

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

**FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

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

For the fiscal year ended December 31, 2007

OR

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

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

Commission file number 1-13677

**MID PENN BANCORP, INC.**

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

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

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

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

**17061**  
*(Zip Code)*

**Registrant's telephone number, including area code 717.692.2133**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1.00	American Stock Exchange

**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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer  Accelerated Filer  Non-accelerated Filer

Indicated 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 \$26.50 per share, as reported by the AMEX, on June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter was approximately \$84,086,408.

As of February 1, 2007, the registrant had 3,489,417 shares of common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Excerpts from the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2007 are incorporated herein by reference in response to Part II, hereof. Portions of the registrant's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders is incorporated herein by reference in partial response to Part III, hereof.

---

---

[Table of Contents](#)

**MID PENN BANCORP, INC.  
FORM 10-K  
TABLE OF CONTENTS**

	<u>PAGE</u>
<b><u>PART I</u></b>	
Item 1 - <a href="#">Business</a>	1
Item 1A - <a href="#">Risk Factors</a>	14
Item 1B - <a href="#">Unresolved Staff Comments</a>	17
Item 2 - <a href="#">Properties</a>	17
Item 3 - <a href="#">Legal Proceedings</a>	18
Item 4 - <a href="#">Submission of Matters to a Vote of Security Holders</a>	18
<b><u>PART II</u></b>	
Item 5 - <a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters And Issuer Purchases of Equity Securities</a>	19
Item 6 - <a href="#">Selected Financial Data</a>	20
Item 7 - <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	20
Item 7A - <a href="#">Quantitative and Qualitative Disclosure About Market Risk</a>	21
Item 8 - <a href="#">Financial Statements and Supplementary Data</a>	21
Item 9 - <a href="#">Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</a>	22
Item 9A - <a href="#">Controls and Procedures</a>	22
Item 9B - <a href="#">Other Information</a>	24
<b><u>PART III</u></b>	
Item 10 - <a href="#">Directors and Executive Officers and Corporate Governance</a>	24
Item 11 - <a href="#">Executive Compensation</a>	24
Item 12 - <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	24
Item 13 - <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	25
Item 14 - <a href="#">Principal Accountant Fees and Services</a>	25
<b><u>PART IV</u></b>	
Item 15 - <a href="#">Exhibits and Financial Statement Schedules</a>	25
<a href="#">Signatures</a>	27
<b><u>EXHIBIT INDEX</u></b>	29

**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 of this report and other cautionary statements set forth elsewhere in this report.

**Mid Penn Bancorp, Inc.**

Mid Penn Bancorp, Inc. is a one-bank holding company, incorporated in the Commonwealth of Pennsylvania in August 1991. On December 31, 1991, MPB acquired, as part of the holding company formation, all of the outstanding common stock of Mid Penn Bank, and the Bank became a wholly owned subsidiary of MPB. MPB’s other wholly owned subsidiaries are Mid Penn Insurance Services, LLC, which provides a range of personal and investment insurance products and Mid Penn Investment Corporation, which is engaged in investing activities. Mid Penn Bancorp, Inc. and its wholly owned subsidiaries are collectively referred to herein as “MPB” or the “Company.” MPB’s primary business is to supervise and coordinate the business of its subsidiaries and to provide them with capital and resources.

MPB’s consolidated financial condition and results of operations consist almost entirely of that of Mid Penn Bank, which is managed as a single business segment. At December 31, 2007, MPB had total consolidated assets of \$509,757,000 total deposits of \$372,817,000 and total shareholders’ equity of \$40,444,000.

As of December 31, 2007, Mid Penn Bancorp, Inc. did not own or lease any properties. Mid Penn Bank owns the banking offices identified in Item 2. All MPB employees are employed by Mid Penn Bank, Mid Penn Insurance Services, LLC or Mid Penn Investment Corporation.

**Mid Penn Bank**

Millersburg Bank, the predecessor to Mid Penn Bank (the “Bank”), was organized in 1868, and became a state chartered bank in 1931, obtaining trust powers in 1935, at which time its name was changed to Millersburg Trust Company. In 1962, the Lykens Valley Bank merged with and into Millersburg Trust Company. In 1971, Farmer’s State Bank of Dalmatia merged with Millersburg Trust Company and the resulting entity adopted the name “Mid Penn Bank.” In 1985, the Bank acquired Tower City National Bank. In 1998, MPB acquired Miners Bank of Lykens, which was merged into Mid Penn Bank. The Bank is supervised by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. MPB’s and the Bank’s legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061. The Bank presently has 15 offices located throughout Dauphin, Northumberland, Schuylkill, and Cumberland Counties, Pennsylvania.

MPB’s primary business consists of attracting deposits from its network of community banking offices operated by the Bank. 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, installment loans, personal loans, 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. Deposits of the Bank are insured by the Bank Insurance Fund of the FDIC to the

---

## Table of Contents

maximum extent provided by law. In addition, the Bank provides a full range of trust services through its Trust Department. The Bank also offers other services such as Internet banking, telephone banking, cash management services, automated teller services and safe deposit boxes.

### ***Business Strategy***

The Bank provides an array of sophisticated products typically found only in major regional banks. These services are provided to small to middle market businesses, high net worth individuals, and retail consumers through 15 full service banking facilities. Several banking locations have seasoned management with significant lending experience who are responsible for credit and pricing decisions, subject to loan committee approval for larger credits. This decentralized relationship management approach, coupled with the continuity of service by its banking officers, enables the Bank to develop long-term customer relationships, maintain high quality service and provide quick responses to customer needs. MPB believes that its emphasis on local relationship banking, together with its conservative approach to lending and resultant strong asset quality, are important factors in the success and the growth of MPB.

The Bank seeks credit opportunities of good quality within its target market that exhibit positive historical trends, stable cash flows and secondary sources of repayment from tangible collateral. The Bank extends credit for the purpose of obtaining and continuing long-term relationships. Lenders are provided with detailed underwriting policies for all types of credit risks accepted by the Bank and must obtain appropriate approvals for credit extensions in excess of conservatively assigned individual lending limits. The Bank also maintains strict documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered might be reduced.

At December 31, 2007, the Bank had 134 full-time and 20 part-time employees. A collective bargaining agent represents none of the employees, and the Bank believes it enjoys good relations with its personnel.

### **Lending Activities**

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

- to establish a diversified commercial loan portfolio; and
- to provide a satisfactory return to MPB'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. 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, 2007, the Bank's highest concentrations of credit were in hotel/motel and multiple-family housing financings and most of the Bank's business activity with customers was located in Central Pennsylvania, specifically in Dauphin, lower Northumberland, Western Schuylkill, and Cumberland Counties.

---

## [Table of Contents](#)

### **Investment Activities**

MPB's investment portfolio is used to improve earnings through investments of funds in higher-yielding assets, while maintaining asset quality, which provide the necessary balance sheet liquidity for MPB. MPB does not have any significant concentrations within investment securities.

MPB's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded on the balance sheet at market value. MPB's investments include US Treasury, agency and municipal securities that are given a market price relative to investments of the same type with similar maturity dates. As the interest rate environment of these securities changes, MPB's existing securities are valued differently in comparison. This difference in value, or unrealized gain, amounted to \$434,000, net of tax, as of December 31, 2007. A majority of the investments are high quality United States and municipal securities that if held to maturity are expected to yield no loss to the Bank.

For additional information with respect to MPB's business activities, see Part II, Item 7 of this report.

### **Sources of Funds**

The Bank primarily uses deposits and borrowings to finance lending and investment activities. Borrowing sources include advances from the Federal Home Loan Bank of Pittsburgh, reverse repurchase agreements with investment banks and overnight borrowings from the Bank's customers and correspondent bank. All borrowings, except for the line of credit with the Bank's correspondent bank, require collateral in the form of loans or securities. Borrowings are, therefore, limited by collateral levels and the available lines of credit extended by the Bank's creditors. As a result, deposits remain key to the future funding and growth of the business. Deposit growth within the banking industry has been generally slow due to strong competition from a variety of financial services companies. This competition may require financial institutions to adjust their product offerings and pricing to adequately grow deposits.

### **Competition**

The banking business is highly competitive, and the profitability of MPB depends principally upon the Bank's ability to compete in its market area. The Bank actively competes with other financial services companies for deposit and loan business. Competitors include other commercial banks, savings banks, savings and loan associations, insurance companies, securities brokerage firms, credit unions, finance companies, mutual funds, and money market funds. 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 significantly larger than the Bank 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 competitors may not be. There are relatively few barriers for companies wanting to enter into the financial services industry. For more information, see the "Supervision and Regulation" section below.

MPB has been able to compete effectively with other financial institutions by emphasizing technology and customer service, including local branch decision making on loans, establishing long-term customer relationships and building customer loyalty, and providing

---

## Table of Contents

products and services designed to address the specific needs of its customers. The Gramm-Leach-Bliley Act (see discussion below), which breaks down many barriers between the banking, securities and insurance industries, may significantly affect the competitive environment in which MPB operates.

The growth of mutual funds over the past decade has made it increasingly difficult for financial institutions to attract deposits. The continued flow of cash into mutual funds, much of which is made through tax deferred investment vehicles such as 401(k) plans, and a generally strong economy, have, until recently, fueled high returns for these investments, in particular, certain equity funds. These returns perpetuated the flow of additional investment dollars into mutual funds and other products not traditionally offered by banks. In addition, insurance companies recently have become more significant competitors for deposits through their thrift subsidiaries.

Further, MPB's success is dependent to a significant degree on economic conditions in Central Pennsylvania, especially in Dauphin, lower Northumberland, Western Schuylkill and eastern Cumberland Counties, which we define as our primary market. The banking industry is affected by general economic conditions including the effects of inflation, recession, unemployment, real estate values, trends in the national and global economics, and other factors beyond our control. An economic recession or a delayed recovery over a prolonged period of time in the Central Pennsylvania area 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. We cannot assure you that further adverse changes in the local economy would not have a material adverse effect on MPB's consolidated financial condition, results of operations, and cash flows.

## **Supervision and Regulation**

### *General*

Bank holding companies and banks are extensively regulated under both Federal and state laws. The regulation and supervision of MPB and the Bank are designed primarily for the protection of depositors, the FDIC, and the monetary system, and not MPB or its shareholders. Enforcement actions may 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 any enforcement action is taken by a banking regulator, the value of an equity investment in MPB could be substantially reduced or eliminated.

Federal and state banking laws contain numerous provisions affecting various aspects of the business and operations of MPB and the Bank. MPB is subject to, among others, the regulations of the Securities and Exchange Commission and the Federal Reserve Board and the Bank is subject to, among others, the regulations of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The following descriptions of and references to applicable statutes and regulations are not intended to be complete descriptions of these provisions or their effects on MPB or the Bank. They are summaries only and are qualified in their entirety by reference to such statutes and regulations.

### *Holding Company Regulation*

MPB is a registered bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (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 bank holding companies, including the power to impose substantial fines and civil penalties.

---

## Table of Contents

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

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

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

The Gramm-Leach Bliley Act ("GLB") became effective on March 11, 2000. The primary purpose of GLB was to eliminate barriers between investment banking and commercial banking and to permit, within certain limitations, the affiliation of financial service providers. Generally, GLB:

- repealed the historical restrictions against, and eliminated many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers,
- provided a uniform framework for the activities of banks, savings institutions and their holding companies,
- broadened the activities that may be conducted by and through national banks and other banking subsidiaries of bank holding companies,
- provided an enhanced framework for protecting the privacy of consumers' information,
- adopted a number of provisions related to the capitalization, membership, corporate governance and other measures designed to modernize the Federal Home Loan Bank System,
- modified the laws governing the implementation of the Community Reinvestment Act, and
- addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

More specifically, under GLB, bank holding companies, such as MPB, that meet certain management, capital, and Community Reinvestment Act standards, are permitted to become financial holding companies and, by doing so, to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature, incidental to such financial activities, or complementary to such activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the FDIC Improvement Acts prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. The required filing is a declaration that the bank holding company wishes to become a financial holding company and meets all applicable requirements.



## Table of Contents

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 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 to be closely related to banking.

In addition to permitting financial services providers to enter into new lines of business, the law allows firms the freedom to streamline existing operations and to potentially reduce costs. The Act may increase both opportunity as well as competition. Many community banks are less able to devote the capital and management resources needed to facilitate broad expansion of financial services including insurance and brokerage services.

### *Corporate Governance*

On July 30, 2002, the Sarbanes-Oxley Act of 2002 was enacted. The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established:

- new requirements for audit committees, including independence, expertise and responsibilities;
- additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company;
- new standards for auditors and regulation of audits;
- increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and
- new and increased civil and criminal penalties for violations of the securities laws.

The SEC and AMEX have adopted numerous rules implementing the provisions of the Sarbanes-Oxley Act that affect MPB. The changes are intended to allow shareholders to monitor more effectively the performance of companies and management. Increased costs have been approximately \$200,000 annually related to MPB's compliance with the Sarbanes-Oxley Act.

### *Bank Regulation*

The Bank, a Pennsylvania-chartered institution, is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and the FDIC. The deposits of the Bank are insured by the FDIC to the extent provided by law. The FDIC assesses deposit insurance premiums the amount of which may, in the future, depend in part on the condition of the Bank. Moreover, the FDIC may terminate deposit insurance of the Bank under certain circumstances. The Bank regulatory agencies have broad enforcement powers over depository institutions under their jurisdiction, including the power to terminate deposit insurance, to impose fines and other

---

## [Table of Contents](#)

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 include, but are not limited to, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and the safety and soundness of banking practices.

### *Capital Requirements*

Under risk-based capital requirements for bank holding companies, MPB 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" and together with Tier 2 Capital, Total Capital"). The remainder may consist of subordinated debt, non-qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 Capital").

In addition, the Federal Reserve Board 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% 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 from at least 4-5%. 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 Board will continue to consider a "Tangible Tier 1 Leverage Ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. The Federal Reserve Board has not advised MPB of any specific minimum Tier 1 leverage ratio applicable to it.

The Bank is subject to similar capital requirements adopted by the FDIC. The FDIC has not advised the Bank of any specific minimum leverage ratios applicable to it.

The capital ratios of MPB and the Bank are described in Note 18 to MPB's Consolidated Financial Statements.

Banking regulators continue to indicate their desire to further develop capital requirements applicable to banking organizations. Changes to capital requirements could materially affect the profitability of MPB or the market value of MPB stock.

### *FDIC Improvement Act*

As a result of the FDIC Improvement Act of 1991, banks are subject to increased reporting requirements and more frequent examinations by the bank regulatory agencies. The agencies also have the authority to dictate certain key decisions that formerly were left to management, including compensation standards, loan underwriting standards, asset growth, and payment of dividends. Failure to comply with these standards, or failure to maintain capital above specified levels set by the regulators, could lead to the imposition of penalties or the forced resignation of management. If a bank becomes critically undercapitalized, the banking agencies have the authority to place an institution into receivership.

---

## Table of Contents

### *Safety and Soundness Standards*

Pursuant to FDICIA, 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 internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and 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 the institution fails to submit an acceptable compliance plan or fails to implement an accepted plan, the agency must 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, and requiring an increase in the institution's ratio of tangible equity to assets.

### *Payment of Dividends and Other Restrictions*

MPB is a legal entity separate and distinct from its subsidiary, the Bank. There are various legal and regulatory limitations on the extent to which the Bank can, among other things, finance, or otherwise supply funds to, MPB. Specifically, dividends from the Bank are the principal source of MPB'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 MPB and the Bank from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound banking practice. The payment of dividends could, depending upon the financial condition of MPB and the Bank, be deemed to constitute such an unsafe or unsound practice.

### *Prompt Corrective Action*

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, which is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" or better 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 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

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

## Table of Contents

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 to be “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

### *Deposit Insurance*

Deposits of the Bank are insured by the FDIC through the Bank Insurance Fund (“BIF”). The insurance assessments paid by an institution are to be based on the probability that the fund will incur a loss with respect to the institution. The FDIC has adopted deposit insurance regulations under which insured institutions are assigned to one of the following three capital groups based on their capital levels: “well-capitalized,” “adequately capitalized” and “undercapitalized.” Banks in each of these three groups are further classified into three subgroups based upon the level of supervisory concern with respect to each bank. The resulting matrix creates nine assessment risk classifications to which are assigned deposit insurance premiums ranging from 0.00% for the best-capitalized, healthiest institutions, to 0.27% for undercapitalized institutions with substantial supervisory concerns.

The FDIC sets deposit insurance assessment rates on a semiannual basis and will increase deposit insurance assessments whenever the ratio of reserves to insured deposits in a fund is less than 1.25. While under the current assessment matrix, the Bank does not pay any assessments for deposit insurance, because of past bank failures there is a possibility that the FDIC will adjust the assessment matrix in the future and that as a result the Bank may have to start paying insurance assessments.

The Bank is also subject to quarterly assessments relating to interest payments on Financing Corporation (FICO) bonds issued in connection with the resolution of the thrift industry crisis. The FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the BIF and SAIF. The FICO assessments on BIF-insured deposits are set at an annual rate of .0168% of assessable deposits.

### *Environmental Laws*

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

In 1995, the Pennsylvania General Assembly enacted the Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act, which among other things, provides 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

---

## Table of Contents

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 regulated substance on or from the property, or known and willfully compelled the borrower to commit an action which caused such release or violate an environmental act. The Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act does not limit federal liability which still exists under certain circumstances.

### *Consumer Protection Laws*

There are a number of laws that govern the relationship between the Bank and its customers. For example, the Community Reinvestment Act is designed to encourage lending by banks to persons 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, for instance, conditioning the availability or terms of credit on the purchase of another banking product) further restrict the Bank's relationships with its customers.

### *Privacy Laws*

In 2000, the federal banking regulators issued final regulations implementing certain provisions of GLB governing the privacy of consumer financial information. The regulations limit the disclosure by financial institutions, such as MPB and the 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;
- provide annual notices of their privacy policies to their current customers; and
- provide a reasonable method for consumers to "opt out" of disclosures to nonaffiliated third parties.

### *Protection of Customer Information*

In 2001, the federal banking regulators issued final regulations implementing the provisions of GLB relating to the protection of customer information. The regulations, applicable to the MPB and the Bank, relate to administrative, technical, and physical safeguards for customer records and information. These safeguards are intended to:

- insure the security and confidentiality of customer records and information;
- protect against any anticipated threats or hazards to the security or integrity of such records; and

## Table of Contents

- protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

### *Affiliate Transactions*

Transactions between MPB and the Bank and its 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.

In 2002, the Federal Reserve adopted a new regulation, Regulation W, effective April 1, 2003, that comprehensively amends Sections 23A and 23B. The regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by bank and bank holding companies in recent years and authorized for financial holding companies under the GLB.

### *The USA Patriot Act*

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) was signed into law. The 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. 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.

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 Acts requirements could have serious legal and reputational consequences for the institution. 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.

---

## Table of Contents

### *Anti-Money Laundering and Anti-Terrorism Financing*

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 MPB 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. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the GLB Act 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 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.

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

Changes in regulations applicable to MPB or the Bank, or shifts in monetary or other government policies, could have a material affect on our business. MPB's and the Bank's business is also affected by the state of the financial services industry in general. As a result of legal and industry changes, management believes that the industry will continue to experience an increased rate of change as the financial services industry strives for greater product offerings, market share and economies of scale.

From time to time, legislation is enacted that has the effect of increasing the cost of doing business, 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. MPB cannot predict the likelihood of any major changes or the impact such changes might have on MPB and/or the Bank. Various congressional bills and other proposals have proposed a sweeping overhaul of the banking system, including 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; and tightening the regulation of bank derivatives activities; and allowing commercial enterprises to own banks.

MPB'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, curb inflation or combat recession. The Federal Reserve has a major impact 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 predict the nature and impact of future changes in monetary and fiscal policies.

From time to time, various types of federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or, if adopted, how such legislation would

---

## Table of Contents

affect the business of the Bank. 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.

### **Available Information**

Mid Penn Bancorp Inc.'s common stock is registered under Section 12(b) of the Securities Exchange Act of 1934 and is traded on the American Stock Exchange under the trading symbol MBP. Mid Penn Bancorp, Inc. is subject to the informational requirements of the Exchange Act, and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission. The reports, proxy statements and other information filed with the SEC are available for inspection and copying at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. Mid Penn Bancorp, Inc. is an electronic filer with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's Internet site address is [www.sec.gov](http://www.sec.gov).

MPB's headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061, and its telephone number is (717) 692-2133. MPB's Internet address is [www.midpennbank.com](http://www.midpennbank.com). MPB 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 practicable after filing with the Securities and Exchange Commission. MPB has adopted a Code of Ethics that applies to all employees. This document is also available on MPB's website. The information included on our website is not a part of this document.

You may also inspect materials and other information concerning Mid Penn Bancorp, Inc. at the offices of the American Stock Exchange, Inc. at 86 Trinity Place, New York, New York 10006. Our common stock is listed on the American Stock Exchange under the trading symbol MBP. The American Stock Exchange's Internet site address is [www.amex.com](http://www.amex.com).



**ITEM 1A. RISK FACTORS.**

*MPB Is Subject To Interest Rate Risk*

MPB's earnings and cash flows are largely dependent upon its 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 MPB'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 MPB receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) MPB's ability to originate loans and obtain deposits, (ii) the fair value of MPB's financial assets and liabilities, and (iii) the average duration of MPB's mortgage-backed securities 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, MPB'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 other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies, to reduce the potential effects of changes in interest rates on MPB's results of operations. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on MPB's financial condition and results of operations.

*MPB Is Subject To Lending Risk*

As of December 31, 2007, approximately 76.5% of MPB's loan portfolio consisted of commercial and industrial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because MPB's loan portfolio contains a significant number of commercial and industrial, 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. An increase in non-performing loans 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 MPB's financial condition and results of operations.

*MPB's Allowance For Possible Loan and Lease Losses May Be Insufficient*

MPB maintains an allowance for possible loan and lease losses, which is a reserve established through provisions for possible losses charged to expense, 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; present economic, political and regulatory conditions 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 MPB to make significant estimates of current credit risks and

## Table of Contents

future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem credits and other factors, both within and outside of MPB's control, may require an increase in the allowance. In addition, bank regulatory agencies periodically review MPB's 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, MPB will need additional provisions to increase the allowance for possible loan and lease losses. Any increases in the allowance will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on MPB's financial condition and results of operations.

### *Competition from other financial institutions may adversely affect MPB's profitability*

MPB's banking subsidiary faces substantial competition in originating, both commercial and consumer loans. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of its competitors enjoy advantages, 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 the Corporation's net income by decreasing the number and size of loans that its banking subsidiary originates and the interest rates they may charge on these loans.

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

MPB's banking subsidiary also competes with non-bank 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-bank competitors are not subject to the same extensive regulations that govern its banking operations. As a result, such non-bank competitors may have advantages over MPB's banking subsidiary in providing certain products and services. This competition may reduce or limit its margins on banking services, reduce its market share and adversely affect its earnings and financial condition.

