

MID PENN BANCORP INC  
Form 424B1  
November 18, 2014  
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**Filed Pursuant to Rule 424(b)(1)**  
**File Number 333-199740**

**Proxy Statement/Prospectus**

**Proxy Statement**

**Mid Penn Bancorp, Inc.**

**Phoenix Bancorp, Inc.**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

On August 27, 2014, Mid Penn Bancorp, Inc., or Mid Penn, and Phoenix Bancorp, Inc., or Phoenix, entered into a merger agreement that provides for the combination of the two companies. Under the merger agreement, Phoenix will merge with and into Mid Penn, with Mid Penn remaining as the surviving entity, and the separate corporate existence of Phoenix will cease. Before we complete the merger, the shareholders of Mid Penn and Phoenix must adopt the merger agreement. Mid Penn shareholders will vote to adopt the merger agreement and on the other matters described below at a special meeting of shareholders to be held on December 23, 2014. Phoenix shareholders will vote to approve and adopt the merger agreement and on the other matters described below at a special meeting of shareholders to be held on December 23, 2014.

If the merger is completed, Phoenix shareholders will be entitled to elect to receive, for each share of Phoenix common stock, subject to the election and allocation procedures described in this joint proxy statement/prospectus, 3.167 shares of Mid Penn common stock or \$51.60 in cash or a combination of both. The federal income tax consequences of the merger to Phoenix shareholders will depend on whether cash, including cash for fractional Mid Penn shares, Mid Penn common stock, or a combination of cash and Mid Penn common stock is received in exchange for shares of Phoenix common stock. The material federal income tax consequences of the merger to Phoenix shareholders are discussed in *Material United States Federal Income Tax Consequences of the Merger*, beginning on page 90.

Pursuant to the terms of the merger agreement, at least 80% of the total number of shares of Phoenix common stock to be converted in the merger will be converted into at least 723,915 shares of Mid Penn common stock, and the remaining outstanding shares of Phoenix common stock (excluding the shares of Phoenix common stock to be cancelled) will be converted into cash consideration of not more than \$2.9 million. As a result, if more Phoenix shareholders make valid elections to receive either Mid Penn common stock or cash than is available as merger consideration under the merger agreement, those Phoenix shareholders electing the over-subscribed form of consideration may have the over-subscribed consideration proportionately reduced and substituted with consideration in the other form, despite their election.

The Mid Penn board of directors has determined that the combination of Mid Penn and Phoenix is advisable and in the best interests of Mid Penn based upon its analysis, investigation and deliberation, and the Mid Penn board of directors unanimously recommends that the Mid Penn shareholders vote **FOR** the adoption of the merger agreement and **FOR**

the approval of the other proposals described in this joint proxy statement/prospectus.

The Phoenix board of directors has determined that the combination of Phoenix and Mid Penn is advisable and in the best interests of Phoenix based upon its analysis, investigation and deliberation, and the Phoenix board of directors unanimously recommends that the Phoenix shareholders vote FOR the approval and adoption of the merger agreement and FOR the approval of the other proposals described in this joint proxy statement/prospectus.

Mid Penn common stock is listed on The Nasdaq Global Market under the symbol MPB. Phoenix's common stock is sold in privately negotiated transactions, some of which are quoted on the OTCQB market under the symbol PXBP. On November 12, 2014, the most recent practicable trading day prior to the printing of this joint proxy statement/prospectus, the closing price of Mid Penn common stock was \$15.77 per share, and, on August 29, 2014, the most recent practicable trading day prior to the printing of this joint proxy statement/prospectus, the closing price of Phoenix common stock was \$49.25 per share. The market prices of Mid Penn and Phoenix common stock will fluctuate before completion of the merger; therefore, you are urged to obtain current market quotations for each common stock.

You should read this entire joint proxy statement/prospectus, including the annexes hereto and the documents incorporated by reference herein, carefully because it contains important information about the merger and the related transactions. **In particular, you should read carefully the information under the section entitled Risk Factors beginning on page 35.** You can also obtain information about Mid Penn from documents that it has filed with the Securities and Exchange Commission.

