA”), and made subsequent loan disbursements, for 2,047 business customers totaling more than \$290 million in loans. These businesses collectively employ more than 26,000 individuals. The 2021 PPP application window remains open as of the date of this report, and Mid Penn is continuing to process existing applications for loans that have not yet been approved or disbursed, and is continuing to receive new applications for submission to the SBA for additional PPP loan support of customers. Based upon the 2021 PPP loans originated through Mid Penn Bank through the date of this report, the Corporation expects to realize \$12.8 million of processing fees. Additional fees will be realized for PPP loans approved and disbursed subsequent to the date of this filing.

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation’s financial condition, liquidity, capital position, and future results of operations. In addition, the adverse economic effects of the coronavirus may lead to an increase in credit risk on the Corporation’s commercial and residential loan portfolios. Also, the Corporation is also monitoring the fluctuations in the markets as it pertains to interest rates and the fair value of our investments, as well as the impact of the pandemic of underlying bond issuers and the potential for OTTI.

Management is actively monitoring the global situation on its financial condition, liquidity, capital position, operations, industry, and workforce. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Corporation is not able to estimate the effects of the coronavirus on its results of operations, financial condition, capital position, or liquidity for fiscal year 2021.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Mid Penn carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of December 31, 2020. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of December 31, 2020, that Mid Penn's disclosure controls and procedures were effective in recording, processing, summarizing, and reporting information required to be disclosed by Mid Penn within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to management to allow timely decisions regarding required disclosures.

Management's Report on Internal Controls over Financial Reporting is located on page 57 of this report, and is incorporated herein by reference.

Our independent registered public accounting firm, RSM US LLP, also attested to, and reported on, the effectiveness of Mid Penn's internal control over financial reporting as of December 31, 2020. RSM US LLP's attestation report appears in Part II, Item 8, "Financial Statements and Supplemental Data."

**Changes in Internal Controls over Financial Reporting**

There have been no changes in Mid Penn's internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, Mid Penn's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item, relating to directors, executive officers, and control persons is set forth under the captions "Executive Officers", "Information Regarding Director Nominees and Continuing Directors", "Section 16(a) Beneficial Ownership Reporting Compliance", "Audit Committee Report", and "Governance of the Corporation" in Mid Penn's definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Corporation has adopted a Code of Ethics that applies to directors, officers and employees of the Corporation and the Bank. The Corporation amended the Code of Ethics on March 28, 2018. A copy is posted under Governance Documents in the Corporate Information section under the Investors link on the Corporation's website, [www.midpennbank.com](http://www.midpennbank.com). The Corporation's Code of Ethics may be viewed on the Mid Penn website at [www.midpennbank.com](http://www.midpennbank.com) or requested from the Corporate Secretary by telephone at 1-866-642-7736.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item, relating to executive compensation, is set forth under the captions "Compensation Discussion and Analysis", "Executive Compensation", "Potential Payments Upon Termination or Change In Control", "Information Regarding Director Nominees and Continuing Directors", "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" of Mid Penn's definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

## MID PENN BANCORP, INC.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The information required by this Item, relating to beneficial ownership of Mid Penn’s common stock, is set forth under the caption “Beneficial Ownership of Mid Penn Bancorp’s Stock Held By Principal Shareholders and Management” of Mid Penn’s definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The following table provides information related to equity compensation plans as of December 31, 2020:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</u>	<u>Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights</u>	<u>Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	41,427	— (1)	116,532
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>41,427</b>	<b>—</b>	<b>116,532</b>

(1) All awards under the Mid Penn Bancorp, Inc. 2014 Restricted Stock Plan are in the form of restricted stock. Accordingly, they were not included in calculating the weighted-average exercise price because the shares of common stock will be issued for no consideration.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item, relating to transactions with management and others, certain business relationships and indebtedness of management, is set forth under the captions “Certain Relationships and Related Transactions” and “Governance of the Corporation” of Mid Penn’s definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item, relating to the fees and services provided by Mid Penn’s principal accountant, is set forth under the caption “Audit Committee Report” and “Proposal No. 3: Ratification of the Appointment of RSM US, LLP as the Corporation’s Independent Registered Public Accounting Firm for 2021” of Mid Penn’s definitive proxy statement to be used in connection with the 2021 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Financial statements are incorporated by reference in Part II, Item 8 hereof.

Reports of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Comprehensive Income  
Consolidated Statements of Changes in Shareholders’ Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

(b) The financial statement schedules, required by Regulation S-X, are omitted because the information is either not applicable or is included elsewhere in the consolidated financial statements.