### *MPB's Controls and Procedures May Fail or Be Circumvented*

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

---

## Table of Contents

### *MPB's ability to pay dividends depends primarily on dividends from its banking subsidiary, which is subject to regulatory limits*

MPB is a bank holding company and its operations are conducted by its subsidiaries. Its ability to pay dividends depends on its receipt of dividends from its subsidiaries. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of its subsidiaries to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that its subsidiaries will be able to pay dividends in the future or that MPB will generate adequate cash flow to pay dividends in the future. MPB's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

### *MPB May Not Be Able To Attract and Retain Skilled People*

MPB's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by MPB can be intense and MPB may not be able to hire people or to retain them. The unexpected loss of services of one or more of MPB's key personnel could have a material adverse impact on MPB's business because of their skills, knowledge of MPB's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. Other than Mr. Dakey's Employment Agreement, MPB does not currently have employment agreements or non-competition agreements with any of its other senior officers.

### *MPB Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility*

From time to time, customers make claims and take legal action pertaining to MPB's performance of its fiduciary responsibilities. Whether customer claims and legal action related to MPB's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to MPB they may result in significant financial liability and/or adversely affect the market perception of MPB 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 MPB's business, which, in turn, could have a material adverse effect on MPB's financial condition and results of operations.

### *The Trading Volume In MPB's Common Stock Is Less Than That Of Other Larger Financial Services Companies*

MPB's common stock is listed for trading on AMEX, 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 MPB's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which MPB has no control. Given the lower trading volume of MPB's common stock, significant sales of MPB's common stock, or the expectation of these sales, could cause MPB's stock price to fall.

## Table of Contents

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

MPB is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on MPB and its operations. Additional legislation and regulations that could significantly affect MPB'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. Further, 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. The exercise of regulatory authority may have a negative impact on MPB's results of operations and financial condition.

Like other bank holding companies and financial institutions, MPB must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, MPB is required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions, which fail to comply with these laws or make required reports.

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

None.

### **ITEM 2. PROPERTIES.**

With the exception of the Market Square and Halifax Offices, the Bank owns its main office, branch offices and certain parking facilities related to its banking offices, all of which are free and clear of any lien. The Bank's main office and all branch offices are located in Pennsylvania. The table below sets forth the location of each of the Bank's properties.

<u>Office and Address</u>	<u>Description of Property</u>
Main Office 349 Union Street Millersburg, PA 17061	Main Bank Office
Elizabethville Branch Office 4642 State Route 209 Elizabethville, PA 17023	Branch Bank
Dalmatia Branch Office School House Road Dalmatia, PA 17017	Branch Bank
Halifax Branch Office Halifax Shopping Center 3763 Peters Mountain Road Halifax, PA 17032	Branch Bank
Carlisle Pike Branch Office 4622 Carlisle Pike Mechanicsburg, PA 17050	Branch Bank
Harrisburg Branch Office 4098 Derry Street Harrisburg, PA 17111	Branch Bank

## Table of Contents

Harrisburg Branch Office 2615 North Front Street Harrisburg, PA 17110	Branch Bank
Tower City Branch Office 545 East Grand Avenue Tower City, PA 17980	Branch Bank
Dauphin Branch Office 1001 Peters Mountain Road Dauphin, PA 17018	Branch Bank
Miners-Lykens Branch Office 550 Main Street Lykens, PA 17048	Branch Bank
Allentown Boulevard Office 5500 Allentown Boulevard Harrisburg, PA 17112	Branch Bank
Market Square Office 17 N. Second Street Harrisburg, PA 17101	Branch Bank
Steelton Office 51 South Front Street Steelton, PA 17113	Branch Bank
Middletown Office 1100 Spring Garden Drive Middletown, PA 17057	Branch Bank
Camp Hill Office 2101 Market Street Camp Hill, PA 17011	Branch Bank

All of these properties are in good condition and are deemed by management to be adequate for the bank's purposes.

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

Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of MPB. There are no proceedings pending other than ordinary routine litigation incident to the business of MPB and of the Bank. In addition, management does not know of any material proceedings contemplated by governmental authorities against MPB or the Bank or any of its properties.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**PART II**

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

The information required by this Item 5, regarding market value, dividend payments, number of shareholders, and stock performance graph is set forth on pages 2 and 41 of MPB's 2007 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto, and incorporated herein by reference.

As of February 15, 2008, there were approximately 1,067 shareholders of record of MPB's common stock.

A dividend of \$0.20 per share was paid during each quarter of 2007.

## Table of Contents

### Issuer Purchases of Equity Securities

In September 2005, MPB announced a plan to repurchase shares of its outstanding common stock up to a total of 250,000 shares. The Board of Directors authorized repurchase from time to time at prevailing market prices in open market or in privately negotiated transactions as, in management's sole opinion, market conditions warrant and based on stock availability, price and MPB's financial performance. As of December 31, 2007, there was a maximum of 225,133 additional shares available for purchases under this program.

The following table sets forth a summary of the purchases by MPB on the open market, of its equity securities for the fourth quarter of 2007:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Dollar Value of Shares Purchased Under Program</u>
October 1-31, 2007	452	\$ 26.50	\$ 11,978.00
November 1-30, 2007	2,159	24.87	53,689.17
December 1-31, 2007	1,538	25.45	39,140.65
Quarterly Totals	<u>4,149</u>	<u>\$ 25.26</u>	<u>\$ 104,974.90</u>

MPB does not maintain any equity compensation plans.

### **ITEM 6. SELECTED FINANCIAL DATA.**

The information required by this Item is set forth on pages 40-41 of MPB's 2007 Annual Report to Shareholders, which page is included at Exhibit 13 hereto, and incorporated herein by reference.

### **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 and in documents incorporated by reference herein, including matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in MPB's 2007 Annual Report to Shareholders as incorporated by reference to Exhibit 13, 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 MPB 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.

MPB'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 MPB and the Bank's customers;

## Table of Contents

- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;
- the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- 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 MPB'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;
- technological changes;
- acquisitions and integration of acquired businesses;
- the failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities; and
- acts of war or terrorism.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of MPB's consolidated financial statements and should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto and other detailed information appearing elsewhere in this Annual Report.

The information required by this Item is set forth on pages 26-41 of MPB's 2007 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto, and incorporated herein by reference.

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

The information required by this Item is set forth on pages 36-39 of MPB's 2007 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto and incorporated herein by reference.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The information required by this Item is set forth on pages 5-25 of MPB's 2007 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto, and incorporated herein by reference.



---

[Table of Contents](#)

**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**

MPB carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of December 31, 2007. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, MPB's disclosure controls and procedures are effective in timely alerting them to material information relating to MPB (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

**Changes in Internal Controls Over Financial Reporting**

There have been no material changes in MPB's internal control over financial reporting during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, MPB's internal control over financial reporting.

**Mid Penn Bancorp, Inc. Management Report on Internal Controls Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a and 15(d) — 15(f) under the Exchange Act of 1934 ("1934 Act"). The corporation's internal control over financial reporting includes those policies and procedures that pertain to the corporation's ability to record, process, summarize, and report reliable financial data. All internal control systems have inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the corporation's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2007. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management has concluded that MPB's internal control over financial reporting, as of December 31, 2007, is effective based on the criteria set forth by COSO in *Internal Control—Integrated Framework*.

Parente Randolph, LLC, independent registered public accounting firm that audited MPB's financial statements, has issued an audit report on the effectiveness of the corporation's internal control over financial reporting as of December 31, 2007.

Alan W. Dakey  
President and  
Chief Executive Officer

Kevin W. Laudenslager  
Executive Vice President and  
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Mid Penn Bancorp, Inc.:

We have audited Mid Penn Bancorp, Inc. and Subsidiaries' (collectively, the "Corporation") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation'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. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of internal control over financial reporting 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 risks. 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.

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.

In our opinion, Mid Penn Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## Table of Contents

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and related consolidated statements of income, stockholders' equity, and cash flows of Mid Penn Bancorp, Inc. and Subsidiaries and our report dated February 29, 2008 expressed an unqualified opinion.

Williamsport, Pennsylvania  
February 29, 2008

### **ITEM 9B. OTHER INFORMATION.**

None.

## **PART III**

### **ITEM 10. DIRECTORS AND 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", "Compliance with Section 16(a) Reporting", "Audit Committee Report", and "Governance of the Corporation" in MPB's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to directors, officers and employees of the Company and the Bank. The Company amended the Code of Ethics twice in 2005 and a copy of the Code of Ethics is included as Exhibit 14 to the Form 8-K filed with the Securities and Exchange Commission on March 9, 2005. A request for the Company's Code of Ethics can be made either in writing to Alan W. Dakey, 349 Union Street, Millersburg, PA 17061 or by telephone at 717-692-2133.

### **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", "Election of Directors", "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" of MPB's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this Item, relating to beneficial ownership of MPB's common stock, is set forth under the caption "Beneficial Ownership of Mid Penn Bancorp's Stock Held By Principal Shareholders and Management" of MPB's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders, which pages are incorporated herein by reference. MPB does not maintain any equity compensation plans.

**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 MPB's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders, which page is 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 MPB's principal accountant, is set forth under the caption "Audit Committee Report" of MPB's definitive proxy statement to be used in connection with the 2008 Annual Meeting of Shareholders, which page is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) 1. Financial statements are incorporated by reference in Part II, Item 8 hereof.
- Report of Independent Registered Public Accounting Firm
  - Consolidated Balance Sheet
  - Consolidated Statement of Income
  - Consolidated Statement of Cash Flows
  - Consolidated Statement of Stockholders' Equity
  - Notes to Consolidated Financial Statements
2. 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.
3. The following Exhibits are filed as part of this filing on Form 10-K, or incorporated by reference hereto:
- 3(i) The Registrant's Articles of Incorporation.
  - 3(ii) The Registrant's By-laws.
  - 10.1 Mid Penn Bank's Profit Sharing Retirement Plan.
  - 10.2 Mid Penn Bank's Employee Stock Ownership Plan.
  - 10.3 The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005)

---

## Table of Contents

- 10.4 Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)
- 10.5 Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
- 10.6 Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
- 10.7 Executive Employment Agreement between Mid Penn Bank and Alan W. Dakey dated as of August 31, 2007. (Incorporated by reference to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007)
- 11 Statement re: Computation of Per Share Earnings. (Included herein at Exhibit 13, at page 6 of Registrant's 2007 Annual Report to Shareholders.)
- 12 Statements re: Computation of Ratios. (Included herein at Exhibit 13, at page 40 of Registrant's 2007 Annual Report to Shareholders.)
- 13 Excerpts from Registrant's 2007 Annual Report to Shareholders.
- 14 The Registrant's Code of Ethics. (Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on March 9, 2005)
- 21 Subsidiaries of Registrant.
- 23 Consent of Parente Randolph, LLC, independent auditors.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Chief Executive Officer's §1350 Certification.
- 32.2 Chief Financial Officer's §1350 Certification.

**SIGNATURES**

Pursuant to the requirements of Section 12 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.

By: /s/ Alan W. Dakey  
Alan W. Dakey  
Chairman of the Board, President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: February 29, 2008

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.

	<u>DATE</u>
By: <u>/s/ Alan W. Dakey</u> Alan W. Dakey President, Chief Executive Officer and Director (Principal executive officer)	February 29, 2008
By: <u>/s/ Kevin W. Laudenslager</u> Kevin W. Laudenslager Treasurer (Principal Financial and Principal Accounting Officer)	February 29, 2008
By: <u>/s/ Jere M. Coxon</u> Jere M. Coxon, Director	February 29, 2008
By: <u>/s/ Matthew G. DeSoto</u> Matthew G. DeSoto, Director	February 29, 2008
By: <u>/s/ A. James Durica</u> A. James Durica, Director	February 29, 2008
By: <u>/s/ Robert C. Grubic</u> Robert C. Grubic, Director	February 29, 2008
By: <u>/s/ Gregory M. Kerwin</u> Gregory M. Kerwin, Director	February 29, 2008
By: <u>/s/ Theodore W. Mowery</u> Theodore W. Mowery, Director	February 29, 2008

---

[Table of Contents](#)

By: /s/ Donald E. Sauve February 29, 2008  
Donald E. Sauve, Director

By: /s/ Edwin D. Schlegel February 29, 2008  
Edwin D. Schlegel, Director

By: /s/ Guy J. Snyder, Jr. February 29, 2008  
Guy J. Snyder, Director

By: /s/ William A. Specht, III February 29, 2008  
William A. Specht, Director

**EXHIBIT INDEX**

- 3(i) The Registrant's Articles of Incorporation.
- 3(ii) The Registrant's By-laws.
- 10.1 Mid Penn Bank's Profit Sharing Retirement Plan.
- 10.2 Mid Penn Bank's Employee Stock Ownership Plan.
- 10.3 The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005)
- 10.4 Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)
- 10.5 Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
- 10.6 Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
- 10.7 Executive Employment Agreement between Mid Penn Bank and Alan W. Dakey dated as of August 31, 2007. (Incorporated by reference to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007)
- 11 Statement re: Computation of Per Share Earnings. (Included herein at Exhibit 13, at page 6 of Registrant's 2007 Annual Report to Shareholders.)
- 12 Statements re: Computation of Ratios. (Included herein at Exhibit 13, at page 40 of Registrant's 2007 Annual Report to Shareholders.)
- 13 Excerpts from Registrant's 2007 Annual Report to Shareholders.
- 14 The Registrant's Code of Ethics. (Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on March 9, 2005)
- 21 Subsidiaries of Registrant.
- 23 Consent of Parente Randolph, LLC, independent auditors.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Chief Executive Officer's §1350 Certification.
- 32.2 Chief Financial Officer's §1350 Certification.



**ARTICLES OF INCORPORATION****OF****MID PENN BANCORP, INC.**

In compliance with the requirements of 15 Pa.C.S. Section 1306 (relating to Articles of Incorporation), the undersigned, desiring to be incorporated as a business corporation, hereby state that:

1. The name of the Corporation is Mid Penn Bancorp, Inc.
2. The address, including street and number, if any, of this Corporation's initial registered office in this Commonwealth is 349 Union Street, Millersburg, Pennsylvania 17061, and the county of venue is Dauphin.
3. The Corporation is incorporated under the provisions of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S. Section 1101 et seq.), as the same may be amended.
4. The purpose or purposes of the Corporation are to have unlimited power to engage in and to do any lawful act concerning any or all business for which corporations may be incorporated under the provisions of the Pennsylvania Business Corporation Law of 1988, as the same may be amended.
5. The aggregate number of shares that the Corporation shall have authority to issue is ten million (10,000,000) shares of Common Stock having a par value of One Dollar (\$1.00) per share.
6. The name and address, including street and number, if any, of each of the Incorporators, and the number and class of shares subscribed to by each Incorporator is:

<u>Name</u>	<u>Address</u>	<u>Number and Class of Shares</u>
Earl R. Etzweiler	R.D. #1, Box 316 Millersburg, PA 17061	1 share of Common Stock
Charles F. Lebo	141 Lebo Road Halifax, PA 17032	1 share of Common Stock
William G. Nelson	900 Center Street Millersburg, PA 17061	1 share of Common Stock
Eugene F. Shaffer	903 East Union Street Millersburg, PA 17061	1 share of Common Stock

7. No merger, consolidation, liquidation or dissolution of the Corporation, nor any action that would result in the sale or other disposition of all or substantially all of the assets of the Corporation shall be valid unless first approved by the affirmative vote of:

(a) the holders of at least eighty percent (80%) of the outstanding shares of Common Stock of the Corporation; or

(b) the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares of Common Stock of the Corporation, provided that such transaction has received the prior approval of at least eighty percent (80%) of all of the members of the Board of Directors.

8. Cumulative voting rights shall not exist with respect to the election of directors.

9. (a) The Board of Directors may, if it deems advisable, oppose a tender or other offer for the corporation's securities, whether the offer is in cash or in the securities of a corporation or otherwise. When considering whether to oppose an offer, the Board of Directors may, but is not legally obligated to, consider any relevant, germane or pertinent issue; by way of illustration, but not to be considered any limitation on the power of the Board of Directors to oppose a tender or other offer for this corporation's securities, the Board of Directors may, but shall not be legally obligated to, consider any or all of the following:

(i) Whether the offer price is acceptable based on the historical and present operating results or financial condition of the corporation;

(ii) Whether a more favorable price could be obtained for this corporation's securities in the future;

(iii) The social and economic effects of the offer or transaction on this corporation and any of its subsidiaries, employees, depositors, loan and other customers, creditors, shareholders and other elements of the communities in which this corporation and any of its subsidiaries operate or are located;

(iv) The reputation and business practice of the offeror and its management and affiliates as they would affect the shareholders, employees, depositors and customers of the corporation and its subsidiaries and the future value of the corporation's stock;

(v) The value of the securities (if any) which the offeror is offering in exchange for the corporation's securities, based on an analysis of the worth of the corporation or other entity whose securities are being offered;

(vi) The business and financial conditions and earnings prospects of the offeror, including, but not limited to, debt service and other existing or likely financial obligations

of the offeror, and the possible affect of such conditions upon this corporation and any of its subsidiaries and the other elements of the communities in which this corporation and any of its subsidiaries operate or are located;

(vii) Any antitrust or other legal and regulatory issues that are raised by the offer.

(b) If the Board of Directors determines that an offer should be rejected, it make take any lawful action to accomplish its purpose including, but not limited to, any or all of the following: advising shareholders not to accept the offer; litigation against the offeror; filing complaints with all governmental and regulatory authorities; acquiring the offeror corporation's securities; selling or otherwise issuing authorized but unissued securities or treasury stock or granting options with respect thereto; acquiring a company to create an antitrust

or other regulatory problem for the offeror; and obtaining a more favorable offer from another individual or entity.

10. Opt Out and Nonapplicability of Subchapter G. This Corporation specifically opts out and shall not be governed by Subchapter G, Control-share Acquisitions, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990. Subchapter G, Control-share Acquisitions, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990, shall not be applicable to the Corporation.

11. Opt Out and Nonapplicability of Subchapter H. This Corporation specifically opts out and shall not be governed by Subchapter H, Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990. Subchapter H, Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990, shall not be applicable to the Corporation.

12. Articles 7, 8, 9, 10, 11 and 12 shall not be amended unless first approved by the affirmative vote of:

(a) the holders of at least eighty percent (80%) of the outstanding shares of Common Stock of the Corporation; or

(b) the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares of Common Stock of the Corporation, provided that such amendment has received the prior approval of at least eighty percent (80%) of all of the members of the Board of Directors.

IN TESTIMONY WHEREOF, the incorporators have signed these Articles of Incorporation this 14th day of August, 1991.

/s/ Earl R. Etzweiler

---

Earl R. Etzweiler

/s/ Charles F. Lebo

---

Charles F. Lebo

/s/ William G. Nelson

---

William G. Nelson

/s/ Eugene F. Shaffer

---

Eugene F. Shaffer

**BY-LAWS  
of  
MID PENN BANCORP, INC.**

**Article 1**

**CORPORATION OFFICE**

Section 1.1 The Corporation shall have and continuously maintain in Pennsylvania a registered office which may, but need not, be the same as its place of business and at an address to be designated from time to time by the Board of Directors.

Section 1.2 The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may require.

**Article 2**

**SHAREHOLDERS MEETINGS**

Section 2.1 All meetings of the shareholders shall be held at such time and place as may be fixed from time to time by the Board of Directors.

Section 2.2 The annual meeting of the shareholders shall be held no later than the thirty-first day of May in each year, when the shareholders shall elect members to the Board of Directors and transact such other business as may properly be brought before the meeting.

Section 2.3 Special meetings of the shareholders may be called at any time by the Chairman of the Board, the President, a majority of the Board of Directors or of its Executive Committee or by shareholders entitled to cast at least twenty percent (20%) of the votes which all shareholders are entitled to cast at a particular meeting. At any time, upon written request of any person who has called a special meeting, it shall be the duty of the Secretary to fix the time of the meeting which, if the meeting is called pursuant to a statutory right, shall be held not more than sixty (60) days after the receipt of the request. If the Secretary neglects or refuses to fix the time of the meeting, the person or persons calling the meeting may do so.

Section 2.4 Written notice of all shareholder meetings (other than adjourned meetings of shareholders), shall state the place, date, hour, the purpose thereof and shall be served upon, or mailed, postage prepaid, or telegraphed, charges prepaid, at least ten days before such meeting, unless a greater period of notice is required by statute or by these By-laws, to each shareholder entitled to vote thereat at such address as appears on the transfer books for shares of the Corporation.

Section 2.5 When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the Board of Directors fixes a new record date for the adjourned meeting.

### **Article 3**

#### **QUORUM OF SHAREHOLDERS**

Section 3.1 The presence, in person or by proxy, of shareholders entitled to cast on the particular matter shall constitute a quorum for purposes of considering such matter, and unless otherwise provided by statute the acts of such shareholders at a duly organized meeting shall be the acts of the shareholders. If, however, any meeting of shareholders cannot be organized because of lack of a quorum, those present, in person or by proxy, shall have the power, except as otherwise provided by statute, to adjourn the meeting to such time and place as they may determine, without notice other than an announcement at the meeting, until the requisite number of shareholders for a quorum shall be present, in person or by proxy, except that in the case of any meeting called for the election of directors such meeting may be adjourned only for periods not exceeding fifteen (15) days as the holders of a majority of the shares present, in person or by proxy, shall direct, and those who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors. At any adjourned meeting at which a quorum shall be present or so represented, any business may be transacted which might have been transacted at the original meeting if a quorum had been present. The shareholders present, in person or by proxy, at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

### **Article 4**

#### **VOTING RIGHTS**

Section 4.1 Except as may be otherwise provided by statute or by the Articles of Incorporation, at every shareholders meeting, every shareholder entitled to vote thereat shall have the right to one vote for every share having voting power standing in such shareholder's name on the transfer books for shares of the Corporation on the record date fixed for the meeting.

Section 4.2 When a quorum is present at any meeting the voice vote of the holders of a majority of the stock having voting power, present, in person or by proxy, shall decide any question brought before such meeting except as provided differently by statute or by the Articles of Incorporation.

Section 4.3 Upon demand made by a shareholder entitled to vote at any election for directors before the voting begins, the election shall be by ballot.

---

## **Article 5**

### **PROXIES**

Section 5.1 Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such shareholder by proxy. Every proxy shall be executed in writing by the shareholder or such shareholder's duly authorized attorney in fact and filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Corporation. No unrevoked proxy shall be valid after eleven (11) months from the date of its execution, unless a longer time is expressly provided therein, but in no event shall a proxy, unless coupled with an interest, be voted after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker, unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation.

## **Article 6**

### **RECORD DATE**

Section 6.1 The Board of Directors may fix a time, not more than ninety (90) days prior to the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares. In such case, only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting or to receive payment of such dividend or distribution or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the transfer books for shares of the Corporation after any record date fixed as aforesaid. The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of such period, and in such case written or printed notice thereof shall be mailed at least ten (10) days before closing thereof to each shareholder of record at the address appearing on the records of the Corporation or supplied by such shareholder to the Corporation for the purpose of notice. While the stock transfer books of the Corporation are closed, no transfer of shares shall be made thereon. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to receive notice of, and vote at, a shareholders meeting, transferees of shares which are transferred on the books of the Corporation within ten (10) days next preceding the date of such meeting shall not be entitled to notice of or to vote at such meeting.