**The shares of Mid Penn common stock to be issued to Phoenix shareholders in the merger are not deposits or savings accounts or other obligations of any bank or savings association, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger described in this joint proxy statement/prospectus or the Mid Penn common stock to be issued in the merger, or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

The date of this joint proxy statement/prospectus is November 14, 2014, and it is first being mailed or otherwise delivered to shareholders on or about November 18, 2014.

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**MID PENN BANCORP, INC.**

**349 UNION STREET**

**MILLERSBURG, PENNSYLVANIA 17061**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON TUESDAY, DECEMBER 23, 2014**

TO THE SHAREHOLDERS OF MID PENN BANCORP, INC.:

**NOTICE IS HEREBY GIVEN** that a special meeting of shareholders of Mid Penn Bancorp, Inc., or Mid Penn, will be held at 9 a.m., local time, on December 23, 2014, at Mid Penn's headquarters at 349 Union Street, Millersburg, Pennsylvania 17061, to consider and vote upon the following proposals:

1. approval and adoption of the Agreement and Plan of Merger, dated as of August 27, 2014, by and between Mid Penn and Phoenix Bancorp, Inc., or Phoenix, which provides for, among other things, the merger of Phoenix with and into Mid Penn;
2. approval of a proposal to authorize the board of directors to adjourn or postpone the Mid Penn special meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Mid Penn special meeting to approve and adopt the merger agreement; and
3. transaction of any such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting.

All of these items, including the proposal to approve and adopt the merger agreement and the merger, are described in more detail in the accompanying joint proxy statement/prospectus and its annexes. You should read these documents in their entirety before voting. We have fixed November 14, 2014 as the record date for determining those Mid Penn shareholders entitled to vote at the Mid Penn special meeting. Accordingly, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the Mid Penn special meeting or any adjournment or postponement of the meeting. A list of such shareholders will be available for inspection at the Mid Penn special meeting and for ten days prior to the meeting at Mid Penn's headquarters located at 349 Union Street, Millersburg, Pennsylvania 17061, during normal business hours.

Your board of directors has unanimously determined that the proposed merger is advisable and in the best interests of Mid Penn and unanimously recommends that you vote **FOR** the proposal to approve and adopt the merger agreement. Your board of directors also recommends that you vote **FOR** proposal 2 listed above. In accordance with the terms of the merger agreement, each director of Mid Penn has executed a letter agreement in favor of Phoenix pursuant to which he or she has agreed to vote all shares of Mid Penn common stock owned by him or her in favor of the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

***Your vote is important regardless of the number of shares you own. We cannot complete the merger unless the merger agreement is approved and adopted by the holders of at least 66 2/3% of the outstanding shares of Mid Penn common stock entitled to vote at the Mid Penn special meeting. If a Mid Penn shareholder does not vote by proxy or by attending the Mid Penn special meeting and voting in person, it will have the same effect as voting against the merger.***

We urge you to vote as soon as possible so that your shares will be represented.

BY ORDER OF THE BOARD OF DIRECTORS,

Cindy L. Wetzel

Corporate Secretary

Millersburg, Pennsylvania

November 14, 2014

***Whether or not you plan to attend the Mid Penn special meeting, please complete, sign, date and return your proxy card or voting instruction card in the enclosed envelope promptly. For many shareholders, you may vote your shares by following the instructions included with your proxy card or voting instruction card. If you later decide to attend the meeting, you can, if you wish, revoke the proxy and vote in person.***

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**PHOENIX BANCORP, INC.**

**ROCKWOOD CENTER, 1504 RTE. 61 SOUTH**

**POTTSVILLE, PENNSYLVANIA 17901**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON TUESDAY, DECEMBER 23, 2014**

TO THE SHAREHOLDERS OF PHOENIX BANCORP, INC.:

**NOTICE IS HEREBY GIVEN** that a special meeting of shareholders of Phoenix Bancorp, Inc., or Phoenix, will be held at 9:00 a.m., local time, on December 23, 2014, at Phoenix's headquarters at Rockwood Center, 1504 Route 61 South, Pottsville, Pennsylvania 17901, to consider and vote upon the following proposals:

1. approval and adoption of the Agreement and Plan of Merger, dated as of August 27, 2014, by and between Mid Penn Bancorp, Inc., or Mid Penn, and Phoenix, which provides for, among other things, the merger of Phoenix with and into Mid Penn;
2. approval of a proposal to authorize the board of directors to adjourn or postpone the Phoenix special meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Phoenix special meeting to approve the proposal to approve and adopt the merger agreement; and
3. transaction of any such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting.

All of these items, including the proposal to approve and adopt the merger agreement and the merger, are described in more detail in the accompanying joint proxy statement/prospectus and its annexes. You should read these documents in their entirety before voting. We have fixed November 12, 2014 as the record date for determining those Phoenix shareholders entitled to vote at the Phoenix special meeting. Accordingly, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the Phoenix special meeting or any adjournment or postponement of the meeting. A list of such shareholders will be available for inspection at the Phoenix special meeting and for ten days prior to the meeting at Phoenix's headquarters located at Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901, during normal business hours.

Your board of directors has unanimously determined that the proposed merger is advisable and in the best interests of Phoenix and unanimously recommends that you vote **FOR** the proposal to approve and adopt the merger agreement. Your board of directors also recommends that you vote **FOR** proposal 2 listed above. In accordance with the terms of the merger agreement, each director of Phoenix has executed a letter agreement in favor of Mid Penn pursuant to which he or she has agreed to vote all shares of Phoenix common stock owned by him or her in favor of the approval and adoption of the merger agreement and the transactions contemplated thereby.

***Your vote is important regardless of the number of shares you own. We cannot complete the merger unless the merger agreement is approved and adopted by the holders of at least 70% of the outstanding shares of Phoenix common stock entitled to vote at the Phoenix special meeting. If a Phoenix shareholder does not vote by proxy or by attending the Phoenix special meeting and voting in person, it will have the same effect as voting against the merger.***

We urge you to vote as soon as possible so that your shares will be represented.

BY ORDER OF THE BOARD OF DIRECTORS,

President and Chief Executive Officer

Pottsville, Pennsylvania

November 14, 2014

***Whether or not you plan to attend the Phoenix special meeting, please complete, sign, date and return your proxy card or voting instruction card in the enclosed envelope promptly. For many shareholders, you may vote your shares by following the instructions included with your proxy card or voting instruction card. If you later decide to attend the meeting, you can, if you wish, revoke the proxy and vote in person.***

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**REFERENCES TO INFORMATION**

Mid Penn files annual, quarterly and special reports, proxy statements and other business and financial information with the Securities and Exchange Commission (the "SEC"). You may read and copy any materials that Mid Penn files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Please call the SEC at (800) SEC-0330 ((800) 732-0330) for further information on the public reference room. In addition, Mid Penn files reports and other business and financial information with the SEC electronically, and the SEC maintains a website located at <http://www.sec.gov> containing this information. You will also be able to obtain these documents, free of charge, from Mid Penn at [www.midpennbank.com](http://www.midpennbank.com) under the "Investors" link and then under the heading "Financial Information and Documents."

Mid Penn has filed a registration statement on Form S-4 of which this document forms a part. As permitted by SEC rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and copy the registration statement, including any amendments, schedules and exhibits at the addresses set forth below. Statements contained in this document as to the contents of any contract or other documents referred to in this document are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the registration statement. They contain important information about Mid Penn and its financial condition. See *Where You Can Find More Information* beginning on page 203. In addition, if you have questions about the merger or the Mid Penn special meeting, need additional copies of this joint proxy statement/prospectus or need to obtain proxy cards for the Mid Penn special meeting or other information related to the foregoing proxy solicitation, you may submit a request to Mid Penn's principal executive offices. These documents are available without charge to you upon written or oral request to Mid Penn's principal executive offices. The address and telephone number is listed below.