## MID PENN BANCORP, INC.

(c) The following Exhibits are filed as part of this filing on Form 10-K, or incorporated by reference hereto:

- 2.1 Agreement and Plan of Merger, dated as of March 29, 2017, by and among Mid Penn Bancorp, Inc., Mid Penn Bank, and The Scottsdale Bank and Trust Company (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on March 30, 2017.)
- 2.2 Agreement and Plan of Merger, dated as of January 16, 2018, by and between First Priority Financial Corp. and Mid Penn Bancorp, Inc. (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on January 16, 2018.)
- 3(i) The Registrant's amended Articles of Incorporation. (Incorporated by reference to Exhibit 3(i) to Registrant's Quarterly Report on Form 10-Q filed for the quarterly period ended June 30, 2019).
- 3(ii) The Registrant's By-laws. (Incorporated by reference to Exhibit 3(ii) of Registrant's Current Report on Form 8-K filed with the SEC on August 30, 2010.)
- 10.1 The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Exhibit 99.1 of Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005.)
- 10.2 Mid Penn Bancorp, Inc. 2014 Restricted Stock Plan. (Incorporated by reference to Appendix A of Registrant's Definitive Proxy Statement on Schedule 14A as filed with the SEC on March 27, 2014.)
- 10.3 Form of Mid Penn Bancorp, Inc. Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K filed with the SEC on March 12, 2018.)
- 10.4 Form of Change in Control Severance Agreement between Mid Penn Bank and the Named Executive Officers, (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on November 4, 2016.)
- 10.5 Mid Penn Bancorp, Inc. Director Stock Purchase Plan (Incorporated by reference to Exhibit 99.1 of Registrant's Registration Statement on Form S-8, filed with the SEC on June 8, 2017.)
- 10.6 Employment Agreement, dated November 3, 2016, among Mid Penn Bancorp, Inc., Mid Penn Bank and Rory G. Ritrievi. (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on November 4, 2016.)
- 10.7 Form of Supplemental Executive Retirement Plan Agreement dated August 31, 2018 by and among Mid Penn Bank and each of Rory G. Ritrievi, Michael D. Peduzzi, Scott W. Micklewright, and Justin T. Webb (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 5, 2018.)
- 10.8 Amendment No. 1 to Employment Agreement, dated August 31, 2018, among Mid Penn Bancorp, Inc., Mid Penn Bank, and Rory G. Ritrievi (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 5, 2018.)
- 10.9 Form of Amendment No. 1 to Change in Control Severance Agreement of Messrs. Micklewright, Peduzzi, and Webb (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 5, 2018.)
- 10.10 Form of Amendment No. 2 to Change in Control Severance Agreements of Messrs. Micklewright, Peduzzi, and Webb (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on May 24, 2019.)
- 10.11 Form of Amendment No. 1 to Change in Control Severance Agreement of Rory G. Ritrievi (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed on May 24, 2019.)
- 10.12 Form of Amendment No. 1 to Supplemental Executive Retirement Plan of Messrs. Ritrievi, Micklewright, Peduzzi, and Webb (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on January 4, 2021.)
- 10.13 Form of Director Deferred Fee Agreement
- 10.14 Director Retirement Plan
- 21 Subsidiaries of Registrant
- 23 Consents of Independent Registered Public Accounting Firms
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer.
- 32 Principal Executive and Financial Officer's §1350 Certifications.
- 99.1 Listing of Mid-Atlantic Custom Peer Group Banks.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted in inline XBRL and contained in Exhibit 101)

## **ITEM 16. FORM 10-K SUMMARY**

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MID PENN BANCORP, INC.  
(Registrant)

