MID PENN BANCORP INC.

2021 ANNUAL REPORT TO SHAREHOLDERS

MEMBER FDIC

A LETTER TO OUR SHAREHOLDERS

What a fantastic year of growth and performance your company, Mid Penn Bancorp, Inc ("Mid Penn"), had in 2021. While there were healthcare, political and economic challenges to the country, the state and the industry throughout the year, Mid Penn managed to have its most successful and transformative year in our 153 year history.

Consider the following:

	December 31, 2020	December 31, 2021
NET INCOME	$26 Million	$29 Million ↑
COMPANY ASSETS	$2.9 Billion	$4.7 Billion ↑
WEALTH ASSETS UNDER MANAGEMENT	$180 Million	$825 Million ↑
COUNTIES SERVED	12	20 ↑
FINANCIAL CENTERS	36	60 ↑
COMMON SHARES OUTSTANDING	8.4 Million	16 Million ↑
MARKET CAPITALIZATION	$180 Million	$500+ Million ↑

We achieved all of that while staying true to our straightforward mission statement, which is to reward all of our shareholders, critically serve and support all of our customers and communities, and cherish all of our employees. Within that mission statement are four distinct commitments creating four essential bonds. Let me outline for you just how we met those commitments throughout the year.

REWARD ALL OF OUR SHAREHOLDERS

In 2021, with stock appreciation of 45% and with cash dividends paid of $.84 a share, Total Shareholder Return was just under 49%. Over the last ten years, Total Shareholder Return has been 460%, or 19% compounded annually. That puts us significantly above both the Russell 3000 Index and our peer group over that same period.

In the last 12 years — the first full 12 years since the present management team took over — the book value per share of this company has grown from $10.55 to $30.71, or at a rate of just over 9% compounded annually.

That book value has been enhanced through the core operating performance success of the company, even with the dilutive effects of three of the four acquisitions we have completed over the last seven years. While the company earned those dilutions back through accelerated earnings performance in the first two of those acquisitions, it now must prove that it can do so with the Riverview Financial ("Riverview") acquisition we completed on November 30, 2021. We acquired Riverview to expand our footprint, create a more powerful balance sheet and drive accelerated earnings performance vis-à-vis significant expense savings and the deployment of that power over the larger footprint. Throughout 2022, we will work diligently to fully integrate the Riverview customers and employees into the Mid Penn culture while effectuating those savings and continuing to deploy a more powerful balance sheet.

To the extent that we fulfill those objectives, the benefit to the core operating performance and, ultimately, to book value should help drive continued strong Total Shareholder Return for years to come.

> IN TOTAL, THE COMPANY ORIGINATED OVER **$1.6 BILLION** IN NEW LOANS IN 2021.

SERVE ALL OF OUR CUSTOMERS

We feel that the best proxy of evaluating customer service is the organic growth of the company. When customers become fans, they not only maintain their business with the company, but also will expand that business and refer friends and family. In 2021, excluding PPP and acquired loans, we had organic loan growth of 9%, organic deposit growth of 19% and organic assets under management growth of 20%. Those are all within the highest tier of our peer group. We feel that the business development teams we have throughout PA, and the operations and administrative teams that support them, are the best in the business.

Throughout 2021, we originated over $700 million of new, non-PPP, commercial loans throughout our footprint. That activity drove the bulk of our overall loan growth and it represented a record level of production for our commercial loan team.

We once again had a very successful year in PPP, generating 2,800 loans for $370 million in round two of that program, assisting over 3,000 businesses while protecting over 40,000 paychecks.

We also originated over $400 million in residential loans, another record level of production in that business line. In that we sell the bulk of what we originate in residential loans through the secondary market, that impressive production does not help organic loan growth significantly, but it does help non-interest income. Even with interest rates elevating throughout the year, the team stayed active and productive.

Finally, in consumer loans, we originated over $100 million in new loans, mostly home equity type loans, which helped move the needle nicely in those balances throughout the year.

In total, the company originated over $1.6 billion in new loans in 2021, on par with what we originated in 2020, a year significantly aided by residential mortgage refinances. I believe that level of production, and consequently, that organic loan growth of 9% is proof that our customers value our loan origination and servicing models.

As we have grown our footprint throughout the state, we have developed new deposit relationships. That success was evidenced by our 19% growth in deposits, even as we lowered the funding costs of these deposits by over 50%. That relatively inexpensive funding source has helped protect our net interest margin even in the face of very strong competitive pressure, and is another proxy for our outstanding customer service.

We also grew our assets under management at both the bank and our non-bank subsidiary, MPB Financial. Our wealth advisors throughout the state expanded existing relationships and established new ones that led to a $120 million organic increase in assets under management.

A successful year of organic growth in all areas of the company certainly validates that we did in fact meet the mission of serving all customers.

CHERISH ALL OF OUR EMPLOYEES

Even In the midst of "The Great Resignation" of 2020-2021, actions that Mid Penn undertook in previous years to demonstrate a commitment to all of its associates served us well in stabilizing our team.

Several years ago, we began a process of career pathing every one of our employees. That starts with the creation of an "Individual Development Plan" ("IDP") — a living document created between an associate and the associate's supervisor and facilitated by a career counselor — that provides a customized career roadmap for each employee.

The IDP then becomes part of the annual review process because commitments are made by both the

> WE FEEL STRONGLY THAT THE BEST CUSTOMER SERVICE IN THE BUSINESS IS DELIVERED BY PEOPLE WHO HAVE A GREAT ATTITUDE, A HEALTHY APTITUDE AND A STRONG WORK ETHIC.

associate and the supervisor to reinforce meaningful progress on that path. Waypoints on the path include internal education through Mid Penn University class offerings or external education through an industry trade group like the PA Association of Community Bankers or even a local college. The educational waypoints are not always banking related. Sometimes they are related to obtaining or developing life skills that help make the associate a better family member or member of the community. In 2021, Mid Penn University held 331 different classes with 2,545 attendees, an average of over five sessions per associate.

Throughout 2021, we achieved an over 97% success rate in getting IDPs either completed for the first time or updated. Over 150 associates were pursuing one of our certificate programs, and we had 31 associates graduate from one of those programs.

Along with the IDP and certificate processes, we have an active mentorship program that has linked 50 less experienced associates with a more experienced associate who helps them advance their career within the company. That mentorship process has yielded tremendous benefit.

We also have developed one of the best college internship programs in the state. With 25 summer interns in 2021, we helped the educational process of students coming from schools such as the University of Pittsburgh, Penn State University, University of Delaware, Temple University, and West Chester University, among others. Many of those interns were on their second or even third summers with us and a few received and accepted return offers to become permanent employees upon graduation.

We feel strongly that the best customer service in the business is delivered by people who have a great attitude, a healthy aptitude and a strong work ethic. Each and every thing we try to accomplish with our associates positions them to have all three traits in great abundance. In 2021, we definitely focused on our mission of cherishing all of our employees.

CRITICALLY SUPPORT ALL OF OUR COMMUNITIES

Mid Penn's support of all of its communities throughout the state is becoming legendary.

Even in a year where volunteerism continued to be challenged by event cancellations and social distancing, we still managed to have employees provide over 1,000 hours of volunteer time to charitable organizations and their events. Our employees also donated $40,000 of their own money to nonprofit organizations throughout the Commonwealth.

We also had our best year yet in our two signature fundraisers. With the Mid Penn Bank Celebrity Golf Classic, we raised and contributed $125,000 to the Pennsylvania Breast Cancer Coalition to aide that amazing group in its fight against breast cancer. Our No Shave November campaign raised and contributed

$142,000 to the Penn State Cancer Institute to aide Dr. Jay Raman's Hershey Urology Group in the fight against prostate cancer. In our six years of doing those events, we have raised and contributed over $900,000 to those extremely worthwhile causes.

We also had another banner year with Educational Investment Tax Credit and Scholarship Organization giving, approaching $1.5 million in giving through those two programs.

With our volunteer time, our fundraisers, our employee contributions, and the use of EITC, we absolutely fulfilled our mission of strengthening the community in 2021.

OUR ONGOING COMMITMENT TO RISK MANAGEMENT

True success in Mid Penn's mission statement can only be delivered if we also adequately manage all of the risks inherent in our business. Risk management, for us, starts with an intense focus on maintaining pristine asset quality. That focus is clearly evident in our 2021 results. Non-performing loans at December 31, 2021, including those loans acquired through our merger with Riverview, decreased by 35.7% from the same point in 2020. Other Real Estate Owned, or those problem assets held by the Bank after foreclosure, was $0 at year end!

Simply put, the way that the team at Mid Penn Bank underwrites, documents, and manages loans stands out among its peers. As long-time shareholders may remember, this has not always been the case. From early 2009 when I joined the Bank, and through December 31, 2021, Mid Penn has charged off loan balances totaling approximately $24 million. Of those charge offs, almost $18 million were the result of loans originated by lending and credit teams which pre-date our current team and are no longer with the Bank. Another $3 million was the result of loans acquired through merger activity which were adequately accounted for at the time of acquisition. That leaves approximately $3 million in charged off loans generated by those currently with the Bank, a figure which represents less than one-tenth of one percent of the approximately $4 billion in gross loans generated over this 13-year period.

With each passing year, we add more and more infrastructure to our underwriting, origination, and servicing processes. Doing it really well today is not enough. We must continually get better in asset quality and sustain that performance over a long period of time.

While asset quality may be our most significant risk, it certainly is not the only one. We also added staff to our entire risk management area including internal audit, compliance, cybersecurity, Bank Secrecy Act, and Community Reinvestment Act, while also investing in new software platforms across the compliance spectrum.

OUTLOOK FOR 2022

As I finalize the contents of this letter in early March, the headlines are dominated with military conflict in Europe, supply chain issues and inflation at home and, of course, the ongoing COVID-19 pandemic. Each of those headlines presents challenges to any company's mission and they certainly will to Mid Penn's.

We are cautiously optimistic, however, that the successes we have had in transforming this company into the strong financial institution it is today will continue to help us navigate these and any subsequent challenging times for the benefit of our shareholders, our customers, our employees and our communities.

We are now in Year 14 of delivering upon that mission and we remain committed to doing so once again in 2022.

Thank you for your investment in Mid Penn and taking the time to read this letter.

RORY G. RITRIEVI

Chair, President, and Chief Executive Officer

ACCOMPLISHMENTS

2021 was a year of continued growth for your company. Beginning in January, we responded to the needs of the small business community by providing forgivable loans through the SBA's Paycheck Protection Program. We showed customers, both new and old, that our service and our commitment is second to none. This helped us to grow loans and deposits organically as our customers expanded their relationships beyond PPP loans. We also successfully completed the acquisition of Riverview Financial and its subsidiaries in 2021, adding $1.2 billion to our balance sheet. With the addition of these new markets, we are positioned to continue to expand in the future, providing the best community banking experience to our new neighbors and customers.

BEST SMALL BANK IN PENNSYLVANIA

Newsweek magazine evaluates more than 2,500 FDIC-insured financial institutions annually on 30+ criteria and named Mid Penn the Best Small Bank in Pennsylvania on their America's Best Banks list for 2022.

$475MM

ORGANIC DEPOSIT GROWTH

$191MM

ORGANIC LOAN GROWTH

$75MM

Completed a public offering of 2.9 million shares of common stock with **PROCEEDS TOTALING** $75 million before underwriting discounts and offering expenses.

49%

TOTAL SHAREHOLDER RETURN
including dividends and stock appreciation

$0.84

PAID CASH DIVIDENDS
per common share

PAYCHECK PROTECTION PROGRAM

2,800+
BUSINESSES ASSISTED

$370MM+
PPP LOANS DELIVERED

In the first six months of 2021, we helped more than 2,800 small businesses and their owners by originating more than $370 million in Paycheck Protection Program Loans.

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, 2021

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	**25-1666413**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
2407 Park Drive **Harrisburg, Pennsylvania**	**17110**
(Address of Principal Executive Offices)	*(Zip Code)*

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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	☐	Accelerated Filer	☒
Non-accelerated Filer	☐	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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 $27.45 per share, as reported by The NASDAQ Stock Market LLC ("NASDAQ"), on June 30, 2021, the last business day of the registrant's most recently completed second quarter was approximately $269,896,000.

As of March 1, 2022, the registrant had 15,957,830 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 2022 Annual Meeting of Shareholders is incorporated herein by reference in partial response to Part III, hereof.

Auditor Firm ID: 49	Auditor Name: RSM US LLP	Auditor Location: Philadelphia, PA USA
Auditor Firm ID: 243	Auditor Name: BDO USA LLP	Auditor Location: Philadelphia, PA USA

MID PENN BANCORP, INC.

FORM 10-K
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EXHIBITS

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 August 1991 in the Commonwealth of Pennsylvania. 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, 2021, 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 the Bank and its 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, 2021, Mid Penn had total consolidated assets of $4,689,425,000 with total deposits of $4,002,016,000 and total shareholders' equity of $490,076,000. 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 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 legal headquarters are located at 2407 Park Drive, Harrisburg, Pennsylvania 17110 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". During February 2021, Mid Penn announced the rebranding of branches and offices in its First Priority Bank Division in southeastern Pennsylvania to the Mid Penn Bank brand.

On November 30, 2021, Mid Penn completed its acquisition of Riverview Financial Corporation ("Riverview"), the holding company for Riverview Bank, through the merger of Riverview with and into Mid Penn (the "Riverview Merger"). In connection with the Merger, Riverview Bank was merged with and into the Bank, with the Bank as the surviving institution. The Riverview merger resulted in the addition of twenty-three community banking offices and three limited purpose offices across Western Pennsylvania.

Additional information related to the Riverview merger can be found in Note 4 to the Consolidated Financial Statements contained in Item 8 of this report.

MID PENN BANCORP, INC.

As of December 31, 2021, the Bank had sixty full-service retail banking locations in the Pennsylvania counties of Berks, Blair, Bucks, Centre, Chester, Clearfield, Cumberland, Dauphin, Fayette, Huntingdon, Lancaster, Lehigh, Luzerne, Lycoming, Montgomery, Northumberland, Perry, Schuylkill and Westmoreland. Mid Penn has no branches or offices located outside of the Commonwealth of Pennsylvania. On December 7, 2021, in connection with the Riverview merger, and as part of a Retail Network Optimization Plan adopted by Mid Penn Bank's Board of Directors, the Corporation announced it intends to close sixteen of its retail locations throughout its expanded footprint. The branch closures occurred on or about March 4, 2022. As a result of this announcement, and in accordance with GAAP, Mid Penn has reclassified the assets associated with these retail locations to held for sale as of December 31, 2021. As of the date of this report, the Bank has forty-four full service offices.

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 sixty full-service retail banking properties, one loan production office, one wealth management 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 nineteen 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 prompt 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.

Human Capital

The majority of 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, 2021, the Bank had 567 full-time and 52 part-time employees. Additionally, Mid Penn's nonbank subsidiaries employed 6 full-time employees as of December 31, 2021. The Corporation and its employees are not subject to a collective bargaining agreement and the Corporation believes it enjoys good relations with its employees.

In 2020 Mid Penn entered into the American Banker "Best Banks to Work For" contest. 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.

Diversity & Inclusion

The Company believes that a diverse and inclusive workforce fosters an environment where everyone can thrive and be successful. As of December 31, 2021 approximately 70 of our workforce is female. We encourage membership within our Women's Leadership Network which serves as an avenue for our female employees at all levels to make connections, share knowledge and experiences, learn about leadership, and enrich their professional development journeys.

Training and Development

We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion within the organization. The training and development of our employees is a priority, and we continue to invest in tools, training programs and continuing education to help our employees build their knowledge, skills and experience. We provide in-house training to employees on topics including leadership and professional development, cybersecurity, risk and compliance and technology.

Safety, Health and Welfare

The safety, health and wellness of our employees is a top priority. During the COVID-19 pandemic, we continued to responsibly serve the needs of our customers while prioritizing the health and safety of our employees. 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 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.

Benefits

On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance. Our benefits package includes health care coverage, retirement benefits, life and disability insurance, wellness programs, paid time off and leave policies.

Retention

Employee retention helps us operate efficiently and offers continuity to our customers and the community. We believe our concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable benefits aids in retention of our employees.

Community Involvement

Mid Penn Bank is dedicated to supporting charitable community organizations through corporate donations, employee volunteerism and fundraising. In 2021, we increased our corporate contributions by sixteen percent and our employees demonstrated their commitment to our communities by personally giving $50,000 to charitable organizations within Mid Penn's footprint through our Dress Down Friday program.

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 robust 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, 2021, 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 between the amortized cost and fair value of available-for-sale investment securities, or unrealized loss, amounted to $322,000 as of December 31, 2021. 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 $254,000. No investments in either the held-to-maturity portfolio or available-for-sale portfolio as of December 31, 2021 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 23, *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 funding that Mid Penn obtained during 2020 and 2021 from the Federal Reserve through the Paycheck Protection Program Liquidity Facility ("PPPLF"). Under the PPPLF, the Federal Reserve supplied 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 were required to be repaid to the Federal Reserve immediately after the specific PPP loans collateralizing the related draws were repaid to the Bank. As of December 31, 2021, Mid Penn had repaid the entire balance of PPPLF borrowings with no outstanding balance remaining.

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.

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, 2021, 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 conducts 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, 2021, 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, 2021, 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, 2021, 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 18, *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.

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.

	Effective January 1, 2019
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 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 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 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, 2021, 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, 2021, 2020, and 2019.

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.

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 the Corporation 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.

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

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020, and extended by the signing of the Consolidated Appropriations Act, 2021 into law on December 27, 2020, and further extended to May 31, 2021 by the PPP Extension Act of 2021. 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. Mid Penn has been a significant participating lender under the PPP during both 2020 and 2021. 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 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. As of December 31, 2021, Mid Penn had received $38,880,000 of nonrefundable loan processing fees related to the loans disbursed as a result of Mid Penn's PPP lending activities, consisting of (i) $20,883,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $17,997,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2021. In addition to receiving and deferring the processing fees, Mid Penn recorded and deferred related loan origination costs, and in accordance with ASC 310-20, Receivables—Nonrefundable Fees and Other Costs, the processing fees and loan origination costs are being amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of each respective loan.

As of December 31, 2021, Mid Penn had $3,811,000 of PPP deferred loan processing fees not yet realized as income, consisting of (i) $27,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $3,784,000 of loan processing fees received related to PPP loans funded during the first half of 2021. Comparatively, as of December 31, 2020, Mid Penn had $7,746,000 of PPP deferred loan processing fees not yet realized as income, all resulting from PPP loans funded during the year ended December 31, 2020. Mid Penn recognized $21,954,000 of PPP processing fees during the year ended December 31, 2021, compared to $13,137,000 of PPP processing fees for the same period of 2020. PPP processing fees are reflected within interest and fees on loans and leases on the Consolidated Statements of Income.

As of December 31, 2021, Mid Penn had $111,286,000 of net PPP loans outstanding ($115,097,000 of gross PPP loans, net of deferred PPP processing fees of $3,811,000). Comparatively, 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). All PPP loans are recorded in the commercial and industrial loan portfolio classification.

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 17, *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.

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 the Corporation, 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.

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.

Mid Penn's headquarters are located at 2407 Park Drive, Harrisburg, Pennsylvania 17110, and its telephone number is 1-866-642-7736. Mid Penn's website is **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 is subject to credit risk.

As of December 31, 2021, approximately 86 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.

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

The London Interbank Offered Rate ("LIBOR") and certain other "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences, which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. Since then, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fall-back language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. On November 30, 2020, ICE Benchmark Administration Limited ("IBA"), the benchmark administrator for the U.S. Dollar ("USD") LIBOR announced a proposal to extend the publication of the most commonly used USD LIBOR settings until June 30, 2023.

The administrator for LIBOR announced on March 5, 2021 that it will permanently cease to publish most LIBOR settings beginning on January 1, 2022 and cease to publish the overnight, one-month, three-month, six-month and 12-month USD LIBOR settings on July 1, 2023. Accordingly, the FCA has stated that is does not intend to persuade or compel banks to submit to LIBOR after such respective dates. Until such time, however, FCA panel banks have agreed to continue to support LIBOR.

Banking regulators issued guidance strongly encouraging banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. There can be no assurances on which benchmark rate(s) may replace LIBOR or how LIBOR will be determined for purposes of financial instruments that are currently referencing LIBOR when it ceases to exist.

The discontinuance of LIBOR may result in uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing documents, may adversely affect the value of Mid Penn's floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates and may also increase operational and other risks to Mid Penn and the industry, including reputational and litigation risk.

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 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 ongoing COVID-19 pandemic and measures taken to limit its spread could adversely affect Mid Penn's business, financial condition, and results of operations.

The COVID-19 pandemic has negatively impacted economic and commercial activity and financial markets. Measures to contain the virus, such as stay-at-home orders, travel restrictions, closure of non-essential businesses, occupancy limitations and social distancing requirements, resulted in significant business and operational disruptions, including business closures, and mass layoffs and furloughs. Though most restrictions have been lifted or eased and consumer and business spending and unemployment levels have improved significantly, the economic recovery has been uneven, with industries such as travel, entertainment, hospitality and food service lagging, and, as of December 31, 2021, many companies have not returned workers to their offices. Supply chain disruptions precipitated by the abrupt economic slowdown have contributed to increased costs, lost revenue, and inflationary pressures for many segments of the economy. Further, a significant number of workers left their jobs during the COVID-19 pandemic, leading to wage inflation in many industries as businesses attempt to fill vacant positions.

The extent to which the COVID-19 pandemic will ultimately affect our business is unknown and will depend, among other things, on the duration of the pandemic, the actions undertaken by national, state and local governments and health officials to contain the virus or mitigate its effects, the safety and effectiveness of the vaccines that have been developed and the extent to which they are accepted by the public, the development of effective therapies, and how quickly and to what extent economic conditions improve and normal business and operating conditions resume.

The continuation of the COVID-19 pandemic and the efforts to contain the virus, including effects of economic stimulus, and the exhaustion or expiration of stimulus benefits, could:

- reduce the demand for loans and other financial services;
- result in increases in loan delinquencies, problem assets, and foreclosures;
- cause the value of collateral for loans, especially real estate, to decline in value;
- reduce the availability and productivity of our employees;
- cause our vendors and counterparties to be unable to meet existing obligations to us;
- negatively impact the business and operations of third-party service providers that perform critical services for our business;
- cause the value of our securities portfolio to decline; and
- cause the net worth and liquidity of loan guarantors to decline, impairing their ability to honor commitments to us.

Any one or a combination of the above events could have a material, adverse effect on Mid Penn's business, financial condition, and results of operations.

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 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.

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

The Corporation, 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 is subject to environmental, social and governance ("ESG") risks that could adversely affect our results of operations, reputation, and the market price of our securities.

Mid Penn is subject to a variety of risks arising from ESG matters. ESG matters include environmental and climate change activism, diversity activism, and racial and social justice issues. Such matters may involve our personnel, customers, or third parties with whom we do business. Risks arising from ESG matters may adversely affect, among other things, our reputation and the market price of our securities. Further, Mid Penn may be exposed to negative publicity based on the identity and activities of our shareholders, those to whom we lend and with which we otherwise do business, and the public's view of the approach and requirements of our state or federal regulators, customers, and business partners with respect to ESG matters. Any such negative publicity could arise through traditional media or electronic social media platforms. Mid Penn's relationships and reputation with our existing and prospective customers and third parties with which we do business could be damaged if we were to become the subject of any such negative publicity. This, in turn, could have an adverse effect on Mid Penn's ability to attract and retain customers and employees and could have a negative impact on the market price for our securities.

Certain investors have begun to consider the steps taken and resources allocated by financial institutions and other commercial organizations with respect to ESG matters when making investment decisions. Certain investors are beginning to incorporate the business risks of ESG regulation and activism and the adequacy of companies' responses to these into their investment decisions. These shifts in investing priorities may result in adverse effects on the market price of Mid Penn's securities.

The U.S. Congress, state legislatures and federal and state regulatory agencies, as well as certain stock exchanges, continue to propose numerous initiatives related to ESG matters. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting practices, and credit portfolio concentrations management practices. The lack of empirical data surrounding the credit and other financial risks posed by ESG regulation and activism render it impossible to predict how specifically ESG matters may impact Mid Penn's financial condition and results of operations.

Federal and state banking regulators and supervisory authorities, investors and other stakeholders have increasingly viewed financial institutions as a tool to effect ESG activism, both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of ESG matters. Given that ESG matters could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from activism, Mid Penn faces increasing focus on our resilience to ESG risks. Ongoing legislative or regulatory uncertainties and changes regarding ESG risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs.