Mid Penn Bancorp, Inc.

349 Union Street

Millersburg, Pennsylvania 17061

Attention: Investor Relations

(717) 692-7105

**To obtain timely delivery of these documents, you must request the information no later than December 12, 2014 in order to receive them before Mid Penn's special meeting of shareholders and no later than December 12, 2014 in order to receive them before Phoenix's special meeting of shareholders.**

In addition, if you have questions about the merger or the Phoenix special meeting, need additional copies of this joint proxy statement/prospectus or need to obtain proxy cards for the Phoenix special meeting or other information related to the foregoing proxy solicitation, you may submit a request to Phoenix's principal executive offices. The address and telephone number is listed below:

Phoenix Bancorp, Inc.

Rockwood Center, 1504 Rt. 61 South

Pottsville, Pennsylvania 17901

Attention: Investor Relations

(570) 544-6438

Phoenix does not have a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, is not subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and accordingly does not file documents or reports with the SEC. See *Where You Can Find More Information* beginning on page 203 for more details.

Mid Penn common stock is traded on The Nasdaq Global Market under the symbol **MPB**, and Phoenix common stock is sold in privately negotiated transactions, some of which are quoted on the OTCQB under the symbol **PXBP**.



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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE MEETINGS**

*The following questions and answers briefly address some commonly asked questions about the merger (as defined below) and the shareholder meetings. They may not include all the information that is important to the shareholders of Mid Penn and of Phoenix. Shareholders of Mid Penn and of Phoenix should each read carefully this entire joint proxy statement/prospectus, including the annexes and other documents referred to in this document.*

***Questions about the Merger***

**Q: What is the merger?**

**A:** Mid Penn and Phoenix have entered into an Agreement and Plan of Merger, dated as of August 27, 2014, which is referred to as the merger agreement. A copy of the merger agreement is attached as Annex A to, and is incorporated by reference in, this joint proxy statement/prospectus. The merger agreement contains the terms and conditions of the proposed business combination of Mid Penn and Phoenix. Under the merger agreement, Phoenix will merge with and into Mid Penn, with Mid Penn remaining as the surviving entity, and the separate corporate existence of Phoenix will cease. We refer to this transaction as the corporate merger. Immediately after the corporate merger, Miners Bank, a wholly owned bank subsidiary of Phoenix, will merge with and into Mid Penn's wholly owned bank subsidiary, Mid Penn Bank, with Mid Penn Bank as the surviving bank, and the separate corporate existence of Miners Bank will cease. We refer to this transaction as the bank merger. We refer to the corporate merger and the bank merger collectively as the merger.

Following the completion of the merger, the merger agreement provides that Mid Penn will continue to operate the branches of Miners Bank as a separate banking division of Mid Penn Bank under the name Miners Bank, a Division of Mid Penn Bank, for a period of at least three years.

**Q: Why am I receiving these materials?**

**A:** This document constitutes both a joint proxy statement of Mid Penn and Phoenix and a prospectus of Mid Penn. It is a joint proxy statement because the boards of directors of both companies are soliciting proxies from their respective holders of common stock. It is a prospectus because Mid Penn will issue shares of its common stock in exchange for shares of Phoenix common stock in the merger.

Mid Penn is sending these materials to its shareholders to help them decide how to vote their shares of Mid Penn common stock with respect to the proposed merger and the other matters to be considered at the Mid Penn special meeting.

Phoenix is sending these materials to its shareholders to help them decide how to vote their shares of Phoenix common stock with respect to the proposed merger and the other matters to be considered at the Phoenix special meeting.