---

## **Article 7**

### **VOTING LISTS**

Section 7.1 The Secretary shall have charge of the transfer books for shares of the Corporation and shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with their addresses and number of shares held by each, which list shall be kept on file at the registered office or principal place of business of the Corporation. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the entire meeting for the purposes thereof.

Section 7.2 Failure to comply with the requirements of Section 7.1 shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania shall be prima facie evidence as to who are the shareholders entitled to exercise the rights of a shareholder.

## **Article 8**

### **JUDGES OF ELECTION**

Section 8.1 In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder, or such shareholder's proxy, appoint judges of election at the meeting. The number of judges shall be one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the majority of shares present and entitled to vote shall determine whether one or three judges are to be appointed. A person who is a candidate for office to be filled at the meeting shall not act as a judge.

Section 8.2 In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

Section 8.3 The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.



Section 8.4 On request of the presiding officer of the meeting, or of any shareholder, the judges of election shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

## **Article 9**

### **CONSENT OF SHAREHOLDERS IN LIEU OF MEETING**

Section 9.1 Any action required to be taken at a meeting of the shareholders, or of a class of shareholders, may be taken without a meeting, if a consent or consents in writing setting forth the action so taken shall be signed by all of the shareholders who would be entitled to vote at a meeting for such purpose and shall file with the Secretary of the Corporation.

## **Article 10**

### **DIRECTORS**

Section 10.1 Any shareholder who intends to nominate or to cause to have nominated any candidate for election to the Board of Directors (other than any candidate proposed by the Corporation's then existing Board of Directors) shall so notify the Secretary of the Corporation in writing not less than sixty (60) days prior to the date of any meeting of shareholders called for the election of directors. Such notification shall contain the following information to the extent known by the notifying shareholder.

- (a) the name and address of each proposed nominee;
- (b) the age of each proposed nominee;
- (c) the principal occupation of each proposed nominee;
- (d) the number of shares of the Corporation owned by each proposed nominee;
- (e) the total number of shares that to the knowledge of the notifying shareholder will be voted for each proposed nominee;
- (f) the name and residence address of the notifying shareholder; and
- (g) the number of shares of the Corporation owned by the notifying shareholder.

Any nomination for director not made in accordance with this Section shall be disregarded by the presiding officer of the meeting, and votes cast for each such nominee shall be disregarded by the judges of election. In the event that the same person is nominated by more than one shareholder, if at least one nomination for such person complies with this Section, the nomination shall be honored and all votes cast for such nominee shall be counted.

Section 10.2 The number of directors that shall constitute the whole Board of Directors shall be not less than five (5), nor more than twenty-five (25). The Board of Directors shall be classified into three (3) classes, each class to be elected for a term of three (3) years. The terms of the respective classes shall expire in successive years as provided in Section 10.3 hereof. Within the foregoing limits, the Board of Directors may from time to time fix the number of directors and their respective classifications.

Section 10.3 At the 1992 annual meeting of shareholders of the Corporation, the shareholders shall elect eleven (11) directors as follows: four (4) Class A directors to serve until the 1993 annual meeting of Shareholders, four (4) Class B directors to serve until the 1994 annual meeting of shareholders, and three (3) Class C directors to serve until the 1995 annual meeting of shareholders. Each class shall be elected in a separate election. At each annual meeting of shareholders thereafter, successors to the class of directors whose term shall then expire shall be elected to hold office for a term of three (3) years, so that the term of office of one class of directors shall expire in each year. The Board of Directors shall have the sole discretion to increase the number of Directors that shall constitute the whole Board of directors; provided however, that the total number of Directors in each class remains relatively proportionate to the others.

Section 10.4 The Board of Directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or for any other proper cause which these By-laws may specify or if, within sixty (60) days or such other time as these By-laws may specify after notice of such director's selection, he does not accept the office either in writing or by attending a meeting of the Board of Directors and fulfill such other requirements of qualification as these By-laws may specify.

Section 10.5 Upon application of any shareholder or director, the court may remove from office any director in case of fraudulent or dishonest acts, or gross abuse of authority or discretion with reference to the Corporation, or for any other proper cause, and may bar from office any director so removed for a period prescribed by the court. The Corporation shall be made a party to the action and, as a prerequisite to the maintenance of an action under this Section 10.5, a shareholder shall comply with Section 1782 of the Business Corporation Law of 1988, as amended.

Section 10.6 An act of the Board of Directors done during the period when a director has been suspended or removed for cause shall not be impugned or invalidated if the suspension or removal is thereafter rescinded by the shareholders or by the Board of Directors or by the final judgment of a court.

Section 10.7 The Board of Directors may appoint a person who previously held the position of Director to be a Director Emeritus. A Director Emeritus may attend meetings of the Board of Directors and shall have such other rights and privileges as may be determined from time to time by resolution of the Board of Directors.

## **Article 11**

### **VACANCIES ON BOARD OF DIRECTORS**

Article 11.1 Vacancies on the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled by a majority of the remaining members of the Board of Directors, though less than a quorum, and each person so appointed shall be a director until the expiration of the term of office of the class of directors to which such director was appointed.

## **Article 12**

### **POWERS OF BOARD OF DIRECTORS**

Section 12.1 The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-laws directed or required to be exercised and done by the shareholders.

Section 12.2 The Board of Directors shall have the power and authority to appoint an Executive Committee and such other committees as may be deemed necessary by the Board of Directors for the efficient operation of the Corporation. The Executive Committee shall consist of the Chairman of the Board, the President and not less than two (2) nor more than five (5) other directors (one of which other directors may be an employee of the Corporation or any of its subsidiaries). The Executive Committee shall meet at such time as may be fixed by the Board of Directors, or upon call of the Chairman of the Board or the President. A majority of members of the Executive Committee shall constitute a quorum. The Executive Committee shall have an exercise and authority of the Board of Directors in the intervals between the meetings of the Board of Directors as far as may be permitted by law.

Section 12.3 A director shall stand in a fiduciary relation to the Corporation and shall perform such director's duties as a director, including those duties undertaken as a member of any committee of the Board of Directors upon which such director may serve, in good faith, in a manner such director reasonably believes to be in the best interests of the Corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing duties as a director, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(a) One or more officers or employees of the Corporation whom the director reasonably believes to be reliable and competent in the matters presented.

(b) Counsel, public accountants or other persons as to matters which the director reasonably believes to be within the professional or expert competence of such persons.

(c) A committee of the Board of Directors upon which such director does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence.

A director shall not be considered to be acting in good faith if such director has knowledge concerning the matter in question that would cause such director's reliance to be unwarranted.

Section 12.4 In discharging the duties of their respective positions, the Board of Directors, committees of the Board of Directors and individual directors may, in considering the best interests of the Corporation, consider the effects of any action upon employees, upon suppliers and customers of the Corporation and upon communities in which offices or other establishments of the Corporation are located, and all other pertinent factors. The consideration of those factors shall not constitute a violation of Section 12.3.

Section 12.5 Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the Corporation.

Section 12.6 A director shall not be personally liable, as such, for monetary damages for any action taken, or any failure to take any action, unless:

- (a) the director has breached or failed to perform the duties of such director's office under this Article 12; and
- (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

Section 12.7 The provisions of Section 12.6 shall not apply to:

- (a) the responsibility or liability of a director pursuant to any criminal statute; or
- (b) the liability of a director for the payment of taxes pursuant to local, State or Federal law.

Section 12.8 A director of the Corporation who is present at a meeting of the Board of Directors, or of a committee of the Board of Directors, at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such director's dissent is entered in the minutes of the meeting or unless such director files such director's written dissent to the action with the Secretary of the Corporation before the adjournment thereof or transmits the dissent in writing to the Secretary of the Corporation immediately after the adjournment of the meeting. The right to dissent shall not apply

to a director who voted in favor of the action. Nothing in this Section 12.8 shall bar a director from asserting that minutes of any meeting incorrectly omitted such director's dissent if, promptly upon receipt of a copy of such minutes, such director notifies the Secretary of the Corporation, in writing, of the asserted omission or inaccuracy.

### **Article 13**

#### **COMMITTEES OF THE BOARD OF DIRECTORS**

Section 13.1 The Board of Directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the Corporation. Any committee, to the extent provided in the resolution of the Board of Directors or in these By-laws, shall have and may exercise all of the powers and authority of the Board of Directors, except that a committee shall not have any power or authority as to the following:

- (a) The submission to shareholders of any action requiring approval of shareholders under applicable law, the Articles of Incorporation or these By-laws.
- (b) The creation or filling of vacancies in the Board of Directors.
- (c) The adoption, amendment or repeal of these By-laws.
- (d) The amendment or repeal of any resolution of the Board of Directors that by its terms is amendable or repeal able only by the Board of Directors.
- (e) Action on matters committed by these By-laws or resolution of the Board of Directors to another committee of the Board of Directors.

Section 13.2 The Board of Directors may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

Section 13.3 Each committee of the Board of Directors shall serve at the pleasure of the Board of Directors. The term "Board of Directors," when used in any provision of this Article 13 relating to the organization or procedures of or the manner of taking action by the Board of Directors, shall be construed to include and refer to any executive or other committee of the Board of Directors. Any provision of this Article 13 relating or referring to action to be taken by the Board of Directors or the procedure required therefor shall be satisfied by the taking of corresponding action by a committee of the Board of Directors to the extent authority to take the action has been delegated to the committee pursuant to this Article 13.

---

## **Article 14**

### **MEETINGS OF THE BOARD OF DIRECTORS**

Section 14.1 An organization meeting may be held immediately following the annual shareholders meeting without the necessity of notice to the directors to constitute a legally convened meeting, or the directors may meet at such time and place as may be fixed by either a notice or waiver of notice or consent signed by all such directors.

Section 14.2 Regular meetings of the Board of Directors shall be held not less often than semi-annually at a time and place determined by the Board of Directors at the preceding meeting. One or more directors may participate in any meeting of the Board of Directors, or of any committee thereof, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another.

Section 14.3 Special meetings of the Board of Directors may be called by the Chairman of the Board or the President on one (1) day's notice to each director, either personally or by mail, telegram or telephone; special meetings shall be called by the Chairman of the Board or the President in like manner and on like notice upon the written request of three (3) directors.

Section 14.4 At all meetings of the Board of Directors, a majority of the directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at a meeting in person or by conference telephone or similar communications equipment at which a quorum is present in person or by such communications equipment shall be the acts of the Board of Directors, except as may be otherwise specifically provided by statute or by the Articles of Incorporation or by these By-laws. If a quorum shall not be present in person or by communications equipment at any meeting of the directors, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or as permitted herein.

## **Article 15**

### **INFORMAL ACTION BY THE BOARD OF DIRECTORS**

Section 15.1 Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting and shall be as valid a corporate action as though it had been authorized at a meeting of the Board of Directors if, prior or subsequent to the action, a consent or consent's thereto by all of the directors in office is filed with the Secretary of the Corporation.

---

## **Article 16**

### **COMPENSATION OF DIRECTORS**

Section 16.1 Directors, as such, may receive a stated salary for their services or a fixed sum and expenses for attendance at regular and special meetings, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

## **Article 17**

### **OFFICERS**

Section 17.1 The officers of the Corporation shall be elected by the Board of Directors at its organizational meeting and shall be a Chairman of the Board, a President, at least one Vice President, a Secretary and Treasurer. The Board of Directors may elect more than one Vice President and such other officers and appoint such agents as it shall deem necessary, who shall hold their offices for such terms, have such authority and perform such duties as may from time to time be prescribed by the Board of Directors. Any two or more of offices may be held by the same person.

Section 17.2 The compensation of all officers of the Corporation shall be fixed by the Board of Directors.

Section 17.3 Each officer shall hold office for a term of one year and until such officer's successor has been selected and qualified or until such officer's earlier death, resignation or removal. Any officer may resign at any time upon written notice to the Corporation. The resignation shall be effective upon receipt thereof by the Corporation or at such subsequent time as may be specified in the notice of resignation. The Corporation may secure the fidelity of any or all of the officers by bond or otherwise.

Section 17.4 Any officer or agent of the Corporation may be removed by the Board of Directors with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

Section 17.5 An officer shall perform such officer's duties as an officer in good faith, in a manner such officer reasonably believes to be in the best interests of the Corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. An officer who so performs such duties shall not be liable by reason of having been an officer of the Corporation.

---

## **Article 18**

### **THE CHAIRMAN AND VICE-CHAIRMEN OF THE BOARD**

Section 18.1 The Chairman of the Board shall preside at all meetings of the shareholders and directors. The Chairman shall supervise the carrying out of the policies adopted or approved by the Board of Directors. The Chairman shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to the Chairman by the Board of Directors.

Section 18.2 The Vice-Chairman of the Board or, if more than one, the Vice-Chairmen in the order established by the Board of Directors, shall preside at meetings of the shareholders and directors as a result of the absence or incapacity of the Chairman of the Board. If there is no Chairman of the Board, Vice-Chairmen designated by the Board shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to the Vice-Chairman or the Vice-Chairmen by the Board of Directors.

## **Article 19**

### **THE PRESIDENT**

Section 19.1 The President shall be the chief executive officer of the Corporation; shall have general and active management of the business of the Corporation; shall see that all orders and resolutions of the Board of Directors are put into effect, subject however, to the right of the Board of Directors to delegate any specific powers, except such as may be by the statute exclusively conferred on the President, to any other officer or officers of the Corporation. The President shall execute bonds, mortgages and other contracts requiring a seal under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The President shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to the President by the Board of Directors. In the absence or incapacity of the Chairman of the Board and Vice Chairman of the Board, if any, the President shall preside at meetings of the shareholders and the directors. If there is no Chairman or Vice Chairman of the Board, the President shall have and exercise all powers conferred by the By-laws or otherwise on the Chairman of the Board.



---

**Article 20**

**THE VICE PRESIDENT**

Section 20.1 The Vice President or, if more than one, the Vice Presidents in the order established by the Board of Directors shall, in the absence or incapacity of the President, exercise all powers and perform the duties of the President. The Vice Presidents, respectively, shall also have such other authority and perform such other duties as may be provided in these By-laws or as shall be determined by the Board of Directors or the President. Any Vice President may, in the discretion of the Board of Directors, be designated as “executive,” “senior,” or by departmental or functional classification.

**Article 21**

**THE SECRETARY**

Section 21.1 The Secretary shall attend all meetings of the Board of Directors and of the shareholders and keep accurate records thereof in one or more minute books kept for that purpose and shall perform the duties customarily performed by the secretary of a corporation and such other duties as may be assigned to the secretary by the Board of Directors or the President.

**Article 22**

**THE TREASURER**

Section 22.1 The Treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall perform such other duties as may be assigned to the Treasurer by the Board of Directors or the President. The Treasurer shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

**Article 23**

**ASSISTANT OFFICERS**

Section 23.1 Each assistant officer shall assist in the performance of the duties of the officer to whom such person is an assistant and shall perform such duties in the absence of the officer. Each assistant officer shall perform such additional duties as may be assigned by the Board of Directors, the Chairman of the Board, the President or the officer to whom such person is an assistant. Such officers may be given such functional titles as the Board of Directors shall from time to time determine.

---

## Article 24

### INDEMNIFICATION

Section 24.1 (Third Party Actions) The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action or proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner that he reasonably believed to be in, or not opposed to, the best interests of the Corporation and, with respect to any criminal proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 24.2 (Derivative Actions) The Corporation shall have power to indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a representative of the Corporation or is or was serving at the request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of the action if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation. Indemnification shall not be made under this section in respect of any claim, issue or matter as to which the person has been adjudged to be liable to the Corporation unless and only to the extent that the court of common pleas of the judicial district embracing the county in which the registered office of the Corporation is located or the court in which the action was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for the expenses that the court of common please or other court deems proper.

Section 24.3 (Mandatory Indemnification) To the extent that a representative of the Corporation has been successful on the merits or otherwise in defense of any action or proceeding referred to in Sections 24.1 (relating to third party actions) or 24.2 (relating to derivative actions) or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 24.4 (Procedure for Effecting Indemnification) Unless ordered by a court, any indemnification under Sections 24.1 (relating to third party actions) or 24.2 (relating to derivative actions) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the person is proper in the circumstances because he has met the applicable standard of conduct set forth in those sections. The determination shall be made:

- (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the action or proceeding;
- (b) if such a quorum is not obtainable or if obtainable and a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or
- (c) by the shareholders.

Section 24.5 (Advancing Expenses) Expenses (including attorneys' fees) incurred in defending any action or proceeding referred to in this Article 24 may be paid by the Corporation in advance of the final disposition of the action or proceeding upon receipt of an undertaking by or on behalf of the person to repay the amount if it is ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 24 or otherwise.

Section 24.6 (Supplementary Coverage) (a) The indemnification and advancement of expenses provided by, or granted pursuant to, the other sections of this Article 24 shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding that office. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this Section 24.6 or otherwise.

(b) Indemnification pursuant to subsection (a) of this Section 24.6 shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

(c) Indemnification pursuant to subsection (a) of this Section 24.6 under any By-law, agreement, vote of shareholders or directors or otherwise, may be granted for any action taken or any failure to take any action and may be made whether or not the Corporation would have the power to indemnify the person under any other provision of law except as provided in this Section 24.6 and whether or not the indemnified liability arises or arose from any threatened, pending or completed action by or in the right of the Corporation.

Section 24.7 (Power to Purchase Insurance) The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a representative of the Corporation or is or was serving at the request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise

---

against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against that liability under the provisions of this Article 24.

Section 24.8 (Application to Surviving or New Corporations) For the purpose of this Article 24, references to “the Corporation” include all constituent corporations absorbed in a consolidation, merger or division, as well as the surviving or new corporations surviving or resulting therefrom, so that any person who is or was a representative of the constituent, surviving or new corporation, or is or was serving at the request of the constituent, surviving or new corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article 24 with respect to the surviving or new corporation as he would if he had served the surviving or new corporation in the same capacity.

Section 24.9 (Application to Employee Benefit Plans) For purposes of this Article 24:

(a) References to “other enterprises” shall include employee benefit plans and references to “serving at the request of the Corporation” shall include any service as a representative of the Corporation that imposes duties on, or involves services by, the representative with respect to an employee benefit plan, its participants or beneficiaries.

(b) Excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be deemed “fines.”

(c) Action with respect to an employee benefit plan taken or omitted in good faith by a representative of the Corporation in a manner he reasonably believed to be in the interest of the participants and beneficiaries of the plan shall be deemed to be action in a manner that is not opposed to the best interests of the Corporation.

Section 24.10 (Duration and Extent of Coverage) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article 24 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a representative of the Corporation and shall inure to the benefit of the heirs and personal representative of that person.

---

## Article 25

### SHARE CERTIFICATES

Section 25.1 The share certificates of the Corporation shall be numbered and registered in a share register as they are issued; shall bear the name of the registered holder, the number and class of shares represented thereby, the par value of each share or a statement that such shares are without par value, as the case may be; shall be signed by the President and the Secretary or the Treasurer or any other person properly authorized by the Board of Directors, and shall bear the corporate seal, which seal may be a facsimile engraved or printed. Where the certificate is signed by a transfer agent or a registrar, the signature of any corporate officer on such certificate may be a facsimile engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer because of death, resignation or otherwise before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of its issue.

## Article 26

### TRANSFER OF SHARES

Section 26.1 Upon surrender to the Corporation of a share certificate duly endorsed by the person named in the certificate or by attorney duly appointed in writing and accompanied where authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate cancelled and the transfer recorded upon the transfer books for shares of the Corporation. No transfer shall be made if it would be inconsistent with the provisions of Article 8 of the Pennsylvania Uniform Commercial Code.

## Article 27

### LOST CERTIFICATES

Section 27.1 Where a shareholder of the Corporation alleges the loss, theft or destruction of one or more certificates for shares of the Corporation and requests the issuance of a substitute certificate therefor, the Board of Directors may direct a new certificate of the same tenor and for the same number of shares to be issued to such person upon such person's making of an affidavit in form satisfactory to the Board of Directors setting forth the facts in connection therewith, provided that prior to the receipt of such request the Corporation shall not have either registered a transfer of such certificate or received notice that such certificate has been acquired by a bona fide purchaser. When authorizing such issue of a new certificate the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or such owner's heirs or legal representatives, as the case may be, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such form and with surety or sureties, with fixed or open penalty, as shall be satisfactory to the Board of Directors, as indemnity for any liability or expense which it may incur by reason of the original certificate remaining outstanding.

---

**Article 28**

**DIVIDENDS**

Section 28.1 The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of the Corporation in cash, property or shares of the Corporation, so long as any dividend shall not be in violation of law and the Articles of Incorporation.

Section 28.2 Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purposes as the Board of Directors shall believe to be for the best interests of the Corporation, and the Board of Directors may reduce or abolish any such reserve in the manner in which it was created.

**Article 29**

**FINANCIAL REPORT TO SHAREHOLDERS**

Section 29.1 The Chairman of the Board, the President and the Board of Directors shall present prior to each annual meeting of the shareholders a full and complete statement of the business and affairs of the Corporation for the preceding year.

**Article 30**

**INSTRUMENTS**

Section 30.1 All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other persons as the President or the Board of Directors may from time to time designate.

Section 30.2 Any note, mortgage, evidence of indebtedness, contract or other document, or any assignment or endorsement thereof, executed or entered into between the Corporation and any other person, when signed by one or more officers or agents having actual or apparent authority to sign it, or by the Chairman of the Board, the President or the Vice President and Secretary or Assistant Secretary or Treasurer or Assistant Treasurer of the Corporation, shall be held to have been properly executed for and in behalf of the Corporation.

Section 30.3 The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement by the Corporation of any instrument or other document.

### **Article 31**

#### **FISCAL YEAR**

Section 31.1 The fiscal year of the Corporation shall be the calendar year.

### **Article 32**

#### **SEAL**

Section 32.1 The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Pennsylvania." Such seal may be used by causing it or a facsimile thereof to be impressed or affixed in any manner reproduced.

### **Article 33**

#### **NOTICES AND WAIVERS THEREOF**

Section 33.1 Whenever written notice is required to be given to any person under the provisions of applicable law, by the Articles of Incorporation or of these By-laws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answer back received) or courier service, charges prepaid or by telecopier, to such person's address (or to such person's telex, TWX, telecopier or telephone number) appearing on the books of the Corporation or, in the case of directors, supplied by such person to the Corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of these By-laws.

Section 33.2 Whenever any written notice is required to be given under the provisions of applicable law, the Articles of Incorporation or of these By-laws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Except as otherwise required by these By-laws, neither the business to be transacted at, nor the purpose of, a meeting need be specified in the waiver of notice of the meeting. In the case of a special meeting of shareholders, the waiver of notice shall specify the general nature of the business to be transacted.

Section 33.3 Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 33.4 Whenever any notice or communication is required to be given to any person under the provisions of applicable law, the Articles of Incorporation, these By-laws, the terms of any agreement and any other instrument or as a condition precedent to taking any corporate action, and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required and there shall be no duty to apply for a license or other permission to do so. Any action or meeting that is taken or held without notice or communication to that person shall have the same validity as if the notice or communication had been duly given. If the action taken is such as to require the filing of any document with respect thereto under any provision of law or any agreement or other instrument, it shall be sufficient, if such is the fact and if notice or communication is required, to state therein that notice or communication was given to all persons entitled to receive notice or communication except persons with whom communication was unlawful.