By: /s/ Rory G. Ritrievi  
Rory G. Ritrievi  
President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: March 15, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: <u>/s/ Rory G. Ritrievi</u> Rory G. Ritrievi President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2021
By: <u>/s/ Michael D. Peduzzi, CPA</u> Michael D. Peduzzi, CPA Sr. Executive Vice President and Chief Financial Officer	March 15, 2021
By: <u>/s/ Robert A. Abel</u> Robert A. Abel, Director	March 15, 2021
By: <u>/s/ Kimberly J. Brumbaugh</u> Kimberly J. Brumbaugh, Director	March 15, 2021
By: <u>/s/ Matthew G. DeSoto</u> Matthew G. DeSoto, Director	March 15, 2021
By: <u>/s/ Robert C. Grubic</u> Robert C. Grubic, Director	March 15, 2021
By: <u>/s/ Brian A. Hudson, Sr.</u> Brian A. Hudson, Sr., Director	March 15, 2021
By: <u>/s/ Gregory M. Kerwin</u> Gregory M. Kerwin, Director	March 15, 2021
By: <u>/s/ Donald F. Kiefer</u> Donald F. Kiefer, Director	March 15, 2021
By: <u>/s/ Theodore W. Mowery</u> Theodore W. Mowery, Director	March 15, 2021
By: <u>/s/ John E. Noone</u> John E. Noone, Director	March 15, 2021
By: <u>/s/ Noble C. Quandel, Jr.</u> Noble C. Quandel, Jr., Director	March 15, 2021
By: <u>/s/ David E. Sparks</u> David E. Sparks, Director	March 15, 2021
By: <u>/s/ William A. Specht, III</u> William A. Specht, Director	March 15, 2021

SUBSIDIARIES OF REGISTRANT

<u>Name</u>	<u>State of Incorporation</u>
Mid Penn Bank	Pennsylvania
MPB Financial Services Group LLC	Pennsylvania
MPB Wealth Management LLC	Pennsylvania
MPB Risk Services LLC	Pennsylvania

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-248442, 333-218592, 333-197024, and 333-170833) and Forms S-3 (No. 333-128958 and 333-233146) of Mid Penn Bancorp, Inc. of our report dated March 15, 2021, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Mid Penn Bancorp, Inc., appearing in this Annual Report on Form 10-K of Mid Penn Bancorp, Inc. for the year ended December 31, 2020.

/s/ RSM US LLP

Philadelphia, Pennsylvania  
March 15, 2021

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Mid Penn Bancorp, Inc.  
Millersburg, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-248442, 333-218592, 333-197024, and 333-170833) and Form S-3 (Nos. 333-128958 and 333-233146) of Mid Penn Bancorp, Inc. of our report dated March 13, 2020, relating to the consolidated financial statements of Mid Penn Bancorp, Inc., which appears in this Form 10-K.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania  
March 15, 2021



CERTIFICATION

I, Rory G. Ritrievi, certify that:

1. I have reviewed this annual report on Form 10-K of Mid Penn Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Rory G. Ritrievi  
President and CEO

Date: March 15, 2021

CERTIFICATION

I, Michael D. Peduzzi, certify that:

1. I have reviewed this annual report on Form 10-K of Mid Penn Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Michael D. Peduzzi, CPA  
Chief Financial Officer

Date: March 15, 2021

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND  
PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADDED BY SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Mid Penn Bancorp, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rory G. Ritrievi, President and CEO, and I, Michael D. Peduzzi, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as added pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
2. To my knowledge, the information contained in the Report fairly presents, in all material respects the financial condition and results of operations of Mid Penn Bancorp, Inc. as of the dates and for the periods expressed in the Report.

By: /s/ Rory G. Ritrievi  
President and CEO

Date: March 15, 2021

By: /s/ Michael D. Peduzzi, CPA  
Chief Financial Officer

Date: March 15, 2021

## Mid-Atlantic Custom Peer Group

<u>Company</u>	<u>City</u>	<u>State</u>
ACNB Corporation	Gettysburg	PA
Arrow Financial Corporation	Glens Falls	NY
BCB Bancorp, Inc.	Bayonne	NJ
Canandaigua National Corporation	Canandaigua	NY
Chemung Financial Corporation	Elmira	NY
Citizens & Northern Corporation	Wellsboro	PA
Codorus Valley Bancorp, Inc.	York	PA
Community Financial Corporation	Waldorf	MD
Evans Bancorp, Inc.	Williamsville	NY
First Bank	Hamilton	NJ
Howard Bancorp, Inc.	Baltimore	MD
Mid Penn Bancorp, Inc.	Millersburg	PA
Orrstown Financial Services, Inc.	Shippensburg	PA
Parke Bancorp, Inc.	Sewell	NJ
Peoples Financial Services Corp.	Scranton	PA

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# COMMUNITY GIVING

Mid Penn Bank is dedicated to supporting charitable community organizations through corporate donations, employee volunteerism and fundraising. In 2020, we increased our corporate contributions by 20% and our employees demonstrated their commitment to our communities by personally giving 38% more than in 2019.