The merger cannot be completed unless shareholders of Mid Penn and Phoenix each adopt the merger agreement and approve the merger. Mid Penn is holding its special meeting of shareholders to vote on the merger as well as the other proposals described in *The Mid Penn Special Meeting* beginning on page 94. Phoenix is holding its special meeting of

shareholders to vote on the merger as well as the other proposals described in *The Phoenix Special Meeting*, beginning on page 161. Information about these meetings, the merger and the other business to be considered at the meetings is contained in this joint proxy statement/prospectus.

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**Q: Why is Mid Penn proposing the merger?**

**A:** The Mid Penn board of directors, in unanimously determining that the merger is in the best interests of Mid Penn, considered a number of key factors which are described under the headings *The Merger Background of the Merger* and *The Merger Mid Penn's Reasons for the Merger*, beginning on pages 44 and 54, respectively.

**Q: Why is Phoenix proposing the merger?**

**A:** The Phoenix board of directors, in unanimously determining that the merger is in the best interests of Phoenix, considered a number of key factors which are described under the headings *The Merger Background of the Merger* and *The Merger Phoenix's Reasons for the Merger*, beginning on pages 44 and 47, respectively.

**Q: What will Phoenix shareholders receive in the merger, and how will this affect holders of Mid Penn common stock?**

**A:** Upon completion of the merger, Phoenix shareholders will have the right to receive, at their election (but subject to customary procedures applicable to oversubscription and under subscription for cash consideration), 3.167 shares of common stock of Mid Penn, \$51.60 in cash, or a combination of cash and Mid Penn common stock for their shares of common stock of Phoenix. The amount of merger consideration issuable to Phoenix shareholders was subject to a pre-closing adjustment based on, with respect to one other real estate owned property, or OREO property, held by Miners Bank, the wholly owned banking subsidiary of Phoenix, the estimated costs, if any, for environmental remediation that may be required and any loss in connection with the maintenance and disposition costs of such property, net of any tax benefit and any recoveries from the sale of any parcels. The amount of merger consideration issuable to Phoenix shareholders upon completion of the merger will not be reduced or otherwise adjusted pursuant to this provision as such costs will not exceed the \$400,000 threshold set forth in the merger agreement. At the closing of the merger, no more than 20% of the outstanding shares of Phoenix common stock will be converted into the right to receive up to \$2.9 million in cash and the remainder of the outstanding shares of Phoenix common stock will be converted into the right to receive Mid Penn common stock.

Mid Penn shareholders will continue to own their existing shares of Mid Penn common stock after the merger. Because of the number of shares of Mid Penn common stock being issued in the merger, the ownership interest in Mid Penn represented by the existing shares of Mid Penn common stock will be diluted. Following completion of the merger, the existing shares of Mid Penn will represent in the aggregate ownership of approximately 83% of the outstanding shares of Mid Penn common stock, assuming 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock.

**Q: If I am a Phoenix shareholder, when must I elect the type of merger consideration that I prefer to receive?**

**A:** If you are a Phoenix shareholder and wish to elect the type of merger consideration you receive in the merger, you should carefully review and follow the instructions set forth in the form of election,

which is being separately mailed to Phoenix shareholders following the mailing of this joint proxy statement/prospectus. You will need to sign, date and complete the election form and transmittal materials and return them to the exchange agent, Philadelphia Stock Transfer, Inc., at the address given in the materials. The election deadline will be Monday, December 22, 2014, which is the business day prior to the Phoenix special meeting. Because of the way the election and proration procedures work, even if you submit a properly completed and signed form of election, it is still possible that you may not receive exactly the type of consideration you have elected. If you do not submit a properly completed and signed form of election to the exchange agent by the election deadline, you will have no control over the type of merger consideration you may receive and, consequently, may receive only cash, only Mid Penn common stock or a combination of cash and Mid Penn common stock in the merger. If you hold shares in street name, you will have to follow your broker's instructions to make an election.