Section 33.5 Section 33.4 shall also be applicable to any shareholder with whom the Corporation has been unable to communicate for more than twenty-four (24) consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the Corporation with a current address. Whenever the shareholder provides the Corporation with a current address, Section 33.4 shall cease to be applicable to the shareholder under this Section 33.5.

## **Article 34**

### **EMERGENCIES**

Section 34.1 The Board of Directors may adopt emergency By-laws, subject to repeal or change by action of the shareholders, which shall, notwithstanding any different provisions of law, of the Articles of Incorporation or of these By-laws, be effective during any emergency resulting from an attack on the United States, a nuclear disaster or another catastrophe as a result of which a quorum of the Board of Directors cannot readily be assembled. The emergency By-laws may make any provision that may be appropriate for the circumstances of the emergency including, procedures for calling meetings of the Board of Directors, quorum requirements for meetings and procedures for designating additional or substitute directors.

Section 34.2 The Board of Directors, either before or during any emergency, may provide, and from time to time modify, lines of succession in the event that during the emergency any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties and may, effective in the emergency, change the head offices or designate several alternative head offices or regional offices of the Corporation or authorize the officers to do so.



Section 34.3 A representative of the Corporation acting in accordance with any emergency By-laws shall not be liable except for willful misconduct and shall not be liable for any action taken by such representative in good faith in an emergency in furtherance of the ordinary business affairs of the Corporation even though not authorized by the emergency or other By-laws then in effect.

Section 34.4 To the extent not inconsistent with any emergency By-laws so adopted, the By-laws of the Corporation shall remain in effect during any emergency and, upon its termination, the emergency By-laws shall cease to be effective.

Section 34.5 Unless otherwise provided in emergency By-laws, notice of any meeting of the Board of Directors during an emergency shall be given only to those directors to whom it is feasible to reach at the time and by such means as are feasible at the time, including publication, radio or television. To the extent required to constitute a quorum at any meeting of the Board of Directors during any emergency, the officers of the Corporation who are present shall, unless otherwise provided in emergency By-laws, be deemed, in order of rank and within the same rank in order of seniority, directors for the meeting.

## **Article 35**

### **AMENDMENTS**

Section 35.1 These By-laws may be altered, amended or repealed by the affirmative vote of the holders of eighty percent (80%) of the outstanding shares of Common Stock at any regular or special meeting duly convened after notice to the shareholders of that purpose, or by a majority vote of the members of the Board of Directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, subject always to the power of the shareholders to change such action of the Board of Directors by the affirmative vote of the holders of eighty percent (80%) of the outstanding shares of Common Stock.

## PROFIT SHARING RETIREMENT PLAN

Your profit sharing retirement plan is designed to provide you with the opportunity to accumulate funds for your retirement. The plan is desirable because it benefits both you and your employer. Your employer benefits because the employer's annual contribution to the plan is tax deductible. You benefit because funds accumulate for you each year but with no income tax due until you actually receive the funds after you retire. While the funds you receive after retirement are taxable, you will no longer be receiving a salary and will most likely be in a lower tax bracket.

### 1. Plan Administration

Your employer has provided for the formation of a committee of not less than three individuals, known as the "Administrative Committee." This committee has all powers necessary to carry out the terms and provisions of your plan. All questions of administration, interpretation and application of the plan are handled by the Administrative Committee.

### 2. Eligibility to Participate in Plan

You become a participant in the plan on the first day of the month following completion of one year of service. In order to complete a year of service, you must accumulate at least one thousand (1,000) hours of employment in that twelve month period beginning on the first day of your employment. If you fail to accumulate one thousand (1,000) hours in the twelve month period beginning with the first day of employment you are not eligible to participate in the plan. The twelve month eligibility computation period then shifts to the plan year, January 1 to December 31. You have a chance to accumulate one thousand (1,000) hours in the twelve month period which begins on January 1 which follows your first day of employment and additional chances in each succeeding year beginning on January 1. If you are a full-time employee, you should have no trouble accumulating at least one thousand (1,000) hours in a year's time. If you are a part-time employee, you may or may not accumulate one thousand (1,000) hours in twelve months. An example when an employee becomes eligible is as follows:

Date of Employment	Hours of Employment	Years of Service	Date of Eligibility
June 5, 2000	999 or fewer	No	Not Eligible
June 5, 2000	1000 or more	Yes	July 1, 2001
December 1, 2000	1000 or more	Yes	January 1, 2002

If you fail to accumulate one thousand (1,000) hours of service in the initial computation period, but do accumulate one thousand (1,000) hours of service in a later plan year, (for example, 2001), you become eligible the following January 1 (January 1, 2002).

### 3. Rehiring of Terminated Participants

If you quit your job and are not fully vested (that is you do not have sufficient years of service to be entitled to 100% of your accumulated fund balance), the portion of your fund balance which

is not vested is placed in a suspense account and remains in the suspense account until you incur a break in service. Once you have incurred a break in service, the funds in the suspense account are allocated to the remaining plan participants and you cannot recover these funds.

It is possible that sometime after you quit your job, you will be rehired. If you are rehired before you incur a one-year break in service, the portion of your fund balance that was not vested and was placed in the suspense account will be returned to your account. You will immediately go back into the plan and your vesting will continue as though you had never quit. If you are rehired after you incur a one-year break in service, you will immediately go back into the plan and your vesting will continue as though you had never quit. However, you cannot recover any non-vested portion of your fund balance which you forfeited when you incurred the break in service. You are permitted to repay the vested portion of your fund balance (which you received when you quit) to the plan.

#### 4. Plan Contributions

To be eligible for a share of your employer's contributions, you must be a plan participant, you must accumulate at least one thousand (1,000) hours of service during the plan year, and you must still be employed at the end of the year, December 31. (If you retire, are disabled, or die during the year, you or your beneficiary is still eligible for a share of the contribution.)

The amount your employer may contribute to your retirement trust fund is contingent upon current or accumulated profits and the deduction for the contribution is limited by law to no more than 15% of the total eligible W-2 wages of the eligible plan participants. Keep in mind that if you become eligible to participate in the plan during the year, your eligible salary upon which the contribution is based is limited to what you earn from the date you become a plan participant until the end of the year. If for example you were hired October 17, 2000, you would become eligible to participate in the plan on November 1, 2001. You would receive no contribution for 2000. Your contribution for 2001 would be based on no more than 15% of your salary earned from November 1 to December 31, 2001. Salary shall mean the participant's annual base salary and shall not include bonus, commissions, or other forms of earnings unless specifically approved by the Administrative Committee and applied in a non-discriminatory manner.

#### 5. Distributions

Any distribution made after December 31, 1992, that qualifies as an eligible rollover distribution is subject to mandatory 20% withholding. No withholding is required however, if the participant elects a trustee-to-trustee transfer. The plan administrator will provide written guidance to participants who are to receive distributions in reasonable time to enable the participants to elect a trustee-to-trustee transfer.

#### 6. Claims and Claim Reviews

You or your beneficiary have the right to file a claim for benefits under the plan if for any reason you or your beneficiary have been denied a benefit, or feel aggrieved by any other action of the

---

employer or Administrative Committee. Claims are to be filed on forms supplied by the employer. You must receive written notice of the disposition of the claim within thirty (30) days of filing your claim. If the claim is denied, the reasons for the denial shall be specifically set forth and pertinent provisions of the plan cited. If you wish to further pursue your claim, you can request a hearing in writing on forms supplied by the employer. The request for a hearing must be made within ninety (90) days of the original disposition of your claim. The employer then must schedule a hearing within the next thirty (30) days after receiving your request. The decision following such hearing must be communicated in writing to you within thirty (30) days of the hearing.

#### 7. Trust Fund Investments

Your employer has appointed the Trust Department of the Bank to administer the Trust Fund where the assets of the plan are held. The Trust Fund consists of two investment funds designated as Fund "A" and Fund "B".

Fund "A" is a mixed fund consisting mostly of CDs, stocks, bonds and mortgages of good quality. The investment objective is to provide growth potential along with income.

Fund "B" is a fund consisting of investments in which the principal will be guaranteed by the Federal government or one of its agencies. The investment objective is to provide complete protection of principal along with interest income.

Your contributions will be invested in fund "A" until you reach age 50 at which time you will have the option of transferring your balance, the first year after attaining age 50 or any subsequent year prior to retirement, to Fund "B". Once the option is elected, all future allocations will be made to Fund "B". This election to transfer was adopted in order to provide complete protection of your trust fund balance during your final years of employment before retirement. The election must be in writing to the Administrative Committee.

When you become eligible to participate in the Profit Sharing Retirement Plan, you should contact the Trust Officer of the Bank and complete the Beneficiary form. At that time, you will receive a copy of the SUMMARY PLAN DESCRIPTION of the Profit Sharing Plan.

## EMPLOYEE STOCK OWNERSHIP PLAN

---

The Mid Penn Bank wishes to recognize the efforts its employees have made to its success and to reward them by adopting an Employee Stock Ownership Plan. This Plan will be for the exclusive benefit of eligible employees and their beneficiaries.

The purpose of this Plan is to reward eligible employees for long and loyal service by providing them with retirements benefits.

Between now and your retirement, your Employer intends to make contributions for you and other eligible employees. Contributions to the Plan will be invested primarily in Company Stock. Your efforts added to the efforts of all other employees contribute to the profitability and growth of the Employer and thereby increase the value of Company Stock and your benefits in the Plan. When you retire, you will be entitled to receive the value of the amounts which have been accumulated in your account in the form of Company Stock.

### I. Participation In Your Plan

Before you become a member or a "participant" in the Plan, there are certain eligibility and participation rules which you must meet.

#### A. Eligibility Requirements

You will be eligible to participate in the Plan if you have completed one (1) Year of Service. Year of Service is defined on page EB 29.

#### B. Participation Requirements

You will become a participant on the first day of the month coinciding with or following the date you satisfy the eligibility requirements.

### II. Contributions To Your Plan

Each year, your Employer's contribution, if any, will be placed into a trust fund for the benefit of the Plan participants. The Administrator of your Plan will then establish and maintain a separate account for you and all other participants, into which the contributions will be placed.

Your employer will determine the amount to contribute to your Plan. This contribution is discretionary.

You must complete a Year of Service during the Plan Year and be actively employed on the last day of the Plan Year to share in this contribution.

Your employer's contribution will be "allocated" or divided among participants eligible to share in the contribution for the Plan Year. Your share of the contribution will depend upon how much compensation you received during the year and the compensation received by other eligible participants.

---

#### A. Compensation

For the purposes of your Plan, compensation is defined as your total compensation that is subject to income tax, that is, all of your compensation paid to you by your employer during the year, but excluding commissions, bonuses, and salary reduction contributions to any plan or arrangement maintained by your Employer.

#### B. Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Forfeitures will be “allocated” or divided among participants eligible to share for a Plan Year.

#### C. Transfers From Qualified Plans (Rollovers)

At the discretion of the Administrator, you may be permitted to deposit into your Plan distributions you have received from other plans. Your rollover will be placed in a separate account called a “participant’s rollover account”. You will always be 100% vested in your “rollover account”.

#### D. Directed Investments

When you have completed ten (10) years of service as a participant and have attained age fifty-five, you will have the right to direct the investment of a portion of your account attributable to Company Stock.

### III. Benefits Under Your Plan

#### A. Distribution Of Benefits Upon Normal Retirement

Your normal Retirement Date is the Anniversary Date coinciding with or next following your Normal Retirement Age. Your Normal Retirement Age is attained at age 65.

At your Normal Retirement Age, you will be entitled to 100% of your account balance. Payment of your benefits will, at your election, begin as soon as practicable following your actual retirement but not prior to your Normal Retirement Date.

#### B. Distribution of Benefits Upon Death

Your beneficiary will be entitled to 100% of your account balance upon your death.

#### C. Distribution of Benefits Upon Disability

Under your Plan, disability is defined as a physical or mental condition resulting from bodily injury, disease, or mental disorder which renders you incapable of continuing your usual and customary employment with your Employer. Your disability will be determined by a licensed physician chosen by the Administrator.

If you become disabled while a participant, you will be entitled to 100% of your account balance. Payment of your disability benefits will be made to you as if you had retired.

#### D. Distribution Of Benefits Upon Termination Of Employment

Your Plan is designed to encourage you to stay with your Employer until retirement. Payment of your account balance under your Plan is only available upon your Death, Disability or Retirement.

If your employment terminates for reasons other than those listed above, you will be entitled to receive only your “vested percentage” of your account balance and the remainder of your account will be forfeited.

#### E. Vesting in Your Plan

Your “vested percentage” in your account is determined under the following schedule and is based on vesting Years Of Service.

#### Vesting Schedule

<u>Years of Service</u>	<u>Percentage</u>
Less than 3	0%
3	20%
4	40%
5	60%
6	80%
7	100%

#### F. Benefit Payment Options

The Administrator, in accordance with your election, will direct the Trustee to pay our benefits to you under one or more of the following options:

1. A single lump-sum payment
2. Installments over a period not extending beyond the earlier of your assumed life expectancy determined at the time of distribution.

Distribution of your account at retirement will be in the form of cash or Company Stock or both.

---

## G. Treatment Of Distributions From Your Plan

Whenever you receive a distribution from your Plan, it will normally be subject to income taxes. You may, however, reduce, or defer entirely, the tax due on your distribution through use of one of the following methods:

1. The rollover of all or a portion of the distribution to an Individual Retirement Account (IRA) or another qualified employer plan. This will result in no tax being due until you begin withdrawing funds from the IRA or other qualified employer plan.

2. You may request for most distributions that a direct transfer of all or a portion of your distribution amount be made to either an Individual Retirement Account (IRA) or another qualified employer plan willing to accept the transfer. If you elect to actually receive the distribution rather than request a direct transfer, then in most cases 20% of the distribution amount will be withheld for federal income tax purposes.

## IV. Service Rules

### A. Year of Service

You will have completed a Year of Service if, at the end of your first twelve consecutive months of employment with your Employer, you have been credited with 1000 Hours of Service.

If you have not been credited with 1000 Hours of Service by the end of your first twelve consecutive months of employment, you will have completed a Year of Service at the end of any following Plan Year during which you were credited with 1000 Hours of Service.

You will have completed a Year of Service for vesting purposes if you are credited with 1000 Hours of Service during a Plan Year, even if you were not employed the first or last day of the Plan Year.

## V. Amendment And Termination Of Your Plan

### A. Amendment

Your employer has the right to amend your Plan at any time. In no event, however, will any amendment authorize or permit any part of the Plan assets to be used for purposes other than the exclusive benefit of participants or their beneficiaries or cause any reduction in the amount credited to your account.



---

## B. Termination

Your employer has the right to terminate the Plan at any time. Upon termination, all amounts credited to your accounts will become 100% vested. A complete discontinuance of contributions by your Employer will constitute a termination.

**2007 ANNUAL REPORT**

FINANCIAL HIGHLIGHTS

<b>TABLE OF CONTENTS:</b>	<b>PAGE</b>
FINANCIAL HIGHLIGHTS	2
UNAUDITED GRAPHS OF FINANCIAL DATA	3
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	4
CONSOLIDATED BALANCE SHEET	5
CONSOLIDATED STATEMENT OF INCOME	6
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY	7
CONSOLIDATED STATEMENT OF CASH FLOWS	8-9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10-25
MANAGEMENT'S DISCUSSION AND ANALYSIS	26-41
DIRECTORS, OFFICERS AND ADVISORY BOARD MEMBERS	42-43
LOCATIONS	44

## AS OF AND FOR YEARS ENDED DECEMBER 31, 2007 AND 2006

(Dollars in thousands, except per share data.)

	2007	2006	Percent Change
Total Assets	\$ 509,757	491,694	+3.67%
Total Deposits	372,817	364,226	+2.35%
Net Loans and Leases	372,338	354,386	+5.06%
Total Investments and Interest Bearing Balances	100,902	104,182	-3.14%
Stockholders' Equity	40,444	39,085	+3.48%
Net Income	4,671	4,888	-4.44%
Earnings Per Share	1.34	1.39	-3.60%
Cash Dividend Per Share, historical	.80	.80	0.00%
Book Value Per Share	11.56	11.12	+3.96%
Return on Average Stockholders' Equity	11.84%	12.93%	-8.04%
Return on Average Assets	0.94%	1.08%	-12.96%
Net Interest Margin	3.68%	3.82%	-3.66%
Nonperforming Assets to Total Assets	1.44%	0.50%	+188.00%

Mid Penn Bancorp, Inc.  
Stockholders' Information

	2007		2006		Quarter
	High	Low	High	Low	
Market Value Per Share	\$ 25.45	23.15	27.20	25.00	1st
	26.86	22.00	26.60	24.30	2nd
	26.50	23.70	25.50	23.00	3rd
	27.10	23.75	26.08	23.90	4th

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

Transfer Agent: Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016. Phone: 1-800-368-5948.

Number of Stockholders: At December 31, 2007, there were 1,065 registered stockholders.

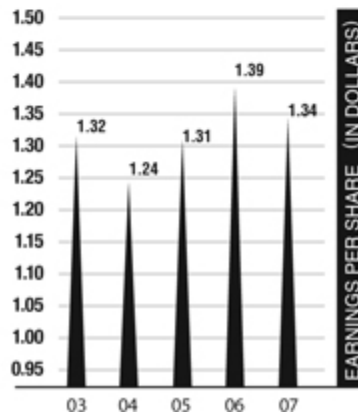
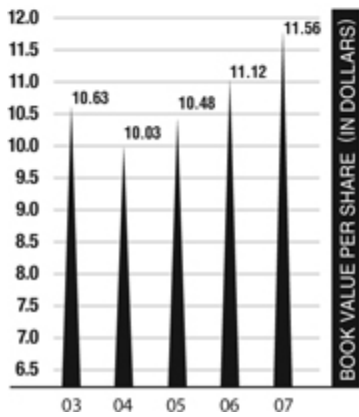
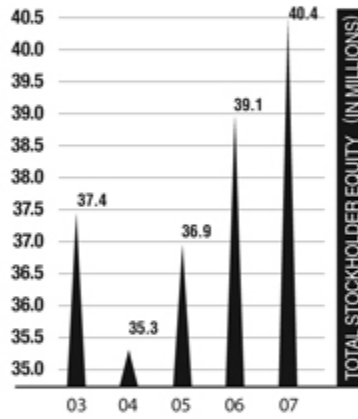
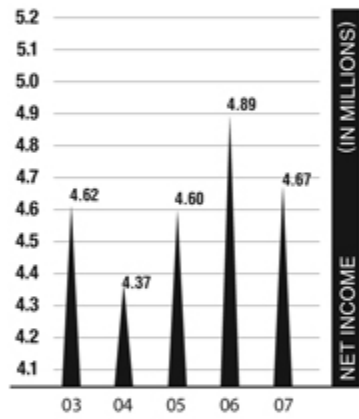
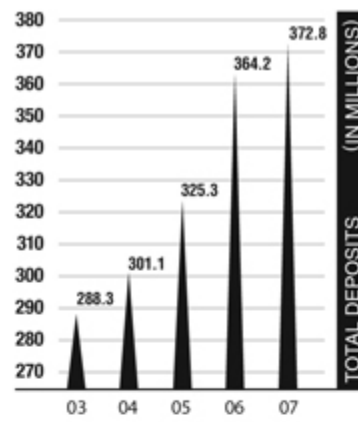
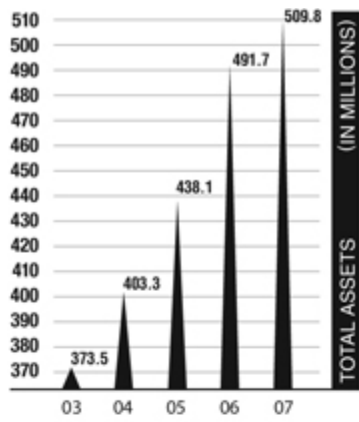
Dividends: A dividend of \$.20 per share was paid during each quarter of 2006 and 2007. Mid Penn Bancorp, Inc. plans to continue a quarterly dividend payable in February, May, August and November. Additionally, a 5% stock dividend was paid in both February of 2006 and in May of 2007.

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

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

Annual Meeting: The Annual Meeting of the Stockholders of Mid Penn Bancorp, Inc. will be held at 10:00 a.m. on Tuesday, April 22, 2008, at 349 Union Street, Millersburg, Pennsylvania.

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 Bank's website: [www.midpennbank.com](http://www.midpennbank.com)



# PARENTE RANDOLPH

*The Power of Ideas*

Board of Directors and Stockholders  
Mid Penn Bancorp, Inc.:

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and subsidiaries (collectively, the "Corporation") as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. The Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mid Penn Bancorp, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007 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), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008 expressed an unqualified opinion.



PARENTE RANDOLPH, LLC

Williamsport, Pennsylvania  
February 29, 2008

## DECEMBER 31, 2007 AND 2006

(Dollars in thousands, except share data)

	2007	2006
<b>ASSETS</b>		
Cash and due from banks	\$ 10,599	9,498
Interest-bearing balances with other financial institutions	46,830	46,921
Available-for-sale investment securities	54,072	57,261
Loans and leases	378,741	360,336
Less:		
Unearned income	(1,613)	(1,763)
Allowance for loan and lease losses	(4,790)	(4,187)
Net loans and leases	<u>372,338</u>	<u>354,386</u>
Bank premises and equipment, net	10,638	9,562
Foreclosed assets held for sale	529	146
Accrued interest receivable	2,818	2,822
Deferred income taxes	2,053	1,610
Goodwill	1,016	1,016
Core deposit intangible, net	362	428
Cash surrender value of life insurance	6,961	7,154
Other assets	1,541	890
Total Assets	<u>\$ 509,757</u>	<u>491,694</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 46,478	44,097
Interest-bearing demand	36,627	32,978
Money market	62,596	59,640
Savings	24,844	25,397
Time	202,272	202,114
Total Deposits	372,817	364,226
Short-term borrowings	37,349	24,275
Accrued interest payable	1,990	1,912
Other liabilities	2,576	2,483
Long-term debt	54,581	59,713
Total Liabilities	469,313	452,609
Stockholders' Equity:		
Common stock, par value \$1 per share; authorized 10,000,000 shares; 3,533,340 shares and 3,367,119 shares issued in 2007 and 2006, respectively	3,533	3,367
Additional paid-in capital	31,107	27,452
Retained earnings	6,660	8,583
Accumulated other comprehensive income	284	317
Treasury stock, at cost (43,706 and 23,038 shares at December 31, 2007 and 2006, respectively)	(1,140)	(634)
Stockholders' Equity, Net	40,444	39,085
Total Liabilities and Stockholders' Equity	<u>\$ 509,757</u>	<u>491,694</u>

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

## FOR YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(Dollars in thousands, except share data)

	2007	2006	2005
<b>INTEREST INCOME</b>			
Interest and fees on loans	\$ 26,357	23,455	19,251
Interest on interest-bearing balances	2,546	2,225	2,067
Interest and dividends on investment securities:			
U.S. Treasury and government agencies	944	1,032	801
State and political subdivision obligations, tax-exempt	1,361	1,287	1,030
Other securities	203	186	92
Interest on federal funds sold and securities purchased under agreement to resell	33	29	53
<b>Total Interest Income</b>	<u>31,444</u>	<u>28,214</u>	<u>23,294</u>
<b>INTEREST EXPENSE</b>			
Interest on deposits	11,430	8,868	6,521
Interest on short-term borrowings	1,049	686	203
Interest on long-term debt	2,860	3,178	2,833
<b>Total Interest Expense</b>	<u>15,339</u>	<u>12,732</u>	<u>9,557</u>
<b>Net Interest Income</b>	<u>16,105</u>	<u>15,482</u>	<u>13,737</u>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>			
Net Interest Income After Provision for Loan and Lease Losses	<u>15,180</u>	<u>14,747</u>	<u>13,512</u>
<b>NONINTEREST INCOME</b>			
Trust department income	319	258	312
Service charges on deposits	1,499	1,376	1,348
Investment securities gains, net	0	33	1
Gain on sale of loans	21	0	19
Income on cash surrender value of life insurance	271	219	222
Fee income from investment services	155	112	70
Fee income from debit card transactions	524	428	347
Gain on sale of other real estate	0	104	56
Death benefit on bank owned life insurance	180	0	0
Other income	512	498	578
<b>Total Noninterest Income</b>	<u>3,481</u>	<u>3,028</u>	<u>2,953</u>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	6,582	6,023	5,662
Occupancy expense, net	868	622	594
Equipment expense	1,064	838	734
Pennsylvania bank shares tax expense	329	286	259
Legal and professional expense	705	733	540
Early withdrawal penalty on investment CDs	0	191	0
Marketing and advertising	403	255	298
ATM and debit card processing expense	199	148	196
Director fees and benefits expense	294	241	221
Computer expense	434	378	308
Stationery and supplies expense	255	231	222
Loss on sale of other real estate	9	0	0
Other expenses	1,454	1,317	1,228
<b>Total Noninterest Expense</b>	<u>12,596</u>	<u>11,263</u>	<u>10,262</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>			
Provision for income taxes	1,394	1,624	1,600
<b>NET INCOME</b>	<u>\$ 4,671</u>	<u>4,888</u>	<u>4,603</u>
<b>EARNINGS PER SHARE</b>			
<b>Weighted Average Number of Shares Outstanding</b>	<u>3,497,806</u>	<u>3,514,820</u>	<u>3,515,714</u>

Earnings per share information has been restated to reflect the retroactive effect of a five percent stock dividend issued in the second quarter of 2007 and a five percent stock dividend in the first quarter of 2006.