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. Additionally, on November 30, 2021, Mid Penn completed its acquisition of Riverview Financial Corporation. 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, First Priority, and Riverview 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, First Priority, and Riverview 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, First Priority, and Riverview mergers 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.

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 the Corporation 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.

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. The Corporation 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Bank owns a building in Harrisburg, Pennsylvania, located at 2407 Park Drive, which serves as the Corporation's headquarters. The Bank also owns a building in Millersburg, Pennsylvania, located at 349 Union Street, which serves as the Bank's headquarters. Additionally, the Bank owns one building in Halifax, Pennsylvania that serves as an operational support facility and one building in Harrisburg, Pennsylvania that serves as corporate administrative and operational support offices. Administrative space is also leased in Pottsville, Lancaster, and Chambersburg, Pennsylvania. As of December 31, 2021, the Bank's retail office network was comprised of sixty full-service retail locations as detailed in the table below.

	Owned	Leased	Total
Pennsylvania Locations (by County)			
Retail Banking			
Berks	1	5	6
Blair	1	1	2
Bucks	1	—	1
Centre	—	1	1
Chester	1	—	1
Clearfield	5	—	5
Cumberland	—	3	3
Dauphin	13	2	15
Fayette	1	—	1
Huntington	2	—	2
Lancaster	—	3	3
Lehigh	1	—	1
Luzerne	—	2	2
Lycoming	1	—	1
Montgomery	—	1	1
Northumberland	—	1	1
Perry	1	1	2
Schuylkill	6	3	9
Westmoreland	3	—	3
	37	23	60

On March 4, 2022, the Bank closed sixteen offices, which were located in Berks, Blair, Centre, Clearfield, Dauphin, Huntington, Lancaster, Lehigh, Lycoming, Northumberland, Perry, Schuylkill, and Westmoreland counties.

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 8, *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, 2022, there were approximately 4,187 shareholders of record of Mid Penn's common stock.

Dividends: In 2021, cash dividends of $0.84 were paid, while cash dividends of $0.79 were declared. Cash dividends of $0.77 were paid and $0.82 were declared in 2020. In 2019, cash dividends of $0.79 were paid, while cash dividends of $0.82 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 10, 2022.

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**

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 2.9% of the issued shares based on Mid Penn's closing stock price and shares issued as of December 31, 2021. 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, 2022, unless otherwise extended by Mid Penn's Board of Directors.

A summary of treasury stock activity during the year ended December 31, 2021 is presented below.

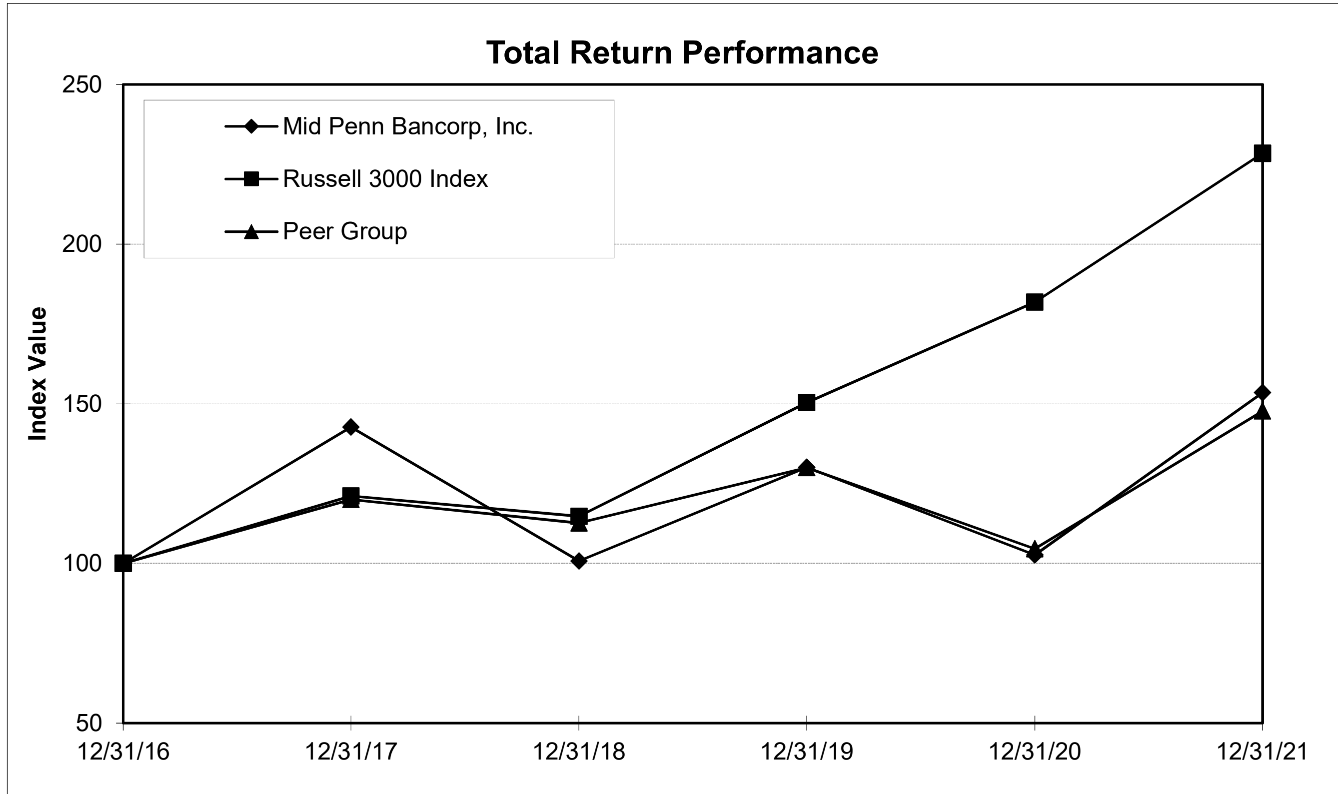
Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2021	—	$ —	92,652	$ 13,205,325
February 1 - February 28, 2021	5,800	$ 22.09	98,452	$ 13,077,211
March 1 - March 31, 2021	—	$ —	98,452	$ 13,077,211
April 1 - April 30, 2021	—	$ —	98,452	$ 13,077,211
May 1 - May 31, 2021	—	$ —	98,452	$ 13,077,211
June 1 - June 30, 2021	—	$ —	98,452	$ 13,077,211
July 1 - July 31, 2021	—	$ —	98,452	$ 13,077,211
August 1 - August 31, 2021	—	$ —	98,452	$ 13,077,211
September 1 - September 30, 2021	—	$ —	98,452	$ 13,077,211
October 1 - October 31, 2021	—	$ —	98,452	$ 13,077,211
November 1 - November 30, 2021	—	$ —	98,452	$ 13,077,211
December 1 - December 31, 2021	—	$ —	98,452	$ 13,077,211

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, 2021. The stock performance graph assumes that $100 was invested on December 31, 2016, and the cumulative return is measured as of each subsequent fiscal year end.



Index	Period Ending 12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Mid Penn Bancorp, Inc.	100.00	142.73	100.72	130.11	102.65	153.49
Russell 3000	100.00	121.13	114.78	150.39	181.80	228.45
Mid-Atlantic Custom Peer Group*	100.00	120.06	112.66	130.01	104.58	147.72

* *Peer Group consists of Mid-Atlantic commercial banks with assets between $2 billion and $4 billion as of September 30, 2021.*

Source: S&P Global Market Intelligence
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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.

ITEM 6. [RESERVED]

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;
- 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, labilities, 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;
- acts of war, terrorism, or global military conflict;
- supply chain disruption; 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 from the view of management 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 2021, compared to 2020 and 2019, in general, have been materially impacted by the acquisition of Riverview Financial Corporation, which closed on November 30, 2021. For comparative purposes, some 2020 and 2019 balances have been reclassified to conform to the 2021 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

2021 versus 2020

As noted above, the comparability of the results of operations for the years ended 2021 and 2020, in general, have been materially impacted by the acquisition of Riverview, which closed on November 30, 2021.

Mid Penn's net income to common shareholders (earnings) for the year ended December 31, 2021 was $29,319,000 or $2.71 per common share basic and diluted, compared to earnings of $26,209,000 or $3.11 per common share basic and $3.10 per share diluted for the year ended December 31, 2020. The results for the year ended December 31, 2021 included the recognition of $21,954,000 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, 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 twelve months ended December 31, 2021 also include merger and acquisition expenses of $3,067,000 resulting from the Riverview merger, which was announced on June 30, 2021 and legally closed on November 30, 2021. Additionally, during the fourth quarter of 2021, Mid Penn recognized non-recurring post-acquisition restructuring expenses totaling $9,880,000 consisting of (i) $2,292,000 related to branch closures as a result of the recently announced Retail Network Optimization Plan, and (ii) $7,588,000 of termination fees and severance costs in connection with the Riverview acquisition. Mid Penn also recognized other period costs related to the merger of $310,000.

Total assets of Mid Penn were $4,689,425,000 as of December 31, 2021, reflecting an increase of $1,690,477,000 or 56 percent compared to total assets of $2,998,948,000 as of December 31, 2020. The majority of this increase reflects the assets acquired as a result of the Riverview merger on November 30, 2021 totaling $1,272,921,000.

Total loans as of December 31, 2021 were $3,104,396,000 compared to $2,384,041,000 as of December 31, 2020, an increase of $720,355,000 since year-end 2020. This significant increase was driven by the Riverview acquisition. As of December 31, 2021, the outstanding balance of Riverview acquired loans was $811,038,000, net of purchase accounting adjustments. Total loans were also significantly impacted by both (i) organic loan growth within Mid Penn's legacy markets of $191,245,000 equating to 9 percent organic growth since December 31, 2020, less (ii) net forgiveness of PPP loans originated by Mid Penn of $281,928,000. Organic loan growth occurred primarily within Mid Penn's commercial real estate and commercial and industrial financing loan portfolios.

Total deposits increased $1,527,436,000 or 62 percent, from $2,474,580,000 at December 31, 2020, to $4,002,016,000 at December 31, 2021. The increase in total deposits since year-end 2020 was attributable primarily to the balance of deposits assumed through the acquisition of Riverview totaling $1,052,435,000 as of December 31, 2021, net of purchase accounting adjustments. Organic deposit growth of $475,436,000 or 19 percent since December 31, 2020 was driven by significant increases in noninterest-bearing, interest-bearing, and money market deposits, primarily due to both expanded cash management and commercial deposit account relationships, and new deposits established as a result of Mid Penn's PPP loan funding activities.

Shareholders' equity increased by $234,388,000 or 92 percent from $255,688,000 as of December 31, 2020 to $490,076,000 as of December 31, 2021, primarily due to both (i) the issuance of 4,519,776 shares of Mid Penn common stock on November 30, 2021, in connection with the acquisition of Riverview, and, (ii) the completion of the May 4, 2021 public offering of 2,990,000 shares of common stock at a price of $25.00 per share, with the aggregate gross proceeds of the offering totaling $74,750,000. The net proceeds of the offering after deducting the underwriting discount and offering expenses were $70,238,000. The additional shares issued as a result of the Riverview acquisition and the public offering significantly impacted the weighted average number of shares outstanding used for both the fourth quarter of 2021 and year-to-date 2021 earnings per share calculations. Regulatory capital ratios for both Mid Penn and its banking subsidiary exceeded regulatory "well-capitalized" levels at both December 31, 2021 and December 31, 2020.

Mid Penn's return on average shareholders' equity ("ROE"), a widely recognized performance indicator in the financial industry, was 8.91% in 2021 and 10.76% in 2020. Return on average assets ("ROA"), another performance indicator, was 0.83% in 2021 and 0.95% in 2020.

For the year ended December 31, 2021, Mid Penn's tax-equivalent net interest margin was 3.30 percent versus 3.48 percent during the year ended December 31, 2020. The overall decrease in net interest margin for the year ended December 31, 2021 was driven by the full-year impact to loan yields as a result of market rate cuts initiated by the Federal Open Market Committee ("FOMC") in March 2020 in response to the COVID-19 pandemic. The impact to loan yields was favorably offset by a decrease in the cost of funds, driven by deposit rate decreases in response to the above-mentioned market rate cuts. Additionally, the favorable impacts of the recognition of $21,954,000 of PPP fees within interest income, as well as volume-driven increases in interest income due to higher average balances of loans and federal funds sold, helped to lessen the impact of the lower loan yield on net interest margin. 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, 2021 was $14,597,000 or 0.47 percent of total loans as compared to $13,382,000 or 0.56 percent at December 31, 2020. Mid Penn had net loan charge-offs of $1,730,000 and $333,000 for the years ended December 31, 2021 and 2020, respectively. Further discussion of these items can be found in the Provision for Loan and Lease Losses section below.

Total nonperforming assets were $10,497,000 at December 31, 2021, a decrease compared to nonperforming assets of $15,644,000 at December 31, 2020. 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 $374,368,000 or 8.06 percent, and Total Capital (to risk weighted assets) of $452,527,000 or 14.6 percent, at December 31, 2021, 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.

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 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.

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

(Dollars in thousands)	Income and Rates on a Taxable Equivalent Basis for Years Ended								
	December 31, 2021			December 31, 2020			December 31, 2019		
	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates
ASSETS:									
Interest Bearing Balances	$ 15,916	$ 13	0.08%	$ 3,593	$ 39	1.09%	$ 5,236	$ 100	1.91%
Investment Securities:									
Taxable	124,692	2,257	1.81%	112,636	2,524	2.24%	149,187	3,442	2.31%
Tax-Exempt	57,361	1,420 (a)	2.48%	49,410	1,276 (a)	2.58%	89,011	2,590 (a)	2.91%
Total Securities	182,053	3,677	2.02%	162,046	3,800	2.35%	238,198	6,032	2.53%
Federal Funds Sold	567,647	809	0.14%	135,243	497	0.37%	63,436	1,222	1.93%
Loans and Leases, Net	2,539,074	119,082 (b)	4.69%	2,247,002	103,871 (b)	4.62%	1,678,000	88,398 (b)	5.27%
Restricted Investment in Bank Stocks	7,351	345	4.69%	6,554	360	5.49%	5,964	424	7.11%
Total Earning Assets	3,312,041	123,926	3.74%	2,554,438	108,567	4.25%	1,990,834	96,176	4.83%
Cash and Due from Banks	38,518			33,485			30,134		
Other Assets	169,946			170,506			145,996		
Total Assets	$3,520,504			$2,758,429			$2,166,964		
LIABILITIES & SHAREHOLDERS' EQUITY:									
Interest-bearing Demand	$ 688,595	$ 2,330	0.34%	$ 538,385	$ 3,423	0.64%	$ 415,359	$ 4,331	1.04%
Money Market	842,107	3,157	0.37%	605,552	4,072	0.67%	443,248	7,355	1.66%
Savings	218,546	237	0.11%	186,132	346	0.19%	187,927	641	0.34%
Time	451,277	5,603	1.24%	443,607	8,558	1.93%	471,241	9,223	1.96%
Total Interest-bearing Deposits	2,200,525	11,327	0.51%	1,773,676	16,399	0.92%	1,517,775	21,550	1.42%
Federal Funds Purchased	—	—	0.00%	—	—	0.00%	3,739	111	2.97%
Short-term Borrowings	153,850	539	0.35%	106,233	371	0.35%	12,818	359	2.80%
Long-term Debt	75,483	831	1.10%	66,609	999	1.50%	54,634	1,580	2.89%
Subordinated Debt	47,116	2,057	4.37%	38,740	1,958	5.05%	27,073	1,564	5.78%
Total Interest-bearing Liabilities	2,476,974	14,754	0.60%	1,985,258	19,727	0.99%	1,616,039	25,164	1.56%
Noninterest-bearing Demand	684,022			505,094			296,872		
Other Liabilities	30,433			24,435			23,325		
Shareholders' Equity	329,075			243,642			230,728		
Total Liabilities & Shareholders' Equity	$3,520,504			$2,758,429			$2,166,964		
Net Interest Income (taxable equivalent basis)		$109,172			$ 88,840			$71,012	
Taxable Equivalent Adjustment		(604)			(632)			(864)	
Net Interest Income		$108,568			$ 88,208			$70,148	
Total Yield on Earning Assets			3.74%			4.25%			4.83%
Rate on Supporting Liabilities			0.60%			0.99%			1.56%
Average Interest Spread			3.15%			3.26%			3.27%
Net Interest Margin			3.30%			3.48%			3.57%

(a) Includes tax equivalent adjustments (calculated using statutory rates of 21 percent) of $298,000, $268,000, and $544,000 for the years 2021, 2020, and 2019, respectively, resulting from tax-free municipal securities in the investment portfolio.

(b) Includes tax equivalent adjustments (calculated using statutory rates of 21 percent) of $306,000, $364,000, and $320,000 for the years 2021, 2020, and 2019, 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 a statutory corporate tax rate of 21 percent for the years ended December 31, 2021, 2020 and 2019. For purposes of calculating loan yields, average loan balances include nonaccrual loans. Loan fees of $25,474,000, $15,795,000 and $2,153,000 are included with loan interest income in Table 1 above for the years ended December 31, 2021, 2020, and 2019, respectively. During the years ended December 31, 2021 and 2020, Mid Penn recognized $21,954,000 and $13,137,000 of PPP fees, respectively, which are included in loan fees. Similar fees were not recognized during the year ended December 31, 2019.

TABLE 2: VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Dollars in thousands on a Taxable Equivalent Basis)	2021 Compared to 2020 Increase (Decrease) Due to Change In:			2020 Compared to 2019 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
INTEREST INCOME:						
Interest Bearing Balances	$ 134	$ (160)	$ (26)	$ (31)	$ (30)	$ (61)
Investment Securities:						
Taxable	270	(537)	(267)	(843)	(75)	(918)
Tax-Exempt	205	(61)	144	(1,152)	(162)	(1,314)
Total Securities	475	(598)	(123)	(1,995)	(237)	(2,232)
Federal Funds Sold	1,589	(1,277)	312	1,383	(2,108)	(725)
Loans and Leases, Net	13,501	1,710	15,211	29,975	(14,502)	15,473
Restricted Investment Bank Stocks	44	(59)	(15)	42	(106)	(64)
Total Interest Income	15,743	(384)	15,359	29,374	(16,983)	12,391
INTEREST EXPENSE:						
Interest Bearing Deposits:						
Interest Bearing Demand	955	(2,048)	(1,093)	1,283	(2,191)	(908)
Money Market	1,591	(2,506)	(915)	2,693	(5,976)	(3,283)
Savings	60	(169)	(109)	(6)	(289)	(295)
Time	148	(3,103)	(2,955)	(541)	(124)	(665)
Total Interest Bearing Deposits	2,754	(7,826)	(5,072)	3,429	(8,580)	(5,151)
Federal Funds Purchased	—	—	—	—	—	—
Short-term Borrowings	166	2	168	2,546	(2,645)	(99)
Long-term Debt	133	(301)	(168)	346	(927)	(581)
Subordinated Debt	423	(324)	99	674	(280)	394
Total Interest Expense	3,476	(8,449)	(4,973)	6,995	(12,432)	(5,437)
NET INTEREST INCOME	$ 12,267	$ 8,065	$ 20,332	$ 22,379	$ (4,551)	$ 17,828

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, 2021, 2020 and 2019.

For the year ended December 31, 2021, Mid Penn's tax-equivalent net interest margin was 3.30 percent versus 3.48 percent for the year ended December 31, 2020 and 3.57 percent for the year ended December 31, 2019. During 2021, taxable equivalent net interest income increased $20,332,000 or 23 percent compared to 2020. During 2020, taxable equivalent net interest income increased $17,828,000 or 25 percent compared to 2019. The primary sources of the increased taxable equivalent net interest income for the 2021 year included (i) $6,452,000 of interest income from core loan growth, (ii) reduced interest expense due to a lower cost of deposits, and (iii) the recognition of $21,954,000 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 3.74% in 2021, from 4.25% in 2020 and 4.83% in 2019. 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) the full-year impact to loan yields as a result of market rate cuts initiated by the Federal Open Market Committee ("FOMC") in March 2020 in response to the COVID-19 pandemic.

Interest expense for 2021 decreased by $4,973,000 or 25 percent when compared to 2020. Interest expense for 2020 decreased by $5,437,000 or 22 percent when compared to 2019. The cost of interest-bearing liabilities decreased to 0.60 percent in 2021 from 0.99 percent in 2020 and 1.56 percent in 2019. The decrease in the cost of interest-bearing liabilities in 2021 was primarily due to the deposit rate decreases made during the year, including the full-year impact of the lower deposit rates executed 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, 2020 to December 31, 2021. For the year ended December 31, 2021, the provision for loan and lease losses was $2,945,000, a decrease of 30 percent compared to a provision for loan losses of $4,200,000 for the year ended December 31, 2020. 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, which must be adopted on January 1, 2023. The allowance for loan and lease losses as a percentage of total loans was 0.47 percent at December 31, 2021 compared to 0.56 percent at December 31, 2020 and 0.54 percent at December 31, 2019. The ratios as of December 31, 2021, were affected by the addition of the Riverview acquired loans, which, in accordance with purchase accounting principles, were recorded at fair value at the time of acquisition with no related allowance for loan losses.

For the years ended December 31, 2021 and December 31, 2020, Mid Penn had net charge-offs of $1,729,000 and $333,000, respectively, compared to net recoveries of $272,000 during the same period of 2019. Loans charged off during 2021 were comprised of four commercial real estate, construction, and land development loans totaling $1,066,000, five commercial and industrial loans for $866,000, three mortgage loan for $13,000, four consumer loans to unrelated borrowers totaling $8,000, and $34,000 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, as well as net charge-offs by loan category, are presented in Table 3.

TABLE 3: ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

(Dollars in thousands)

	Years ended December 31,				
	2021	2020	2019	2018	2017
Balance, beginning of year	$ 13,382	$ 9,515	$ 8,397	$ 7,606	$ 7,183
Loans and leases charged off:					
Commercial and industrial	866	45	217	142	25
Commercial real estate	1,044	258	60	64	322
Commercial real estate - construction	23	7	40	40	—
Residential mortgage	13	4	29	60	102
Home equity	—	58	18	185	20
Consumer	42	—	64	37	28
Total loans and leases charged off	1,988	372	428	528	497
Recoveries on loans and leases previously charged off:					
Commercial and industrial	13	3	45	1	26
Commercial real estate	207	1	82	808	553
Commercial real estate - construction	8	2	—	—	—
Residential mortgage	11	3	9	—	4
Home equity	—	3	5	1	5
Consumer	19	27	15	9	7
Total loans and leases recovered	258	39	156	819	595
Net charge-offs (recoveries)	1,730	333	272	(291)	(98)
Provision for loan and lease losses	2,945	4,200	1,390	500	325
Balance, end of year	$ 14,597	$ 13,382	$ 9,515	$ 8,397	$ 7,606

RATIO OF NET CHARGE-OFFS AND RECOVERIES BY LOAN CATEGORY

	Years ended December 31,				
	2021	2020	2019	2018	2017
Commercial and industrial	0.12%	0.01%	0.05%	0.06%	0.00%
Commercial real estate	0.07%	0.03%	0.00%	-0.11%	-0.05%
Commercial real estate - construction	0.00%	0.00%	0.02%	0.04%	0.00%
Residential mortgage	0.00%	0.00%	0.01%	0.03%	0.10%
Home equity	0.00%	0.08%	0.02%	0.33%	0.04%
Consumer	0.26%	-0.36%	0.54%	0.39%	0.61%
Total ratio of net charge-offs (recoveries) during the year to total average loans outstanding, net of unearned discounts	0.07%	0.01%	0.02%	-0.02%	-0.01%

TABLE 4: NONINTEREST INCOME

(Dollars in thousands)

	Years ended December 31,		
	2021	**2020**	**2019**
Income from fiduciary activities	$ 2,494	$ 1,694	$ 1,416
Service charges on deposits	991	637	884
Net gain on sales of investment securities	79	467	1,878
Earnings from cash surrender value of life insurance	358	301	314
Mortgage banking income	10,314	9,682	3,771
ATM debit card interchange income	2,688	1,960	1,594
Merchant services income	431	392	413
Net gain on sales of SBA loans	969	442	831
Other income	3,209	2,333	1,520
Total Noninterest Income	$ 21,533	$ 17,908	$ 12,621

Noninterest Income

2021 versus 2020

For the year ended December 31, 2021, noninterest income totaled $21,533,000, an increase of $3,625,000 or 20 percent, compared to noninterest income of $17,908,000 for the year ended December 31, 2020.

Mortgage banking income was $10,314,000 for the year ended December 31, 2021, an increase of $632,000 or 6 percent, compared to the year ended December 31, 2020. Mortgage interest rates declined as a result of market responses to the pandemic, and remained low in the twelve months since December 31, 2020, resulting in significantly increased mortgage loan originations and secondary-market loan sales and gains.