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**Q: If I am a Phoenix shareholder, am I guaranteed to receive the type of merger consideration that I elect?**

**A:** No. If Phoenix shareholders elect to convert more than 20% of the total outstanding shares of Phoenix common stock into cash or, in Mid Penn's sole discretion, elect to convert more than 80% of the total outstanding shares of Phoenix common stock into shares of Mid Penn stock, then the exchange agent will follow the proration procedures outlined under the heading *The Merger Agreement Consideration to be Received in the Merger Proration Procedures* to ensure that at least 80% of the aggregate merger consideration is paid in shares of Mid Penn common stock and the balance is paid in cash.

If holders of more than 80% of the total outstanding shares of Phoenix common stock elect stock, Mid Penn may, in its sole discretion, issue additional shares of Mid Penn common stock in excess of 80%.

**Q: Who will be the directors and executive officers of the combined company following the merger?**

**A:** Following completion of the merger, Mid Penn will appoint Vincent J. Land, Robert J. Moisey and Noble C. Quandel, Jr. to serve on the board of directors of Mid Penn and Mid Penn Bank, including the waiving of any bylaw restriction otherwise applicable to any such individual in connection with their appointment. Mr. Land will be appointed to serve in the class of directors whose term expires in 2016. Messrs. Moisey and Quandel will be appointed to serve in the class of directors whose term expires in 2017. For so long as such individual serves as a director of Mid Penn, Mid Penn will cause such individual to serve on the Mid Penn Bank board of directors.

Except as described in the previous paragraph, the directors and executive officers of Mid Penn and Mid Penn Bank immediately prior to the consummation of the merger will continue to be the directors and executive officers of the respective entity.

**Q: When do you expect to complete the merger?**

**A:** We expect to complete the merger after all conditions to the merger in the merger agreement are satisfied or waived, including receipt of shareholder approvals at the respective meetings of Mid Penn and Phoenix, and receipt of regulatory approvals. We currently expect to complete the merger in the first quarter of 2015. It is possible, however, that factors outside of either company's control could result in us completing the merger at a later time or not completing it at all.

**Q: What are the federal income tax consequences of the merger?**

**A:** The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to as the Internal Revenue Code, and it is a condition to the completion of the merger that each of Mid Penn and Phoenix receive a written opinion from their respective legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Accordingly, it is contemplated that holders of Phoenix common stock will not recognize gain or loss for U.S. federal income tax purposes upon the exchange of their Phoenix common stock

for Mid Penn common stock pursuant to the merger, except with respect to cash received in exchange for their Phoenix common stock or in lieu of fractional shares of Mid Penn common stock and except for Phoenix shareholders who exercise their appraisal rights with respect to the merger. For further discussion of the material U.S. federal income tax consequences of the merger, see *Material United States Federal Income Tax Consequences of the Merger*, beginning on page 89.

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***Questions about the Mid Penn Special Meeting***

**Q: What are the matters on which I am being asked to vote at the Mid Penn special meeting?**

**A:** You are being asked to consider and vote on the following matters:

1. approval and adoption of the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/prospectus; and
2. adjournment of the Mid Penn special meeting, if necessary, to solicit additional proxies.

**Q: How does the Mid Penn board of directors recommend that I vote my shares?**

**A:** The Mid Penn board of directors recommends that the Mid Penn shareholders vote their shares as follows:

FOR approval and adoption of the merger agreement; and

FOR an adjournment of the Mid Penn special meeting, if necessary, to solicit additional proxies.

As of the record date, directors of Mid Penn and their affiliates had the right to vote 143,760 shares of Mid Penn common stock, or 4.1% of the outstanding Mid Penn common stock entitled to be voted at the Mid Penn special meeting. In accordance with the terms of the merger agreement, each of the directors of Mid Penn has executed a letter agreement (the Affiliate Letter ) in favor of Phoenix pursuant to which he or she has agreed to vote all shares of Mid Penn common stock owned by him or her in favor of approval and adoption of the merger agreement. Additionally, each of the directors of Phoenix has executed an Affiliate Letter in favor of Mid Penn pursuant to which he or she has agreed to vote all shares of Phoenix common stock owned by him or her in favor of approval and adoption of the merger agreement and the transactions contemplated thereby.