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

## FOR YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(Dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2004	3,208	23,472	8,435	693	(536)	35,272
Comprehensive income:						
Net income	0	0	4,603	0	0	4,603
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effects	0	0	0	(462)	0	(462)
Total comprehensive income						4,141
Cash dividends (\$.80 per share)	0	0	(2,552)	0	0	(2,552)
Balance, December 31, 2005	3,208	23,472	10,486	231	(536)	36,861
Comprehensive income:						
Net income	0	0	4,888	0	0	4,888
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effects	0	0	0	60	0	60
Adjustments to initially apply FASB Statement No. 158, net of tax						
Net transition obligation	0	0	0	(58)	0	(58)
Net gain	0	0	0	84	0	84
Total comprehensive income						4,974
Cash dividends (\$.80 per share)	0	0	(2,652)	0	0	(2,652)
Stock dividend 5% issued February 2006	159	3,980	(4,139)	0	0	0
Purchase of treasury stock (3,982 shares)	0	0	0	0	(98)	(98)
Balance, December 31, 2006	3,367	27,452	8,583	317	(634)	39,085
Comprehensive income:						
Net income	0	0	4,671	0	0	4,671
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effects	0	0	0	143	0	143
Defined benefit plans, net of tax effects:						
Net prior service cost	0	0	0	(199)	0	(199)
Net gain	0	0	0	13	0	13
Net transition obligation	0	0	0	10	0	10
Total comprehensive income						4,638
Cash dividends (\$0.80 per share)	0	0	(2,773)	0	0	(2,773)
Stock dividend 5% issued May 2007	166	3,655	(3,821)	0	0	0
Purchase of treasury stock (20,668 shares)	0	0	0	0	(506)	(506)
Balance, December 31, 2007	\$ 3,533	31,107	6,660	284	(1,140)	40,444

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



## FOR YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(Dollars in thousands)

	2007	2006	2005
<b>Operating Activities:</b>			
Net income	\$ 4,671	4,888	4,603
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	925	735	225
Depreciation	809	638	579
Amortization of core deposit intangible	66	39	36
Decrease (increase) in cash surrender value of life insurance	194	(219)	(222)
Investment securities gains, net	0	(33)	(1)
(Gain) loss on sale of other real estate	9	(104)	(66)
(Gain) on sale of loans	(21)	0	(19)
(Gain) loss on disposal of bank premises and equipment	0	(9)	2
Deferred income taxes	(427)	(262)	(173)
Change in accrued interest receivable	4	(464)	(394)
Change in other assets	(651)	(25)	(143)
Change in accrued interest payable	78	266	343
Change in other liabilities	(172)	241	370
Net Cash Provided By Operating Activities	<u>5,485</u>	<u>5,691</u>	<u>5,140</u>
<b>Investing Activities:</b>			
Net decrease in interest-bearing balances	91	7,628	5,858
Proceeds from the maturity of investment securities	10,074	5,546	4,798
Proceeds from the sale of investment securities	0	1,923	535
Purchases of investment securities	(6,670)	(13,728)	(12,297)
Purchase of life insurance	0	(533)	0
Cash received from business combination	0	7,100	0
Proceeds from sale of loans	0	0	348
Net increase in loans	(19,385)	(31,011)	(33,241)
Proceeds from sale of bank premises and equipment	0	13	40
Purchases of bank premises and equipment	(1,885)	(1,044)	(2,081)
Proceeds from the sale of foreclosed assets	137	746	571
Net Cash Used In Investing Activities	<u>(17,638)</u>	<u>(23,360)</u>	<u>(35,469)</u>
<b>Financing Activities:</b>			
Net increase in deposits	8,591	11,759	24,130
Net increase (decrease) in short-term borrowings	13,074	11,933	(1,459)
Cash dividends paid	(2,773)	(2,652)	(2,552)
Long-term debt repayment	(5,132)	(10,125)	(119)
Purchase of treasury stock	(506)	(98)	0
Long-term borrowings	0	10,000	10,000
Net Cash Provided By Financing Activities	<u>13,254</u>	<u>20,817</u>	<u>30,000</u>
Net increase (decrease) in cash and due from banks	1,101	3,148	(329)
Cash and due from banks at beginning of year	9,498	6,350	6,679
Cash and due from banks at end of year	\$ <u>10,599</u>	<u>9,498</u>	<u>6,350</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Interest paid	\$ 15,261	12,355	9,214
Income taxes paid	\$ 1,930	1,910	1,876
<b>Supplemental Noncash Disclosures:</b>			
Loan charge-offs	\$ 460	309	199
Transfers to foreclosed assets held for sale	\$ 529	330	458

2006 Business Combination:  
(Dollars in thousands)

	<u>2006</u>
<b>Investing Activities:</b>	
Cash received from business combination	\$ <u>7,100</u>
<b>Supplemental Noncash Disclosures:</b>	
Noncash Assets Received and Liabilities	
Assumed from Acquisition of Branches	
Assets received:	
Loans	\$ 16,307
Accrued Interest receivable	89
Bank premises and equipment	2,826
Intangible asset - core deposit intangible	232
Intangible asset - goodwill	757
Other assets	14
Total noncash assets received	\$ <u>20,225</u>
Liabilities assumed:	
Deposits	27,193
Accrued interest payable	111
Other liabilities	21
Total noncash liabilities assumed	\$ <u>27,325</u>

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

**(1) Basis of Presentation**

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

**(2) Nature of Business**

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

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

Mid Penn Investment Corporation is engaged in investing activities.

Mid Penn Insurance Services, LLC provides a range of personal and investment insurance products.

**(3) Summary of Significant Accounting Policies**

The accounting and reporting policies of MPB conform with accounting principles generally accepted in the United States of America 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.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan and lease losses.

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

**(b) Investment Securities**

Available-for-Sale Securities - includes debt and restricted equity securities. Debt securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported, net of deferred income taxes, as a component of accumulated other comprehensive income (loss) within stockholders' equity. Realized gains and losses on sales of investment securities are computed on the basis of specific identification of the cost of each security. Restricted equity securities are generally carried at cost due to the lack of available market data, and are evaluated for impairment. MPB had no trading securities or held-to-maturity securities in 2007 or 2006.

**(c) Loans**

Interest on loans is recognized on a method which approximates a level yield basis over the life of the loans. The accrual of interest on loans, including impaired loans, is generally discontinued when principal or interest has consistently been in default for a period of 90 days or more, or because of a deterioration in the financial condition of the borrower, payment in full of principal or interest is not expected. Interest income is subsequently recognized only to the extent cash payments are received. The placement of a loan on the nonaccrual basis for revenue recognition does not necessarily imply a potential charge-off of loan principal. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

**(d) Allowance for Loan and Lease Losses**

The Bank's methodology for determining the allowance for loan and lease losses establishes both a specific and a general component. The specific portion of the allowance represents the results of analysis of leases and individual "watch list" loans (commercial, residential and consumer loans). The individual commercial loans are risk rated with specific attention to estimated loss exposure. Historical loan loss rates are applied to "problem" consumer credits, adjusted to reflect current conditions.

Specific regular reviews of credits exceeding \$500,000 are performed to monitor the major portfolio risk. The Bank analyzes all commercial loans in excess of \$10,000 that are rated as watch list credits. Potential credit problems are monitored to determine whether specific loans are impaired, with impairment normally measured by reference to borrowers' collateral values and estimated cash flows.

The general portion of the allowance for loan and lease losses represents the results of measuring potential losses inherent in the portfolio that are not identified in the specific allowance analysis. This general portion is determined using historical loan and lease loss experience adjusted by assessing changes in the Bank's underwriting criteria, growth and/or changes in the mix of loans originated, industry concentrations and evaluations, lending management changes, comparisons of certain factors to peer group banks and changes in economic conditions.

Management believes the allowance for loan and lease losses is adequate. Identification of specific losses is an ongoing process using available information. Specifically, quarterly management meetings to review "problem" loans and leases are utilized to determine a plan for collection and, if necessary, a recommendation to the Board for charge off. Future additions to the allowance for loan and lease losses through a provision for loan and lease losses will be made based on identified changes in the above factors coupled with loss experience.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses. These agencies may require the Bank to recognize changes to the allowance based on their judgment about information available to them at the time of their examinations.

(e) **Bank Premises and Equipment**

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to expense when incurred, while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations.

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

Foreclosed assets held for sale consist primarily of real estate acquired through, or in lieu of, foreclosure in settlement of debt and are recorded at fair value at the date of transfer. Any valuation adjustments required at the date of transfer are charged to the allowance for loan losses. Subsequent to acquisition, foreclosed assets are carried at the lower of cost or fair 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.

(g) **Income Taxes**

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

(h) **Core Deposit Intangible**

Core deposit intangible is a measure of the value of consumer demand and savings deposits acquired in business combinations accounted for as purchases. The core deposit intangible is being amortized over an 8 year life on a straight-line basis. The core deposit intangible is subject to impairment testing whenever events or changes in circumstances indicate its carrying amount may not be recoverable.

(i) **Goodwill**

Goodwill is the excess of the purchase price over the fair value of assets acquired in connection with 2004 and 2006 business acquisitions accounted for as purchases. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," requires a two-step process for testing the impairment of goodwill on at least an annual basis. No impairment of goodwill was recognized in 2007, 2006 or 2005.

(j) **Marketing and Advertising Costs**

Marketing and advertising costs are expensed as incurred and were \$403,000 in 2007, \$255,000 in 2006, and \$298,000 in 2005.

(k) **Postretirement Benefit Plans**

MPB has adopted Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Postretirement Benefits" ("Revised SFAS No. 132"). Revised SFAS No. 132 requires additional disclosures about defined benefit pension plans and other postretirement defined benefit plans. It does not change the measurement or recognition of those plans.

(l) **Other Benefit Plan**

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

(m) **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 income is recognized on the cash basis which is not materially different than if it were reported on the accrual basis.

(n) **Earnings Per Share**

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each of the years presented giving retroactive effect to stock dividends and stock splits. MPB's basic and diluted earnings per share are the same since there are no potentially dilutive securities outstanding.

(o) **Statement of Cash Flows**

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

(p) **Reclassifications**

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

**(4) Comprehensive Income**

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

(Dollars in thousands)

	Years Ended December 31,		
	2007	2006	2005
Change in unrealized holding gains (losses) on available-for-sale securities	\$ 217	123	(699)
Less reclassification adjustment for gains realized in income	0	(33)	(1)
Net unrealized (losses) gains	217	90	(700)
Defined benefit plans:			
Net prior service cost	(301)	0	0
Net gain	20	128	0
Net transition obligation	15	(88)	0
	(266)	40	0
Other comprehensive income	(49)	130	(700)
Income tax benefit (expense)	16	(44)	(238)
Net	\$ (33)	86	(462)

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

The Bank is required to maintain reserve balances with the Federal Reserve Bank of Philadelphia. The amounts of those required balances were \$533,000 at December 31, 2007 and \$512,000 at December 31, 2006.

**(6) Investment Securities**

At December 31, 2007 and 2006, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in Thousands)

December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 12,044	31	12	12,063
Mortgage-backed U.S. government agencies	6,862	26	30	6,858
State and political subdivision obligations	30,437	719	68	31,088
Restricted equity securities	4,072	0	9	4,063
	\$ 53,415	776	119	54,072

(Dollars in Thousands)

December 31, 2006	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 15,015	15	194	14,836
Mortgage-backed U.S. government agencies	9,041	28	95	8,974
State and political subdivision obligations	29,050	711	14	29,747
Restricted equity securities	3,713	0	9	3,704
	\$ 56,819	754	312	57,261

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.

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh and Atlantic Central Bankers Bank which do not have a readily determinable fair value because their ownership is restricted and they lack a market. Also included in restricted equity securities is an investment in Access Capital Strategies, an equity fund that invests in low to moderate income financing projects. This investment was purchased in 2004 to help fulfill the Bank's regulatory requirement of the Community Reinvestment Act and at December 31, 2006 and December 31, 2007, is reported at fair value.

Investment securities having a fair value of \$38,771,000 at December 31, 2007 and \$44,913,000 at December 31, 2006, were pledged to secure public deposits and other borrowings.

Gains from sales of investment securities amounted to \$33,000 in 2006 and \$1,000 in 2005. The proceeds from sales of investment securities were \$1,923,000 in 2006 and \$535,000 in 2005. There were no sales of investment securities in 2007.

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, 2007 and 2006.

(Dollars in thousands) December 31, 2007	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale securities:</b>						
U.S. Treasury and U.S. government agencies	\$ 0	0	5,488	12	5,488	12
Mortgage-backed U.S. government agencies	0	0	3,827	30	3,827	30
State and political subdivision obligations	1,473	58	1,336	10	2,809	68
Restricted equity securities	0	0	241	9	241	9
Total temporarily impaired available-for-sale securities	\$ 1,473	58	10,892	61	12,365	119

(Dollars in thousands) December 31, 2006	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale securities:</b>						
U.S. Treasury and U.S. government agencies	\$ 0	0	13,806	194	13,806	194
Mortgage-backed U.S. government agencies	0	0	5,822	95	5,822	95
State and political subdivision obligations	1,954	5	1,293	9	3,247	14
Restricted equity securities	0	0	241	9	241	9
Total temporarily impaired available-for-sale securities	\$ 1,954	5	21,162	307	23,116	312

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis; and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of MPB to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007, the 19 debt securities with unrealized losses have depreciated 0.95% from its amortized cost basis. These securities are issued by either the U.S. Government or other governmental agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

The following is a schedule of the maturity distribution of investment securities at amortized cost and fair value at December 31, 2007:

(Dollars in thousands)	December 31, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$ 3,895	3,899	2,455	2,451
Due after 1 year but within 5 years	7,347	7,469	10,722	10,702
Due after 5 years but within 10 years	18,075	18,402	17,323	17,623
Due after 10 years	13,164	13,382	13,566	13,807
	42,481	43,152	44,066	44,583
Mortgage-backed securities (avg. life 1.8 years)	6,862	6,857	9,041	8,974
Restricted equity securities	4,072	4,063	3,713	3,704
	\$ 53,415	54,072	56,820	57,261

**(7) Loans**

A summary of loans at December 31, 2007 and 2006 is as follows:

(Dollars in thousands)	2007	2006
Commercial real estate, construction and land development	\$ 229,766	226,663
Commercial, industrial and agricultural	59,702	48,785
Real estate - residential	70,872	63,141
Consumer	18,401	21,747
	<u>\$ 378,741</u>	<u>360,336</u>

Net unamortized loan fees and costs of \$330,000 in 2007 and \$346,000 in 2006 were deducted from loans.

Loans and available credit to Bank executive officers, directors, and corporations in which such executive officers and directors have beneficial interests as stockholders, executive officers, or directors aggregated approximately \$6,304,000 at December 31, 2007 and \$6,058,000 at December 31, 2006. New loans extended were \$320,000 in 2007 and \$199,000 in 2006. Net payments on these loans equalled \$74,000 during 2007 and \$152,000 during 2006. These loans were made on substantially the same basis, including interest rates and collateral as those prevailing for comparable transactions with other borrowers at the same time.

**(8) Allowance for Loan and Lease Losses**

Changes in the allowance for loan and lease losses for the years 2007, 2006 and 2005 are summarized as follows:

(Dollars in thousands)	2007	2006	2005
Balance, January 1	\$ 4,187	3,704	3,643
Provision for loan and lease losses	925	735	225
Loans and leases charged off	(460)	(309)	(199)
Recoveries on loans and leases charged off	138	57	35
Balance, December 31	<u>\$ 4,790</u>	<u>4,187</u>	<u>3,704</u>

The recorded investment in loans and leases that are considered impaired amounted to \$4,317,000 on December 31, 2007, and \$1,126,000 on both December 31, 2006 and December 31, 2005. By definition, impairment of a loan or lease is considered when, based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan or lease agreement. The allowance for loan and lease losses related to loans and leases classified as impaired amounted to \$429,000 at December 31, 2007 and \$163,000 at December 31, 2006. All impaired loans and leases at the end of 2007 and 2006 had related allowances. The average balances of these loans and leases amounted to \$2,504,000, \$1,739,000 and \$1,404,000 for the years 2007, 2006 and 2005, respectively. The Bank recognizes interest income on impaired loans and leases on a cash basis. The following is a summary of cash receipts on these loans and leases and how they were applied in 2007, 2006, and 2005.

(Dollars in thousands)	2007	2006	2005
Cash receipts applied to reduce principal balance	\$ 1,112	563	23
Cash receipts recognized as interest income	17	2	15
Total cash receipts	<u>\$ 1,129</u>	<u>565</u>	<u>38</u>

Loans and leases which were past due 90 days or more for which interest continued to be accrued amounted to \$2,439,000 at December 31, 2007 and \$900,000 at December 31, 2006. Total nonaccrual loans and leases amounted to \$4,317,000 at December 31, 2007 and \$1,235,000 at December 31, 2006. The Bank has no commitments to lend additional funds to borrowers with impaired or nonaccrual loans.

**(9) Bank Premises and Equipment**

At December 31, 2007 and 2006, bank premises and equipment are as follows:

(Dollars in thousands)	2007	2006
Land	\$ 2,946	2,466
Buildings	8,765	7,169
Furniture and fixtures	6,916	6,368
Leasehold improvements	133	133
Construction in progress	0	739
	18,760	16,875
Less accumulated depreciation	(8,122)	(7,313)
	<u>\$ 10,638</u>	<u>9,562</u>

Depreciation expense was \$809,000 in 2007, \$638,000 in 2006 and \$579,000 in 2005.

**(10) Deposits**

At December 31, 2007 and 2006, time deposits in denominations of \$100,000 or more amounted to \$43,941,000 and \$33,985,000, respectively. Interest expense on such certificates of deposit amounted to \$2,142,000, \$1,549,000 and \$1,036,000 for the years ended December 31, 2007, 2006 and 2005, respectively. These larger time deposits at December 31, 2007, mature as follows (in thousands): 2008, \$28,488; 2009, \$3,227; 2010, \$3,800; 2011, \$7,042; 2012, \$915; thereafter, \$469.

Brokered deposits, included in the deposit totals, equalled \$49,757,000 at December 31, 2007 and \$39,849,000 at December 31, 2006. Deposits and other funds from related parties held by MPB at December 31, 2007 and 2006 amounted to \$6,184,000 and \$5,736,000, respectively.

**(11) Short-term Borrowings**

Short-term borrowings as of December 31, 2007 and 2006 consisted of:

(Dollars in thousands)	2007	2006
Federal funds purchased	\$ 29,600	14,500
Repurchase agreements	7,156	9,175
Treasury, tax and loan notes	593	600
	<u>\$ 37,349</u>	<u>24,275</u>

The weighted average interest rate on total short-term borrowings outstanding was 3.90% at December 31, 2007 and 4.91% at December 31, 2006.

Federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury, tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by the Bank are placed in the Treasury note account. The Bank also has unused lines of credit with several banks amounting to \$24,280,000 at December 31, 2007.

**(12) Long-term Debt**

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and through its membership, the Bank can access a number of credit products which are utilized to provide various forms of liquidity. As of December 31, 2007 and 2006, the Bank had long-term debt in the amount of \$54,581,000 and \$59,713,000, respectively, consisting of:

(Dollars in thousands)	At December 31,	
	2007	2006
Loans matured in 2007 at a rate of 3.71%	\$ 0	5,000
Loans maturing in 2008 with rates ranging from 3.08% to 3.80%	15,000	15,000
Loans maturing in 2009 with rates ranging from 4.22% to 7.24%	17,000	17,000
Loans maturing in 2010 with rates ranging from 6.28% to 6.71%	10,000	10,000
Loans maturing in 2011 at a rate of 5.13%	5,000	5,000
Loans maturing in 2013 with rates ranging from 4.08% to 4.75%	3,500	3,500
Loans maturing in 2026 at a rate of 4.80%	3,992	4,122
Loans maturing in 2027 at a rate of 6.71%	89	91
	<u>89</u>	<u>91</u>
Total Long-term Debt	<u>\$ 54,581</u>	<u>59,713</u>

The aggregate amounts due on long-term debt subsequent to December 31, 2007 are \$15,138,000 (2008), \$17,145,000 (2009), \$10,152,000 (2010), \$5,159,000 (2011), \$167,000 (2012), \$6,820,000 thereafter. \$3,110,553 of the Bank's investments, and the bank's mortgage loan portfolio are pledged to secure FHLB borrowings.

**(13) Postretirement Benefit Plans**

MPB has an unfunded noncontributory defined benefit plan for directors. The plan provides defined benefits based on years of service.

MPB also has other postretirement benefit plans covering full-time employees. These health care and life insurance plans are noncontributory.