Income from fiduciary and wealth management activities was $2,494,000 for the year ended December 31, 2021, an increase of $800,000 or 47 percent, compared to fiduciary income of $1,694,000 for the same period in 2020. These additional revenues were attributed to favorable growth in trust assets under management and increased sales of retail investment products.

ATM debit card interchange income was $2,688,000 for the year ended December 31, 2021, an increase of $728,000 or 37 percent compared to interchange income of $1,960,000 for 2020. The increase resulted from increasing card-based transaction usage across our expanding checking account customer base.

Service charges on deposits were $991,000 during the year ended December 31, 2021, reflecting an increase of $354,000 or 56 percent when compared to 2020, with this increase being driven primarily by an increase in non-sufficient funds fees and account analysis fees related to the growth in our cash management customer base.

Net gains on sales of SBA loans were $969,000 for the year ended December 31, 2021, an increase of $527,000 or 119 percent compared to net gains on sales of SBA loans of $442,000 during 2020. During the first half of 2020, much of the focus of the SBA lending function was on the PPP loan program, resulting in a lower volume of traditional SBA loans being originated in 2020, while the volume of traditional SBA loan originations and sales have generally returned to pre-pandemic levels during the second half of the year ended December 31, 2021.

Other income was $3,209,000 for the year ended December 31, 2021, an increase of $876,000 compared to other income of $2,333,000 for the year ended December 31, 2020. 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.

Net gains on sales of investment securities were $79,000 for the year ended December 31, 2021, a decrease of $388,000 compared to net gains on sales of securities of $467,000 for the year ended December 31, 2020. Sale volume and gains vary from period to period based upon market conditions, as well as investment portfolio and interest rate risk management activities.

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.

TABLE 5: NONINTEREST EXPENSE

(Dollars in thousands)

	Years ended December 31,		
	2021	2020	2019
Salaries and employee benefits	$ 41,711	$ 37,758	$ 32,360
Occupancy expense, net	5,527	5,505	5,352
Equipment expense	3,101	2,910	2,647
Software licensing and utilization	6,332	5,286	4,394
FDIC Assessment	1,888	1,680	839
Legal and professional fees	1,979	1,665	1,679
Charitable contributions qualifying for State tax credits	1,432	1,342	755
Mortgage banking profit-sharing expense	2,571	2,004	—
(Gain) loss on sale/write-down of foreclosed assets	(25)	333	(15)
Intangible amortization	1,180	1,398	1,430
Merger and acquisition expense	3,067	—	—
Post-acquisition restructuring expenses	9,880	—	—
Director fees and benefits expense	1,286	1,109	1,005
ATM debit card processing expense	1,053	819	685
Meals, travel, and lodging expense	968	644	1,036
Pennsylvania Bank Shares tax expense	800	583	777
Marketing and advertising expense	705	542	906
Telephone expense	565	539	609
Insurance	477	368	353
Corporate donations and sponsorships	357	207	401
Investor services	227	200	153
Loan collection costs	262	197	487
OREO expense	34	150	91
Other expenses	5,728	5,338	4,009
Total Noninterest Expense	$ 91,105	$ 70,577	$ 59,953

Noninterest Expense

2021 versus 2020

For the year ended December 31, 2021, noninterest expense totaled $91,105,000, an increase of $20,528,000 or 29 percent, compared to noninterest expense of $70,577,000 for the year ended December 31, 2020. Noninterest expenses incurred as a result of franchise expansion through the Riverview acquisition were the primary sources of the significant increase, with additional non-recurring post acquisition restructuring expenses being incurred in connection with the public announcement on December 7, 2021 of the planned closure and reclassification of certain Mid Penn locations to estimated fair value within assets held for sale, which are discussed in more detail below.

During the year ended December 31, 2021, merger and acquisition expenses were $3,067,000 and included investment banking fees, merger-related legal expenses, and other professional fees for advisory, valuation, and consulting services associated with the acquisition of Riverview. Similar expenses were not recognized in 2020. Additionally, during the fourth quarter of 2021, Mid Penn recognized certain post-acquisition restructuring costs totaling $9,880,000. This total is comprised of (i) $7,588,000 of termination fees and severance costs, and (ii) $2,292,000 related to the December 7, 2021 announcement of a Retail Network Optimization Plan under which the Bank announced its intention to close sixteen of its retail locations throughout its expanded footprint. The branch closures occurred on or about March 4, 2022. As a result of this announcement, and in accordance with GAAP, Mid Penn has reclassified the assets associated with these retail locations to held for sale totaling $3,907,000 as of December 31, 2021. Mid Penn also recognized other period costs related to the merger of $310,000.

Salaries and employee benefits were $41,711,000 for the year ended December 31, 2021, an increase of $3,953,000 or 10 percent, versus 2020, with the increase primarily attributable to (i) increased mortgage commissions expense commensurate with the significant increases in mortgage loan originations and secondary market sales gains from the mortgage banking group; (ii) increased bonus expense in recognition of our employees and the successes of Mid Penn during the twelve months ended December 31, 2021; (iii) increased medical expenses year-over-year; and (iv) the one-month impact of the salaries and benefits of employees added through the Riverview merger on November 30, 2021.

Software licensing and utilization costs were $6,332,000 for the year ended December 31, 2021, an increase of $1,046,000 or 20 percent compared to $5,286,000 for the year ended December 31, 2020. 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, 2020. Mid Penn continues 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 the increasing complexity of information technology management.

FDIC assessment expense was $1,888,000 for the year ended December 31, 2021, an increase of $208,000 or 12 percent compared to $1,680,000 of FDIC assessment expense recognized during the year ended December 31, 2020. The total base assessment expense increased for 2021 when compared to 2020, primarily due to the significant year-over-year increase in total average assets of the Bank on which the assessment is based.

Legal and professional fees were $1,979,000 for the year ended December 31, 2021, an increase of $314,000 or 19 percent compared to $1,665,000 of legal and professional fees recognized during the year ended December 31, 2020, with this increase being attributable to consulting expenses related to strengthening and enhancing Mid Penn's commercial online banking facility, as well as other information technology and cybersecurity management activities.

Mortgage banking profit-sharing expense totaled $2,571,000, an increase of $567,000 or 28 percent compared to $2,004,000 for year ended December 31, 2020, and related to payments accrued for or made to third-party principals commensurate with the earnings success within the Southeastern Pennsylvania mortgage banking group at Mid Penn.

The gain on the sale of foreclosed assets was $25,000 during the year ended December 31, 2021 compared to a loss on the sale or write-down of foreclosed assets of $333,000 during the year ended December 31, 2020. 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.

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.

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, increased $200,965,000 to $329,257,000 as of December 31, 2021, as compared to $128,292,000 as of December 31, 2020. Mid Penn's total available-for-sale securities portfolio increased $57,114,000 from $5,748,000 at December 31, 2020 to $62,862,000 at December 31, 2021. Mid Penn initiated a significant volume of purchases during the second half of 2021 in anticipation of pledging requirements as a result of the Riverview merger, as well as 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, 2021, the unrealized loss on available-for-sale investment securities resulted in a decrease in shareholders' equity of $254,000 (comprised of a gross unrealized loss on securities of $322,000 net of a deferred income tax benefit of $68,000). 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). 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. The weighted average yield of the investment securities are calculated on a fully taxable-equivalent basis using a statutory corporate tax rate of 21 percent for the year ended December 31, 2021.

TABLE 6: INVESTMENT MATURITY AND YIELD

(Dollars in thousands)

As of December 31, 2021	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
Available for sale securities, at fair value:					
Mortgage-backed U.S. government agencies	$ —	$ —	$ —	$ 49,480	$ 49,480
State and political subdivision obligations	—	—	302	3,612	3,914
Corporate debt securities	250	2,967	6,251	—	9,468
	$ 250	$ 2,967	$ 6,553	$ 53,092	$ 62,862
Held to maturity securities, at amortized cost:					
U.S. Treasury and U.S. government agencies	$ 3,003	$ 18,425	$ 143,178	$ 12,392	$ 176,998
Mortgage-backed U.S. government agencies	—	2,377	14,245	44,703	61,325
State and political subdivision obligations	962	31,124	36,583	9,567	78,236
Corporate debt securities	—	5,142	8,926	—	14,068
	$ 3,965	$ 57,068	$ 202,932	$ 66,662	$ 330,627

Weighted Average Yields	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
Available for sale securities:					
Mortgage-backed U.S. government agencies	—	—	—	2.04%	2.04%
State and political subdivision obligations	—	—	2.07%	2.48%	2.45%
Corporate debt securities	1.50%	2.25%	3.90%	—	3.32%
	1.50%	2.25%	3.82%	2.07%	2.26%
Held to maturity securities:					
U.S. Treasury and U.S. government agencies	1.50%	1.34%	1.71%	2.04%	1.69%
Mortgage-backed U.S. government agencies	—	3.03%	2.84%	1.95%	2.20%
State and political subdivision obligations	2.89%	2.49%	2.27%	2.36%	2.38%
Corporate debt securities	—	2.42%	3.25%	—	2.95%
	1.14%	2.13%	1.96%	2.03%	1.99%

Loans

Total loans as of December 31, 2021 were $3,104,396,000 compared to $2,384,041,000 as of December 31, 2020, an increase of $720,355,000 since year-end 2020. This significant increase was driven by the Riverview acquisition. As of December 31, 2021, the outstanding balance of Riverview acquired loans was $811,038,000, net of purchase accounting adjustments. Total loans were also significantly impacted by both (i) organic loan growth within Mid Penn's legacy markets of $191,245,000 equating to 9 percent organic growth since December 31, 2020, less (ii) net forgiveness of PPP loans originated by Mid Penn of $281,928,000. Organic loan growth occurred primarily within Mid Penn's commercial real estate and commercial and industrial financing loan portfolios.

At December 31, 2021, loans (net of unearned income) represented 71 percent of earning assets, compared to 85 percent and 86 percent at December 31, 2020 and 2019, 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, Blair, Bucks, Centre, Chester, Clearfield, Cumberland, Dauphin, Fayette, Huntingdon, Lancaster, Lehigh, Luzerne, Lycoming, Montgomery, Northumberland, Perry, 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.

Maturity distribution by contractual maturity date and rate sensitivity information related to the loan portfolio is reflected in Table 7.

TABLE 7: LOAN MATURITY AND INTEREST SENSITIVITY

(Dollars in thousands)

As of December 31, 2021	One Year and Less	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
Commercial and industrial	$ 43,172	$ 240,944	$ 152,900	$ 182,546	$ 619,562
Commercial real estate	54,947	231,206	684,269	697,720	1,668,142
Commercial real estate, construction	86,769	146,429	86,079	53,457	372,734
Residential mortgage	12,064	20,528	116,302	174,329	323,223
Home equity	4,809	15,675	33,351	56,471	110,306
Consumer	1,011	3,041	1,176	5,201	10,429
	$ 202,772	$ 657,823	$1,074,077	$1,169,724	$3,104,396
Rate Sensitivity					
Predetermined rate					
Commercial and industrial	$ 38,313	$ 204,275	$ 34,217	$ 10,367	$ 287,172
Commercial real estate	32,121	171,547	78,699	18,849	301,216
Commercial real estate, construction	38,121	72,977	21,153	3,181	135,432
Residential mortgage	10,251	17,658	66,478	74,075	168,462
Home equity	873	6,546	17,832	5,385	30,636
Consumer	446	2,851	1,148	349	4,794
Floating or adjustable rate					
Commercial and industrial	4,857	36,670	118,681	172,182	332,390
Commercial real estate	13,167	61,827	608,414	683,518	1,366,926
Commercial real estate, construction	58,324	71,284	62,085	45,609	237,302
Residential mortgage	1,813	2,096	45,148	105,704	154,760
Home equity	4,037	9,904	20,194	45,535	79,671
Consumer	449	188	28	4,970	5,635
	$ 202,772	$ 657,823	$1,074,077	$1,169,724	$3,104,396

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 8: NONPERFORMING ASSETS

(Dollars in thousands)

	December 31,				
	2021	**2020**	**2019**	**2018**	**2017**
Nonperforming Assets:					
Nonaccrual loans	$ 9,547	$ 15,047	$ 11,471	$ 10,749	$ 10,575
Accruing troubled debt restructured loans	435	463	490	517	544
Total nonperforming loans	9,982	15,510	11,961	11,266	11,119
Foreclosed real estate	—	134	196	1,017	189
Total nonperforming assets	9,982	15,644	12,157	12,283	11,308
Accruing loans 90 days or more past due	515	—	—	—	—
Total risk elements	$ 10,497	$ 15,644	$ 12,157	$ 12,283	$ 11,308
Nonperforming loans as a percentage of total loans outstanding	0.32%	0.65%	0.68%	0.69%	1.22%
Nonperforming assets as a percentage of total loans outstanding and other real estate	0.32%	0.66%	0.69%	0.76%	1.24%
Nonaccrual loans as a percentage of total loans	0.31%	0.63%	0.65%	0.66%	1.16%
Ratio of allowance for loan losses to nonperforming loans	146.23%	86.28%	79.55%	74.53%	68.41%
Allowance for loan losses as a percentage of total loans and leases	0.47%	0.56%	0.54%	0.52%	0.84%
Allowance for loan losses as a percentage of non-accrual loans	152.90%	88.93%	82.95%	78.12%	71.92%
Allowance for loan losses as a percentage of non-performing assets	146.23%	85.54%	78.27%	68.36%	67.26%

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.

Mid Penn held no foreclosed real estate as of December 31, 2021, compared to $134,000 at December 31, 2020, driven by the sale of several smaller foreclosed real estate properties in 2021. Total nonperforming assets were $10,497,000 at December 31, 2021, a decrease compared to nonperforming assets of $15,644,000 at December 31, 2020. The decrease in nonperforming assets was primarily the result of the successful workout of three nonaccrual commercial relationships totaling $10,956,000 occurring during the year ended December 31, 2021, though this decrease was partially offset by acquired impaired loans assumed in the Riverview transaction totaling $3,289,000 as of December 31, 2021.

One loan relationship, which accounts for $2,278,000 of the nonperforming loan balance as of December 31, 2021, is discussed in more detail below.

Loan relationship no. 1 - The contractual outstanding principal balance of this loan relationship was $2,278,000 at December 31, 2021 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, 2021 totaled $819,000, of which $436,000 were accruing loans in compliance with the terms of the modification and $383,000 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 6, *Loans and Allowance for Loan and Lease Losses*, within Item 8, Notes to Consolidated Financial Statements. As of December 31, 2021, 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 9: PARTIALLY CHARGED OFF LOANS

(Dollars in thousands)	**December 31, 2021**	**December 31, 2020**
Period ending total loans outstanding (net of unearned income)	$ 3,104,396	$ 2,384,041
Allowance for loan and lease losses	14,597	13,382
Total Nonperforming loans	9,982	15,510
Recorded investment in nonperforming and impaired loans with partial charge-offs	107	836
Ratio of nonperforming loans with partial charge-offs to total loans	0.00%	0.04%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	1.07%	5.39%
Coverage ratio net of nonperforming loans with partial charge-offs	147.82%	91.20%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	0.47%	0.56%

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 $9,982,000 which were deemed by management to be impaired at December 31, 2021, including $4,875,000 in loans from previous mergers which were acquired with credit deterioration. Of the $5,107,000 of impaired loan relationships excluding the loans acquired with credit deterioration, $308,000 were commercial and industrial relationships, $1,141,000 were commercial real estate relationships, $1,259,000 were residential relationships, $22,000 were commercial real estate – construction relationships, and $2,377,000 were home equity relationships. As of December 31, 2021, there were specific loan loss reserve allocations of $67,000 against the commercial and industrial relationships and $121,000 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 $14,597,000 as of December 31, 2021 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 10 as of December 31 of each of the past five years.

TABLE 10: ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

(Dollars in thousands)

	December 31,									
	2021		2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial and industrial	$ 3,439	23.6%	$ 3,066	22.9%	$ 2,341	24.6%	$ 2,391	28.5%	$ 1,795	23.6%
Commercial real estate	9,415	64.5%	8,655	64.7%	6,259	65.8%	4,703	56.0%	4,435	58.3%
Commercial real estate, construction	38	0.3%	134	1.0%	51	0.5%	75	0.9%	178	2.3%
Residential mortgage	459	3.1%	429	3.2%	417	4.4%	453	5.4%	428	5.6%
Home equity	560	3.8%	507	3.8%	442	4.6%	528	6.3%	423	5.6%
Consumer	2	0.0%	1	0.0%	2	0.0%	7	0.1%	3	0.0%
Unallocated	684	4.6%	590	4.4%	3	0.0%	240	2.9%	344	4.5%
	$ 14,597	100.0%	$ 13,382	100.0%	$ 9,515	100.0%	$ 8,397	100.0%	$ 7,606	100.0%

The increase in the allowance balance was the result of both organic loan growth during 2021, 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, 2021 was $14,597,000 or 0.47 percent of total loans (less unearned discount), as compared to $13,382,000 or 0.56 percent at December 31, 2020, and $9,515,000 or 0.54 percent at December 31, 2019.

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, 2021, total deposits increased by $1,527,436,000 or over 61 percent. Deposits as of year-end 2020 had increased by increased by $562,186,000 or over 29 percent since December 31, 2019. Deposit growth during the year ended December 31, 2021 was attributable primarily to the balance of deposits assumed through the acquisition of Riverview totaling $1,052,435,000 as of December 31, 2021, net of purchase accounting adjustments. Organic deposit growth of $475,436,000 or 19 percent since December 31, 2020 was driven by significant increases in noninterest-bearing, interest-bearing, and money market deposits, primarily due to both expanded cash management and commercial deposit account relationships, and new deposits established as a result of Mid Penn's PPP loan funding activities. Deposit growth from year-end 2019 to year-end 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. Average balances and average interest rates applicable to the classifications of deposits for the years ended December 31, 2021, 2020, and 2019 are presented in Table 13.

Mid Penn had no brokered time deposits as of December 31, 2021 and 2020 compared to $13,326,000 in brokered time deposits at December 31, 2019. The decrease in brokered certificates of deposits during 2020 was the result of brokered certificates of deposit assumed in the First Priority and Phoenix acquisitions which matured and were not replaced.

TABLE 11: DEPOSITS BY MAJOR CLASSIFICATION

(Dollars in thousands)

	Years Ended December 31,					
	2021		2020		2019	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	$ 684,022	0.00%	$ 505,094	0.00%	$ 296,872	0.00%
Interest-bearing demand deposits	688,595	0.34	538,385	0.64	415,359	1.04
Money market	842,107	0.37	605,552	0.67	443,248	1.66
Savings	218,546	0.11	186,132	0.19	187,927	0.34
Time	451,277	1.24	443,607	1.93	471,241	1.96
	$ 2,884,547	0.39%	$ 2,278,770	0.72%	$ 1,814,647	1.19%

The maturity distribution of time deposits of $100,000 or more are reflected in Table 12.

TABLE 12: MATURITY OF TIME DEPOSITS $100,000 OR MORE

(Dollars in thousands)	December 31,		
	2021	2020	2019
Three months or less	$ 65,345	$ 33,819	$ 31,314
Over three months to twelve months	141,141	116,798	148,449
Over twelve months	112,212	77,344	92,041
	$ 318,698	$ 227,961	$ 271,804

TABLE 13: UNINSURED DEPOSITS

	Uninsured Time Deposits
Maturing in 2022	$ 89,373
Maturing in 2023	23,151
Maturing in 2024	5,215
Maturing in 2025	1,240
Maturing in 2026	2,917
Maturing thereafter	-
	$ 121,895

Mid Penn held no short-term borrowings as of December 31, 2021. 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. The PPPLF borrowings were paid off during the year ended December 31, 2021.

As of December 31, 2021 and 2020, the Bank had long-term debt outstanding in the amount of $81,270,000 and $75,115,000, 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 18, *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 $234,388,000 or 92 percent from $255,688,000 as of December 31, 2020 to $490,076,000 as of December 31, 2021, primarily due to both (i) the issuance of 4,519,776 shares of Mid Penn common stock on November 30, 2021, in connection with the acquisition of Riverview, and, (ii) the completion of the May 4, 2021 public offering of 2,990,000 shares of common stock at a price of $25.00 per share, with the aggregate gross proceeds of the offering totaling $74,750,000. The net proceeds of the offering after deducting the underwriting discount and offering expenses were $70,238,000. The additional shares issued as a result of the Riverview acquisition and the public offering significantly impacted the weighted average number of shares outstanding used for both the fourth quarter of 2021 and year-to-date 2021 earnings per share calculations. Regulatory capital ratios for both Mid Penn and its banking subsidiary exceeded regulatory "well-capitalized" levels at both December 31, 2021 and December 31, 2020.

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.

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 $0.84 and $0.79, respectively, for the year ended December 31, 2021. 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. The dividend payout ratio, which represents the percentage of annual net income returned to shareholders in the form of cash dividends, was 31 percent for 2021 and 25 percent for 2020.

Mid Penn maintained regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2021 and 2020, 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
Mid Penn Bancorp, Inc.						
As of December 31, 2021						
Tier 1 Capital (to Average Assets)	$ 374,368	8.1%	$ 185,764	4.0%	$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	365,084	11.7%	217,579	7.0%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	374,368	12.0%	264,203	8.5%	N/A	N/A
Total Capital (to Risk Weighted Assets)	452,527	14.6%	326,369	10.5%	N/A	N/A
Mid Penn Bank						
As of December 31, 2021						
Tier 1 Capital (to Average Assets)	$ 398,773	8.6%	$ 185,721	4.0%	$ 232,151	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	398,773	12.8%	217,446	7.0%	201,914	6.5%
Tier 1 Capital (to Risk Weighted Assets)	398,773	12.8%	264,041	8.5%	248,510	8.0%
Total Capital (to Risk Weighted Assets)	413,442	13.3%	326,169	10.5%	310,637	10.0%
Mid Penn Bancorp, Inc.						
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
Mid Penn Bank						
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%

(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.

Subordinated Debt and Trust Preferred Securities

Subordinated Debt Assumed November 2021 with the Riverview Acquisition

On November 30, 2021, Mid Penn completed its acquisition of Riverview and assumed $25,000,000 of Subordinated Notes (the "Riverview Notes"). In accordance with purchase accounting principles, the Riverview Notes were assigned a fair value premium of $2,302,000. The notes are treated as Tier 2 capital for regulatory reporting purposes.

The Riverview Notes were entered into by Riverview on October 6, 2020 with certain qualified institutional buyers and accredited institutional investors. The Riverview Notes have a maturity date of October 15, 2030 and initially bear interest, payable semi-annually, at a fixed annual rate of 5.75% per annum until October 15, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will be reset quarterly to an interest rate per annum equal to the then current three-month secured overnight financing rate ("SOFR") plus 563 basis points, payable quarterly until maturity. Mid Penn may redeem the Notes at par, in whole or in part, at its option, anytime beginning on October 15, 2025.

Trust Preferred Securities Assumed November 2021 with the Riverview Acquisition

As a result of the merger with Riverview, Mid Penn assumed the subordinated debentures that Riverview had assumed in its acquisition of CBT Financial Corp. ("CBT") on October 1, 2017 (the "CBT 2017 Notes"). In 2003, a trust formed by CBT issued $5,155,000 of floating rate trust preferred securities as part of a pooled offering of such securities. The interest rate prior to Riverview entering into a fixed interest rate swap in 2020 adjusted quarterly to the three-month LIBOR rate plus 2.95%. CBT issued subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. CBT became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2008 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2033.

Similarly, in 2005, a trust formed by CBT issued $4,124,000 of fixed rate trust preferred securities as part of a pooled offering of such securities (the "CBT 2015 Notes"). CBT issued subordinated debentures to the trust in exchange for ownership of all the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. CBT became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2010 at a price of 100% of face value. Interest payments on the debentures may be deferred at any time at the election of Mid Penn for up to 20 consecutive quarterly periods. Interest on the debentures will accrue during the extension period, and all accrued principal and interest must be paid at the end of the extension period. During an extension period, Mid Penn may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to any of Mid Penn's capital stock.

In accordance with purchase accounting principles, the CBT 2017 Notes and CBT 2015 Notes assumed from Riverview were assigned a fair value premium of $6,000. The subordinated debentures are treated as Tier 1 capital for regulatory reporting purposes.

Subordinated Debt Issued December 2020

On December 22, 2020, Mid Penn 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, 2021.