**Q: What do I need to do now?**

**A:** After carefully reading and considering the information contained in this joint proxy statement/prospectus, please submit your proxy as soon as possible so that your shares will be represented at the Mid Penn special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.

**Q: Who is entitled to vote at the Mid Penn special meeting?**

**A:** Mid Penn shareholders of record as of the close of business on November 14, 2014, which is referred to as the Mid Penn record date.

**Q: How many votes do I have?**

**A:** Each outstanding share of Mid Penn common stock is entitled to one vote.

**Q: How do I vote my Mid Penn shares?**

**A:** You may vote your Mid Penn shares by completing and returning the enclosed proxy card, by internet or by voting in person at the Mid Penn special meeting.

**Voting by Proxy.** You may vote your Mid Penn shares by completing and returning the enclosed proxy card. Your proxy will be voted in accordance with your instructions. If you do not specify a choice on one of the proposals described in this joint proxy statement/prospectus, your proxy will be voted in favor of that proposal.

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**ON YOUR MID PENN PROXY CARD:**

mark your selections;

date and sign your name exactly as it appears on your card; and

return your completed proxy card in the enclosed postage-paid envelope.

**Voting by Internet.** If you are a registered shareholder of Mid Penn, you may vote electronically through the Internet by following the instructions included in your proxy card. If your shares are registered in the name of a broker or other nominee, your nominee will provide you separate voting instructions for voting your shares.

**Voting by Telephone.** You may vote by phone if you are a registered shareholder of Mid Penn by following the instructions included with your proxy card.

**Voting in person.** If you attend the Mid Penn special meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the meeting. If your shares are registered in the name of a broker or other nominee and you wish to vote at the Mid Penn special meeting, you will need to obtain a legal proxy from your bank or brokerage firm. Please consult the voting form sent to you by your bank or broker to determine how to obtain a legal proxy in order to vote in person at the Mid Penn special meeting.

Should you have any questions on the procedure for voting your shares, please contact Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061, Attention: Investor Relations, telephone (717) 692-7105.

**Q: Why is my vote important?**

**A:** Because the merger cannot be completed without the affirmative vote of the holders of 66-2/3% of the outstanding shares of Mid Penn common stock on the record date, every shareholder's vote is important. In addition, the Mid Penn special meeting will include a proposal to adjourn the meeting, if necessary to solicit additional proxies.

**Q: If my shares of Mid Penn common stock are held in street name by my broker, will my broker automatically vote my shares for me?**

**A:** No. Your broker **CANNOT** vote your shares on any proposal at the Mid Penn special meeting without instructions from you. You should instruct your broker as to how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker.

**Q: What if I fail to instruct my broker?**

**A:** If you do not provide your broker with instructions, your broker generally will not be permitted to vote your shares on the merger proposal or any other proposal (a so-called "broker non-vote") at the Mid Penn special meeting. For purposes of determining the number of votes cast with respect to the merger proposal, broker non-votes, if any, are submitted by brokers or nominees in connection with the Mid Penn special meeting, will have the same effect as a vote "against" for purposes of determining the number of votes cast, but will be treated as present for quorum purposes.

**Q: What constitutes a quorum for the Mid Penn special meeting?**

**A:** As of the Mid Penn record date, 3,496,916 shares of Mid Penn common stock were issued and outstanding, each of which will be entitled to one vote at the meeting. Under Mid Penn's bylaws, the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled

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to cast constitutes a quorum for the transaction of business at the meeting. If you vote by proxy, your shares will be included for determining the presence of a quorum. Both abstentions and broker non-votes are also included for purposes of determining the presence of a quorum.