The significant aspects of each plan are as follows:

**(a) Health Insurance**

For full-time employees who retire after at least 20 years of service, MPB will pay premiums for major medical insurance (as provided to active employees) for a period ending on the earlier of the date the participant obtains other employment where major medical coverage is available or the date of the participant's death; however, in all cases payment of medical premiums by MPB will not exceed five years. If the retiree becomes eligible for Medicare within the five year period beginning on his/her retirement date, the Bank may pay, at its discretion, premiums for 65 Special coverage or a similar supplemental coverage. After the five year period has expired, all MPB paid benefits cease; however, the retiree may continue coverage through the Bank at his/her own expense.



**(b) Life Insurance**

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

**(c) Directors' Retirement Plan**

MPB has an unfunded defined benefit retirement plan for directors with benefits based on years of service. The adoption of this plan generated unrecognized prior service cost of \$274,000, which is being amortized based on the expected future years of service of active directors. The unamortized balance at December 31, 2007, was \$222,000.

**Health and Life**

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, 2007 and 2006, and a statement of the funded status at December 31, 2007 and 2006:

(Dollars in thousands)	December 31,	
	2007	2006
Change in benefit obligations:		
Benefit obligations, January 1	\$ 624	720
Service cost	41	39
Interest cost	31	30
Actuarial loss (gain)	(48)	(146)
Benefit payments	(23)	(19)
Benefit obligations, December 31	\$ 625	624
Change in fair value of plan assets:		
Fair value of plan assets, January 1	\$ 0	0
Employer contributions	23	19
Benefit payments	(23)	(19)
Fair value of plan assets, December 31	\$ 0	0
Funded status at year end	\$ (625)	(624)

Amount recognized in the consolidated balance sheet at December 31, 2007 and 2006, is as follows:

(Dollars in thousands)	2007	2006
Accrued benefit liability	\$ (625)	(624)

Amounts recognized in accumulated other comprehensive income consist of:

	December 31,	
	2007	2006
Net transition obligation, net of tax effects	\$ 49	58
Net gain, net of tax effects	(109)	(81)

The accumulated benefit obligation for health and life insurance plans was \$625,000 and \$624,000 at December 31, 2007 and 2006, respectively.

The estimated net actuarial gain and transition assets that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2008 are \$5,100 and \$14,727.

The components of net periodic postretirement benefit cost for 2007, 2006 and 2005 are as follows:

(Dollars in thousands)	2007	2006	2005
Service cost	\$ 41	39	43
Interest cost	31	30	36
Amortization of transition obligation	15	15	15
Amortization of net (gain)	(7)	(4)	0
Net periodic postretirement benefit cost	\$ 80	80	94

Assumptions used in the measurement of MPB's benefit obligations at December 31, 2007 and 2006 are as follows:

Weighted-average assumptions:	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	5.75%
Rate of compensation increase	5.00%	5.00%

Assumptions used in the measurement of MPB's net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005 are as follows:

Weighted-average assumptions:	<u>2007</u>	<u>2006</u>	<u>2005</u>
Discount rate	5.75%	5.50%	5.75%
Rate of compensation increase	5.00%	5.00%	5.00%

Assumed health care cost trend rates at December 31, 2007, 2006 and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Health care cost trend rate assumed for next year	9.00%	9.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2011	2010	2009

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Dollars in thousands)	One-Percentage Point	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost	\$ 12	10
Effect on accumulated postretirement benefit obligation	73	62

MPB expects to contribute \$25,940 to its life and health benefit plans in 2008.

#### Estimated Future Benefit Payments

1/1/2008 to 12/31/2008	\$ 25,940
1/1/2009 to 12/31/2009	31,242
1/1/2010 to 12/31/2010	26,781
1/1/2011 to 12/31/2011	31,918
1/1/2012 to 12/31/2012	22,279
1/1/2013 to 12/31/2017	220,485

Benefit obligations were measured as of December 31, 2007, for the postretirement benefit plan.

#### Retirement Plan

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, 2007 and 2006 and a statement of the status at December 31, 2007 and 2006. This plan is unfunded:

(Dollars in thousands)	December 31,	
	<u>2007</u>	<u>2006</u>
Change in benefit obligations:		
Benefit obligations, January 1	\$ 716	716
Service cost	26	19
Interest cost	60	37
Actuarial (gain) loss	27	(10)
Plan amendment	324	0
Change in assumptions	(6)	(11)
Benefit payments	(49)	(35)
Benefit obligations, December 31	\$ 1,098	716

(Dollars in thousands)

Change in fair value of plan assets:		2007	2006
Fair value of plan assets, January 1	\$	0	0
Employer contributions		49	35
Benefit payments		(49)	(35)
Fair value of plan assets, December 31	\$	0	0
Funded status at year end	\$	<u>(1,098)</u>	<u>(716)</u>

Amounts recognized in the consolidated balance sheet at December 31, 2007 and 2006 are as follows:

(Dollars in thousands)		2007	2006
Accrued benefit liability	\$	<u>(1,098)</u>	<u>(716)</u>

Amounts recognized in accumulated other comprehensive income consist of:

		2007	2006
Net prior service cost, net of tax effect	\$	196	0
Net loss (gain), net of tax effect		11	(3)

The accumulated benefit obligation for the retirement plan was \$785,000 at December 31, 2007 and \$716,000 at December 31, 2006.

The estimated net actuarial gain and prior service costs that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2008 are \$0 and \$26,984.

The components of net periodic retirement cost for 2007, 2006 and 2005 are as follows:

(Dollars in thousands)		2007	2006	2005
Service cost	\$	26	20	26
Interest cost		59	37	41
Amortization of prior-service cost		27	0	26
Net periodic retirement cost	\$	<u>112</u>	<u>57</u>	<u>93</u>

Assumptions used in the measurement of MPB's benefit obligations at December 31, 2007 and 2006 are as follows:

Weighted-average assumptions:		2007	2006
Discount rate		6.00%	5.75%
Change in consumer price index		3.50%	3.25%

Assumptions used in the measurement of MPB's net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005 are as follows:

Weighted-average assumptions:		2007	2006	2005
Discount rate		5.75%	5.50%	5.75%
Change in consumer price index		3.25%	3.25%	3.00%

MPB expects to contribute \$69,905 to its retirement plan in 2008.

## Estimated Future Benefit Payments

1/1/2008 to 12/31/2008	\$	62,905
1/1/2009 to 12/31/2009		63,605
1/1/2010 to 12/31/2010		64,152
1/1/2011 to 12/31/2011		64,538
1/1/2012 to 12/31/2012		77,234
1/1/2013 to 12/31/2017		378,785

Plan benefit obligations were measured as of December 31, 2007 for the directors' defined benefit plan.

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 \$2,882,000 and \$2,942,000 at December 31, 2007 and 2006, respectively.

**(14) Other Benefit Plans****(a) Defined-Contribution Plan**

The Bank has a funded contributory defined-contribution plan covering substantially all employees. The Bank's contribution to the plan was \$241,000 for 2007, \$251,000 for 2006 and \$277,000 for 2005.

**(b) Deferred Compensation Plans**

The Bank has an executive deferred compensation plan which allows an executive officer to defer bonus compensation for a specified period in order to provide future retirement income. At December 31, 2007 and 2006, the Bank had accrued a liability of approximately \$146,000 and \$140,000, respectively, for this plan.

The Bank also has a directors' deferred compensation plan which allows directors to defer receipt of fees for a specified period in order to provide future retirement income. At December 31, 2007 and 2006, the Bank had accrued a liability of approximately \$321,000 and \$274,000, respectively, for this plan.

**(c) Salary Continuation Agreement**

The Bank maintains a Salary Continuation Agreement (Agreement) for an executive officer. The Agreement provides the executive officer with a fixed annual benefit. The benefit is payable beginning at age 65 for a period of 15 years. If the executive officer terminates employment before the normal retirement date for reasons other than death, the annual benefit payable will be based on the vesting schedule as defined in the Agreement. Upon death or a change in control of the Bank, the executive officer or his beneficiary is entitled to the full fixed annual benefits. At December 31, 2007 and 2006, the Bank has accrued a liability of approximately \$261,000 and \$232,000, respectively, for the Agreement. The expense related to the Agreement was \$29,000 for 2007, \$37,000 for 2006 and \$34,000 for 2005.

The Bank is the owner and beneficiary of an insurance policy on the life of the participating executive officer which informally funds the benefit obligation. The aggregate cash surrender value of this policy was approximately \$964,000 and \$930,000 at December 31, 2007 and 2006, respectively.

**(d) Employee Stock Ownership Plan**

MPB has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. Contributions to the ESOP are made at the discretion of the Board of Directors. Total expense related to MPB's contribution to the ESOP for 2007, 2006 and 2005 was \$79,000, \$94,000 and \$139,000, respectively. The ESOP held 45,193 and 40,461 shares of MPB stock as of December 31, 2007 and December 31, 2006, respectively, all of which were allocated to plan participants. Shares held by the ESOP are considered outstanding for purposes of calculating earnings per share. Dividends paid on shares held by the ESOP are charged to retained earnings.

**(e) Other**

At December 31, 2007 and 2006, the Bank had Split Dollar Life Insurance arrangements with one existing and one former executive for which the aggregate collateral assignment and cash surrender values are approximately \$1,608,000 and \$1,550,000, respectively.

**(15) Federal Income Taxes**

The following temporary differences gave rise to the net deferred tax asset at December 31, 2007 and 2006:

(Dollars in thousands)	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,475	1,270
Benefit plans	963	703
Nonaccrual interest	132	110
Core deposit intangible	47	15
Total	<u>2,617</u>	<u>2,098</u>
Deferred tax liabilities:		
Depreciation	(116)	(149)
Loan fees	(134)	(117)
Bond accretion	(58)	(42)
Other items	(33)	(30)
Unrealized gain on securities	(223)	(150)
Total	<u>(564)</u>	<u>(488)</u>
Deferred tax asset, net	\$ <u>2,053</u>	<u>1,610</u>

The provision for income taxes consists of the following:

(Dollars in thousands)	2007	2006	2005
Currently payable	\$ 1,821	1,886	1,773
Deferred	(427)	(262)	(173)
Total provision for income taxes	\$ <u>1,394</u>	<u>1,624</u>	<u>1,600</u>

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

(Dollars in thousands)	2007	2006	2005
Provision at the expected statutory rate	\$ 2,001	2,214	2,109
Effect of tax-exempt income	(601)	(643)	(533)
Nondeductible interest	81	66	39
Other items	(87)	(13)	(15)
Provision for income taxes	\$ <u>1,394</u>	<u>1,624</u>	<u>1,600</u>

**(16) Business Combination**

On December 4, 2006, MPB consummated the purchase of assets and assumption of liabilities of the Middletown and Steelton offices of Omega Bank ("Omega Branches"). MPB approved this deal in order to increase market share in the Central Pennsylvania Area. The net receipt of cash from the Omega Branches was \$7,100,000. The results of operations of these former Omega Branches from the date of acquisition have been included in the accompanying consolidated financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

(Dollars in thousands)	2006
Cash	\$ 445
Loans	16,307
Accrued interest receivable	89
Property, plant and equipment	2,826
Goodwill	757
Core deposit intangible	232
Other assets	14
Total Assets Acquired	\$ <u>20,670</u>
Deposits	\$ 27,193
Accrued interest payable	111
Other liabilities	21
Total Liabilities Assumed	<u>27,325</u>
Net Liabilities Assumed	\$ <u>6,655</u>

**(17) Core Deposit Intangible**

A summary of core deposit intangible is as follows at December 31, 2007.

(Dollars in thousands)	2004	2006	Total
	Acquisition	Acquisition	
Gross carrying amount	\$ 291	232	523
Less accumulated amortization	(129)	(31)	(160)
Net carrying amount	\$ <u>162</u>	<u>201</u>	<u>363</u>

The core deposit intangibles for the acquisitions are being amortized over the weighted average useful life of 8 years, with no estimated residual value.

Amortization expense amounted to \$66,000 in 2007 and \$39,000 in 2006.

The estimated amortization expense of intangible assets for each of the five succeeding fiscal years is \$65,000 per year.

**(18) Regulatory Matters**

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

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

(Dollars in thousands)	<u>Capital Adequacy</u>				<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions:</u>	
	<u>Actual:</u>		<u>Minimum Capital Required:</u>			
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2007:						
Tier I Capital (to Average Assets)	\$ 38,591	7.6%	20,115	4.0%	25,144	5.0%
Tier I Capital (to Risk Weighted Assets)	38,591	9.4	16,303	4.0	24,454	6.0
Total Capital (to Risk Weighted Assets)	43,381	10.6	32,605	8.0	40,753	10.0
As of December 31, 2006:						
Tier I Capital (to Average Assets)	\$ 36,833	7.9%	18,677	4.0%	23,346	5.0%
Tier I Capital (to Risk Weighted Assets)	36,833	9.4	15,610	4.0	23,414	6.0
Total Capital (to Risk Weighted Assets)	41,020	10.5	31,219	8.0	39,024	10.0

As of December 31, 2007, the Bank's capital ratios are in excess of the minimum and well-capitalized guidelines and MPB's capital ratios are in excess of the Bank's capital ratios.

#### (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 financial 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 financial 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.

Financial 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 financial standby letters of credit is generally one year or less.

As of December 31, 2007, commitments to extend credit amounted to \$88,148,000 and financial standby letters of credit amounted to \$11,480,000.

Significant concentration of credit risk may occur when obligations of the same 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, 2007, 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 Central Pennsylvania, specifically within the Bank's trading area made up of Dauphin County, lower Northumberland County, western Schuylkill County and Hampden Township in Cumberland County.

The Bank's highest concentrations of credit are in the areas of apartment building financing and hotel/motel lodging financings. Outstanding credit to these sectors amounted to \$34,839,000 or 9.3% and \$30,634,000 or 8.2%, respectively, of net loans outstanding as of December 31, 2007.

**(20) Commitments and Contingencies**

## Operating Lease:

In April 2005, MPB entered into a non-cancelable operating lease agreement to lease approximately 2,500 square feet of office space in the downtown Harrisburg area, with the initial term extending through March 2010. MPB has the option to renew this lease for two additional five-year periods. MPB also has a lease on its Halifax office, which currently runs through January of 2009.

Minimum future rental payments under this operating lease as of December 31, 2007, for each of the next 3 years and in the aggregate are:

2008	\$ 88,094
2009	66,634
2010	23,100
	<u>\$ 177,828</u>

## Litigation:

MPB is subject to lawsuits and claims arising out of its 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 MPB.

**(21) Parent Company Statements**

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

## CONDENSED BALANCE SHEET

December 31, 2007 and 2006

(Dollars in thousands)

	2007	2006
<b>ASSETS</b>		
Cash	\$ 152	277
Investment in Subsidiaries	40,292	38,808
	<u>Total Assets \$ 40,444</u>	<u>39,085</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Stockholders' Equity	\$ 41,584	39,719
Less Treasury Stock	(1,140)	(634)
	<u>Total Liabilities and Equity \$ 40,444</u>	<u>39,085</u>

## CONDENSED STATEMENT OF INCOME

For Years Ended December 31, 2007, 2006 and 2005

(Dollars in thousands)

	2007	2006	2005
Dividends from Subsidiaries	\$ 3,224	2,864	2,643
Other Income from Subsidiaries	37	61	47
Undistributed Earnings of Subsidiaries	1,517	2,134	2,051
Other Expenses	(107)	(171)	(138)
	<u>Net Income \$ 4,671</u>	<u>4,888</u>	<u>4,603</u>

## CONDENSED STATEMENT OF CASH FLOWS

For Years Ended December 31, 2007, 2006 and 2005

(Dollars in thousands)

	2007	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 4,671	4,888	4,603
Undistributed Earnings of Subsidiaries	(1,517)	(2,134)	(2,051)
	<u>Net Cash Provided By Operating Activities 3,154</u>	<u>2,754</u>	<u>2,552</u>

## CASH FLOWS FROM FINANCING ACTIVITIES

Dividends Paid	(2,773)	(2,652)	(2,552)
Purchase of Treasury Stock	(506)	(98)	0
Net Cash Used In Financing Activities	(3,279)	(2,750)	(2,552)
Net (Decrease) Increase in Cash	(125)	4	0
Cash at Beginning of Period	277	273	273
Cash at End of Period	\$ 152	277	273

**(22) Fair Value of Financial Instruments**

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

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

**Cash and due from banks:**

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

**Interest-bearing balances with other financial institutions:**

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

**Investment securities:**

As indicated in Note 7, estimated fair values of investment securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices for comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

**Loans:**

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

**Deposits:**

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

**Short-term borrowings:**

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

**Long-term debt:**

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

**Accrued interest:**

The carrying amounts of accrued interest approximates their fair values. The following table summarizes the book value and fair value of financial instruments at December 31, 2007 and 2006.



(Dollars in thousands)	December 31, 2007		December 31, 2006	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Cash and due from banks	\$ 10,599	10,599	9,498	9,498
Interest-bearing balances	46,830	46,830	46,921	46,921
Investment securities	54,072	54,072	57,261	57,261
Net loans	372,338	382,254	354,386	355,155

(Dollars in thousands)	December 31, 2007		December 31, 2006	
	Book Value	Fair Value	Book Value	Fair Value
Financial liabilities:				
Deposits	\$ 372,817	377,919	364,226	364,110
Short-term borrowings	37,349	37,349	24,275	24,275
Accrued interest	1,990	1,990	1,912	1,912
Long-term debt	54,581	56,524	59,713	60,042
Off-balance sheet financial instruments:				
Commitments to extend credit	\$ 88,148	88,148	75,051	75,051
Financial standby letters of credit	11,480	11,480	11,163	11,163

**(23) Common Stock**

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

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

In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp Common Stock. Through December 31, 2007, 24,650 shares have been repurchased at an average price of \$24.44 per share.

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

The following table presents summarized quarterly financial data for 2007, 2006 and 2005.

(Dollars in Thousands, Except Per Share Data)	2007 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Interest Income	\$ 7,705	7,780	7,950	8,010
Interest Expense	3,727	3,766	3,892	3,954
Net Interest Income	3,978	4,014	4,058	4,056
Provision for Loan Losses	75	125	175	550
Net Interest Income After Provision for Loan Losses	3,903	3,889	3,883	3,506
Other Income	837	836	749	1,029
Securities Gains	0	0	0	0
Gain on Sale of Loans	0	21	0	0
Other Expenses	3,291	3,190	3,050	3,057
Income Before Income Tax Provision	1,449	1,556	1,582	1,478
Income Tax Provision	365	377	372	280
Net Income	\$ 1,084	1,179	1,210	1,198
Earnings Per Share	\$ .32	.34	.35	.33

(Dollars in Thousands, Except Per Share Data)

	2006 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Interest Income	\$ 6,580	6,962	7,104	7,568
Interest Expense	2,807	3,071	3,290	3,564
Net Interest Income	3,773	3,891	3,814	4,004
Provision for Loan Losses	135	225	75	300
Net Interest Income After Provision for Loan Losses	3,638	3,666	3,739	3,704
Other Income	673	741	723	754
Securities Gains	0	0	33	0
Gain (Loss) on Sale of Other Real Estate	152	0	(21)	(27)
Other Expenses	2,914	2,895	2,785	2,669
Income Before Income Tax Provision	1,549	1,512	1,689	1,762
Income Tax Provision	394	395	447	388
Net Income	\$ 1,155	1,117	1,242	1,374
Earnings Per Share	\$ .34	.33	.37	.42

(Dollars in Thousands, Except Per Share Data)

	2005 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Interest Income	\$ 5,348	5,663	5,982	6,301
Interest Expense	2,103	2,284	2,492	2,678
Net Interest Income	3,245	3,379	3,490	3,623
Provision (Credit) for Loan Losses	60	110	280	(225)
Net Interest Income After Provision (Credit) for Loan Losses	3,185	3,269	3,210	3,848
Other Income	732	686	817	698
Securities Gains	0	1	0	0
Gain on Sale of Loans	0	0	19	0
Other Expenses	2,540	2,621	2,527	2,574
Income Before Income Tax Provision	1,377	1,335	1,519	1,972
Income Tax Provision	360	333	387	520
Net Income	\$ 1,017	1,002	1,132	1,452
Earnings Per Share	\$ .30	.30	.34	.43

**(25) Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities," including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Corporation is currently evaluating the impact of the adoption of this pronouncement on its consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 ("EITF 06-10"), Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently evaluating the impact that the adoption of the EITF will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), to establish a consistent framework for measuring fair value measurements. The provisions of SFAS 157 are effective beginning in 2008 and are not expected to have a material effect on its financial statements.

The purpose of this discussion is to further detail the financial condition and results of operations of Mid Penn Bancorp, Inc. (MPB) or Company. MPB is not aware of any known trends, events, uncertainties or of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on MPB's liquidity, capital resources or operations. This discussion should be read along with the consolidated financial statements also appearing in this report.

### **Financial Summary**

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

MPB earned net income of \$4,671,000 for the year 2007, compared to \$4,888,000 in 2006, which was a decrease of \$397,000 or 4.4%. This represents net income in 2007 of \$1.34 per share compared to \$1.39 per share in 2006 and \$1.31 per share in 2005.

Total assets of MPB continued to grow in 2007, reaching the level of \$509,757,000, an increase of \$18,063,000 or 3.7% over \$491,694,000 at year end 2006. The majority of growth came from increases in commercial real estate loans in the Capital Region. These increases were funded primarily through growth in deposits, along with increased short-term borrowings.

MPB continued to achieve a solid return on average shareholders' equity, (ROE), a widely recognized performance indicator in the financial industry. The ROE was 11.84% in 2007, 12.93% in 2006 and 12.87% in 2005. Return on average assets (ROA), another performance indicator, was 0.94% in 2007, 1.08% in 2006 and 1.10% in 2005.

MPB maintained strong fundamental performance in 2007 despite intense local rate competition, general economic slowing and credit issues throughout the banking industry as a whole. Even though MPB spent more on marketing and business development in 2007 than in past years, growth in loans and deposits in its market was very difficult. Two direct competitors of the bank were being acquired through mergers and were offering very aggressive rates, particularly on deposits. Consequently, management decided not to pursue an aggressive growth strategy during the year and turned to wholesale funding and short-term borrowings to fund its slower asset growth. MPB did not participate in subprime lending and hence fared better than many banks in the industry who were faced with problems associated with these lending practices during 2007.

The Bank's tier one capital (to risk weighted assets) of \$38,591,000 or 9.4% and total capital (to risk weighted assets) of \$43,381,000 or 10.6% at December 31, 2007, are above the regulatory requirement, which is 4% for tier one capital and 8% for total capital. Tier one capital consists primarily of the bank's stockholders' equity. Total capital includes qualifying subordinated debt, if any, and the allowance for loan and lease losses, within permitted limits. Risk-weighted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities.

In September 2007, MPB opened a new office located at 2101 Market Street in Camp Hill, Cumberland County.

### **Critical Accounting Policies**

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management's current evaluation of the allowance indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance may need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan losses may be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company's non-performing loans and potential problem loans have a significant impact on the overall analysis of the adequacy of the allowance. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Company's allowance may also require additional provisions for loan and lease losses.