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"). As a result of Mid Penn's merger with Riverview on November 30, 2021, $6,870,000 of the March 2020 Note balance was redeemed as Riverview was a holder of the March 2020 Notes. The balance of March 2020 Notes outstanding as of December 31, 2021 was $8,130,000. 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, 2021.

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 in 2020 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.

Holders 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, 2021.

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.

Holders 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.

Income Taxes

The provision for income taxes was $6,732,000 during the year ended December 31, 2021, an increase of $1,602,000 or 31 percent compared to $5,130,000 for the same period in 2020. The provision for income taxes for the year ended December 31, 2021 reflects an effective combined Federal and state tax rate of 19 percent, compared to an effective combined Federal and state tax rate of 16 percent for the year ended December 31, 2020. The full-year 2021 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 merger-related expenses which are nondeductible for Federal tax purposes, (iii) higher pre-tax income, and (iv) state income taxes that Mid Penn pays to the states of New Jersey and Maryland for revenues sourced in those respective states.

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 combined Federal and state tax rate of 16 percent compared to an effective combined Federal and state tax rate of 17 percent 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 and Maryland for revenues sourced in those respective states.

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 $935,225,000 at December 31, 2021. 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, 2021.

Major sources of cash in 2021 came from the $446,045,000 net increase in deposits, net cash received in the Riverview acquisition of $315,287,000, and $341,155,000 of proceeds from sales of mortgage loans originated for sale.

Major uses of cash in 2021 were $309,179,000 to fund the purchase of investment securities, $316,849,000 to fund mortgage loans originated for sale, and $125,617,000 to repay the entire balance of short-term PPPLF borrowings.

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.

Aggregate Contractual Obligations

Table 14 represents Mid Penn's substantial aggregate contractual obligations to make future cash payments as of December 31, 2021.

TABLE 14: AGGREGATE CONTRACTUAL OBLIGATIONS

(Dollars in thousands)

			Payments Due by Period			
	Financial Statements Note Reference	Total	One Year or Less	One to Three Years	Three to Five Years	More than Five Years
Operating lease obligations	8	$ 12,682	$ 2,426	$ 3,905	$ 2,725	$ 3,626
Finance lease obligation	8	4,677	217	469	518	3,473
Certificates of deposit	9	634,437	381,438	202,326	44,524	6,149
Long-term debt	11	78,526	70,588	7,609	294	35
Subordinated debt	12	82,075	3,083	6,166	13,048	59,778
		$ 812,397	$ 457,752	$ 220,475	$ 61,109	$ 73,061

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, 2021, commitments to extend credit amounted to $930,660,000 compared to $654,977,000 as of December 31, 2020.

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 $55,609,000 at December 31, 2021, from $39,468,000 at December 31, 2020.

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, 2021, all interest rate risk levels according to the model were within the tolerance limits of the Board-approved policy.

TABLE 15: EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

December 31, 2021			December 31, 2020		
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	21.08%	≥ -20%	300	15.69%	≥ -20%
200	13.70%	≥ -15%	200	10.03%	≥ -15%
100	6.53%	≥ -10%	100	4.72%	≥ -10%
0			0		
(100)	-6.38%	≥ -10%	(100)	-3.97%	≥ -10%
(200)	-13.11%	≥ -15%	(200)	-9.30%	≥ -15%
(300)	-19.59%	≥ -20%	(300)	-14.45%	≥ -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 Interim 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 Interim Chief Financial Officer concluded that, as of December 31, 2021, 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, 2021, 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, 2021, the Corporation's internal control over financial reporting is effective based on those criteria.

The scope of management's assessment of the effectiveness of internal control over financial reporting excluded Riverview Financial Corporation, which Mid Penn acquired in a business combination on November 30, 2021. Total assets, excluding goodwill and intangibles assets, total liabilities, and total revenues of Riverview represented approximately 26 percent, 24 percent and 2 percent of the total assets, total liabilities and total revenues of Mid Penn's Consolidated Financial Statements as of and for the year ended December 31, 2021, respectively.

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	/s/ Justin T. Webb
Rory G. Ritrievi	Justin T. Webb
President and	Interim Chief Financial Officer
Chief Executive Officer	March 15, 2022
March 15, 2022	

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mid Penn Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years 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, 2021 and 2020, and the results of its operations and its cash flows for the years 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, 2021, 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, 2022 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 audits. 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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 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 audits 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 audits provide 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, 2021 was $14.6 million. As described in Notes 3 and 6 to the consolidated financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgment, will be adequate to absorb losses on existing loans.

The allowance consists of specific and general components in the amounts of $0.2 million and $14.4 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 judgment 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:
    - 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.
    - Evaluating the reasonableness of the qualitative factor established by management as compared to the underlying internal or external information sources.

Business Combination – Valuation of the Acquired Loan Portfolio

As described in Notes 3 and 4 to the consolidated financial statements, on November 30, 2021, the Company completed its acquisition of Riverview Financial Corporation ("Riverview"). The fair value of total assets acquired as a result of the merger totaled $1.3 billion, loans totaled $0.8 billion, and deposits totaled $1.1 billion. The fair value of the acquired loan portfolio amounted to $837.5 million and had a credit adjustment of $13.4 million. Loans that the Company acquires in connection with business combinations are recorded at fair value with no carryover of predecessor institutions' related allowance for loan losses. 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. 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 fair value determination of acquired loans requires a significant amount of judgment by management and involves a higher degree of subjectivity than do the other assets and liabilities acquired.

We identified the fair value of acquired loans as a critical audit matter, because of the judgments necessary to determine the fair value of the loan portfolio acquired, the high degree of auditor judgment involved and the extensive audit effort involved in testing management estimates and assumptions.

Our audit procedures related to the valuation of the acquired loan portfolio included the following, among others:

- We obtained an understanding of the relevant controls related to the business combination, including the valuation of the acquired loan portfolio and management's review related to the development of significant assumptions, and tested such controls for design and operating effectiveness.
- We obtained the valuation report prepared by a third party engaged by management, and gained an understanding of the valuation methodology applied, as well as key inputs and assumptions.
- We tested the completeness and accuracy of data inputs provided by management and utilized in the calculation performed by the third-party specialist.
- We utilized internal valuation specialists to assist in evaluating significant assumptions such as credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments.
- We evaluated the appropriateness of management's classification of purchased credit impaired loans and tested the propriety of the credit adjustment applied to these loans.
- We tested the completeness and accuracy of data included in the loan trial balance used in the discounted cash flow model.

/s/ RSM US LLP

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

Philadelphia, Pennsylvania
March 15, 2022

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 statements of income, comprehensive income, changes in shareholders' equity, and cash flows of Mid Penn Bancorp, Inc. and subsidiaries (the "Corporation") for the year 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 results of operations and cash flows of the Corporation for the year 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 audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board ("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 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 consolidated 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 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 audit 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 audit provides 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

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, 2021, 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, 2021, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

As indicated in the accompanying Management Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Riverview Financial Corporation, which is included in the 2021 consolidated financial statements of the Company and represented approximately 26% and 24% of the total assets and total liabilities, respectively, as of December 31, 2021 and 2% of revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Riverview Financial Corporation.

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, 2022 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, 2022

MID PENN BANCORP, INC. **Consolidated Balance Sheets**

(Dollars in thousands)	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 41,100	$ 31,284
Interest-bearing balances with other financial institutions	146,031	1,541
Federal funds sold	726,621	270,899
Total cash and cash equivalents	913,752	303,724
Investment securities held to maturity, at amortized cost (fair value $330,626 and $132,794)	329,257	128,292
Investment securities available for sale, at fair value	62,862	5,748
Equity securities available for sale, at fair value	500	515
Loans held for sale	11,514	25,506
Loans and leases, net of unearned interest	3,104,396	2,384,041
Less: Allowance for loan and lease losses	(14,597)	(13,382)
Net loans and leases	3,089,799	2,370,659
Bank premises and equipment, net	33,232	24,886
Bank premises and equipment, held for sale	3,907	210
Operating lease right of use asset	9,055	10,157
Finance lease right of use asset	3,087	3,267
Cash surrender value of life insurance	49,661	17,183
Restricted investment in bank stocks	9,134	7,594
Accrued interest receivable	11,328	12,971
Deferred income taxes	10,779	3,619
Goodwill	113,835	62,840
Core deposit and other intangibles, net	9,436	4,360
Foreclosed assets held for sale	—	134
Other assets	28,287	17,283
Total Assets	$ 4,689,425	$ 2,998,948
LIABILITIES & SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 850,438	$ 536,224
Interest-bearing demand	1,066,852	605,567
Money Market	1,076,593	720,506
Savings	381,476	195,038
Time	626,657	417,245
Total Deposits	4,002,016	2,474,580
Short-term borrowings	—	125,617
Long-term debt	81,270	75,115
Subordinated debt and trust preferred securities	74,274	44,580
Operating lease liability	11,363	11,200
Accrued interest payable	1,791	2,007
Other liabilities	28,635	10,161
Total Liabilities	4,199,349	2,743,260
Shareholders' Equity:		
Common stock, par value $1.00; 20,000,000 shares authorized Shares issued: 16,056,282 and 8,511,835 at December 31, 2021 and December 31, 2020; Shares outstanding: 15,957,830 and 8,419,183 at December 31, 2021 and December 31, 2020	16,056	8,512
Additional paid-in capital	384,742	178,853
Retained earnings	91,043	70,175
Accumulated other comprehensive income (loss)	158	(57)
Treasury Stock, at cost; 98,452 and 92,652 shares at December 31, 2021 and December 31, 2020	(1,923)	(1,795)
Total Shareholders' Equity	490,076	255,688
Total Liabilities and Shareholders' Equity	$ 4,689,425	$ 2,998,948

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

MID PENN BANCORP, INC. **Consolidated Statements of Income**

(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2021	2020	2019
INTEREST INCOME			
Interest and fees on loans and leases	$ 118,776	$ 103,507	$ 88,078
Interest and dividends on investment securities:			
U.S. Treasury and government agencies	1,403	1,631	3,084
State and political subdivision obligations, tax-exempt	1,122	1,008	2,046
Other securities	1,199	1,253	782
Total interest and dividends on investment securities	3,724	3,892	5,912
Interest on interest-bearing balances	13	39	100
Interest on federal funds sold	809	497	1,222
Total Interest Income	123,322	107,935	95,312
INTEREST EXPENSE			
Interest on deposits	11,327	16,399	21,550
Interest on short-term borrowings	539	371	470
Interest on long-term and subordinated debt	2,888	2,957	3,144
Total Interest Expense	14,754	19,727	25,164
Net Interest Income	108,568	88,208	70,148
PROVISION FOR LOAN AND LEASE LOSSES	2,945	4,200	1,390
Net Interest Income After Provision for Loan and Lease Losses	105,623	84,008	68,758
NONINTEREST INCOME			
Income from fiduciary activities	2,494	1,694	1,416
Service charges on deposits	991	637	884
Net gain on sales of investment securities	79	467	1,878
Earnings from cash surrender value of life insurance	358	301	314
Mortgage banking income	10,314	9,682	3,771
ATM debit card interchange income	2,688	1,960	1,594
Merchant services income	431	392	413
Net gain on sales of SBA loans	969	442	831
Other income	3,209	2,333	1,520
Total Noninterest Income	21,533	17,908	12,621
NONINTEREST EXPENSE			
Salaries and employee benefits	41,711	37,758	32,360
Occupancy expense, net	5,527	5,505	5,352
Equipment expense	3,101	2,910	2,647
Software licensing and utilization	6,332	5,286	4,394
FDIC Assessment	1,888	1,680	839
Legal and professional fees	1,979	1,665	1,679
Charitable contributions qualifying for State tax credits	1,432	1,342	755
Mortgage banking profit-sharing expense	2,571	2,004	—
(Gain) loss on sale or write-down of foreclosed assets	(25)	333	(15)
Intangible amortization	1,180	1,398	1,430
Merger and acquisition expense	3,067	—	—
Post-acquisition restructuring expenses	9,880	—	—
Other expenses	12,462	10,696	10,512
Total Noninterest Expense	91,105	70,577	59,953
INCOME BEFORE PROVISION FOR INCOME TAXES	36,051	31,339	21,426
Provision for income taxes	6,732	5,130	3,725
NET INCOME	$ 29,319	$ 26,209	$ 17,701
PER COMMON SHARE DATA:			
Basic Earnings Per Common Share	$ 2.71	$ 3.11	$ 2.09
Diluted Earnings Per Common Share	$ 2.71	$ 3.10	$ 2.09
Cash Dividends Declared	$ 0.79	$ 0.82	$ 0.79

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

(Dollars in thousands)

	Years Ended December 31,		
	2021	2020	2019
Net income	$ 29,319	$ 26,209	$ 17,701
Other comprehensive income (loss):			
Unrealized (losses) gains arising during the period on available for sale securities, net of income taxes of ($50), $131, and $1,223, respectively (d)	(190)	494	4,598
Reclassification adjustment for net gain on sales of available-for-sale securities included in net income, net of income taxes of ($17), ($98), and ($394), respectively (a), (d)	(62)	(369)	(1,484)
Change in defined benefit plans, net of income taxes of $136, ($134), and ($79), respectively (b), (d)	511	(503)	(296)
Reclassification adjustment for settlement gains and activity related to benefit plans, net of income taxes of ($12), ($6), and ($26), respectively (c), (d)	(44)	(22)	(97)
Total other comprehensive income (loss)	215	(400)	2,721
Total comprehensive income	$ 29,534	$ 25,809	$ 20,422

(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 15, *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 2021, 2020 and 2019.

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

(Dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, January 1, 2019	$ 8,460	$ 177,565	$ 39,562	$ (2,378)	$ —	$ 223,209
Impact of adoption of new accounting standard (a)	—	—	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
Balance, December 31, 2019	$ 8,481	$ 178,159	$ 50,891	$ 343	$ 0	$ 237,874
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 (92,652 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
Balance, December 31, 2020	$ 8,512	$ 178,853	$ 70,175	$ (57)	$ (1,795)	$ 255,688
Net income	—	—	29,319	—	—	29,319
Total other comprehensive income, net of taxes	—	—	—	215	—	215
Common stock dividends declared	—	—	(8,451)	—	—	(8,451)
Common shares issued through follow-on public offering (2,990,000 shares), net of underwriting discounts and offering expenses	2,990	67,248	—	—	—	70,238
Common stock issued to Riverview shareholders (4,519,776 shares) (b)	4,520	137,672	—	—	—	142,192
Repurchased stock (5,800 shares)	—	—	—	—	(128)	(128)
Employee Stock Purchase Plan (6,066 shares)	6	166	—	—	—	172
Director Stock Purchase Plan (4,771 shares)	5	130	—	—	—	135
Restricted stock activity (23,833 shares)	23	673	—	—	—	696
Balance, December 31, 2021	$ 16,056	$ 384,742	$ 91,043	$ 158	$ (1,923)	$ 490,076

(a) Represents the impact of adopting Accounting Standard Update ASU 2016-02. See Note 23, *Recent Accounting Pronouncements*, to the consolidated financial statements for more information.

(b) Shares issued on November 30, 2021 as a result of the acquisition of Riverview Financial Corporation (“Riverview”). See Note 4, *Acquisition of Riverview Financial Corporation*, 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,		
	2021	2020	2019
Operating Activities:			
Net Income	$ 29,319	$ 26,209	$ 17,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	2,945	4,200	1,390
Depreciation	3,316	3,204	2,815
Amortization of intangibles	1,180	1,398	1,430
Net amortization of security premiums	636	782	755
Amortization of operating lease right of use assets	1,698	1,670	1,678
Operating right of use asset abandonment	1,348	—	—
Amortization of finance lease right of use asset	180	180	150
Gain on sales of investment securities	(79)	(467)	(1,878)
Earnings on cash surrender value of life insurance	(358)	(301)	(331)
Mortgage loans originated for sale	(316,849)	(356,158)	(163,228)
Proceeds from sales of mortgage loans originated for sale	341,155	348,756	160,279
Gain on sale of mortgage loans	(10,314)	(9,682)	(3,771)
SBA loans originated for sale	(10,890)	(6,487)	(13,792)
Proceeds from sales of SBA loans originated for sale	11,859	6,929	14,622
Gain on sale of SBA loans	(969)	(442)	(831)
(Gain) loss on write-down/disposal of property, plant, and equipment	(105)	242	168
(Gain) loss on sale / write-down of foreclosed assets	(25)	333	(15)
Restricted stock compensation expense	696	414	346
Deferred income tax expense (benefit)	484	(1,367)	665
Decrease (increase) in accrued interest receivable	3,562	(5,007)	280
Increase in other assets	(4,321)	(1,971)	(8,193)
Decrease in accrued interest payable	(655)	(201)	(54)
Net change in operating lease liability	(1,781)	(1,714)	(1,782)
Increase (decrease) in other liabilities	13,867	3,549	(573)
Net Cash Provided By Operating Activities	65,899	14,069	7,831
Investing Activities:			
Proceeds from the sale of available-for-sale securities	5,178	101,739	154,307
Proceeds from the maturity or call of available-for-sale securities	2,856	8,538	13,659
Purchases of available-for-sale securities	(65,192)	(78,542)	(20,406)
Proceeds from the maturity or call of held-to-maturity securities	42,416	107,583	23,160
Purchases of held-to-maturity securities	(243,987)	(100,029)	(58,848)
Net cash received from acquisition	315,287	—	—
Redemptions (purchases) of restricted investment in bank stocks	669	(2,692)	1,744
Net decrease (increase) in loans and leases	115,367	(623,153)	(139,430)
Proceeds from bank owned life insurance	—	—	140
Purchases of bank premises and equipment	(3,497)	(3,685)	(3,885)
Proceeds from sale of bank premises and equipment	62	65	1,268
Proceeds from sale of foreclosed assets	212	1,264	1,306
Net Cash Provided By (Used In) Investing Activities	169,371	(588,912)	(26,985)
Financing Activities:			
Net increase in deposits	446,045	562,186	186,368
Net (decrease) increase in short-term borrowings	(125,617)	125,617	(43,100)
Proceeds from long-term debt borrowings	—	70,000	13,500
Common stock dividends paid	(8,872)	(6,504)	(6,688)
Proceeds from Employee Stock Purchase Plan stock issuance	172	155	134
Proceeds from Director Stock Purchase Plan stock issuance	135	156	135
Proceeds from follow-on common stock public offering	70,238	—	—
Treasury stock purchased	(128)	(1,795)	—
Net change in finance lease liability	(87)	(83)	(46)
Long-term debt repayment	(258)	(27,705)	(32,184)
Subordinated debt redemption	(6,870)	(9,640)	—
Subordinated debt issuance	—	27,150	—
Net Cash Provided By Financing Activities	374,758	739,537	118,119
Net increase in cash and cash equivalents	610,028	164,694	98,965
Cash and cash equivalents, beginning of year	303,724	139,030	40,065
Cash and cash equivalents, end of year	$ 913,752	$ 303,724	$ 139,030

(Dollars in thousands)	Years Ended December 31,		
	2021	2020	2019
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 14,970	$ 19,928	$ 25,218
Income taxes paid	$ 6,950	$ 7,740	$ 3,770
Supplemental Noncash Disclosures:			
Recognition of operating lease right-of-use assets	$ 1,944	$ 385	$ 13,120
Recognition of operating lease liabilities	$ 1,944	$ 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	$ 53	$ 1,535	$ 470
Debt securities transferred from held-to-maturity to available-for-sale	$ —	$ —	$ 67,096
Common stock issued to Riverview shareholders	$ 4,520	$ —	$ —
Dividends declared and not paid before year-end	$ —	$ 421	$ —

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

(Dollars in thousands)	2021	2020	2019
Assets Acquired:			
Securities	$ 226	$ —	$ —
Loans	837,505	—	—
Restricted stock	2,209	—	—
Property and equipment	11,819	—	—
Deferred income taxes	7,110	—	—
Accrued interest receivable	1,919	—	—
Core deposit and other intangible assets	6,256	—	—
Cash surrender value of life insurance	32,120	—	—
Other assets	6,683	—	—
	$ 905,847	$ —	$ —
Liabilities Assumed:			
Deposits	$ 1,081,647	$ —	$ —
Borrowings	42,808	—	—
Accrued interest payable	439	—	—
Other liabilities	5,043	—	—
	$ 1,129,937	$ —	$ —

(a) This disclosure includes the impact of the acquisition of Riverview Financial Corporation on November 30, 2021. See Note 4, *Acquisition of Riverview Financial Corporation* 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, 2021, 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 November 30, 2021, Mid Penn completed its acquisition of Riverview Financial Corporation ("Riverview"), pursuant to the previously announced Agreement and Plan of Merger dated as of June 30, 2021. On November 30, 2021, Riverview was merged with and into Mid Penn, with Mid Penn being the surviving corporation. Refer to Note 4, *Acquisition of Riverview Financial Corporation.,* as well as the Company's Current Report on Form 8-K filed on December 1, 2021, for more information.

The comparability of Mid Penn's results of operations for the year ended December 31, 2021, compared to the years ended December 31, 2020 and 2019, in general, has been materially impacted by this acquisition, as further described in Note 4, as well as events and legislation related to the COVID-19 pandemic in 2020 and 2021, as further described in Note 25, *COVID-19 Pandemic Implications*. For comparative purposes, the December 31, 2020 and December 31, 2019 balances have been reclassified, when necessary, to conform to the 2021 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, 2021, 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 retail banking offices located in throughout Pennsylvania.

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, 2021 and 2020, 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

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. As of December 31, 2021 and 2020, Mid Penn's equity securities consisted of Community Reinvestment Act funds totaling $500,000 and $515,000, respectively. No equity securities were sold during the year ended December 31, 2021. 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.

(g) Loans Held for Sale

Fair Value Option

During the third quarter of 2021, the Corporation made the election to measure mortgage loans held for sale at fair value. Derivative financial instruments related to mortgage banking activities are also recorded at fair value, as detailed under the heading "Mortgage Banking Derivative Financial Instruments," below. The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair values during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is classified in interest income on the consolidated statements of income.

In periods prior to the third quarter of 2021, mortgage loans originated and intended for sale in the secondary market were included in loans held for sale and were 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.

Mortgage Banking Derivative Financial Instruments

During the third quarter of 2021, Mid Penn began using mortgage banking derivative financial instruments as part of our overall strategy to manage exposure to market risk within our mortgage banking operations, primarily due to fluctuations in interest rates, and to reduce the risk of price volatility of loans in the commitment phase.

In connection with its mortgage banking activities, Mid Penn enters into interest rate lock commitments (IRLCs) to extend credit to a mortgage applicant within a specified period of time, provided certain specified terms and conditions are met, and with both the interest rate and the maximum loan amount set prior to funding. This loan commitment binds Mid Penn (subject to approval of the loan) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. Outstanding IRLCs may expose Mid Penn to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The IRLC does not contractually obligate the borrower to close the loan, regardless of whether Mid Penn approves the loan.

Mid Penn originates all mortgage loans with the intention that the loans will be held for sale in the secondary market. Mid Penn enters into forward mortgage loan sales commitments shortly after extending an IRLC to the borrower to mitigate interest rate risk related to the IRLC for mortgage loans originated for sale. Mid Penn enters into mortgage loan sales commitments as either (i) a mandatory commitment, meaning that the loan must be delivered at an agreed-upon price within a specified timeframe, or (ii) a best-effort commitment, meaning that the loan will be delivered if and when it closes, with a price that is typically less favorable than a mandatory commitment and often with a large markup. If a mandatory commitment is not delivered within the agreed-upon timeframe or price point, Mid Penn would likely be required to “pair out” of the commitment and may be subject to a pair-off fee. In addition, Mid Penn enters into forward commitments for the future sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale.

Mandatory forward loan sales commitments are accounted for as freestanding derivative instruments and are carried at fair value equal to the amount required to settle the commitment as of the reporting date based on the underlying mortgage loans and the probability of commitments being exercised. Gross derivative assets and labilities are recorded within other assets and other liabilities on the consolidated balance sheet, with changes in fair value during the period recorded in other noninterest income in the Consolidated Statements of Income.

Best effort forward sales commitments are financial instruments which are carried at fair value under ASC 825 – Financial Instruments. Fair value is estimated as the amount required to settle the commitment as of the reporting date, which is based on the underlying mortgage loans and the probability of commitments being exercised. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheet, with changes in fair value during the period in other 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

Mid Penn has been a significant participating lender under the Paycheck Protection Program which was created when the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020 and concluded August 8, 2020. The PPP program was reinstated under the Consolidated Appropriations Act, 2021 which was signed into law on December 27, 2020 and concluded on May 31, 2021. 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. Included in total loans as of December 31, 2021 are $111,286,000 of PPP loans, net of deferred fees, with this total being comprised of (i) $101,175,000 of PPP loans, net of deferred fees, originated during the first six months of 2021; (ii) $5,210,000 of PPP 2020 loans, net of deferred fees, originated during 2020; and (iii) $4,901,000 of PPP loans acquired from Riverview. Comparatively, as of December 31, 2020, the total balance of PPP loans, net of deferred fees, was $388,313,000 and consisted entirely of PPP loans originated in 2020.