## 2020 GIVING HIGHLIGHTS



\$1.59 MILLION

EITC & COMMUNITY CONTRIBUTIONS



20% INCREASE OVER 2019



203

COMMUNITY ORGANIZATIONS SUPPORTED



25 NEW ORGANIZATIONS ASSISTED



\$116,000

RAISED BY EMPLOYEES FOR CHARITABLE CAUSES



38% INCREASE OVER 2019



### MID PENN BANK CELEBRITY GOLF TOURNAMENT

Despite the uncertainty surrounding public gatherings in 2020, the generosity of Mid Penn Bank customers, vendors, employees and celebrity partners endured. **Together we raised \$75,000 for the Pennsylvania Breast Cancer Coalition.**



### NO SHAVE NOVEMBER

Since 2016, Mid Penn Bank and Penn State Cancer Institute have joined forces during the month of November to raise funds for prostate cancer research to help fight this formidable disease that affects one in nine men. The No Shave November campaign **raised more than \$100,000 in 2020** and encouraged men to take a break from shaving and grow beards as a way of starting conversations around prostate health.



### CAMP CURTIN YMCA

Mid Penn Bank proudly **supported the Harrisburg Area YMCA Association through financial contributions, volunteerism, and event sponsorship.** In 2020, the Camp Curtin YMCA in Uptown Harrisburg met the pandemic challenges head-on by establishing a virtual learning program, Cornerstone Academy. Students enrolled in Cornerstone Academy can complete online and out-of-school assignments with tutors and certified educators while parents work. At the start of the 2020-2021 school year, Mid Penn Bank presented the Academy with Chromebooks to ensure that students had the technology necessary to succeed in a virtual learning environment.

# PAYCHECK PROTECTION PROGRAM



Natalie Falatek, Director of SBA/Guaranteed Lending, receiving the 2020 PPP Lender of the Year award.

## 2020 PPP HIGHLIGHTS



4,100+

PPP LOANS DELIVERED  
TO SMALL BUSINESSES



\$630 MILLION

IN PPP LOANS  
FUNDED



55,000+

PAYCHECKS  
PROTECTED

"Just a quick thank you note - I know you and your team have worked tirelessly in this chapter, and it is much appreciated. **Mid Penn has done nothing but validate our banking decision which we made three years ago already, and I know I speak for our Chairman as well.** I know there has been a lot of extra hours - thanks! And Happy Easter - here's hoping there's at least time for dinner on Sunday!"



"We became fans of your organization when we watched the YouTube videos while working to apply for the loan. **It is clear that the Bank's leadership and organization understand what it means to "Make a Difference." The team was outstanding, and every person's "get it done" attitude showed through. Also, being able to call and talk with people was incredible.**"

"This is the biggest challenge my business (and industry) has ever faced, and I can't tell you how your team has helped, and how thankful I am. Your culture is amazing, and the level of caring demonstrated by everyone I have met or spoken with is unsurpassed. **I look forward to a long-term relationship with your bank, and also to meeting you live and in person (not that I don't love your YouTube videos).** I also look forward to continue telling my story, and recommending First Priority and Mid Penn."



"While most of your competitors and the larger banks were dragging their feet and generally looking for reasons to delay initiating the PPP loan program, you and your team were out in front contacting your customers, educating them about the program, encouraging them to apply for loans and providing them with the assistance they needed to do so. **This occurred across the entire spectrum from your most significant clients to my own church in Millersburg.** I also understand that in certain instances when requested, you provided the same assistance to businesses having no other relationship with the bank. I believe in doing so you have performed a great service to the community, protected your banking clients and created a wealth of good will for your bank."

“Hope all is well. We worked with Mid Penn on our PPP and were very impressed with your ability to get things done quickly and efficiently (our own bank wasn't ready to move quickly enough!). **Please pass along my gratitude to Rory, and let him know that I will look for additional opportunities to send business your way!**”



“How you helped us and our business back in PPP round 1 was simply amazing. It saved our company and kept our employees working. The way you have prepared and are handling round 2 is simply amazing. I have my app fully submitted and the thought of receiving another forgivable 6 figure loan literally brings tears to my eyes. **I'm not sure if you all fully understand how impactful what your doing is for us business owners. It is saving jobs and the company my wife and I have killed ourselves for, for the past 15 years. Thank you to all your team for the tireless work they are doing. We are with you and eternally grateful for all your help, support and guidance. Thank you, thank you, thank you.**”