### **Net Interest Income**

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

During 2007, net interest income increased \$623,000 or 4.0% as compared to an increase of \$1,745,000 or 12.7% in 2006. The average balances, effective interest differential, and interest yields for the years ended December 31, 2007, 2006, and 2005 and the components of net interest income, are presented in Table 1. A comparative presentation of the changes in net interest income for 2007 compared to 2006, and 2006 compared to 2005, is given in Table 2. This analysis indicates the changes in interest income and interest expense caused by the volume and rate components of interest earning assets and interest bearing liabilities.

The yield on earning assets increased to 6.99% in 2007 from 6.80% in 2006. The yield on earning assets for 2005 was 6.10%. The change in the yield on earning assets was due primarily to changes in market interest rates and extreme rate competition within our market. The average "prime rate" for 2007 was 8.06% as compared to 7.96% for 2006 and 6.19% for 2005.

Interest expense increased by \$2,607,000 or 20.5% in 2007 as compared to \$3,175,000 or 33.2% in 2006.

Net interest margin, on a tax equivalent basis, influenced by fluctuations in interest rates in 2007 was 3.68% compared to 3.82% in 2006 and 3.67% in 2005. Management continues to closely monitor the net interest margin.

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

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
FOR YEAR ENDED DECEMBER 31, 2007

(Dollars in thousands)	Average Balance	Interest Income/Expense	Average Rates Earned/Paid
<b>ASSETS:</b>			
Interest Bearing Balances	\$ 46,900	2,546	5.43%
<b>Investment Securities:</b>			
Taxable	25,043	1,150	4.59%
Tax-Exempt	29,726	2,062	6.94%
	Total Investment Securities	<u>54,769</u>	
Federal Funds Sold	624	33	5.29%
Loans and Leases, Net	361,324	26,592	7.36%
Total Earning Assets	463,617	<u>32,383</u>	6.99%
Cash and Due from Banks	7,559		
Other Assets	25,012		
	Total Assets	\$ <u>496,188</u>	
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>			
<b>Interest Bearing Deposits:</b>			
NOW	\$ 35,048	144	0.41%
Money Market	63,927	2,208	3.45%
Savings	25,513	72	0.28%
Time	203,671	9,006	4.42%
Short-term Borrowings	22,528	1,049	4.66%
Long-term Debt	56,908	2,860	5.03%
Total Interest Bearing Liabilities	407,595	<u>15,339</u>	3.76%
Demand Deposits	44,021		
Other Liabilities	5,734		
Stockholders' Equity	38,838		
	Total Liabilities and Stockholders' Equity	\$ <u>496,188</u>	
Net Interest Income		\$ <u>17,044</u>	
<b>Net Yield on Interest Earning Assets:</b>			
Total Yield on Earning Assets			6.99%
Rate on Supporting Liabilities			3.31%
Average Interest Spread			3.22%
Net Interest Margin			3.68%

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

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
FOR YEAR ENDED DECEMBER 31, 2006

(Dollars in thousands)	Average Balance	Interest Income/Expense	Average Rates Earned/Paid
<b>ASSETS:</b>			
Interest Bearing Balances	\$ 46,038	\$ 2,225	4.83%
Investment Securities:			
Taxable	27,343	1,218	4.45%
Tax-Exempt	28,402	1,950	6.87%
	<u>55,745</u>		
Total Investment Securities			
Federal Funds Sold	564	29	5.14%
Loans and Leases, Net	324,720	23,598	7.27%
Total Earning Assets	427,067	29,020	6.80%
Cash and Due from Banks	7,000		
Other Assets	19,100		
	<u>453,167</u>		
Total Assets	\$		
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>			
Interest Bearing Deposits:			
NOW	\$ 31,877	90	0.28%
Money Market	60,968	1,898	3.11%
Savings	24,772	61	0.25%
Time	172,792	6,819	3.95%
Short-term Borrowings	14,937	686	4.59%
Long-term Debt	63,329	3,178	5.02%
Total Interest Bearing Liabilities	368,675	12,732	3.45%
Demand Deposits	43,161		
Other Liabilities	3,527		
Stockholders' Equity	37,804		
	<u>453,167</u>		
Total Liabilities and Stockholders' Equity	\$		
Net Interest Income		\$ 16,288	
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets			6.80%
Rate on Supporting Liabilities			2.98%
Average Interest Spread			3.35%
Net Interest Margin			3.82%

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

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
FOR YEAR ENDED DECEMBER 31, 2005

(Dollars in thousands)	Average Balance	Interest Income/Expense	Average Rates Earned/Paid
<b>ASSETS:</b>			
Interest Bearing Balances	\$ 58,735	\$ 2,067	3.52%
Investment Securities:			
Taxable	23,081	893	3.87%
Tax-Exempt	22,866	1,561	6.83%
Total Investment Securities	45,947		
Federal Funds Sold	1,623	53	3.27%
Loans and Leases, Net	287,185	19,427	6.76%
Total Earning Assets	393,490	24,001	6.10%
Cash and Due from Banks	6,940		
Other Assets	18,218		
Total Assets	\$ 418,648		
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>			
Interest Bearing Deposits:			
NOW	\$ 32,507	58	0.18%
Money Market	50,913	1,073	2.11%
Savings	28,179	69	0.24%
Time	158,935	5,321	3.35%
Short-term Borrowings	7,498	203	2.71%
Long-term Debt	59,021	2,833	4.80%
Total Interest Bearing Liabilities	337,053	9,557	2.84%
Demand Deposits	41,484		
Other Liabilities	4,332		
Stockholders' Equity	35,779		
Total Liabilities and Stockholders' Equity	\$ 418,648		
Net Interest Income		\$ 14,444	
<b>Net Yield on Interest Earning Assets:</b>			
Total Yield on Earning Assets			6.10%
Rate on Supporting Liabilities			2.43%
Average Interest Spread			3.26%
Net Interest Margin			3.67%

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

Loan fees of \$604,000, \$748,000 and \$492,000 are included with interest income in Table 1 for the years 2007, 2006 and 2005, respectively.

TABLE 2: VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Dollars in thousands)

	2007 Compared to 2006			2006 Compared to 2005		
	Increase (Decrease) Due to Change In:			Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
<b>Taxable Equivalent Basis</b>						
<b>INTEREST INCOME:</b>						
Interest Bearing Balances	\$ 42	279	321	(447)	605	158
Investment Securities:						
Taxable	(102)	34	(68)	165	160	325
Tax-Exempt	91	21	112	378	11	389
Total Investment Securities	(11)	55	44	543	171	714
Federal Funds Sold	3	1	4	(35)	11	(24)
Loans and Leases, Net	2,661	333	2,994	2,537	1,634	4,171
Total Interest Income	2,695	668	3,363	2,598	2,421	5,019
<b>INTEREST EXPENSE:</b>						
Interest Bearing Deposits:						
NOW	9	45	54	(1)	33	32
Money Market	92	218	310	212	613	825
Savings	2	9	11	(8)	0	(8)
Time	1,220	967	2,187	464	1,034	1,498
Total Interest Bearing Deposits	1,323	1,239	2,562	667	1,680	2,347
Short-term Borrowings	348	15	363	202	281	483
Long-term Debt	(322)	4	(318)	207	138	345
Total Interest Expense	1,349	1,258	2,607	1,076	2,099	3,175
NET INTEREST INCOME	\$ 1,346	(590)	756	1,522	322	1,844

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

#### **Provision for Loan and Lease Losses**

The provision for loan and lease losses charged to operating expense represents the amount deemed appropriate by management to maintain an adequate allowance for possible loan and lease losses. Following its model for loan and lease loss allowance adequacy, management made a \$925,000 provision in 2007 as well as a provision of \$735,000 in 2006 and \$225,000 in 2005. The allowance for loan and lease losses as a percentage of total loans was 1.27% at December 31, 2007, compared to 1.17% at December 31, 2006 and 1.18% at December 31, 2005, which has been higher than that of peer financial institutions due to MPB's higher level of loans to finance commercial real estate. The higher 2007 provision was due to downgrades in several commercial loan classifications and the reclassification of a large lease relationship into non-accrual status. The loans purchased through the Omega branch acquisition, currently \$9.6 million in total, were recorded in December 2006 at fair value with no related allowance for loan losses. These loans were not included in the adequacy model in December of 2006. A summary of charge-offs and recoveries of loans and leases is presented in Table 3.

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

(Dollars in thousands)

	Years ended December 31,				
	2007	2006	2005	2004	2003
Balance, beginning of year	\$ 4,187	3,704	3,643	2,992	3,051
Loans and leases charged-off:					
Commercial real estate, construction and land development	0	17	32	25	171
Commercial, industrial and agricultural	100	158	29	10	140
Real estate-residential	0	0	0	8	0
Consumer	231	134	138	78	98
Leases	129	0	0	0	0
Total loans and leases charged-off	460	309	199	121	409
Recoveries on loans and leases previously charged-off:					
Commercial real estate, construction and land development	0	0	0	0	0
Commercial, industrial and agricultural	5	3	12	8	14
Real estate-residential	0	0	0	0	0
Consumer	49	54	23	39	46
Leases	84	0	0	0	0
Total loans and leases recovered	138	57	35	47	60
Net charge-offs	322	252	164	74	349
Provision for loan and lease losses	925	735	225	725	290
Balance, end of year	\$ 4,790	4,187	3,704	3,643	2,992
Ratio of net charge-offs during the year to average loans and leases outstanding during the year, net of unearned discount	.09%	.08%	.06%	.03%	.14%
Allowance for loan and lease losses as a percentage of total loans and leases on 12/31/07	1.27%	1.17%	1.18%	1.30%	1.28%

**Noninterest Income**

During 2007, MPB earned \$3,481,000 in noninterest income, compared to \$3,028,000 earned in 2006 and \$2,953,000 earned in 2005.

Non-interest income in 2007 includes \$180,000 of death benefit on bank owned life insurance (BOLI) recognized upon the death of a retired director who passed away late in 2007.

Service charges on deposit accounts amounted to \$1,499,000 for 2007, an increase of \$123,000 or 8.93% compared to \$1,376,000 for 2006, which was an increase of \$28,000 or 2.1% above 2005. The majority of this increase is attributed to the addition of three new branches in Middletown, Steelton, and Camp Hill.

MPB owns cash surrender value of life insurance policies on its directors. The income on these policies amounted to \$271,000 during the year 2007, \$219,000 in 2006 and \$222,000 in 2005.

Trust department income for 2007 was \$319,000, a \$61,000 or 23.6% increase from \$258,000 in 2006, which was a \$54,000 or 17.3% decrease from \$312,000 in 2005. Trust Department income can fluctuate from year to year, due to the number of estates being settled during the year.

MPB also earned \$155,000 in 2007, \$112,000 in 2006, and \$70,000 in 2005 in fees from the third-party seller of investments whose services the Bank has contracted. Other income amounted to \$512,000 in 2007, \$498,000 in 2006 and \$578,000 in 2005.



**Noninterest Expense**

A summary of the major components of noninterest expense for the years ended December 31, 2007, 2006 and 2005 is reflected in Table 4. Noninterest expense increased to \$12,596,000 in 2007 from \$11,263,000 in 2006 and \$10,262,000 in 2005. The major component of noninterest expense is salaries and employee benefits. The number of full-time equivalent employees increased from 133 to 143 during 2007. Increases in the 2007 workforce included the purchase and addition of the two Omega Bank branches and the Camp Hill branch. Marketing and advertising expense increased from \$255,000 in 2006 to \$403,000 in 2007, which is attributed to the promotions for the three new offices as well as advertising and promotional activity aimed at attracting customers in light of the mergers of two direct competitors. Occupancy and equipment expenses also increased in 2007 due to the addition of the three new offices, and the relocation of our Elizabethtown office. CDI expense is the amortization expense over 8 years of the core deposit intangible resulting from acquisitions. With the 2006 Omega branch acquisition the CDI expense increased from \$39,000 in 2006 to \$131,000 in 2007. Another significant expense in 2007 was the continuing cost of complying with Section 404 of the Sarbanes-Oxley Act.

**TABLE 4: NONINTEREST EXPENSE**

(Dollars in thousands)

	Years ended December 31,		
	2007	2006	2005
Salaries and employee benefits	\$ 6,582	6,023	5,662
Occupancy expense, net	868	622	594
Equipment expense	1,064	838	734
Pennsylvania bank shares tax expense	329	286	259
Legal and professional expense	705	733	540
Early withdrawal penalty on investment CDs	0	191	0
Marketing and advertising expense	403	255	298
ATM and debit card processing expense	199	148	196
Director fees and benefits expense	294	241	221
Computer expense	434	378	308
Stationery and supplies expense	255	231	222
Trust department expense	54	57	41
Postage expense	152	139	149
Leasing department expense	32	12	18
Meals, travel, and lodging expense	111	90	76
Donation expense	97	60	60
Internet banking expense	88	59	42
Courier expense	107	92	81
Insurance expense	59	65	57
Telephone	30	85	91
CDI expense	131	39	36
Dues and subscriptions expense	65	56	43
Ongoing education expense	80	72	39
Service charge expense	88	76	80
Overdraft insurance losses	44	37	40
Credit report expense	64	55	57
Other	261	323	318
Total Noninterest Expense	\$ 12,596	11,263	10,262

**Investments**

MPB's investment portfolio is utilized to provide liquidity and managed to maximize return within reasonable risk parameters.

MPB's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded at fair value. Our investments: US Treasury, Agency and Municipal securities are valued at a market price relative to investments of the same type with similar maturity dates. As the interest rate environment of these securities changes, the value of securities changes accordingly.

As of December 31, 2007, SFAS No. 115 (the marking of securities to market value) resulted in an increase in shareholders' equity of \$434,000 (unrealized gain on securities of \$657,000 less estimated income tax expense of \$223,000). At December 31, 2006, SFAS No. 115 resulted in an increase in the unrealized gain included in other comprehensive income of \$291,000 (unrealized gain on securities of \$441,000 less estimated income tax expense of \$150,000) compared to a December 31, 2005 increase in the unrealized gain included in other comprehensive income of \$231,000 (unrealized gain on securities of \$352,000, less estimated income tax expense of \$121,000). MPB does not have any significant concentrations within investment securities.

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

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

	December 31,		
	2007	2006	2005
. S. Treasury and U.S. government agencies	\$ 12,044	15,015	14,999
Mortgage-backed U.S. government agencies	6,862	9,041	8,112
State and political subdivision obligations	30,437	29,050	24,162
Restricted equity securities	4,072	3,713	3,253
Total	\$ 53,415	56,819	50,526

**Loans**

At December 31, 2007, net loans totaled \$372,338,000, a \$17,952,000 or 5.0% increase from December 31, 2006. During 2007, MPB experienced a net increase in commercial real estate and commercial/industrial loans of approximately \$14,020,000, the majority of which was generated in the greater Capital (Harrisburg) Region.

The current environment in lending was extremely competitive with financial institutions aggressively pursuing potential borrowers with very competitive rates. At December 31, 2007, loans, net of unearned income, represented 77.9% of earning assets as compared to 76.1% on December 31, 2006 and 73.7% on December 31, 2005.

The Bank's loan portfolio is diversified among individuals, farmers, and small and medium-sized businesses generally located within the Bank's trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County. Commercial real estate, construction and land development loans are collateralized mainly by mortgages on the income-producing real estate or land involved. Commercial, industrial and agricultural loans are made to business entities and may be secured by business assets, including commercial real estate, or may be unsecured. Residential real estate loans are secured by liens on the residential property. Consumer loans include installment loans, lines of credit and home equity loans. The Bank has no concentration of credit to any one borrower or group of related borrowers. The only concentration is in loans secured by real estate.

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

**TABLE 6: LOAN PORTFOLIO**

	December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans	Amount	Percent of Loans
Commercial real estate, construction and land development	\$ 229,766	60.7%	226,663	63.0%	219,385	70.0%	195,549	69.6%	154,296	66.5%
Commercial, industrial and agricultural	59,702	15.8	48,785	13.5	31,368	10.0	30,940	11.0	25,567	11.0
Real estate-residential	70,872	18.7	63,141	17.5	44,688	14.3	43,914	15.6	43,384	18.7
Consumer	18,401	4.8	21,747	6.0	17,982	5.7	10,680	3.8	10,380	3.8
Total Loans	378,741	100	360,336	100	313,423	100	281,083	100	233,627	100
Unearned income	(1,613)		(1,763)		(1,586)		(1,536)		(1,549)	
Loans net of unearned discount	377,128		358,573		311,837		279,547		232,078	
Allowance for loan and lease losses	(4,790)		(4,187)		(3,704)		(3,643)		(2,992)	
Net Loans	\$ 372,338		354,386		308,133		275,904		229,086	

**Allowance for Loan and Lease Losses**

The allowance for loan and lease losses is maintained at a level believed adequate by Management to absorb potential losses in the loan and lease portfolio. MPB has a loan review department that is charged with establishing a "watch list" of potentially unsound loans, identifying unsound credit practices and suggesting corrective actions. A quarterly review and reporting process is in place for monitoring those loans that are on the "watch list." Each credit on the "watch list" is evaluated to estimate potential losses. In addition, loss estimates for each category of credit are provided based on Management's judgment which considers past experience, current economic conditions and other factors. For installment, real estate mortgages and other consumer loans, specific reserve allocations are based on past loss experience adjusted for recent portfolio growth and economic trends.

Calculated amounts resulting from this analysis are "specific" allocations. The amounts not specifically provided for individual classes of loans are considered "general." The general portion of the allowance is determined and based on judgments regarding economic lending conditions, management trends and other factors.

The 2007 provision of \$925,000 is an increase of \$190,000 over the \$735,000 provision in 2006. The larger provision is reflective of the increase in non-performing and classified loans and leases, primarily due to deteriorating economic conditions and the continuing decline of the real estate market. In addition, of particular note, is the potential exposure in one leasing relationship. The 2005 provision of \$225,000 reflected the removal from the "watch list" of a significant loan relationship, thus reducing overall provisions in 2005.

The allocation of the allowance for loan and lease losses among the major classifications is shown in Table 7 as of December 31 of each of the past five years. The allowance for loan and lease losses at December 31, 2007 was \$4,790,000 or 1.27% of total loans less unearned discount as compared to \$4,187,000 or 1.17% at December 31, 2006 and \$3,704,000 or 1.19% at December 31, 2005.

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

(Dollars in thousands)

	December 31,				
	2007	2006	2005	2004	2003
Commercial real estate, construction and land development	\$ 2,908	2,462	2,037	2,368	1,938
Commercial, industrial and agricultural	1,607	1,515	1,481	1,093	954
Real estate-residential	75	54	52	65	20
Consumer	148	124	110	83	65
General	52	32	24	34	15
Total Loans and Leases	\$ <u>4,790</u>	<u>4,187</u>	<u>3,704</u>	<u>3,643</u>	<u>2,992</u>

**Nonperforming Assets**

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

Consumer loans are generally recommended for charge-off when they become 120 days delinquent. All 1-4 family residential mortgages 90 days or more past due are reviewed quarterly by Management, and collection decisions are made in light of the analysis of each individual loan. The amount of consumer and residential mortgage loans past due 90 days or more at year-end was \$916,000, \$586,000 and \$892,000 in 2007, 2006 and 2005, respectively.

A presentation of nonperforming assets as of December 31 for each of the past five years is given in Table 8. Nonperforming assets at December 31, 2007, totaled \$7,343,000 or 1.44% of total assets compared to \$2,434,000 or 0.50% of total assets in 2006 and \$3,317,000 or 0.76% of total assets in 2005. At December 31, 2007, there were three parcels of commercial real estate in Other Real Estate Owned and three lease repossessions in Other Assets-Repossessed Property. The foreclosed assets held for sale at December 31, 2006, consisted of two parcels of commercial real estate and one residential property.

**TABLE 8: NONPERFORMING ASSETS**

(Dollars in thousands)

	December 31,				
	2007	2006	2005	2004	2003
Nonaccrual loans	\$ 4,317	1,293	1,773	873	984
Past due 90 days or more	2,439	995	1,086	397	666
Restructured loans	0	0	0	0	0
Total nonperforming loans	6,756	2,288	2,859	1,270	1,650
Foreclosed assets held for sale	587	146	458	505	1,117
Total nonperforming assets	\$ 7,343	2,434	3,317	1,775	2,767
Percent of loans outstanding	1.94%	0.68%	1.06%	0.63%	1.18%
Percent of total assets	1.44%	0.50%	0.76%	0.44%	0.74%

There are no trends or uncertainties related to nonperforming assets, which Management expects will materially impact future operating results, liquidity or capital resources.

#### Deposits and Other Funding Sources

MPB's primary source of funds is its deposits. Deposits at December 31, 2007, increased by \$8,591,000 or 2.4% over December 31, 2006, which increased by \$38,952,000 or 12.0% over December 31, 2005. Average balances and average interest rates applicable to the major classifications of deposits for the years ended December 31, 2007, 2006, and 2005 are presented in Table 9.

Average short-term borrowings for 2007 were \$22,528,000 as compared to \$14,937,000 in 2006. These borrowings included customer repurchase agreements, treasury tax and loan option borrowings and federal funds purchased. One five- million dollar long-term borrowing matured in 2007, while no new long-term borrowings were entered into during the year.

At December 31, 2007, the Bank held \$49,757,000 in funds from brokered deposits. Due to the competitive local deposit environment, the Bank added a net of \$10 million in brokered deposits in 2007 and \$10 million in 2006.

**TABLE 9: DEPOSITS BY MAJOR CLASSIFICATION**

(Dollars in thousands)

	Years ended December 31,					
	2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	\$ 44,021	0.00%	43,161	0.00%	41,484	0.00%
Interest-bearing demand deposits	35,048	0.41%	31,877	0.28%	32,507	0.18%
Money market	63,927	3.45%	60,968	3.11%	50,913	2.11%
Savings	25,513	0.28%	24,772	0.25%	28,179	0.24%
Time	203,671	4.42%	172,792	3.95%	158,935	3.35%
Total	\$ 372,180	3.07%	333,570	2.66%	312,018	2.09%

#### Capital Resources

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

Capital growth is achieved by retaining more in earnings than is paid out to our stockholders. Stockholders' equity increased in 2007 by \$1,359,000 or 3.5%, in 2006 by \$2,224,000 or 6.0%, and by \$1,589,000 or 4.5% in 2005.

MPB's normal dividend payout allows for quarterly cash returns to its stockholders and provides earnings retention at a level sufficient to finance future growth. The dividend payout ratio, which represents the percentage of annual net income returned to the stockholders in the form of cash dividends, was 60% for 2007 compared to 55% for 2006 and 56% for 2005.

At December 31, 2007, 43,706 shares of MPB's common stock have been purchased back by MPB, and are held as treasury stock.

### **Federal Income Taxes**

Federal income tax expense for 2007 was \$1,394,000 compared to \$1,624,000 and \$1,600,000 in 2006 and 2005, respectively. The effective tax rate was 23% for 2007, 25% for 2006 and 26% for 2005.

### **Liquidity**

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

Major sources of cash in 2007 came from operations and a net increase in deposits of \$8,591,000, as well as an increase in short-term borrowings of \$13,074,000. Another major source of funds were proceeds from the maturity of investment securities of \$9,864,000.

The major use of cash in 2007 was a net increase in loans of \$18,936,000. Other major uses of cash included the purchase of investment securities of \$6,430,000 and the purchase of bank premises and equipment of \$1,885,000.