The SBA also provided a processing fee per loan to financial institutions who participated in the PPP, with the amount of such fee generally ranging from 1 percent to 5 percent as pre-determined by the SBA dependent upon the size of each respective credit. As of December 31, 2021, Mid Penn had received $38,880,000 of nonrefundable loan processing fees related to the loans disbursed because of Mid Penn's participation in the PPP initiative, consisting of (i) $20,883,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $17,997,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2021. In addition to receiving and deferring the processing fees, Mid Penn recorded and deferred related loan origination costs, and in accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*, the processing fees and loan

origination costs are being amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of each respective loan. As of December 31, 2021, Mid Penn had $3,811,000 of PPP deferred loan processing fees not yet realized as income, consisting of (i) $27,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $3,784,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2021. Comparatively, as of December 31, 2020, Mid Penn had $7,746,000 of PPP deferred loan processing fees not yet realized as income, all resulting from PPP loans funded during the year ended December 31, 2020. During the years ended December 31, 2021, Mid Penn recognized $21,954,000 and $13,137,000 of PPP processing fees, respectively, within interest and fees on loans and leases on the Consolidated Statements of Income.

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 $72,000 at December 31, 2021 and $66,000 at December 31, 2020.

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.

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.

As of December 31, 2021 and December 31, 2020, Mid Penn had $111,286,000 and $388,313,000, respectively, 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 $1,010,039,000 and $276,701,000 as of December 31, 2021 and December 31, 2020, respectively. The significant increase in loans acquired at fair value when comparing December 31, 2021 to the prior year is a result of Mid Penn's acquisition of Riverview on November 30, 2021 representing $811,599,000 of the acquired loan portfolio as of December 31, 2021. 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, 2021, totaled $3,907,000 related to the December 7, 2021 announcement of a Retail Network Optimization Plan under which the Bank announced its intention to close certain retail locations throughout its expanded footprint. The branch closures occurred on about March 4, 2022. Adjustments to record these held for sale assets at the lower of cost or fair value related to the held for sale properties were included in post-acquisition restructuring expenses and totaled $874,000 for the year ended December 31, 2021. Bank premises and equipment designated as held for sale at December 31, 2020 totaled $210,000, and related to a retail banking property which was closed and listed for sale on December 31, 2020. No impairment or restructuring charges were 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.

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, First Priority and Riverview acquisitions covering certain former Miners Bank, First Priority, and Riverview 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, 2021, 2020, and 2019 dividends received from the FHLB totaled $345,000, $360,000, and $424,000 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, 2021.

(o) Goodwill and Other Intangible Assets, Net

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 $113,835,000 at December 31, 2021 and was comprised of (i) $50,995,000 related to the November 30, 2021 Riverview acquisition, (ii) $39,744,000 related to the July 31, 2018 First Priority acquisition, (iii) $19,178,000 related to the January 8, 2018 Scottdale acquisition and (iv) $3,918,000 recorded as a result of the Phoenix acquisition in 2015. The goodwill balance totaled $62,840,000 at December 31, 2020 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 Scottdale 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.

The following table summarizes the changes in goodwill during the year ended December 31, 2021, 2020, and 2019.

(Dollars in thousands)	For the Years Ended December 31,	
	2021	**2020**
Goodwill balance, beginning of year	$ 62,840	$ 62,840
Goodwill resulting from acquisition of Riverview	50,995	—
Goodwill balance, end of year	$ 113,835	$ 62,840

For the prior year interim reporting period ending March 31, 2020, and in support of the related Corporation and Bank 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 as of March 31, 2020 and through the date of the associated Form 10-Q filing related to that reporting period. 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, 2021 using a quantitative analysis. Mid Penn performed qualitative analyses in 2020 and 2019 with no goodwill impairment recognized.

Core deposit intangibles

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 $7,282,000 and $4,311,000 at December 31, 2021 and 2020, respectively. Amortization expense is reflected in the Consolidated Statements of Income in intangible amortization and was $1,125,000, $1,215,000, and $1,367,000 for the years 2021, 2020, and 2019, respectively. The core deposit intangible for each respective acquisition (Phoenix in 2015, Scottdale and First Priority in 2018, and Riverview in 2021) is being amortized over a ten-year period staring 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. For much of the year ended December 31, 2020 and continuing through the twelve months ended December 31, 2021, 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, 2021 and December 31, 2020, Mid Penn has recognized substantial deposit growth (excluding the impact of deposits assumed in the Riverview merger) of $475,436,000 or 19 percent during 2021, with none of this growth attributable to brokered deposits. Similarly, deposit growth totaled $562,186,000 or 29 percent during the year ended December 31, 2020. Subsequent to December 31, 2021, 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 2020 or 2019.

The following table summarizes the changes in core deposit intangible during the years ended December 31, 2021, 2020, and 2019.

(Dollars in thousands)	For the Years Ended December 31,		
	2021	2020	2019
Core deposit intangible balance, beginning of year	$ 4,311	$ 5,526	$ 6,893
Core deposit intangible resulting from acquisition of Riverview	4,096	—	—
Amortization of core deposit intangibles	1,125	1,215	1,367
Core deposit and other intangible balances, end of year	$ 7,282	$ 4,311	$ 5,526

Customer List Intangible

As a result of the acquisition of Riverview, Mid Penn recorded a customer list intangible asset included in total intangible assets related to the wealth management customers assumed in the acquisition. This intangible is amortized as an expense over ten years using the sum of the years' amortization method.

The following table summarizes the changes in the customer list intangible during the years ended December 31, 2021, 2020, and 2019.

(Dollars in thousands)	For the Years Ended December 31,		
	2021	2020	2019
Customer list intangible balance, beginning of year	$ —	$ —	$ —
Customer list intangible resulting from acquisition of Riverview	2,160	—	—
Amortization of customer list intangible	33	—	—
Customer list intangible, end of year	$ 2,127	$ —	$ —

(p) <u>Interest Rate Swaps – Trust Preferred Securities</u>

As a result of the November 30, 2021 acquisition of Riverview, Mid Penn assumed interest rate swaps on certain trust preferred securities originally entered into by Riverview in June 2020 having a notional amount of $9,279,000 and a ten-year weighted average rate of 2.99 percent at inception. The interest rate swap had a weighted average remaining maturity of 8.5 years and an estimated fair value of $629,000 as of December 31, 2021. As of December 31, 2021, these swaps were not designated as formal hedging relationships therefore the change in fair value recorded on the Consolidated Statement of Income as a component of other income totaling $34,000 during the year ended December 31, 2021.

(q) <u>Foreclosed Assets Held for Sale</u>

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, 2021, Mid Penn had no residential real estate held in other real estate owned. There was $729,000 in loans for which formal foreclosure proceedings were in process at December 31, 2021. 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.

(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 $27,000 and $49,000 at December 31, 2021 and 2020, respectively. Amortization expense is reflected in the Consolidated Statements of Income in intangible amortization and was $22,000, $29,000, and $28,000 for the years 2021, 2020, and 2019, 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, 2021. The principal balance of loans serviced for others was $5,590,000 and $9,384,000 for December, 31 2021 and 2020, 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 $102,000 at December 31, 2021 and $146,000 at December 31, 2020, 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 (the last year of the tax credit period).

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 $5,962,000 and $6,682,000 on December 31, 2021 and December 31, 2020, 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, and the investment was fully funded within a three-year period beginning in 2018 and ending during the first quarter of 2021. 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 using the cost amortization method which began upon commencement of operations of the facility in December 2019. The project was formally awarded $8,530,000 in total LIHTCs by the Pennsylvania Housing Finance Agency, which will be recognized over the ten-year period from December 2019 through November 2029. Mid Penn received $853,000 and $74,000 of low-income housing tax credits related to this project for the tax years ended December 31, 2020 and 2019, respectively.

(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 which are detailed in Note 15 – *Postretirement Benefit Plans*. A summary of acquired plans is as follows:

As a result of the acquisition of Riverview on November 30, 2021, Mid Penn has assumed noncontributory defined benefit pension plans covering certain former employees of Riverview (or its predecessor-in-interest) as follows:

- Pursuant to the consolidation of Riverview with Union Bancorp, Inc. ("Union") effective November 1, 2013, Riverview assumed Union's noncontributory defined benefit pension plan, which substantially covered all Union employees. The plan benefits were based on average salary and years of service. Union elected to freeze all benefits earned under the plan effective January 1, 2007.

- Riverview also assumed responsibility of Citizens National Bank of Meyersdale's ("Citizens") noncontributory defined benefit pension plan effective as of the December 31, 2015 merger date. The plan substantially covered all Citizens employees and the plan benefits were based on average salary and years of service. Citizens elected to freeze all benefits earned under the plan effective January 1, 2013.

- As a result of a merger, effective October 1, 2017, Riverview assumed responsibility of CBT Financial Corp's ("CBT") postretirement benefits plan, which is an unfunded postretirement benefit plan covering health insurance costs and post-retirement life insurance benefits for certain retirees.

Subsequent to the merger, Mid Penn disallowed any further participants to join the plans. Mid Penn's policy is to fund pension and post-retirement benefits as accrued. The plans' assets are managed by a third party and were primarily invested in a combination of cash and cash equivalents, equity securities and fixed income securities at the time of acquisition. The valuation of the plans' assets is subject to market fluctuations. The funded status of the plan was in a net asset position of $819,000 as of December 31, 2021.

As a result of the acquisition of Scottdale on January 8, 2018, Mid Penn assumed a noncontributory defined benefit pension plan covering certain former employees of Scottdale. The funded status of the plan was in a net asset position of $458,000 at December 31, 2021 and a net liability position of 461,000 as of December 31, 2020. Additionally, for the years ended December 31, 2021 and December 31, 2020, Mid Penn recognized $47,000 and $3,000, 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, 2021 and December 31, 2020.

(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 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, 2021.

Similarly, during 2021, Mid Penn assumed the 401(k) plan of Riverview. Riverview maintained a contributory 401(k) retirement plan for all eligible employees. Riverview's policy was to match 100 percent of the employee's voluntary contribution to the plan up to a maximum of 4% of the employees' compensation. The plan was frozen where all contributions were suspended subsequent to the merger.

Additionally, Mid Penn assumed certain benefit plan liabilities related to compensation arrangements associated with Riverview, including certain executive non-qualified retirement benefits, deferred compensation plans, and executive employment agreements. The plans are fully funded through a Rabbi Trust. Please see Note 16 – *Other Benefit Plans*, for additional information.

(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 $274,950,000 and $148,621,000 at December 31, 2021 and 2020, 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.

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.

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 Income (Loss)
Balance - December 31, 2021	$ (255)	$ 413	$ 158
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.

As previously announced on a Form 8-K on May 4, 2021, Mid Penn completed an underwritten public offering of 2,990,000 shares of common stock at a price of $25.00 per share, with the aggregate gross proceeds of the offering totaling $74,750,000 before underwriting discounts and offering expenses. The net proceeds of the offering after deducting the underwriting discount and other offering expenses were $70,238,000. Additionally, as previously announced on a Form 8-K on December 1, 2021, Mid Penn issued 4,519,776 shares of common stock as a result of the merger with Riverview on November 30, 2021. The additional shares issued on May 4, 2021 and November 30, 2021 significantly impacted the weighted average number of shares outstanding used for the year ended December 31, 2021 earnings per share calculations.

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

(Dollars in thousands, except per share data)

	2021	2020	2019
Net income	$ 29,319	$ 26,209	$ 17,701
Weighted average shares outstanding (basic)	10,806,009	8,439,427	8,468,586
Effect of dilutive unvested restricted stock grants	13,570	3,665	23,487
Weighted average shares outstanding (diluted)	10,819,579	8,443,092	8,492,073
Basic earnings per common share	$ 2.71	$ 3.11	$ 2.09
Diluted earnings per common share	$ 2.71	$ 3.10	$ 2.09

There were no antidilutive shares at December 31, 2021, 2020, and 2019.

(4) Acquisition of Riverview Financial Corporation

On November 30, 2021, Mid Penn completed its acquisition of Riverview through the merger of Riverview with and into Mid Penn. In connection with this acquisition, Riverview Bank, Riverview's wholly-owned bank subsidiary, merged with and into Mid Penn Bank.

Pursuant to the merger agreement, shareholders of Riverview common stock received, for each share of Riverview common stock held at the effective time of the merger, 0.4833 shares of Mid Penn common stock as merger consideration with an acquisition date fair value of $142,192,000 based on the closing stock price of Mid Penn's common stock on November 30, 2021 of $31.46. This exchange ratio did not change as a result of changes in the Mid Penn share price. Additionally, outstanding options at the time of the merger were converted into the right to receive an amount in cash equal to the product obtained by multiplying the aggregate number of shares of Riverview common stock that were issuable upon exercise of each option outstanding, and the closing sale price of Mid Penn's common stock on the fifth (5th) business day prior to the merger closing date multiplied by the exchange ratio, less the per share exercise price of each option outstanding, without interest. There were 172,964 options outstanding to purchase Riverview common stock and the closing price of Mid Penn common stock was at $30.76 per share on the fifth business day prior to the merger closing date. Additionally, 2,500 shares of restricted stock were paid out in cash, resulting in $776,000 of cash consideration relating to stock awards. Including $16,000 of cash paid in lieu of fractional shares, the total fair value of consideration paid was $142,984,000.

The assets and liabilities of Riverview were recorded on the consolidated balance sheets of Mid Penn at their estimated fair value as of November 30, 2021, and their results of operations have been included in the consolidated income statement of the Corporation since such date. Riverview has been fully integrated into Mid Penn; therefore, the amount of revenue and earnings of Riverview included in the consolidated income statement since the acquisition date is impracticable to provide.

Included in the purchase price was $50,995,000 of goodwill, a core deposit intangible of $4,096,000, and a customer list intangible of $2,160,000. The goodwill will not be amortized but will be measured annually for impairment or more frequently if circumstances require.

The core deposit intangible will be amortized over a ten-year period using a sum of the years' digits basis. During the year ended December 31, 2021, core deposit intangible amortization expense related to the Riverview acquisition totaled $62,000. Core deposit intangible amortization related to the Riverview acquisition for the five years beginning 2022 through 2026 is estimated to be $738,000, $664,000, $590,000, $515,000, and $440,000 per year, respectively, and $1,087,000 in total for the years after 2025.

The customer list intangible will be amortized over a ten-year period using a sum of the years' digits basis. During the year ended December 31, 2021, customer list intangible amortization expense related to the Riverview acquisition totaled $33,000. Customer list intangible amortization related to the Riverview acquisition for the five years beginning 2022 through 2026 is estimated to be $389,000, $350,000, $310,000, $272,000, and $232,000 per year, respectively, and $574,000 in total for the years after 2025.

The allocation of the purchase price is as follows:

(Dollars in thousands)		
Assets acquired:		
Cash and cash equivalents	$	316,079
Investment securities		226
Restricted stock		2,209
Loans		837,505
Goodwill		50,995
Core deposit intangible		4,096
Customer list intangible		2,160
Bank owned life insurance		32,120
Premises and equipment		11,819
Deferred income taxes		7,110
Accrued interest receivable		1,919
Other assets		6,683
Total assets acquired		1,272,921
Liabilities assumed:		
Deposits:		
Noninterest-bearing demand		182,291
Interest-bearing demand		371,283
Money Market		152,365
Savings		176,294
Time		199,414
Long-term debt		6,500
Subordinated debt and trust preferred securities		36,308
Accrued interest payable		439
Other liabilities		5,043
Total liabilities assumed		1,129,937
Consideration paid	$	142,984
Cash paid	$	792
Fair value of common stock issued		142,192

Accounting Standards Codification ("ASC") Topic 805, *Business Combinations,* allows for adjustments to goodwill for a period of up to one year after the merger date for information that becomes available that reflects circumstances at the merger date. The following table summarizes the final estimated fair value of the assets acquired and liabilities and equity assumed in the Riverview transaction.

(Dollars in thousands)

Total purchase price (consideration paid)	$	142,984
Net assets acquired:		
Cash and cash equivalents		316,079
Investment securities		226
Restricted stock		2,209
Loans		837,505
Core deposit intangible		4,096
Customer list intangible		2,160
Bank owned life insurance		32,120
Premises and equipment		11,819
Deferred income taxes		7,110
Accrued interest receivable		1,919
Other assets		6,683
Deposits:		
Noninterest-bearing demand		(182,291)
Interest-bearing demand		(371,283)
Money Market		(152,365)
Savings		(176,294)
Time		(199,414)
Long-term debt		(6,500)
Subordinated debt and trust preferred securities		(36,308)
Accrued interest payable		(439)
Other liabilities		(5,043)
		91,989
Goodwill	$	50,995

In general, factors contributing to goodwill recognized as a result of the Riverview 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 Riverview acquisition is not tax deductible.

The fair value of the financial assets acquired included loans receivable with a net amortized cost basis of $837,505,000. 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.

Gross amortized cost basis at November 30, 2021	$	850,920
Market rate adjustment		529
Credit fair value adjustment on pools of homogeneous loans		(13,117)
Credit fair value adjustment on impaired loans		(827)
Fair value of purchased loans at November 30, 2021	$	837,505

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 Riverview impaired loan portfolio as of November 30, 2021 is as follows:

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$ 5,591
Contractual cash flows not expected to be collected (nonaccretable discount)	(1,739)
Expected cash flows at acquisition	3,852
Interest component of expected cash flows (accretable discount)	(541)
Fair value of acquired loans	$ 3,311

The following table presents pro forma information as if the merger between Mid Penn and Riverview had been completed on January 1, 2020. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn merged with Riverview at the beginning of 2020. The supplemental pro forma earnings for the year ended December 31, 2020 exclude (i) $3,067,000 of merger related costs incurred by Mid Penn in 2021 related to the Riverview acquisition, and (ii) goodwill impairment of $24,754,000 recognized by Riverview in 2020. 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,	
	2021	2020
Net interest income after loan loss provision	$ 147,987	$ 116,989
Noninterest income	32,638	26,681
Noninterest expense	123,475	108,531
Net income	57,150	35,139
Net income per common share	3.73	2.72

(5) 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, 2021 and December 31, 2020 are as follows:

(Dollars in thousands)

December 31, 2021	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
Mortgage-backed U.S. government agencies	$ 49,760	$ 3	$ 283	$ 49,480
State and political subdivision obligations	3,899	26	11	3,914
Corporate debt securities	9,525	—	57	9,468
Total available for sale securities	63,184	29	351	62,862
Held to maturity securities:				
U.S. Treasury and U.S. government agencies	178,136	26	1,165	176,997
Mortgage-backed U.S. government agencies	61,157	440	272	61,325
State and political subdivision obligations	75,958	2,305	27	78,236
Corporate debt securities	14,006	133	71	14,068
Total held to maturity securities	329,257	2,904	1,535	330,626
Total	$ 392,441	$ 2,933	$ 1,886	$ 393,488

(Dollars in thousands)

December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
Mortgage-backed U.S. government agencies	$ 2	$ —	$ —	$ 2
Corporate debt securities	5,750	—	4	5,746
Total available-for-sale debt securities	5,752	—	4	5,748
Held-to-maturity debt 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 debt securities	128,292	4,524	22	132,794
Total	$ 134,044	$ 4,524	$ 26	$ 138,542

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 14, *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 23, *Recent Accounting Pronouncements*, for more information regarding the adoption of ASU 2019-04.

Investment securities having a fair value of $244,763,000 at December 31, 2021, and $102,959,000 at December 31, 2020, 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 $450,850,000 as of December 31, 2021 and $288,950,000 as of December 31, 2020.

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, 2021 and 2020.

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
December 31, 2021	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
Available for sale securities:									
Mortgage-backed U.S. government agencies	24	$ 45,476	$ 283	0	$ —	$ —	24	$ 45,476	$ 283
State and political subdivision obligations	2	1,168	11	0	—	—	2	1,168	11
Corporate debt securities	4	4,943	57	0	—	—	4	4,943	57
Total temporarily impaired available for sale securities	30	51,587	351	0	—	—	30	51,587	351
Held to maturity securities:									
U.S. Treasury and U.S. government agencies	91	$ 149,425	$ 1,165	0	$ —	$ —	91	$ 149,425	$ 1,165
Mortgage-backed U.S. government agencies	24	39,995	272	0	—	—	24	39,995	272
State and political subdivision obligations	17	5,302	25	1	255	2	18	5,557	27
Corporate debt securities	6	6,928	71	0	—	—	6	6,928	71
Total temporarily impaired held to maturity securities	138	201,650	1,533	1	255	2	139	201,905	1,535
Total	**168**	**$253,237**	**$ 1,884**	**1**	**$ 255**	**$ 2**	**169**	**$253,492**	**$ 1,886**

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
December 31, 2020	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
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
Total	**13**	**$ 10,083**	**$ 26**	**0**	**$ —**	**$ —**	**13**	**$ 10,083**	**$ 26**

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, 2021, the majority of the unrealized losses on securities in an unrealized loss position were attributable to U.S. Treasury and U.S. government agencies, and mortgage-backed U.S. government agencies. 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.

Mid Penn had no securities considered by management to be other-than-temporarily impaired as of December 31, 2021 and December 31, 2020, 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, 2021, 2020, and 2019 are shown in the table below.

(Dollars in thousands)	For the year ended December 31,		
	2021	2020	2019
Realized gains	$ 79	$ 479	$ 1,951
Realized losses	—	(12)	(73)
Net gains	$ 79	$ 467	$ 1,878

The table below illustrates the maturity distribution of investment securities at amortized cost and fair value at December 31, 2021.

(Dollars in thousands)	**Available for Sale**		**Held to Maturity**	
December 31, 2021	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 250	$ 250	$ 3,949	$ 3,965
Due after 1 year but within 5 years	3,000	2,967	53,357	54,691
Due after 5 years but within 10 years	6,576	6,554	188,839	188,687
Due after 10 years	3,598	3,611	21,955	21,958
	13,424	13,382	268,100	269,301
Mortgage-backed securities	49,760	49,480	61,157	61,325
	$ 63,184	$ 62,862	$ 329,257	$ 330,626

6) 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 $6,264,000 as of December 31, 2021 and $9,084,000 as of December 31, 2020), and the loans classified as "special mention" and "substandard" within Mid Penn's internal risk rating system as of December 31, 2021 and December 31, 2020, are as follows:

(Dollars in thousands)

December 31, 2021	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 606,484	$ 10,321	$ 2,757	$ 619,562
Commercial real estate	1,601,196	35,508	31,438	1,668,142
Commercial real estate - construction	371,337	—	1,397	372,734
Residential mortgage	319,862	294	3,067	323,223
Home equity	106,853	534	2,919	110,306
Consumer	10,429	—	—	10,429
	$ 3,016,161	$ 46,657	$ 41,578	$ 3,104,396

(Dollars in thousands)

December 31, 2020	Pass	Special Mention	Substandard	Total
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
	$ 2,351,764	$ 11,692	$ 20,585	$ 2,384,041

All PPP loans, whether disbursed in 2020 or 2021, 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, 2021.

Mid Penn had no loans classified as "Doubtful" as of December 31, 2021 and December 31, 2020.