“I wanted to send a quick note to commend you for the extremely efficient and professional manner in which Mid Penn Bank has handled the application process for the PPP. I applied for my loan and had the funds in my account in six days! I was kept updated by the branch in Conyngham, PA, as well as through your YouTube videos. **I could not be more pleased with how expeditiously my application was processed and funded. I have spoken to many other State Farm Agents throughout the country as well as numerous other small business owners, and many, many of these business owners did not have very favorable experiences with this program. This is certainly the case with those who applied through the large national banks as opposed to the small community lenders. I appreciate Mid Penn Bank's efforts very much and plan to be a long-time customer.**”



“What you did for us you went above and beyond **and you have a customer for life.**”



“Thank you all for the hard work. I am glad all my business is with you guys. **After watching all these videos, I know I am with the right bank and I know that when times like this come around I can count on you guys.**”

“I just wanted to let you know that phone call you made to me 8 months ago and the support you showed in getting me the PPP money was a game changer and one of the best things to happen to me in 2020. **Thanks for the support. You are one of the main reasons my company will survive this pandemic and be stronger when we are on the other side.**”



“I just want to thank you and the amazing staff at Mid Penn Bank for your extraordinary service to our businesses. Rory's video messages are terrific. Your service has been nothing short of spectacular. **I have been working with several banks on PPPs for various enterprises in West Virginia. No other bank holds a candle to Mid Penn Bank. You are a true partner in support of our businesses. Please send my greetings and heartfelt thanks to Rory.**”



“The word is out! You guys hit this out of the ballpark! Why would anyone in the Central PA area choose any other bank? **TRULY RELATIONSHIP BANKING!! Congratulations on the job you did for you and your customers!!**”



“I wanted to take a minute and thank you for the superior customer service Mid Penn provided with regard to the PPP loan process. Waking up this morning to see the funds sitting in my account allows me to breathe a little easier. Our experience with your team was nothing but positive. You proactively provided guidance to make the process both efficient and effective. **You were quick to respond and found new ways to do so. At every point, I knew what was going on. Mid Penn has been a great partner to my business over the years both in good times and in bad. This latest challenge has given me yet another reason to be glad I bank with such a great team.**”





**MID PENN BANCORP**<sup>INC.</sup> Officers

**RORY G. RITRIEVI**  
President and CEO

**MICHAEL D. PEDUZZI**  
Chief Financial Officer



**MID PENN BANK** Executive Team

**RORY G. RITRIEVI**  
President and CEO

**MICHAEL D. PEDUZZI**  
Chief Financial Officer

**SCOTT W. MICKLEWRIGHT**  
Chief Revenue Officer

**JUSTIN T. WEBB**  
Chief Operating Officer

**JOAN E. DICKINSON**  
Chief of Staff

**JOSEPH L. PAESE**  
Director of Trust and Wealth Management



**MID PENN BANCORP**<sup>INC.</sup> Board of Directors

**ROBERT C. GRUBIC**  
Chairman, Mid Penn Bancorp, Inc.  
and Mid Penn Bank; Chairman and CEO  
Herbert, Rowland & Grubic, Inc.

**BRIAN A. HUDSON, SR.**  
Former Executive Director and CEO  
Pennsylvania Housing Finance Agency

**WILLIAM A. SPECHT, III**  
Vice Chairman, Mid Penn Bancorp, Inc.  
and Mid Penn Bank; President and CEO  
Seal Glove Mfg. & Ark Safety

**GREGORY M. KERWIN**  
Senior Partner, Kerwin & Kerwin, LLP

**RORY G. RITRIEVI**  
President and CEO, Mid Penn Bancorp, Inc.  
and Mid Penn Bank

**DONALD F. KIEFER**  
Former Chairman, President and CEO  
The Scottsdale Bank & Trust Company;  
Partner, Lawrence Keister & Co.

**ROBERT A. ABEL**  
Principal and Shareholder  
Brown Schultz Sheridan & Fritz

**THEODORE W. MOWERY**  
Founding Partner, Gunn Mowery, LLC

**KIMBERLY J. BRUMBAUGH**  
Founder and CEO  
Brumbaugh Wealth Management, LLC

**JOHN E. NOONE**  
President, Shamrock Investments, LLC

**MATTHEW G. DESOTO**  
President and CEO  
MI Windows and Doors, LLC

**NOBLE C. QUANDEL, JR.**  
Executive Chairman  
Quandel Enterprises, Inc.

**DAVID E. SPARKS**  
Founder, Former Chairman and CEO  
First Priority Financial Corp.  
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TO REWARD ALL OF OUR SHAREHOLDERS, SERVE ALL OF  
OUR CUSTOMERS, VALUE ALL OF OUR EMPLOYEES AND  
SUPPORT ALL OF OUR COMMUNITIES.

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