The major sources of cash in 2006 came from operations and a net increase in deposits of \$11,795,000 (excluding the deposits of the purchased Omega offices), as well as an increase in short-term borrowings of \$11,933,000. Other major sources of funds included a net decrease in interest-bearing balances (investment certificates of deposit of other banks), as well as the cash received of \$7,100,000 through the Omega Branches purchase.

The major use of cash in 2006 was funding strong loan demand. Net loans increased \$29,946,000, excluding the loans received as part of the Omega Branch acquisition. Another major use of funds was an increase in investment securities of \$6,383,000, as funds were moved out of lower yielding interest-bearing balances.

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

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

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

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

The maturity distribution and weighted average yields of investments is presented in Table 10. The maturity distribution and repricing characteristics of MPB's loan portfolio is shown in Table 11. Table 12 provides expected maturity information about MPB's financial instruments that are sensitive to changes in interest rates. Except for the effects of prepayments on mortgage related assets, the table presents principal cash flows and related average interest rates on interest earning assets by contractual maturity. Residential loans are assumed to have annual payment rates between 12% and 18% of the portfolio.

MPB assumes that 75% of savings and NOW accounts are core deposits and are, therefore, expected to reprice after 5 years. Transaction accounts, excluding money market accounts, are assumed to reprice after five years. Money market accounts are assumed to be variable accounts and are reported as maturing within the first twelve months. No roll-off is applied to certificates of deposit. Fixed maturity deposits reprice at maturity. The maturity distribution of time deposits of \$100,000 or more is shown in Table 13.

TABLE 10: INVESTMENT MATURITY AND YIELD

(Dollars in thousands)

		December 31, 2007				Total
		One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	
U.S. Treasury and U.S. government agencies	\$	3,499	3,026	5,036	502	12,063
State and political subdivision obligations		400	4,443	13,366	12,879	31,088
Mortgage-backed U.S. government agencies		0	31	24	6,802	6,857
Equity securities		0	0	0	4,064	4,064
	Total \$	<u>3,899</u>	<u>7,500</u>	<u>18,426</u>	<u>24,247</u>	<u>54,072</u>
<b>Weighted Average Yields</b>						
U.S. Treasury and U.S. government agencies		4.65	4.47	4.17	5.00	4.42
State and political subdivision obligations (FTE)		7.06	7.26	6.60	6.38	6.61
Mortgage-backed U.S. government agencies		0	6.50	5.53	5.02	5.02
Equity securities		0	0	0	5.91	5.91
	Total	<u>4.90</u>	<u>6.13</u>	<u>5.93</u>	<u>5.89</u>	<u>5.86</u>

TABLE 11: LOAN MATURITY AND INTEREST SENSITIVITY

(Dollars in thousands)

		December 31, 2007			
		One Year and Less	After One Year thru Five Years	After Five Years	Total
Commercial, real estate, construction and land development	\$	71,017	136,692	22,057	229,766
Commercial, industrial and agricultural		26,108	23,699	9,895	59,702
Real estate-residential mortgages		20,249	33,716	16,907	70,872
Consumer		9,130	6,267	1,391	16,788
	Total Loans \$	<u>126,504</u>	<u>200,374</u>	<u>50,250</u>	<u>377,128</u>
<b>Rate Sensitivity</b>					
Predetermined rate	\$	21,735	54,473	44,309	120,517
Floating or adjustable rate		104,769	145,901	5,941	256,611
	Total \$	<u>126,504</u>	<u>200,374</u>	<u>50,250</u>	<u>377,128</u>

TABLE 12: INTEREST RATE SENSITIVITY GAP

(Dollars in thousands)  
(Average rates in percentages)  
(As of December 31, 2007)

		Expected Maturity Year Ended December 31,						Total	Fair Value
		2008	2009	2010	2011	2012	Thereafter		
<b>Assets:</b>									
Interest bearing balances	\$	33,963	10,590	1,287	891	99	0	46,830	46,830
Average interest rate		5.40	5.27	5.27	5.67	5.25	0	5.37	
Debt securities		3,899	2,665	1,445	1,528	1,830	38,671	50,038	50,038
Average interest rate		4.90	4.50	6.86	6.56	7.58	5.84	5.86	
Adjustable rate loans		104,769	37,199	35,063	35,383	38,254	5,941	256,609	256,609
Average interest rate		7.38	6.54	6.67	7.08	7.45	6.36	7.10	
Fixed rate loans		21,735	16,128	12,356	13,116	12,873	44,309	120,517	130,435
Average interest rate		6.86	6.72	7.35	6.12	7.33	7.02	7.00	
Total	\$	<u>164,366</u>	<u>66,582</u>	<u>50,151</u>	<u>50,918</u>	<u>53,056</u>	<u>88,921</u>	<u>473,994</u>	<u>483,912</u>
<b>Interest liabilities:</b>									
Variable rate savings and transaction accounts	\$	77,964	0	0	0	0	92,581	170,545	170,545
Average interest rate		2.73	-	-	-	-	0.18	1.35	
Certificates of deposit and IRAs		98,283	40,863	26,752	17,307	16,201	2,866	202,272	207,157
Average interest rate		4.44	4.38	4.61	5.17	4.91	4.23	4.55	
Short term borrowings		37,349	0	0	0	0	0	37,349	37,349
Average interest rate		3.90	-	-	-	-	-	3.90	
Long term fixed rate borrowings		15,138	17,145	10,152	5,159	167	6,820	54,581	55,931
Average interest rate		3.56	4.64	6.50	5.13	4.61	4.61	4.78	
Total	\$	<u>228,734</u>	<u>58,008</u>	<u>36,904</u>	<u>22,466</u>	<u>16,368</u>	<u>102,267</u>	<u>464,747</u>	<u>470,982</u>
<b>Rate sensitive gap:</b>									
Periodic gap	\$	(64,368)	8,574	13,247	28,452	36,688	(13,346)		
Cumulative gap	\$	(64,368)	(55,794)	(42,547)	(14,095)	22,593	9,247		
Cumulative gap as a percentage of total assets		-12.6%	-10.9%	-8.3%	-2.8%	+4.4%	+1.8%		

(Dollars in thousands)  
(As of December 31, 2006)

		Expected Maturity Year Ended December 31,						Total	Fair Value
		2007	2008	2009	2010	2011	Thereafter		
<b>Assets:</b>									
Interest bearing balances	\$	31,197	9,788	4,748	297	891	0	46,921	46,921
Average interest rate		5.41	5.39	5.39	5.35	5.67	-	5.41	
Debt securities		2,451	3,869	2,719	2,592	1,522	44,108	57,261	57,261
Average interest rate		4.47	4.38	4.58	6.15	6.10	5.63	5.64	
Adjustable rate loans		90,866	31,003	38,069	34,321	28,320	2,870	225,449	225,449
Average interest rate		8.19	6.26	6.50	6.50	7.13	6.03	7.22	
Fixed rate loans		18,483	8,660	15,743	7,835	15,928	68,238	134,887	135,656
Average interest rate		7.15	6.50	6.70	7.04	6.82	6.90	6.88	
Total	\$	<u>142,997</u>	<u>53,320</u>	<u>61,279</u>	<u>45,045</u>	<u>46,661</u>	<u>115,216</u>	<u>464,518</u>	<u>465,287</u>

TABLE 12: INTEREST RATE SENSITIVITY GAP (cont'd)

(Dollars in thousands)  
(As of December 31, 2006)

	Expected Maturity						Total	Fair Value
	Year Ended December 31,							
	2007	2008	2009	2010	2011	Thereafter		
<b>Interest liabilities:</b>								
Variable rate savings and transaction accounts	\$ 74,236	0	0	0	0	87,876	162,112	162,599
Average interest rate	2.81	-	-	-	-	0.10	1.34	
Certificates of deposit and IRAs	102,971	42,810	18,464	18,378	16,326	3,165	202,114	201,997
Average interest rate	4.18	4.48	3.92	4.27	5.22	4.14	4.33	
Short term borrowings	24,275	0	0	0	0	0	24,275	24,275
Average interest rate	4.91	-	-	-	-	-	4.91	
Long term fixed rate borrowings	5,131	15,138	12,145	10,152	5,159	11,988	59,713	60,042
Average interest rate	3.71%	3.56	4.64	6.50	5.13	4.61	4.69	9.99
Total	\$ 206,613	57,948	30,609	28,530	21,485	103,029	448,214	448,913
<b>Rate sensitive gap:</b>								
Periodic gap	\$ (63,616)	(4,628)	30,670	16,515	25,176	12,187		
Cumulative gap	\$ (63,616)	(68,244)	(37,574)	(21,059)	4,117	16,304		
Cumulative gap as a percentage of total assets	-12.9%	-13.9%	-7.6%	-4.3%	+0.8%	+3.3%		

During 2007, Management analyzed interest rate risk using the Profit Star Asset-Liability Management Model. Using the computerized model, Management reviews interest rate risk on a monthly basis. This analysis includes an earnings scenario whereby interest rates are increased by 200 basis points and another whereby they are decreased by 200 basis points. These scenarios indicate that there would not be a significant variance in net interest income at the one-year time frame due to interest rate changes; however, actual results could vary significantly from the calculations prepared by Management. At December 31, 2007, all interest rate risk levels according to our model were within the tolerance limits of Board approved policy. The model noted above utilized by Management to create the reports used for Table 12 makes various assumptions and estimates. Actual results could differ significantly from these estimates which would result in significant differences in cash flows. In addition, the table does not take into consideration changes which Management would make to realign its portfolio in the event of a changing rate environment.

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

(Dollars in thousands)

	December 31,		
	2007	2006	2005
Three months or less	\$ 8,536	675	8,421
Over three months to twelve months	19,952	11,300	12,930
Over twelve months	15,453	22,010	12,868
Total	\$ 43,941	33,985	34,219

#### Effects of Inflation

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

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

#### Off-Balance Sheet Items

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

As of December 31, 2007, commitments to extend credit amounted to \$88,148,000 as compared to \$70,630,000 as of December 31, 2006.

MPB also issues financial standby letters of credit to its customers. The risk associated with financial standby letters of credit is essentially the same as the credit risk involved in loan extensions to customers. Financial standby letters of credit increased to \$11,480,000 at December 31, 2007, from \$11,163,000 at December 31, 2006.



**Comprehensive Income**

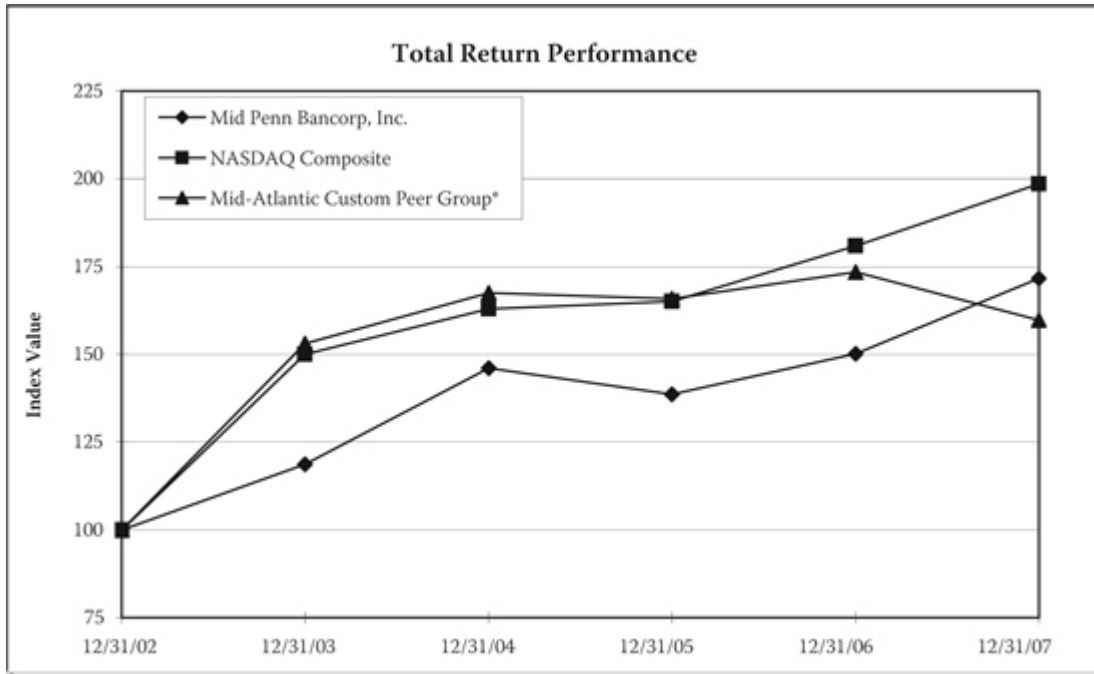
Comprehensive Income is a measure of all changes in equity of a corporation, excluding transactions with owners in their capacity as owners (such as proceeds from issuances of stock and dividends). The difference between Net Income and Comprehensive Income is termed "Other Comprehensive Income." For MPB, Other Comprehensive Income consists primarily of unrealized gains and losses on available-for-sale securities, net of deferred income tax. Other Comprehensive Income also includes a pension component in accordance with FASB Statement No. 158. Comprehensive Income should not be construed to be a measure of net income. The effect of Other Comprehensive Income would only be reflected in the income statement if the entire portfolio of available-for-sale securities were sold on the statement date. The amount of unrealized gains or losses reflected in Comprehensive Income may vary widely at statement dates depending on the markets as a whole and how the portfolio of available-for-sale securities is affected by interest rate movements. Other Comprehensive Income (Loss) for the years ended December 31, 2007, 2006 and 2005 was \$(33,000), \$86,000 and \$(462,000), respectively.

**Summary of Selected Financial Data**

(Dollars in thousands, except per share data)

	2007	2006	2005	2004	2003
<b>INCOME:</b>					
Total Interest Income	\$ 31,444	28,214	23,294	20,077	19,984
Total Interest Expense	15,339	12,732	9,557	8,005	8,434
Net Interest Income	16,105	15,482	13,737	12,072	11,550
Provision for Possible Loan and Lease Losses	925	735	225	725	290
Noninterest Income	3,481	3,028	2,953	3,457	2,707
Noninterest Expense	12,596	11,263	10,262	9,030	8,099
Income Before Income Taxes	6,065	6,512	6,203	5,774	5,868
Provision for Income Taxes	1,394	1,624	1,600	1,405	1,253
Net Income	4,671	4,888	4,603	4,369	4,615
<b>COMMON STOCK DATA PER SHARE:</b>					
Earnings Per Share	\$ 1.34	1.39	1.31	1.24	1.32
Cash Dividends Declared, historical	.80	.80	.80	1.80	.80
Stockholders' Equity	11.56	11.12	10.48	10.03	10.63
<b>AVERAGE SHARES OUTSTANDING</b>	<b>3,497,806</b>	<b>3,514,820</b>	<b>3,515,714</b>	<b>3,515,726</b>	<b>3,515,325</b>
<b>AT YEAR-END:</b>					
Investments	\$ 46,830	46,921	54,549	44,613	54,093
Loans and Leases, Net of Unearned Discount	377,128	358,612	311,837	279,547	232,078
Allowance for Loan and Lease Losses	4,790	4,187	3,704	3,643	2,992
Total Assets	509,757	491,694	438,110	403,256	373,466
Total Deposits	372,817	364,226	325,274	301,144	288,338
Short-term Borrowings	37,349	24,275	12,342	13,801	9,688
Long-term Debt	54,581	59,713	59,838	49,957	35,684
Stockholders' Equity	\$ 40,444	39,085	36,861	35,272	37,361
<b>RATIOS:</b>					
Return on Average Assets	% 0.94	1.08	1.10	1.12	1.25
Return on Average Stockholders' Equity	11.84	12.93	12.87	12.73	12.69
Cash Dividend Payout Ratio	59.70	54.79	55.56	131.38	54.48
Allowance for Loan and Lease Losses to Loans and Leases	1.27	1.17	1.19	1.30	1.29
Average Stockholders' Equity to Average Assets	7.82	8.34	8.55	8.75	9.97

Stock Performance Graph



Index	Period Ending					
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Mid Penn Bank	100.00	118.60	146.12	138.52	150.18	171.61
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
Mid-Atlantic Custom Peer Group	100.00	153.01	167.55	165.85	173.43	159.74

Source: SNL Financial LC, Charlottesville, VA  
 © 2008

**DIRECTORS**

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

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

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

**Matthew G. DeSoto**  
 Eastern Division President  
 MI Windows and Doors  
 (effective 1/1/08)

**A. James Durica**  
 CPA - Consultant

**Robert C. Grubic**  
 President & CEO  
 Herbert, Rowland and Grubic, Inc.

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

**Theodore W. Mowery**  
 Partner  
 Gunn-Mowery, LLC

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

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

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

**William A. Specht, III**  
 President  
 Seal Glove Mfg, Inc.  
 ARK Safety, Inc.

**DIRECTORS EMERITI**

**Earl R. Etzweiler**  
**Harvey J. Hummel**  
**Warren A. Miller**  
**William G. Nelson**  
**Eugene F. Shaffer**  
**Anna C. Woodside**

**EXECUTIVE OFFICERS**

Mid Penn Bancorp, Inc.

**Alan W. Dakey**  
 Chairman, President and CEO

**Edwin D. Schlegel**  
 Vice Chairman and Lead Director

**Kevin W. Laudenslager**  
 Treasurer

**Cindy L. Wetzel**  
 Secretary

**SENIOR MANAGEMENT**

**Mid Penn Bank**

**Alan W. Dakey**  
 Chairman, President and CEO  
 34 Years Banking Experience

**Kevin W. Laudenslager**  
 Executive Vice President and Chief  
 Financial Officer  
 23 Years Banking Experience

**Eric S. Williams**  
 Executive Vice President and  
 Senior Commercial Loan Officer  
 29 Years Banking Experience

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

**Leonard K. Beasom, Jr.**  
 Vice President and Commercial  
 Loan Officer  
 36 Years Banking Experience

**Donald J. Bonafede**  
 Vice President and  
 Director of Equipment Leasing  
 25 Years Banking Experience

**Kathy I. Bordner**  
 Vice President and Marketing Director  
 23 Years Banking Experience

**Roberta A. Hoffman, PHR**  
 Vice President, Human Resources  
 Officer and Asst. Secretary  
 31 Years Banking Experience

**Ernest P. Kemper, Jr.**  
 Vice President and Chief Information Officer  
 27 Years Banking Experience

**Michael T. Lehmer**  
 Vice President and Senior Trust Officer  
 17 Years Banking Experience

**John F. Lydic**  
 Vice President and Retail Division Manager  
 26 Years Banking Experience

**Robert E. McDonald**  
 Vice President and Commercial Lending  
 Team Leader  
 24 Years Banking Experience

**Eric D. Mummau**  
 Vice President and Commercial Loan Officer  
 28 Years Banking Experience

**Brad N. Shaak**  
 Vice President, Consumer and Mortgage  
 Lending Manager  
 21 Years Banking Experience

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

**Dennis E. Spotts**  
 Vice President and Operations Officer  
 35 Years Banking Experience

**Cindy L. Wetzel**  
 Vice President and Corporate Secretary  
 29 Years Banking Experience

**Rick E. Witwer**  
 Vice President and Commercial Loan Officer  
 20 Years Banking Experience

**ADVISORY BOARD MEMBERS****Mid Penn Bank****Capital Region:**

**Stanford D. Custer, Jr.**  
Custer Homes, Inc.

**Robert C. Grubic**  
Herbert, Rowland & Grubic

**Norman L. Houser**  
Retired, Mid Penn Bank

**Theodore W. Mowery**  
Gunn-Mowery, LLC

**Michael G. Musser II**  
Steelton Borough Secretary/Treasurer

**Robert M. Newbury**  
RM Newbury & Co

**Dale R. Schwan**  
Environmental Interiors, Inc.

**Northern Region**

**Matthew G. DeSoto**  
MI Windows and Doors

**James S. Facinelli**  
Restorations Unlimited, Inc.

**Linda J. Faust**  
Faust Real Estate

**Dane P. Harman**  
Harman Stove Co.

**Robert E. Klinger**  
Klinger Lumber Co, Inc.

**Dixie L. Laudenslager**  
Mahantongo Game Farms

**Dr. David R. Russell**  
Dr.David R.Russell, DMD, PC

**Kent S. Smeltz**  
Advanced Scientifics, Inc.

**Carl E. Snyder**  
Century 21- Carl Snyder

**Thomas E. Troutman**  
Keystone Insurers Group

Locations

**Millersburg**  
717.692.2133

**Elizabethville**  
717.362.8147

**Dalmatia**  
570.758.2711

**Tower City**  
717.647.2157

**Lykens**  
717.453.7185

**Halifax**  
717.896.8258

**Dauphin**  
717.921.8899

**Derry Street, Harrisburg**  
717.558.2144

**Front Street, Harrisburg**  
717.233.7380

**Allentown Blvd, Harrisburg**  
717.920.1772

**Second Street, Harrisburg**  
717.920.1980

**Mechanicsburg**  
717.761.2480

**Steelton**  
717.939.1966

**Middletown**  
717.985.0100

**Camp Hill**  
717.920.0224

**SUBSIDIARIES OF THE REGISTRANT**

<b>Name</b>	<b>State of Incorporation</b>
Mid Penn Bank	Pennsylvania
Mid Penn Investment Corp.	Delaware
Mid Penn Insurance Services, LLC	Pennsylvania

**CONSENT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in Mid Penn Bancorp, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission of our report dated February 29, 2008, relating to the consolidated financial statements of Mid Penn Bancorp, Inc. and subsidiaries as of December 31, 2007 and 2006 and for each of the years in the three year period ended December 31, 2007, which report appears in Mid Penn Bancorp, Inc.'s Annual Report to Shareholders for the year ended December 31, 2007.

/s/ PARENTE RANDOLPH, LLC  
Williamsport, Pennsylvania  
February 29, 2008

**CERTIFICATION**

I, Alan W. Dakey, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Mid Penn Bancorp, Inc.;

2. Based on my knowledge, the annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 we 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based upon 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 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.

Date: February 29, 2008

By: /s/ Alan W. Dakey  
Alan W. Dakey  
President and Chief Executive Officer



**CERTIFICATION**

I, Kevin W. Laudenslager, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Mid Penn Bancorp, Inc.;

2. Based on my knowledge, the annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 we 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based upon 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 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.

Date: February 29, 2008

By: /s/ Kevin W. Laudenslager  
Kevin W. Laudenslager  
Chief Financial Officer

**CHIEF EXECUTIVE OFFICER  
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, Alan W. Dakey, Chief Executive Officer of Mid Penn Bancorp, Inc. (the "Company"), hereby certify that, to the best of my knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2007 (the "Report"):

1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the year ended December 31, 2007.

Date: February 29, 2008

By: /s/ Alan W. Dakey  
Alan W. Dakey  
President and Chief Executive Officer

**CHIEF FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, Kevin W. Laudenslager, Chief Financial Officer of Mid Penn Bancorp, Inc. (the "Company"), hereby certify that, to the best of my knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2007 (the "Report"):

3. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
4. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the year ended December 31, 2007.

Date: February 29, 2008

By: /s/ Kevin W. Laudenslager

Kevin W. Laudenslager  
Chief Financial Officer