Impaired loans by loan portfolio class as of December 31, 2021 and 2020 are summarized as follows:

(Dollars in thousands)	December 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ —	$ 31	$ —	$ 899	$ 931	$ —
Commercial real estate	854	1,243	—	8,215	8,574	—
Commercial real estate - construction	22	27	—	31	34	—
Residential mortgage	1,259	1,295	—	818	842	—
Home equity	2,377	2,377	—	2,365	2,395	—
Consumer	—	—	—	—	—	—
With no related allowance recorded and acquired with credit deterioration: *						
Commercial and industrial	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	2,231	2,909	—	1,419	1,693	—
Commercial real estate - construction	1,196	1,469	—	—	—	—
Residential mortgage	1,362	1,847	—	323	568	—
Home equity	86	111	—	—	13	—
Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial and industrial	$ 308	$ 339	$ 67	$ 553	$ 574	$ 533
Commercial real estate	287	359	121	887	994	274
Commercial real estate - construction	—	—	—	—	—	—
Residential mortgage	—	—	—	—	—	—
Home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total:						
Commercial and industrial	$ 308	$ 370	$ 67	$ 1,452	$ 1,505	$ 533
Commercial real estate	3,372	4,511	121	10,521	11,261	274
Commercial real estate - construction	1,218	1,496	—	31	34	—
Residential mortgage	2,621	3,142	—	1,141	1,410	—
Home equity	2,463	2,488	—	2,365	2,408	—
Consumer	—	—	—	—	—	—

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

The average recorded investment of impaired loans and related interest income recognized for the years ended December 31, 2021, 2020, and 2019 are summarized as follows:

(Dollars in thousands)	December 31, 2021		December 31, 2020		December 31, 2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial	$ 303	$ 2	$ 1,136	$ —	$ 178	$ 3
Commercial real estate	2,308	2	9,379	5	3,363	20
Commercial real estate - construction	26	—	44	—	32	—
Residential mortgage	974	26	998	26	854	30
Home equity	2,367	2	1,801	—	27	—
Consumer	—	—	—	—	—	—
With no related allowance recorded and acquired with credit deterioration:						
Commercial and industrial	$ —	$ —	$ 1	$ —	$ 18	$ —
Commercial real estate	1,485	—	1,423	—	1,597	—
Commercial real estate - construction	122	—	—	—	—	—
Residential mortgage	401	—	361	—	991	—
Home equity	8	—	1	—	4	—
Consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial and industrial	$ 211	$ —	$ 205	$ —	$ 962	$ —
Commercial real estate	1,011	—	752	—	424	—
Commercial real estate - construction	—	—	—	—	147	—
Residential mortgage	—	—	—	—	—	—
Home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total:						
Commercial and industrial	$ 514	$ 2	$ 1,342	$ —	$ 1,158	$ 3
Commercial real estate	4,804	2	11,554	5	5,384	20
Commercial real estate - construction	148	—	44	—	179	—
Residential mortgage	1,375	26	1,359	26	1,845	30
Home equity	2,375	2	1,802	—	31	—

Nonaccrual loans by loan portfolio class, including loans acquired with credit deterioration, as of December 31, 2021 and 2020 are summarized as follows:

(Dollars in thousands)	2021	2020
Commercial and industrial	$ 308	$ 1,452
Commercial real estate	3,372	10,520
Commercial real estate - construction	1,218	31
Residential mortgage	2,186	679
Home equity	2,463	2,365
	$ 9,547	$ 15,047

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 $177,000, $638,000, and $333,000, in the years ended December 31, 2021, 2020, and 2019, respectively. Mid Penn has no commitments to lend additional funds to borrowers with impaired or nonaccrual loans.

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, 2021 and 2020 are summarized as follows:

(Dollars in thousands)

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial	$ 1,378	$ 62	$ 404	$ 1,844	$ 617,718	$ 619,562	$ 96
Commercial real estate	32	55	769	856	1,665,055	1,665,911	—
Commercial real estate - construction	—	—	205	205	371,333	371,538	205
Residential mortgage	1,246	205	1,002	2,453	319,408	321,861	212
Home equity	403	—	2,377	2,780	107,440	110,220	—
Consumer	6	2	2	10	10,419	10,429	2
Loans acquired with credit deterioration:							
Commercial and industrial	—	—	—	—	—	—	—
Commercial real estate	—	3	1,628	1,631	600	2,231	—
Commercial real estate - construction	—	—	—	—	1,196	1,196	—
Residential mortgage	54	—	818	872	490	1,362	—
Home equity	—	—	—	—	86	86	—
Consumer	—	—	—	—	—	—	—
Total	$ 3,119	$ 327	$ 7,205	$ 10,651	$3,093,745	$3,104,396	$ 515

(Dollars in thousands)

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
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	—
Loans acquired with credit deterioration:							
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	—	—	—	—	—	—	—
Total	$ 1,667	$ 1,045	$ 13,240	$ 15,952	$2,368,089	$2,384,041	$ —

Activity in the allowance for loan and lease losses for the years ended December 31, 2021, 2020, and 2019, and the recorded investment in loans receivable as of December 31, 2021, 2020, and 2019 are as follows:

(Dollars in thousands)

Dec. 31, 2021	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Beginning balance	$ 3,066	$ 8,655	$ 134	$ 429	$ 507	$ 1	$ 590	$ 13,382
Charge-offs	(866)	(1,044)	(23)	(13)	—	(42)	—	(1,988)
Recoveries	13	207	8	11	—	19	—	258
Provisions (credits)	1,226	1,597	(81)	32	53	24	94	2,945
Ending balance	3,439	9,415	38	459	560	2	684	14,597
Ending balance: individually evaluated for impairment	67	121	—	—	—	—	—	188
Ending balance: collectively evaluated for impairment	$ 3,372	$ 9,294	$ 38	$ 459	$ 560	$ 2	$ 684	$ 14,409
Loans receivable:								
Ending balance	$ 619,562	$ 1,668,142	$ 372,734	$ 323,223	$ 110,306	$ 10,429	$ —	$ 3,104,396
Ending balance: individually evaluated for impairment	308	1,141	22	1,259	2,377	—	—	5,107
Ending balance: acquired with credit deterioration	—	2,231	1,196	1,362	86	—	—	4,875
Ending balance: collectively evaluated for impairment	$ 619,254	$ 1,664,770	$ 371,516	$ 320,602	$ 107,843	$ 10,429	$ —	$ 3,094,414

MID PENN BANCORP, INC.

(Dollars in thousands)

Dec. 31, 2020	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
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 (credits)	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	$ 2,533	$ 8,381	$ 134	$ 429	$ 507	$ 1	$ 590	$ 12,575
Loans receivable:								
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	$ 750,902	$ 1,089,135	$ 248,882	$ 200,700	$71,859	$ 7,053	$ —	$2,368,531

(Dollars in thousands)

Dec. 31, 2019	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
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 (credits)	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
Loans receivable:								
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

The recorded investments in troubled debt restructured loans at December 31, 2021 and 2020 are as follows:

(Dollars in thousands) December 31, 2021	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and industrial	$ 8	$ 8	$ 5
Commercial real estate	1,214	1,115	320
Commercial real estate - construction	40	40	22
Residential mortgage	647	645	472
	$ 1,909	$ 1,808	$ 819

(Dollars in thousands) December 31, 2020	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and industrial	$ 8	$ 8	$ 6
Commercial real estate	1,806	1,707	933
Commercial real estate - construction	40	40	31
Residential mortgage	728	725	510
	$ 2,582	$ 2,480	$ 1,480

Mid Penn's troubled debt restructured loans at December 31, 2021 totaled $819,000, and included (i) two accruing impaired residential mortgage loans to unrelated borrowers in compliance with the terms of the modifications totaling $435,000, and (ii) $384,000 of troubled debt restructurings attributable to eight loans among six relationships which were classified as nonaccrual impaired based upon a collateral evaluation in accordance with the guidance on impaired loans. The balance of these nonaccrual impaired troubled debt restructured loans as of December 31, 2021 was comprised of $320,000 in commercial real estate loans amongst two borrowers; one commercial real estate construction loan for $22,000, two residential mortgage loans for $37,000, and one commercial and industrial loan for $5,000. As of December 31, 2021, 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 2021.

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 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 no loans modified in 2021, three loans modified in 2020, and two loans modified in 2019 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, and 2019.

(Dollars in thousands) December 31, 2020	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial real estate	1	$ 593	$ 593	$ 535
Residential mortgage	2	51	51	47
	3	$ 644	$ 644	$ 582

(Dollars in thousands)

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

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, 2021, the principal balance of loans remaining in this CARES Act qualifying deferment status totaled $3,571,000, or less than 1 percent of the total loan portfolio. 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, 2021 and 2020.

(Dollars in thousands)

	For the year ended December 31, 2021	2020
Accretable yield, beginning of period	$ 40	$ 89
Acquisition of impaired loans	541	—
Accretable yield amortized to interest income	(1)	(49)
Accretable yield, end of period	$ 580	$ 40

The Bank has granted loans to certain of its executive officers, directors, and their related interests. The aggregate amount of these loans was $15,725,000 and $12,567,000 at December 31, 2021 and 2020, respectively. During 2021, $5,240,000 of new loans and advances were extended and repayments totaled $2,082,000. None of these loans were past due, in nonaccrual status, or restructured at December 31, 2021.

(7) Bank Premises and Equipment

At December 31, 2021 and 2020, bank premises and equipment are as follows:

(Dollars in thousands)

	2021	2020
Land	$ 5,546	$ 4,333
Buildings	23,462	19,863
Furniture, fixtures, and equipment	16,639	13,890
Leasehold improvements	1,987	1,680
Construction in progress	3,019	351
Total cost	50,653	40,117
Less accumulated depreciation	(17,421)	(15,231)
Total bank premises and equipment	$ 33,232	$ 24,886

The construction in progress as of December 31, 2021 consisted primarily of computer equipment upgrades to be placed in service at offices acquired during the Riverview merger, as well as some facility renovations in process of completion at year-end. 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.

Depreciation expense was $3,316,000 in 2021, $3,204,000 in 2020, and $2,815,000 in 2019.

(8) 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, 2022.

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 23, *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, 2021. There were no leases that had not commenced as of December 31, 2021.

On December 7, 2021 the Corporation announced a Retail Network Optimization Plan under which the Bank announced its intention to close certain retail locations throughout its expanded footprint. The branch closures occurred on or about March 4, 2022. During the fourth quarter of 2021, Mid Penn recognized $1,348,000 of right-of-use asset abandonment expense within post-acquisition restructuring expenses on the Consolidated Statements of Income due to the announced closure of six leased retail locations under the Retail Network Optimization Plan.

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, 2021 and December 31, 2020.

(Dollars in thousands)	December 31, 2021		December 31, 2020	
	Operating Leases	Finance Lease	Operating Leases	Finance Lease
Right of use asset	$ 9,055	$ 3,087	$ 10,157	$ 3,267
Lease liability	$ 11,363	$ 3,380	$ 11,200	$ 3,467
Weighted average remaining lease term (in years)	7.03	17.17	8.05	18.17
Weighted average discount rate	3.12%	3.81%	3.30%	3.81%

A summary of lease costs during the years ended December 31, 2021 and December 31, 2020 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, 2021	December 31, 2020	December 31, 2019
Finance lease cost:			
Amortization of right-of-use asset	$ 180	$ 180	$ 150
Interest expense on lease liability	130	133	113
Total finance lease cost	310	313	263
Operating lease cost	2,002	2,061	2,077
Short-term and equipment lease costs	29	40	55
Variable lease cost	—	—	—
Sublease income	(27)	(21)	(24)
Total lease costs	$ 2,314	$ 2,393	$ 2,371

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

(Dollars in thousands)	Year Ended	
	December 31, 2021	December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 130	$ 133
Operating cash flows from operating leases	2,113	2,105
Financing cash flows from finance leases	87	83

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, 2021	
	Operating Leases	Finance Lease
Lease payments due:		
Within one year	$ 2,426	$ 217
After one but within two years	2,042	217
After two but within three years	1,863	252
After three but within four years	1,476	259
After four but within five years	1,249	259
After five years	3,626	3,473
Total undiscounted cash flows	12,682	4,677
Discount on cash flows	(1,319)	(1,297)
Total lease liability	$ 11,363	$ 3,380

The following summary reflects the future minimum rental payments by year under Mid Penn's operating and finance leases as of December 31, 2021, including a breakdown of the sublease rental income and future minimum payments owed to related parties.

	As of December 31, 2021		
(Dollars in thousands)	Lease Obligation	Sublease Rental Income	Net Rental Expense
2022	$ 2,901	$ 27	$ 2,874
2023	2,446	—	2,446
2024	2,156	—	2,156
2025	1,739	—	1,739
2026	1,508	—	1,508
thereafter	7,099	—	7,099
	$ 17,849	$ 27	$ 17,822

The rental expense paid to related parties was $274,000 in 2021, $269,000 in 2020, and $279,000 in 2019. The future minimum payments to related parties are $274,000 (2022), $274,000 (2023), $274,000 (2024), $185,000 (2025), $178,000 (2026), and $1,171,000 thereafter.

The following summary reflects the future minimum rental payments by year under Mid Penn's operating 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		
(Dollars in thousands)	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
	$ 19,238	$ 21	$ 19,217

Rental expense in connection with leases was $2,393,000 in 2020 and $2,371,000 in 2019.

(9) Deposits

At December 31, 2021 and 2020, time deposits amounted to $626,657,000 and $417,245,000, respectively. Interest expense on certificates of deposit amounted to $5,602,000, $8,558,000, and $9,223,000 for the years ended December 31, 2021, 2020, and 2019, respectively. The aggregate amount of demand deposit overdrafts that were reclassified as loans were $197,000 at December 31, 2021, compared to $116,000 as of December 31, 2020.

Time deposits at December 31, 2021 mature as follows:

(Dollars in thousands)	Time Deposits	
	Less than $250,000	**$250,000 or more**
Maturing in 2022	$ 287,387	$ 89,373
Maturing in 2023	141,697	23,151
Maturing in 2024	29,782	5,215
Maturing in 2025	18,988	1,240
Maturing in 2026	20,834	2,917
Maturing thereafter	6,074	—
	$ 504,762	$ 121,895

Mid Penn had no brokered certificates of deposits as of December 31, 2021 and December 31, 2020.

Deposits and other funds from related parties held by Mid Penn at December 31, 2021 and 2020 amounted to $75,414,000 and $60,125,000, respectively.

(10) 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 $1,359,151,000 at December 31, 2021. The Bank had short-term borrowing capacity from the FHLB up to the Bank's unused borrowing capacity of $404,547,000 (equal to $935,225,000 of maximum borrowing capacity less letter of credit and other FHLB advances outstanding) at December 31, 2021 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, 2021 or 2020.

The Bank also has unused overnight lines of credit with other correspondent banks amounting to $35,000,000 at December 31, 2021. No draws have been made on these lines of credit and on December 31, 2021 and 2020, 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"). As of December 31, 2021 the balance of short-term borrowings was zero as Mid Penn paid off all PPPLF funding during the third quarter of 2021. The PPPLF allowed 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 were required to be repaid to the Federal Reserve immediately after the specific PPP loans collateralizing the related draws are repaid to the Bank.

The following table outlines Mid Penn's short-term borrowed funds at or for the years ended December 31, 2021 and 2020. 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.

(Dollars in thousands)	**December 31,**	
	2021	**2020**
FRB PPPLF borrowings:		
Balance at year end	$ —	$ 125,617
Weighted average rate at year end	—	0.35%
Maximum month-end balance	$ 307,753	$ 203,937
Average daily balance during the year	$ 140,909	$ 106,233
Weighted average rate during the year	0.35%	0.35%

(11) 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, 2021, and 2020, the Bank had long-term debt outstanding in the amount of $81,270,000 and $75,115,000, 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 $450,850,000 as of December 31, 2021 and $288,950,000 as of December 31, 2020.

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 8, *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, 2021 and December 31, 2020.

(Dollars in thousands)	**At December 31,**	
	2021	**2020**
FHLB fixed rate instruments:		
Due April 2022, 0.86343%	$ 70,000	$ 70,000
Due March 2023, 0.7514%	6,500	—
Due August 2026, 4.80%	1,353	1,606
Due February 2027, 6.71%	37	42
Total FHLB fixed rate instruments	77,890	71,648
Lease obligations included in long-term debt	3,380	3,467
Total long-term debt	$ 81,270	$ 75,115

Mid Penn made no prepayments of FHLB fixed rate instruments during the year ended December 31, 2021. 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.

The aggregate principal amounts due on FHLB fixed rate instruments subsequent to December 31, 2021 are $70,271,000 (2022), $6,784,000 (2023), $299,000 (2024), $313,000 (2025), $221,000 (2026) and $2,000 thereafter.

(12) Subordinated Debt and Trust Preferred Securities

Subordinated Debt Assumed November 2021 with the Riverview Acquisition

On November 30, 2021, Mid Penn completed its acquisition of Riverview and assumed $25,000,000 of Subordinated Notes (the “Riverview Notes”). In accordance with purchase accounting principles, the Riverview Notes were assigned a fair value premium of $2,302,000. The notes are treated as Tier 2 capital for regulatory reporting purposes.

The Riverview Notes were entered into by Riverview on October 6, 2020 with certain qualified institutional buyers and accredited institutional investors. The Riverview Notes have a maturity date of October 15, 2030 and initially bear interest, payable semi-annually, at a fixed annual rate of 5.75% per annum until October 15, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will be reset quarterly to an interest rate per annum equal to the then current three-month secured overnight financing rate (“SOFR”) plus 563 basis points, payable quarterly until maturity. Mid Penn may redeem the Notes at par, in whole or in part, at its option, anytime beginning on October 15, 2025.

Trust Preferred Securities Assumed November 2021 with the Riverview Acquisition

As a result of the merger with Riverview, Mid Penn assumed the subordinated debentures that Riverview had assumed in its acquisition of CBT Financial Corp. (“CBT”) on October 1, 2017 (the “CBT 2017 Notes”). In 2003 a trust formed by CBT which issued $5,155,000 of floating rate trust preferred securities as part of a pooled offering of such securities. The interest rate prior to Riverview entering into a fixed interest rate swap in 2020 adjusted quarterly to the three-month LIBOR rate plus 2.95%. CBT issued subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. CBT became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2008 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2033.

Similarly, in 2005, a trust formed by CBT issued $4,124,000 of fixed rate trust preferred securities as part of a pooled offering of such securities (the “CBT 2015 Notes”). CBT issued subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the offering; the debentures represent the sole asset of the trust. CBT became eligible to redeem the subordinated debentures, in whole but not in part, beginning in 2010 at a price of 100% of face value. Interest payments on the debentures may be deferred at any time at the election of Mid Penn for up to 20 consecutive quarterly periods. Interest on the debentures will accrue during the extension period, and all accrued principal and interest must be paid at the end of the extension period. During an extension period, Mid Penn may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to any of Mid Penn’s capital stock.

In accordance with purchase accounting principles, the CBT 2017 Notes and CBT 2015 Notes assumed from Riverview were assigned a fair value premium of $6,000. The subordinated debentures are treated as Tier 1 capital for regulatory reporting purposes.

Subordinated Debt Issued December 2020

On December 22, 2020, Mid Penn 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 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, 2021 and 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"). As a result of Mid Penn's merger with Riverview on November 30, 2021, $6,870,000 of the March 2020 Notes balance was redeemed as Riverview was a holder of the March 2020 Notes. The balance of March 2020 Notes outstanding as of December 31, 2021 was $8,130,000. The March 2020 Notes held at December 31, 2021 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, 2021 and 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.

Holders 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, 2021 and 2020, 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, 2021.

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.

Holders 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, 2021 and 2020, 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 in 2020 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 $44,000 at December 31, 2021 and $70,000 at December 31, 2020.

(13) Derivative Financial Instruments

As of December 31, 2021 and 2020, Mid Penn did not designate any derivative financial instruments as formal hedging relationships. Mid Penn's free-standing derivative financial instruments are required to be carried at their fair value on Consolidated Balance Sheets.

Interest Rate Swap – Trust Preferred Securities

As a result of the November 30, 2021 acquisition of Riverview, Mid Penn assumed interest rate swaps on certain trust preferred securities originally entered into by Riverview in June 2020 having a notional amount of $9,279,000 and a ten-year weighted average rate of 2.99 percent at inception. The interest rate swap had a weighted average remaining maturity of 8.5 years and an estimated fair value of $629,000 as of December 31, 2021. As of December 31, 2021, these swaps were not designated as formal hedging relationships therefore the change in fair value recorded on the Consolidated Statement of Income as a component of other income totaling $34,000 during the year ended December 31, 2021.

Mortgage Banking Derivative Financial Instruments

In connection with its mortgage banking activities, Mid Penn enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, Mid Penn enters into forward commitments for the future sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. The amount necessary to settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured.

The notional amount and fair value of Mid Penn's mortgage banking derivative financial instruments as of December 31, 2021 and December 31, 2020 are presented below.

(Dollars in thousands)	December 31, 2021		December 31, 2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	$ 16,107	$ 56	$ —	$ —
Forward Commitments	20,521	32	—	—

The following table presents Mid Penn's mortgage banking derivative financial instruments, their fair values, and their location in the Consolidated Balance Sheets as of December 31, 2021 and December 31, 2020.

(Dollars in thousands)	December 31, 2021		December 31, 2020	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Interest Rate Lock Commitments	$ 56	$ —	$ —	$ —
Forward Commitments	32	—	—	—
Total	$ 88	$ —	$ —	$ —

The following table presents Mid Penn's mortgage banking derivative financial instruments and the amount of the net gains or losses recognized within other noninterest income on the Consolidated Statements of Income for the years ended December 31, 2021 and 2020.

	For the year ended	
(Dollars in thousands)	December 31, 2021	December 31, 2020
Interest Rate Lock Commitments	$ 56	$ —
Forward Commitments	8	—
Total	$ 64	$ —

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.

The fair value, notional amount, and collateral posted related to fifteen outstanding loan-level interest rate swaps are presented below.

(Dollars in thousands)	December 31, 2021	December 31, 2020
Interest Rate Swap Contracts - Commercial Loans:		
Fair Value (a)	$ 102	$ 489
Notional Amount	109,577	22,331
Cash Collateral Posted (b)	1,600	500

(a) Represents the total of the equal and offsetting fair value assets and liabilities related to the loan level interest rate swaps
(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.

(Dollars in thousands)	December 31, 2021	December 31, 2020
Interest Rate Swap Contracts - Commercial Loans:		
Gross amounts recognized	$ 102	$ 489
Gross amounts offset	102	489
Net Amounts Presented in the Consolidated Balance Sheets	—	—
Gross amounts not offset:		
Financial instruments	—	—
Cash collateral	1,600	500
Net Amounts	$ 1,600	$ 500

(14) 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:

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, 2021 or 2020.

The following tables illustrate the assets measured at fair value on a recurring basis segregated by hierarchy fair value levels:

(Dollars in thousands)		Fair value measurements at December 31, 2021 using:		
Assets:	**Total carrying value at December 31, 2021**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Loans held for sale	$ 11,514	$ —	$ 11,514	$ —
Available-for-sale debt securities:				
Mortgage-backed U.S. government agencies	49,480	—	49,480	—
State and political subdivision obligations	3,914	—	3,914	—
Corporate debt securities	9,468	—	9,468	—
Other assets:				
Equity securities	500	500	—	—
Interest rate swap agreements	629	—	629	—
Mortgage banking derivative assets	88	—	88	—
	$ 63,991	$ 500	$ 63,491	$ —

(Dollars in thousands)		Fair value measurements at December 31, 2020 using:		
Assets:	**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)**
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	—
	$ 6,752	$ 515	$ 6,237	$ —

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).

The following tables illustrate the assets measured at fair value on a nonrecurring basis segregated by hierarchy fair value levels.

(Dollars in thousands)

Assets:	Total carrying value at December 31, 2021	Fair value measurements at December 31, 2021 using: Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired Loans	$ 508	$ —	$ —	$ 508

(Dollars in thousands)

Assets:	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)
Impaired Loans	$ 800	$ —	$ —	$ 800
Foreclosed Assets Held for Sale	77	—	—	77

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)

	Quantitative Information about Level 3 Fair Value Measurements				
December 31, 2021	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired Loans	$ 508	Appraisal of collateral (a), (b)	Appraisal adjustments (b)	21%-69%	30%

(Dollars in thousands)

	Quantitative Information about Level 3 Fair Value Measurements				
December 31, 2020	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%

(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.

The following methodologies and assumptions were used to estimate the fair value of certain assets and liabilities:

Loans held for sale – This category includes mortgage loans held for sale that are measured at fair value. Fair values as of December 31, 2021 were measured as the price that secondary market investors were offering for loans with similar characteristics.

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.

Mortgage Banking Derivative Assets:
Mortgage banking derivative assets represent the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors and the fair value of interest rate swaps. The fair values of the Corporation's interest rate locks, forward commitments and interest rate swaps represent the amounts that would be required to settle the derivative financial instruments at the balance sheet date. These characteristics classify interest rate swap agreements as Level 2. See "Note 13 - Derivative Financial Instruments," for additional information.

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.

The following table summarizes the carrying value and fair value of financial instruments at December 31, 2021 and 2020.

(Dollars in thousands)	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 913,752	$ 913,752	$ 303,724	$ 303,724
Available for sale investment securities	62,862	62,862	5,748	5,748
Held to maturity investment securities	329,257	330,626	128,292	132,794
Loans held for sale	11,514	11,787	25,506	26,262
Equity securities	500	500	515	515
Net loans and leases	3,089,799	3,118,416	2,370,659	2,444,105
Restricted investment in bank stocks	9,134	9,134	7,594	7,594
Accrued interest receivable	10,779	10,779	3,619	3,619
Interest rate swap agreements	629	629	489	489
Mortgage banking derivative assets	88	88	—	—
Financial liabilities:				
Deposits	$ 4,002,016	$ 4,046,217	$ 2,474,580	$ 2,496,799
Short-term borrowings	—	—	125,617	125,617
Long-term debt (a)	77,890	77,455	71,648	70,498
Subordinated debt	74,274	74,553	44,580	43,098
Accrued interest payable	1,791	1,791	2,007	2,007

(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, 2021 and 2020.

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, 2021 and 2020. Carrying values approximate fair values for cash and cash equivalents, loans held for sale, equity securities, restricted investment in bank stocks, accrued interest receivable and payable, interest rate swap agreements, mortgage banking derivatives, 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.

(Dollars in thousands)			Fair Value Measurements		
December 31, 2021	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial instruments - assets					
Held-to-maturity investment securities	$ 329,257	$ 330,626	$ —	$ 330,626	$ —
Net loans and leases	3,089,799	3,118,416	—	—	3,118,416
Financial instruments - liabilities					
Deposits	$4,002,016	$4,046,217	$ —	$ 4,046,217	$ —
Long-term debt (a)	77,890	77,455	—	77,455	—
Subordinated debt	74,274	74,553	—	74,553	—

(Dollars in thousands)			Fair Value Measurements		
December 31, 2020	**Carrying Amount**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
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	71,648	70,498	—	70,498	—
Subordinated debt	44,580	43,098	—	43,098	—

(15) 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 noncontributory defined benefit pension plans as a result of the acquisitions of Scottdale on January 8, 2018 and Riverview on November 30, 2021. None of Mid Penn's plans contained a promised interest crediting rate.

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, 2021) 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, 2021 and 2020, and a statement of the funded status at December 31, 2021 and 2020.

(Dollars in thousands)

	December 31,	
Change in benefit obligations:	2021	2020
Benefit obligations, January 1	$ 342	$ 404
Service cost	2	3
Interest cost	9	13
Change in experience	73	45
Change in assumptions	(5)	27
Benefit payments	(22)	(150)
Benefit obligations, December 31	$ 399	$ 342
Change in fair value of plan assets:		
Fair value of plan assets, January 1	$ —	$ —
Employer contributions	22	150
Benefit payments	(22)	(150)
Fair value of plan assets, December 31	$ —	$ —
Funded status at year end	$ (399)	$ (342)

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, 2021 and 2020, is as follows:

(Dollars in thousands)

	2021	2020
Accrued benefit liability	$ 399	$ 342

The amounts recognized in accumulated other comprehensive loss consist of:

(Dollars in thousands)

	December 31,	
	2021	2020
Net loss, pretax	$ 82	$ 22
Net prior service cost, pretax	(15)	(40)

The accumulated benefit obligation for health and life insurance plans was $399,000 and $342,000 at December 31, 2021 and 2020, respectively.

The components of net periodic postretirement benefit (income) cost for 2021, 2020 and 2019 are as follows:

(Dollars in thousands)

	2021	2020	2019
Service cost	$ 2	$ 3	$ 3
Interest cost	9	13	17
Amortization of prior service cost	(25)	(25)	(25)
Amortization of net (gain) or loss	9	—	(5)
Net periodic postretirement benefit (income) cost	$ (5)	$ (9)	$ (10)

Assumptions used in the measurement of Mid Penn's benefit obligations at December 31, 2021 and 2020 are as follows:

Weighted-average assumptions:	2021	2020
Discount rate	2.40%	2.25%
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, 2021, 2020 and 2019 are as follows:

Weighted-average assumptions:	2021	2020	2019
Discount rate	2.25%	3.00%	4.00%
Rate of compensation increase	2.00%	2.00%	3.00%

Assumed health care cost trend rates at December 31, 2021, 2020 and 2019 are as follows:

	2021	2020	2019
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	2024

Mid Penn expects to contribute $38,000 to its life and health benefit plans in 2022. The following table shows the estimated benefit payments for future periods.

(Dollars in thousands)

1/1/2022 to 12/31/2022	$ 38
1/1/2023 to 12/31/2023	34
1/1/2024 to 12/31/2024	31
1/1/2025 to 12/31/2025	35
1/1/2026 to 12/31/2026	26
1/1/2027 to 12/31/2031	164

(c) <u>Directors' Retirement Plan</u>

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 and was fully amortized as of December 31, 2021.

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, 2021 and 2020, and a statement of the status at December 31, 2021 and 2020. This Plan is unfunded.

(Dollars in thousands)

	December 31, 2021	December 31, 2020
Change in benefit obligations:		
Benefit obligations, January 1	$ 1,142	$ 1,077
Service cost	47	49
Interest cost	26	31
Actuarial loss (gain)	61	7
Change in assumptions	25	65
Benefit payments	(106)	(87)
Benefit obligations, December 31	$ 1,195	$ 1,142
Change in fair value of plan assets:		
Fair value of plan assets, January 1	$ —	$ —
Employer contributions	106	87
Benefit payments	(106)	(87)
Fair value of plan assets, December 31	$ —	$ —
Funded status at year end	$ (1,195)	$ (1,142)

Amounts recognized in other liabilities on the consolidated balance sheet at December 31, 2021 and 2020 are as follows:

(Dollars in thousands)

	2021	2020
Accrued benefit liability	$ 1,195	$ 1,142

Amounts recognized in accumulated other comprehensive loss consist of:

(Dollars in thousands)

	December 31, 2021	December 31, 2020
Net prior service cost, pretax	$ —	$ —
Net loss, pretax	189	110

The accumulated benefit obligation for the retirement plan was $1,195,000 at December 31, 2021 and $1,142,000 at December 31, 2020.

The components of net periodic retirement cost for 2021, 2020 and 2019 are as follows:

(Dollars in thousands)

	2021	2020	2019
Service cost	$ 47	$ 49	$ 51
Interest cost	26	31	42
Amortization of prior-service cost	7	—	—
Net periodic retirement cost	$ 80	$ 80	$ 93

Assumptions used in the measurement of Mid Penn's benefit obligations at December 31, 2021 and 2020 are as follows:

Weighted-average assumptions:	2021	2020
Discount rate	2.40%	2.25%
Change in consumer price index	1.40%	1.00%

Assumptions used in the measurement of Mid Penn's net periodic benefit cost for the years ended December 31, 2021, 2020 and 2019 are as follows:

Weighted-average assumptions:	2021	2020	2019
Discount rate	2.40%	2.25%	3.00%
Change in consumer price index	1.40%	1.00%	1.00%

Mid Penn expects to contribute $108,000 to its retirement plan in 2022. The following table shows the estimated benefit payments for future periods.

(Dollars in thousands)

1/1/2022 to 12/31/2022	$	108
1/1/2023 to 12/31/2023		101
1/1/2024 to 12/31/2024		89
1/1/2025 to 12/31/2025		91
1/1/2026 to 12/31/2026		88
1/1/2027 to 12/31/2031		350

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 $4,055,000 and $3,987,000 at December 31, 2021 and 2020, respectively.

(c) 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, 2021 and 2020, Mid Penn recognized $47,000 and $3,000 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, 2021 and 2020.

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, 2021 and 2020, and a statement of the status at December 31, 2021 and 2020.

(Dollars in thousands)

	December 31,	
Change in benefit obligations:	**2021**	**2020**
Benefit obligations, January 1	$ 5,401	$ 5,587
Service cost	83	79
Interest cost	134	180
Settlement (gain) loss	—	(85)
Actuarial loss (gain)	(309)	495
Settlement payments	(378)	(769)
Benefit payments	(87)	(86)
Benefit obligations, December 31	$ 4,844	$ 5,401
Change in fair value of plan assets:		
Fair value of plan assets, January 1	$ 4,939	$ 5,404
Return on plan assets	582	229
Employer contributions	285	200
Benefit payments	(87)	(86)
Administrative expenses	(39)	(39)
Settlement payments	(378)	(769)
Fair value of plan assets, December 31	$ 5,302	$ 4,939
Funded status at year end	$ 458	$ (462)

Amounts recognized on the consolidated balance sheet at December 31, 2021 and 2020 are as follows:

(Dollars in thousands)

	2021	**2020**
Accrued pension benefit (asset) liability	$ (458)	$ 462

Amounts recognized in accumulated other comprehensive loss consist of the following as of December 31 2021 and 2020:

(Dollars in thousands)	December 31,	
	2021	**2020**
Unrecognized actuarial gain	$ 602	$ 24

The accumulated benefit obligation for the retirement plan was $4,844,000 at December 31, 2021 and $5,401,000 at December 31, 2020.

The components of net periodic retirement cost for December 31, 2021 and 2020 are as follows:

(Dollars in thousands)

	2021	**2020**
Service cost	$ 83	$ 79
Interest cost	134	180
Expected return on plan assets	(227)	(273)
Recognized net actuarial gain	—	—
Net periodic retirement cost	$ (10)	$ (14)

Assumptions used in the measurement of Mid Penn's benefit obligations and net periodic pension costs at December 31, 2021 and 2020 are as follows:

Weighted-average assumptions:	2021	2020
Discount rate	3.00%	2.50%
Expected long-term return on plan assets	4.50%	4.50%
Rate of compensation increases	2.50%	2.50%

The plan's weighted-average asset allocations by investment category as of December 31, 2021 and 2020 are as follows:

Weighted-average asset allocations:	2021	2020
Cash and cash equivalents	12.64%	10.57%
Common stock	60.75%	58.45%
Corporate bonds	26.61%	30.98%
	100.00%	100.00%

The following tables set forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2021 and 2020.

(Dollars in thousands)	Fair Value Measurements		
December 31, 2021	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash and cash equivalents	$ 670	$ —	$ —
Common stock:			
Mining	43	—	—
Manufacturing	870	—	—
Transportation, Communications, Electric, Gas, and Sanitary Services	500	—	—
Wholesale Trade	23	—	—
Finance, Insurance, and Real Estate	1,633	—	—
Services	145	—	—
Corporate bonds	7	1,411	—
	$ 3,891	$ 1,411	$ —

(Dollars in thousands)	Fair Value Measurements		
December 31, 2020	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash and cash equivalents	$ 522	$ —	$ —
Common stock:			
Mining	23	—	—
Manufacturing	807	—	—
Transportation, Communications, Electric, Gas, and Sanitary Services	555	—	—
Finance, Insurance, and Real Estate	17	—	—
Services	1,348	—	—
Other	137	—	—
Corporate bonds	—	1,530	—
	$ 3,409	$ 1,530	$ —

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 does not expect to make contributions to the defined benefit pension plan in 2022. The following table shows the estimated benefit payments for future periods.

(Dollars in thousands)

1/1/2022 to 12/31/2022	$	93
1/1/2023 to 12/31/2023		95
1/1/2024 to 12/31/2024		207
1/1/2025 to 12/31/2025		257
1/1/2026 to 12/31/2026		253
1/1/2027 to 12/31/2031		1,547

(d) <u>Riverview Defined Benefit Plan</u>

As a result of the acquisition of Riverview on November 30, 2021, Mid Penn has assumed noncontributory defined benefit pension plans covering certain former employees of Riverview (or its predecessor-in-interest) as follows:

- Pursuant to the consolidation with Union Bancorp, Inc. ("Union") effective November 1, 2013, Riverview assumed Union's noncontributory defined benefit pension plan, which substantially covered all Union employees. The plan benefits were based on average salary and years of service. Union elected to freeze all benefits earned under the plan effective January 1, 2007.

- Riverview also assumed responsibility of Citizens National Bank of Meyersdale's ("Citizens") noncontributory defined benefit pension plan effective as of the December 31, 2015 merger date. The plan substantially covered all Citizens employees, and the plan benefits were based on average salary and years of service. Citizens elected to freeze all benefits earned under the plan effective January 1, 2013.

- As a result of a merger effective October 1, 2017, Riverview assumed responsibility of CBT Financial Corp's ("CBT") postretirement benefits plan, which is an unfunded postretirement benefit plan covering health insurance costs and post-retirement life insurance benefits for certain retirees.

Subsequent to the merger, Mid Penn disallowed any further participants to join the plans. Mid Penn's policy is to fund pension and post-retirement benefits as accrued. The plans' assets are managed by a third party and were primarily invested in a combination of cash and cash equivalents, equity securities and fixed income securities at the time of acquisition. The valuation of the plans' assets is subject to market fluctuations.

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 one-month period beginning with the November 30, 2021 acquisition date and ended December 31, 2021, and a statement of the status at December 31, 2021.

(Dollars in thousands)

	December 31, 2021
Change in benefit obligations:	
Benefit obligations, November 30, 2021	$ 8,278
Interest cost	19
Actuarial loss (gain)	(86)
Benefit payments	(46)
Benefit obligations, December 31	$ 8,165
Change in fair value of plan assets:	
Fair value of plan assets, November 30, 2021	$ 8,894
Return on plan assets	136
Benefit payments	(46)
Fair value of plan assets, December 31	$ 8,984
Funded status at year end	$ 819

Amounts recognized in other liabilities on the consolidated balance sheet as of December 31, 2021 is as follows:

(Dollars in thousands)

	2021
Accrued pension benefit (asset) liability	$ (819)

As of December 31, 2021 amounts related to the plan that have been recognized in accumulated other comprehensive loss but not yet recognized as a component of net periodic pension cost are as follows:

(Dollars in thousands)

	December 31, 2021
Unrecognized actuarial gain	$ 176

Net periodic pension expense and postretirement benefit cost include the following components from November 30, 2021 to December 31, 2021:

(Dollars in thousands)

	2021
Interest cost	$ 19
Expected return on plan assets	(46)
Net periodic pension (benefit) expense	$ (27)

(Dollars in thousands)

	2021
Service credit	$ —
Interest cost	—
Net periodic postretirement benefit credit	$ —

The accumulated benefit obligation was $8,165,000 at December 31, 2021 for the pension benefit and postretirement benefit plans.

Assumptions used in the measurement of Mid Penn's benefit obligations and net periodic pension costs at December 31, 2021 are as follows:

	Pension Benefits		Postretirement Life Insurance Benefits
	Union	Citizens	Citizens
Weighted-average assumptions:	2021	2021	2021
Discount rate	2.75%	2.75%	2.75%
Expected long-term return on plan assets	6.25%	6.25%	n/a

The following summarizes the actuarial assumptions used for the pension plan and postretirement benefits plan:

- For the pension plan, the selected long-term rate of return on plan assets was primarily based on the asset allocation of the plan's assets. Analysis of the historic returns on these asset classes and projections of expected future returns were considered in setting the long-term rate of return.
- The benefit offered under the postretirement benefits plan is fixed; therefore, the accumulated postretirement benefit obligation is not impacted by health care cost trends or the rate of compensation increase.

The plan's weighted-average asset allocations by investment category as of December 31, 2021 are as follows:

	Pension Benefits
Weighted-average asset allocations:	2021
Cash and cash equivalents	1.48%
Equity	41.14%
Fixed income	57.38%
	100.00%

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2021.

(Dollars in thousands) **December 31, 2021**	Fair Value Measurements Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 133	$ —	$ —
Mutual fund - equity:			
Large-cap value	376	—	—
Large-cap core	382	—	—
Mid-cap core	465	—	—
Small-cap core	306	—	—
International growth	592	—	—
International value	305	—	—
Large cap growth	727	—	—
Small / midcap growth	157	—	—
Mutual funds / ETFs - fixed income:			
Fixed income - core plus	2,020	—	—
Intermediate duration - Government credit	671	—	—
Long duration - Government credit	1,697	—	—
Long U.S. Treasury - ETF	767	—	—
Common / collective trusts equity:			
Large cap value	—	386	—
	$ 8,598	$ 386	$ —

The valuation used is based on quoted market prices provided by an independent third party.

The following table shows the estimated benefit payments for future periods.

(Dollars in thousands)	Pension Benefits	Postretirement Life Insurance Benefits
1/1/2022 to 12/31/2022	$ 540	$ 4
1/1/2023 to 12/31/2023	526	4
1/1/2024 to 12/31/2024	522	4
1/1/2025 to 12/31/2025	503	3
1/1/2026 to 12/31/2026	492	3
1/1/2027 to 12/31/2031	2,303	11

(16) 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 $1,135,000, $913,000, and $680,000 for the years ending December 31, 2021, 2020, and 2019, 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, 2021, 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, 2021.

Similarly, during 2021, Mid Penn assumed the 401(k) plan of Riverview. Riverview maintained a contributory 401(k) retirement plan for all eligible employees. Riverview's policy was to match 100 percent of the employee's voluntary contribution to the plan up to a maximum of 4% of the employees' compensation. The plan was frozen where all contributions were suspended subsequent to the merger.

(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 2021, 2020, or 2019.

(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 $46,000 at December 31, 2021 and $67,000 at December 31, 2020. The expense related to the plan was $1,000 in 2021, $3,000 in 2020, and $4,000 in 2019 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, 2021 and 2020, the Bank accrued a liability of $1,591,000 and $1,308,000, respectively, for this plan. The expense related to the plan was $35,000 in 2021, $42,000 in 2020, and $41,000 in 2019 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, 2021 and 2020, the Bank accrued a liability of approximately $201,000 and $214,000, respectively, for the Agreement. The expense related to the Agreement was $14,000 for 2021, $17,000 for 2020, and $16,000 for 2019 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 $1,464,000 and $1,422,000 at December 31, 2021 and 2020, respectively.

(e) Split Dollar Life Insurance Arrangements

At December 31, 2021 and 2020, the Bank had Split Dollar Life Insurance arrangements with two former executives for which the aggregate collateral assignment and cash surrender values are approximately $1,408,000 and $1,404,000, respectively. Mid Penn acquired Phoenix's Split Dollar Life Insurance arrangements in 2015 on select employees, which had aggregate cash surrender values of $4,248,000 at December 31, 2021 and $4,174,000 at December 31, 2020. Mid Penn acquired First Priority's Split Dollar Life Insurance arrangements in 2018 on select employees, which had aggregate cash surrender values of $3,575,000 at December 31, 2021 and $3,516,000 at December 31, 2020.

(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, 2021, 2020, and 2019 is presented below.

	2021	2020	2019
ESPP shares purchased	6,067	8,005	5,151
Average purchase price per share	$28.387	$19.324	$26.015

(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, 2021, 2020, and 2019 is presented below.

	2021	2020	2019
DSPP shares purchased	4,771	8,121	5,232
Average purchase price per share	$28.264	$19.217	$25.852

(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 vested 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 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 $1,207,000 at December 31, 2021 and $595,000 as of December 31, 2020. The expense related to the plan was $625,000 in 2021, $299,000 in 2020 and $223,000 in 2019 and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

(i) Rabbi Trust

As a result of the November 30, 2021 acquisition of Riverview, Mid Penn assumed certain benefit plan liabilities related to compensation arrangements totaling $7,708,000 within other liabilities on the Consolidated Balance Sheets, including certain executive non-qualified retirement benefits, deferred compensation plans, and executive employment and separation agreements associated with Riverview.

The details of the compensation arrangements for the year ended December 31, 2021 include:

(Dollars in thousands) **Compensation Arrangements**	**Fully Funded Gross Amounts**
Supplemental executive retirement agreements	$ 1,916
Executive deferred compensation agreement	1,908
Director deferred fee agreement	116
Executive employment agreements	3,349
Separation agreement	419
Total compensation agreements	$ 7,708

The obligations are fully funded through a Rabbi Trust having a cash balance of $7,708,000 within other assets on the Consolidated Balance Sheets as of December 31, 2021 to provide a source of funds in satisfying the obligations under the respective compensation arrangements.

(17) Income Taxes

Significant components of the Corporation's net deferred tax asset at December 31, 2021 and 2020 are shown below.

(Dollars in thousands)	**2021**	**2020**
Deferred tax assets:		
Allowance for loan and lease losses	$ 3,065	$ 2,810
Loan fees	1,409	1,908
Deferred compensation	2,661	722
Benefit plans	98	68
Unrealized loss on securities	63	—
Lease adjustments	485	219
Business combination adjustments	4,067	148
Acquired NOL, Section 1231, and charitable contribution carryforwards	745	91
Acquired AMT carryforward	777	—
Other	1,038	101
	14,408	6,067
Deferred tax liabilities:		
Depreciation	(843)	(394)
Bond accretion	(39)	(30)
Goodwill and intangibles	(364)	(359)
Prepaid expenses	(706)	(474)
Business combination adjustments	(547)	(641)
Benefit plans	(1,130)	(549)
Unrealized gain on securities	—	(1)
	(3,629)	(2,448)
Deferred tax asset, net	$ 10,779	$ 3,619

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, 2021, 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.

At December 31, 2021 Mid Penn had net operating loss ("NOL") carryforwards of $622,000 resulting from the November 30, 2021 acquisition of Riverview. These NOLs were assumed by Riverview in a previous acquisition and were generated during the tax years ended December 31, 2013, 2014, and 2015 and begin to expire in 2032. At December 31, 2020 Mid Penn had NOL carryforwards of $119,000 resulting from the 2018 acquisitions First Priority and Scottdale which were utilized and exhausted as of December 31, 2021. 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 Scottdale, 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, 2021, Mid Penn had $57,000 of charitable contribution carryforwards which were acquired from Riverview, while at December 31, 2020, Mid Penn had no charitable contribution carryforwards. During the years ended December 31, 2021 and 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 Scottdale. During 2021, and as a result of the Riverview acquisition, Mid Penn assumed $777,000 of AMT credits to be used on future tax returns.

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 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, AMT carryforwards, and Section 1231 losses to offset taxable income related to the Riverview acquisition is limited to $2,002,000 per year and $1,854,000 per year for the First Priority acquisition. All contribution carryforwards related to the Scottdale acquisition have been utilized as of December 31, 2021.

The provision for income taxes consists of the following:

(Dollars in thousands)	2021	2020	2019
Current tax provision			
Federal	$ 6,178	$ 6,340	$ 2,875
State	70	157	185
Total current tax provision	6,248	6,497	3,060
Deferred tax expense (benefit)			
Federal	$ 484	(1,367)	$ 665
State	—	—	—
Total deferred tax expense	$ 484	(1,367)	665
Total provision for income taxes	$ 6,732	$ 5,130	$ 3,725

A reconciliation of the federal income tax provision at the statutory rate of 21% for 2021, 2020 and 2019 to Mid Penn's actual federal income tax provision at its effective rate is as follows:

(Dollars in thousands)	2021	2020	2019
Provision at the expected statutory rate	$ 7,571	$ 6,581	$ 4,499
Effect of tax-exempt income	(477)	(499)	(683)
Effect of investment in life insurance	(75)	(63)	(66)
State income taxes, net of federal tax benefit	55	124	146.0
Nondeductible interest	14	26	59
Low income housing partnership tax credits	(853)	(861)	(83)
Nondeductible merger and acquisition expense	364	—	—
Other items	133	(178)	(147)
Provision for income taxes	$ 6,732	$ 5,130	$ 3,725

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, 2021, 2020, or 2019. There were no amounts accrued for interest and penalties at December 31, 2021 or 2020.

Mid Penn and its subsidiaries are subject to U.S. federal income tax and income tax for the states of Pennsylvania, New Jersey, and Maryland. With limited exceptions, Mid Penn is no longer subject to examination by taxing authorities for years before 2017.

(18) 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, 2021 and December 31, 2020, 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.

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.

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, 2021, $38,474,000 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 BANCORP, INC.

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2021, and December 31, 2020:

(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**
Mid Penn Bancorp, Inc.						
As of December 31, 2021						
Tier 1 Capital (to Average Assets)	$ 374,368	8.1%	$ 185,764	4.0%	$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	365,084	11.7%	217,579	7.0%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	374,368	12.0%	264,203	8.5%	N/A	N/A
Total Capital (to Risk Weighted Assets)	452,527	14.6%	326,369	10.5%	N/A	N/A
Mid Penn Bank						
As of December 31, 2021						
Tier 1 Capital (to Average Assets)	$ 398,773	8.6%	$ 185,721	4.0%	$ 232,151	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	398,773	12.8%	217,446	7.0%	201,914	6.5%
Tier 1 Capital (to Risk Weighted Assets)	398,773	12.8%	264,041	8.5%	248,510	8.0%
Total Capital (to Risk Weighted Assets)	413,442	13.3%	326,169	10.5%	310,637	10.0%
Mid Penn Bancorp, Inc.						
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
Mid Penn Bank						
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%

(1) The minimum amounts and ratios as of December 31, 2021 and December 31, 2020 include the full phase in of the capital conservation buffer of 2.5 percent required by the Basel III framework.

(19) 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, 2021 and 2020 for guarantees under letters of credit issued is not considered material.

As of December 31, 2021, commitments to extend credit amounted to $930,660,000 and standby letters of credit amounted to $55,609,000. As of December 31, 2020, commitments to extend credit amounted to $654,977,000 and standby letters of credit amounted to $39,468,000.

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. There was no balance of loans sold under the program at December 31, 2021, and the total balance of loans sold under the Program was $290,000 for the year ended December 31, 2020.

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, 2021, 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 Pennsylvania.

The Bank's highest industry concentration within the loan portfolio is in commercial real estate financing, which was 65.7 % and 56.6% as of December 31, 2021 and 2020, respectively.

(20) Commitments and Contingencies

Commitments

During the second quarter of 2020 Mid Penn's Board of Directors approved Mid Penn Bank to enter into a commitment to purchase a limited partnership interest in a low-income housing project to construct thirty-nine apartments and common amenities in Cumberland County, Pennsylvania. All of the units are expected to qualify 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 expected to be $10,805,000 which will be paid in installments over the course of construction of the low-income housing facilities. The investment in the limited partnership will be reported in other assets on the balance sheet and amortized over a ten-year period. The project has been conditionally awarded $1,205,000 in annual LIHTCs by the Pennsylvania Housing Finance Agency, with a total anticipated LIHTC amount of $12,046,000 to be received by Mid Penn over the ten-year amortization period. Mid Penn's commitment to purchase the limited partnership interest is 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 may deem necessary.

As a result of the Riverview acquisition on November 30, 2021, Mid Penn assumed a commitment to purchase a limited partnership interest in a low-income housing project to preserve and rehabilitate three buildings consisting of seventeen apartments and two commercial shops in Tamaqua, Schuylkill County. All the units are expected to qualify 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 expected to be $4,356,000 which will be paid in installments over the course of construction of the low-income housing facilities. The investment in the limited partnership will be reported in other assets on the balance sheet and amortized over a ten-year period. Additionally, the agreement commits Mid Penn to a construction loan in the maximum principal amount of $3,500,000 which will bear interest at 5.5 percent annum with a term of twenty-four months. The project has been conditionally awarded $484,000 in annual LIHTCs by the Pennsylvania Housing Finance Agency, with a total anticipated LIHTC amount of $4,840,000 to be received by Mid Penn over the ten-year amortization period. Mid Penn's commitment to purchase the limited partnership interest is 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 may deem necessary.

Contingencies

As of December 31, 2021 and December 31, 2020, Mid Penn had received a total of $38,880,000 and $20,883,000 of nonrefundable loan processing fees related to the loans disbursed, respectively, as a result of Mid Penn's participation in the SBA's Paycheck Protection Program ("PPP"). 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, 2021, 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.

(21) Common Stock

Treasury Stock Repurchase Program

Mid Penn adopted a treasury stock repurchase program initially effective March 19, 2020, and the buyback remains available as it was extended through March 19, 2022 by Mid Penn's Board of Directors on April 28, 2021. The treasury stock repurchase program authorized the repurchase of up to $15,000,000 of Mid Penn's outstanding common stock, which represents approximately 2.9% of the issued shares based on Mid Penn's closing stock price and shares issued as of December 31, 2021. 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 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, 2021, Mid Penn had repurchased 98,452 shares of common stock at an average price of $19.53 per share under the treasury stock repurchase program. 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.

Shares Converted Pursuant to Riverview Merger

As announced on a Form 8-K on December 1, 2021, pursuant to the terms of the Merger Agreement, each share of Riverview common stock issued and outstanding as of November 30, 2021 was converted into the right to receive 0.4833 shares of Mid Penn common stock. Cash was paid to Riverview shareholders in lieu of any fractional shares. As a result of the Merger, Mid Penn issued 4,519,776 shares of Mid Penn common stock.

Underwritten Public Follow-On Common Stock Offering

As previously announced on a Form 8-K on May 4, 2021, Mid Penn completed an underwritten public offering of 2,990,000 shares of common stock at a price of $25.00 per share, with the aggregate gross proceeds of the offering totaling $74,750,000 before underwriting discounts and offering expenses. The net proceeds of the offering, after deducting $4,512,000 of combined underwriting discounts and other offering expenses, were $70,238,000. The additional shares issued on May 4, 2021 significantly impacted the weighted average number of shares outstanding used for 2021 earnings per share calculations.

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, 2021, 118,069 shares have been granted under the Plan, of which 4,873 shares were forfeited and available for reissuance. During 2021, Mid Penn granted 32,155 restricted shares, 20,639 of which were granted to employees, while 11,516 were granted to directors. 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. During 2021, 2,427 shares were forfeited to Mid Penn due to the termination of employment of two plan participants. 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.

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.

The following table presents compensation expense and related tax benefits for restricted stock awards recognized on the consolidated statements of income.

(Dollars in thousands)	2021	2020	2019
Compensation expense	$ 696	$ 414	$ 346
Tax benefit	(146)	(87)	(73)
Net income effect	$ 550	$ 327	$ 273

At December 31, 2021 there was $1,238,000 of unrecognized compensation cost related to all non-vested share-based compensation awards. This cost is expected to be recognized through June 2025 with a weighted average recognition period of 2.2 years. 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. 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, 2021 and 2020.

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2021	41,427	$ 22.08
Vested	(23,833)	21.68
Forfeited	(2,427)	25.32
Granted	32,155	28.46
Non-vested at December 31, 2021	47,322	26.45

	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	41,427	22.08

(22) Parent Company Statements

CONDENSED BALANCE SHEETS

(Dollars in thousands)	December 31,	
	2021	2020
ASSETS		
Cash and cash equivalents	$ 44,825	$ 14,247
Investment in subsidiaries	524,861	286,545
Other assets	1,604	268
Total assets	$ 571,290	$ 301,060
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debt	$ 64,990	$ 44,580
Other liabilities	16,224	792
Shareholders' equity	490,076	255,688
Total liabilities and shareholders' equity	$ 571,290	$ 301,060

MID PENN BANCORP, INC.

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands)

	For Years Ended December 31,		
	2021	2020	2019
Income			
Dividends from subsidiaries	$ 3,897	$ 7,537	$ 7,189
Other income	35	13	—
Total Income	3,932	7,550	7,189
Expense			
Other expenses	(15,391)	(3,715)	(2,495)
Total Expense	(15,391)	(3,715)	(2,495)
(Loss) income before income tax and equity in undistributed earnings of subsidiaries	(11,459)	3,835	4,694
Equity in undistributed earnings of subsidiaries	37,638	21,616	12,486
Income before income tax	26,179	25,451	17,180
Income tax benefit	3,140	758	521
Net income	29,319	26,209	17,701
Comprehensive income	$ 29,534	$ 25,809	$ 20,422

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For Years Ended December 31,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 29,319	$ 26,209	$ 17,701
Equity in undistributed earnings of subsidiaries	(37,638)	(21,616)	(12,486)
Other, net	5,473	582	139
Net cash (used in) provided by operating activities	(2,846)	5,175	5,354
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash paid for acquisition	(792)	—	—
Investment in subsidiary	(27,353)	(10,500)	—
Purchases of premises and equipment	—	—	(81)
Net cash used in investing activities	(28,145)	(10,500)	(81)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(8,872)	(6,504)	(6,688)
Employee Stock Purchase Plan stock issuance	172	147	134
Director Stock Purchase Plan stock issuance	135	148	135
Proceeds from issuance of common stock	70,545	—	—
Treasury stock purchased	(128)	(1,795)	—
Subordinated debt issuance	—	27,150	—
Other, net	(283)	—	—
Net cash provided by (used in) financing activities	61,569	19,146	(6,419)
Net increase (decrease) in cash and cash equivalents	30,578	13,821	(1,146)
Cash and cash equivalents, beginning of year	14,247	426	1,572
Cash and cash equivalents, end of year	$ 44,825	$ 14,247	$ 426

(23) Recent Accounting Pronouncements

Accounting Standards Adopted in 2021

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 was effective for public business entities for fiscal years ending after December 15, 2020 and Mid Penn adopted this standard effective January 1, 2021 on a prospective basis.

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. The prospective adoption of this ASU resulted in disclosure changes only to Mid Penn's defined benefit pension and other postretirement plans in Note 15 – *Postretirement Benefit Plans* for the year ended December 31, 2021. The adoption of this standard did not impact Mid Penn's overall financial condition.

ASU 2019-12: The FASB issued ASU 2019-12, *Income Taxes (Topic 740)*

This ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to (i) the approach for intra-period tax allocation, (ii) the methodology for calculating income taxes in an interim period, and (iii) the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Finally, it clarifies that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but they could elect to do so. ASU 2019-12 is effective for interim and annual reporting periods beginning after December 15, 2020. ASU 2019-12 did not have a material impact on Mid Penn's overall financial condition.

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.

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.

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 8, *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 21, *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 Pending Adoption

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.

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MID PENN BANCORP, INC.

(24) Summary of Quarterly Consolidated Financial Data (Unaudited)

The following table presents summarized quarterly financial data for 2021 and 2020. 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)	**2021 Quarter Ended**			
	March 31	**June 30**	**September 30**	**December 31**
Interest Income	$ 29,168	$ 30,729	$ 30,740	$ 32,685
Interest Expense	3,843	3,852	3,746	3,313
Net Interest Income	25,325	26,877	26,994	29,372
Provision for Loan and Lease Losses	1,000	1,150	425	370
Net Interest Income After Provision for Loan Losses	24,325	25,727	26,569	29,002
Noninterest Income	4,712	5,652	5,509	5,660
Noninterest Expense	17,558	19,456	20,019	34,072
Income Before Provision for Income Taxes	11,479	11,923	12,059	590
Provision for Income Taxes	2,167	2,310	2,272	(17)
Net Income	$ 9,312	$ 9,613	$ 9,787	$ 607
Per Share Data:				
Basic Earnings Per Common Share	$ 1.11	$ 0.93	$ 0.86	$ 0.05
Diluted Earnings Per Common Share	$ 1.10	$ 0.93	$ 0.86	$ 0.05
Cash Dividends Declared	0.19	0.20	0.20	0.20

(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	$ 3,818	$ 6,833	$ 6,547	$ 9,011
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

(25) 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.

After initially closing its branch lobbies beginning on March 17, 2020 to curtail the spread of the virus, Mid Penn reopened its branch lobbies effective April 19, 2021 given the extensive measures taken to ensure the safety of the Bank's customers and employees. Additionally, higher vaccination rates have resulted in lifting many state restrictions related to mask requirements, limited occupancy levels, and social distancing.

The full impact of the coronavirus and its variants 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.

Coronavirus Aid, Relief, and Economic Security Act

Mid Penn has been a significant participating lender under the Paycheck Protection Program which was created when the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020 and concluded August 8, 2020. The PPP program was reinstated under the Consolidated Appropriations Act, 2021 which was signed into law on December 27, 2020 and concluded on May 31, 2021. 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. Included in total loans as of December 31, 2021 are $111,286,000 of PPP loans, net of deferred fees, with this total being comprised of (i) $101,175,000 of PPP loans, net of deferred fees, originated during the first six months of 2021; (ii) $5,210,000 of PPP 2020 loans, net of deferred fees, originated during 2020; and (iii) $4,901,000 of PPP loans acquired from Riverview. Comparatively, as of December 31, 2020, the total balance of PPP loans, net of deferred fees, was $388,313,000 and consisted entirely of PPP loans originated in 2020.

The SBA also provided a processing fee per loan to financial institutions who participated in the PPP, with the amount of such fee generally ranging from 1 percent to 5 percent as pre-determined by the SBA dependent upon the size of each respective credit. As of December 31, 2021, Mid Penn had received $38,880,000 of nonrefundable loan processing fees related to the loans disbursed because of Mid Penn's participation in the PPP initiative, consisting of (i) $20,883,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $17,997,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2021. In addition to receiving and deferring the processing fees, Mid Penn recorded and deferred related loan origination costs, and in accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*, the processing fees and loan origination costs are being amortized to interest and fees on loans and leases on the Consolidated Statements of Income over the life of each respective loan. As of December 31, 2021, Mid Penn had $3,811,000 of PPP deferred loan processing fees not yet realized as income, consisting of (i) $27,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2020, and (ii) $3,784,000 of loan processing fees received related to PPP loans funded during the year ended December 31, 2021. Comparatively, as of December 31, 2020, Mid Penn had $7,746,000 of PPP deferred loan processing fees not yet realized as income, all resulting from PPP loans funded during the year ended December 31, 2020. During the years ended December 31, 2021 and December 31, 2020, Mid Penn recognized $21,954,000 and $13,137,000 of PPP processing fees, respectively, within interest and fees on loans and leases on the Consolidated Statements of Income.

Additionally, the CARES Act, along with a joint agency statement issued by banking agencies, provided that short-term modifications made through December 31, 2020 in response to COVID-19 did not need to be accounted for as troubled debt restructurings. The Consolidated Appropriations Act, 2021 was signed into law on December 27, 2020, and extended this provision to January 1, 2022. As of December 31, 2021, the principal balance of loans in a CARES Act qualifying deferment status totaled $3,571,000, or less than 1 percent of the total loan portfolio, a reduction compared to December 31, 2020, when $11,681,000 of loans, also representing less than 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. 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. Most of the deferrals granted by Mid Penn have been 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 continues to accrue on loans modified under the CARES Act during the deferral period. Mid Penn remains in communication with each of the borrowers still in deferral status to assess the ongoing credit standing of the borrowers and may make further adjustments to a borrower's relationship at some future time if warranted for the specific situation.

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 Interim 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, 2021. Based upon that evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded, as of December 31, 2021, 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 58 of this report and is incorporated herein by reference.

The scope of management's assessment of the effectiveness of internal control over financial reporting excluded Riverview Financial Corporation, which Mid Penn acquired in a business combination on November 30, 2021. Total assets, excluding goodwill and intangibles assets, total liabilities, and total revenues of Riverview represented approximately 26 percent, 24 percent and 2 percent of the total assets, total liabilities and total revenues of Mid Penn's Consolidated Financial Statements as of and for the year ended December 31, 2021, respectively.

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, 2021. 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 2021 that have materially affected, or are reasonably likely to materially affect, Mid Penn's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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", "Delinquent Section 16(a) Reports", "Audit Committee Report", and "Governance of the Corporation" in Mid Penn's definitive proxy statement to be used in connection with the 2022 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 January 26, 2022. A copy is posted under Governance Documents in the Corporate Information section under the Investors link on the Corporation's website, www.midpennbank.com. The Corporation's Code of Ethics may be viewed on the Mid Penn website at **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 2022 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

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 2022 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, 2021:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	47,322	— (1)	86,804
Equity compensation plans not approved by security holders	—	—	—
Total	47,322	—	86,804

(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 2022 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 2022" of Mid Penn's definitive proxy statement to be used in connection with the 2022 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.

(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 Scottdale 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.)
2.3	Agreement and Plan of Merger, dated as of June 30, 2021, by and between Riverview Financial Corporation and Mid Penn Bancorp, Inc. (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on June 30, 2021.)
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 3.1 of Registrant's Current Report on Form 8-K filed with the SEC on February 24, 2022.)
4.1	Description of Registrant's Securities (Incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-4 filed on September 13, 2021.)
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 between Mid Penn Bank and the Named Executive Officers (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 to Change in Control Severance Agreements of Messrs. Micklewright, and Webb (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on May 24, 2019.)
10.10	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.)
10.11	Form of Amendment to Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on March 24, 2021.)
10.12	Form of Amendment to Change in Control Severance Agreements with Named Executive Officers (Incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the SEC on March 24, 2021.)
10.13	Form of Director Deferred Fee Agreement (Incorporated by reference to Exhibit 10.13 of the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2021.)
10.14	Director Retirement Plan (Incorporated by reference to Exhibit 10.14 of the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2021.)
10.15	Letter Agreement dated June 30, 2021, by and between Mid Penn Bancorp, Inc. and Castle Creek Capital Partners VI, L.P. (Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2021.)
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.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
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.

MID PENN BANCORP, INC.

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
Chair, President and
Chief Executive Officer
(Principal Executive Officer)

Date: March 15, 2022

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: /s/ Rory G. Ritrievi Rory G. Ritrievi Chair, President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2022
By: /s/ Justin T. Webb Justin T. Webb Interim Chief Financial Officer	March 15, 2022
By: /s/ Robert A. Abel Robert A. Abel, Director	March 15, 2022
By: /s/ Kimberly J. Brumbaugh Kimberly J. Brumbaugh, Director	March 15, 2022
By: /s/ Matthew G. DeSoto Matthew G. DeSoto, Director	March 15, 2022
By: /s/ Maureen M. Gathagan Maureen M. Gathagan, Director	March 15, 2022
By: /s/ Howard R. Greenawalt Howard R. Greenawalt, Director	March 15, 2022
By: /s/ Robert C. Grubic Robert C. Grubic, Director	March 15, 2022
By: /s/ Brian A. Hudson, Sr. Brian A. Hudson, Sr., Director	March 15, 2022
By: /s/ Gregory M. Kerwin Gregory M. Kerwin, Director	March 15, 2022
By: /s/ Donald F. Kiefer Donald F. Kiefer, Director	March 15, 2022
By: /s/ Theodore W. Mowery Theodore W. Mowery, Director	March 15, 2022
By: /s/ John E. Noone John E. Noone, Director	March 15, 2022
By: /s/ Noble C. Quandel, Jr. Noble C. Quandel, Jr., Director	March 15, 2022
By: /s/ David E. Sparks David E. Sparks, Director	March 15, 2022
By: /s/ William A. Specht, III William A. Specht, Director	March 15, 2022

MID PENN BANCORP, INC.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

Name	State of Incorporation
Mid Penn Bank	Pennsylvania
MPB Financial Services Group LLC	Pennsylvania
MPB Wealth Management LLC	Pennsylvania
MPB Risk Services LLC	Pennsylvania

EXHIBIT 23

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, 2022, 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, 2021.

/s/ RSM US LLP

Philadelphia, Pennsylvania
March 15, 2022

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, 2022

MID PENN BANCORP, INC.

EXHIBIT 31.1

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
Chair, President and CEO

Date: March 15, 2022

MID PENN BANCORP, INC.

EXHIBIT 31.2

CERTIFICATION

I, Justin T. Webb, 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/ Justin T. Webb
Interim Chief Financial Officer

Date: March 15, 2022

MID PENN BANCORP, INC.

EXHIBIT 32

**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, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rory G. Ritrievi, President and CEO, and I, Justin T. Webb, Interim 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
Chair, President and CEO

Date: March 15, 2022

By: /s/ Justin T. Webb
Interim Chief Financial Officer

Date: March 15, 2022

MID PENN BANCORP, INC.

Exhibit 99.1

Mid-Atlantic Custom Peer Group

Company	City	State
ACNB Corporation	Gettysburg	PA
BCB Bancorp, Inc.	Bayonne	NJ
Blue Foundry Bancorp	Rutherford	NJ
Capital Bancorp, Inc.	Rockville	MD
Chemung Financial Corporation	Elmira	NY
Citizens & Northern Corporation	Wellsboro	PA
Citizens Financial Services, Inc.	Mansfield	PA
Codorus Valley Bancorp, Inc.	York	PA
Evans Bancorp, Inc.	Williamsville	NY
Fidelity D & D Bancorp, Inc.	Dunmore	PA
First Bank	Hamilton	NJ
Greene County Bancorp, Inc.	Catskill	NY
Howard Bancorp, Inc.	Baltimore	MD
Mid Penn Bancorp, Inc.	Millersburg	PA
Norwood Financial Corp.	Honesdale	PA
Orange County Bancorp, Inc.	Middletown	NY
Orrstown Financial Services, Inc.	Shippensburg	PA
Parke Bancorp, Inc.	Washington Township	NJ
Peoples Financial Services Corp.	Scranton	PA
Shore Bancshares, Inc.	Easton	MD
The Community Financial Corporation	Waldorf	MD

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EDUCATION & DEVELOPMENT

6,353 INSTRUCTOR LED CLASSES SINCE UNIVERSITY INCEPTION

Our Mid Penn employees enjoy a wide range of career development opportunities. Mid Penn University offers more than 60 instructor-led classes on topics including technical banking skills, compliance, business development, and more. 2021 marked our 5th year of the Bank's Professional Development Associate (PDA) program where "rising stars" are provided opportunities to hold engaging and varied positions throughout our organization. This program continues to help us create a team of incredibly knowledgeable and diverse bankers that can deliver the best banking experience to our customers. In 2021, the University launched an Emerging Leaders program. This nine-month program, which is part of the University's Leadership Academy, allows less experienced leaders to explore and develop specific skills and techniques that leaders rely on to be successful in their professional and personal lives.

157 EMPLOYEES ENROLLED IN CERTIFICATION PROGRAMS

31 EMPLOYEES COMPLETED CERTIFICATIONS

331 CLASSES HELD

15% INCREASE

2,545 STUDENT ENROLLMENTS

9% INCREASE

242 IDP MEETINGS

25 COLLEGE INTERNS

11 PDAS

47 MENTORSHIPS

Outside of the classroom, employees regularly meet with talent development professionals to create and refine Individual Development Plans (IDP). These plans are used to support and monitor each employee's progress towards their personalized career goals. Through the IDP program, opportunities for mentoring and job shadowing are identified and offered to employees.

COMMUNITY IMPACT

Engaging with local communities has always been the cornerstone of our success. Mid Penn is a committed partner with local organizations that make the communities where we operate great places to live and work. We proudly support our employees who share their time, leadership and expertise with neighborhood organizations and crucial non-profits that are the backbone of our local communities.

2021 GIVING HIGHLIGHTS

$1.88 MILLION TO LOCAL COMMUNITY AND NON-PROFIT ORGANIZATIONS

1,000 HOURS VOLUNTEERED BY EMPLOYEES

$125,000 DONATED TO BREAST CANCER RESEARCH **$142,000** DONATED TO PROSTATE CANCER RESEARCH

545 COMMUNITY ORGANIZATIONS SUPPORTED

$40,000 DONATED BY EMPLOYEES FOR LOCAL NON-PROFITS

158 EDUCATIONAL & SCHOLARSHIP ORGANIZATIONS SUPPORTED

Board of Directors

RORY G. RITRIEVI
Chair, President, and Chief Executive Officer Mid Penn Bancorp, Inc. and Mid Penn Bank

JOHN E. NOONE
Lead Independent Director
Mid Penn Bancorp, Inc.
President Shamrock Investments, LLC

ROBERT A. ABEL
Principal and Shareholder
Brown Schultz Sheridan & Fritz

KIMBERLY J. BRUMBAUGH
Founder and Managing Partner
Brumbaugh Wealth Management, LLC

MATTHEW G. DESOTO
President and Chief Executive Officer
MI Windows and Doors, LLC

MAUREEN M. GATHAGAN
Partner Bittersweet Management, LLC
Member Gathagan Investment Company, LP

HOWARD R. GREENAWALT
Former Owner and Officer
Greenawalt & Company, P.C.

ROBERT C. GRUBIC
Chairman and Chief Executive Officer
Herbert, Rowland & Grubic, Inc.

BRIAN A. HUDSON, SR.
Former Executive Director
and Chief Executive Officer
Pennsylvania Housing Finance Agency

GREGORY M. KERWIN
Senior Partner
Kerwin & Kerwin, LLP

DONALD F. KIEFER
Former Chairman, President,
and Chief Executive Officer
The Scottdale Bank & Trust Company
Partner Lawrence Keister & Co.

THEODORE W. MOWERY
Founding Partner Gunn Mowery, LLC

NOBLE C. QUANDEL, JR.
Executive Chairman
Quandel Enterprises, Inc.

DAVID E. SPARKS
Founder, Former Chairman,
and Chief Executive Officer
First Priority Financial Corp.
and First Priority Bank

WILLIAM A. SPECHT, III
President and Chief Executive Officer
Seal Glove Manufacturing, Inc.
and Ark Safety

Officers

RORY G. RITRIEVI
Chair, President, and Chief Executive Officer

JUSTIN T. WEBB
Interim Chief Financial Officer

Executive Team

RORY G. RITRIEVI
Chair, President, and Chief Executive Officer

JUSTIN T. WEBB
Interim Chief Financial Officer
Chief Operating Officer

SCOTT W. MICKLEWRIGHT
Chief Revenue Officer

JOSEPH L. PAESE
Director of Trust and Wealth Management

JOAN E. DICKINSON
Chief Retail Officer

MISSION:

TO REWARD ALL OF OUR SHAREHOLDERS, CRITICALLY SERVE AND SUPPORT ALL OF OUR CUSTOMERS AND COMMUNITIES, AND CHERISH ALL OF OUR EMPLOYEES.

MID PENN BANCORP INC.

2407 Park Drive Harrisburg, PA 17110 | (717) 692-2133

MIDPENNBANK.COM