**Q: Assuming the presence of a quorum, what is the vote required to approve the matters to be considered at the Mid Penn special meeting?**

**A:** The affirmative vote at the Mid Penn special meeting, in person or by proxy, of the holders of 66-2/3% of the outstanding shares of Mid Penn common stock is required to approve and adopt the merger agreement. The affirmative vote, in person or by proxy, of a majority of all votes cast at the Mid Penn special meeting is required to approve the proposal to adjourn the Mid Penn special meeting, if necessary, to solicit additional proxies and any other matter that may properly come before the meeting. Because the affirmative vote of the holders of 66-2/3% of outstanding shares of Mid Penn common stock is required to approve and adopt the merger agreement, abstentions and broker non-votes with respect to the merger agreement will effectively act as votes against on such proposal. Abstentions and broker non-votes will not affect the outcome of the adjournment proposal or any other matters that properly come before the Mid Penn special meeting.

**Q: Do I have appraisal or dissenters' rights?**

**A:** No. Under Pennsylvania law, holders of Mid Penn common stock will not be entitled to exercise any appraisal rights in connection with the merger or the other proposal being presented at the Mid Penn special meeting.

**Q: Can I attend the Mid Penn special meeting and vote my shares in person?**

**A:** Yes. All shareholders of Mid Penn, including shareholders of record and those who hold their shares through banks, brokers, nominees or any other holder of record, are invited to the Mid Penn special meeting. Holders of record of Mid Penn common stock can vote in person at the Mid Penn special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Mid Penn special meeting. If you plan to attend the Mid Penn special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

**Q: Can I change my vote?**

**A:** Yes. If you are a shareholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to the Mid Penn's Corporate Secretary, or (3) attending the Mid Penn special meeting in person, notifying the Corporate Secretary and voting by ballot at the meeting. Mid Penn's Corporate Secretary's mailing address is Mid Penn Bancorp, Inc., 349 Union

Street, Millersburg, Pennsylvania 17061, Attention: Corporate Secretary. If your shares are registered in the name of a broker or other nominee, please follow the instructions provided by your nominee.

Any shareholder entitled to vote in person at the Mid Penn special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy, but the mere presence (without notifying Mid Penn's Corporate Secretary) of a shareholder at the Mid Penn special meeting will not constitute revocation of a previously given proxy.



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**Q: Who will bear the cost of soliciting votes for the Mid Penn special meeting?**

**A:** Mid Penn and Phoenix will bear the cost of preparing, assembling, printing, mailing and distributing these proxy materials equally. In addition to the mailing of these proxy materials, the solicitation of proxies or votes for the Mid Penn special meeting may be made in person, by telephone, or by electronic communication by Mid Penn's directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. In addition, Mid Penn may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

**Q: What happens if additional proposals are presented at the Mid Penn special meeting?**

**A:** Other than the proposals described in this joint proxy statement/prospectus, Mid Penn does not expect any matters to be presented for a vote at the Mid Penn special meeting. If you grant a proxy, the persons named as proxy holders, Roberta A. Hoffman, Scott W. Micklewright and Edward P. Williams, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Mid Penn special meeting.

**Q: Are there risks that I should consider in deciding whether to vote to approve the merger agreement?**

**A:** Yes. You should consider the risk factors set out in the section entitled *Risk Factors* beginning on page 35 of this joint proxy statement/prospectus.

**Q: What if I hold stock of both Mid Penn and Phoenix?**

**A:** If you hold shares of both Mid Penn and Phoenix, you will receive two separate packages of proxy materials. A vote as a Mid Penn shareholder for the merger proposal or any other proposals to be considered at the Mid Penn special meeting will not constitute a vote as a Phoenix shareholder for the merger proposal or any other proposals to be considered at the Phoenix special meeting, and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Mid Penn or Phoenix, or submit separate proxies as both a Mid Penn shareholder and a Phoenix shareholder as instructed.

**Q: Should I send in my Mid Penn stock certificates?**

**A:** No. Please do not send your stock certificates with your proxy card. Mid Penn shareholders will not be required to exchange or take any other action regarding their stock certificates in connection with the merger. Mid Penn shareholders holding stock certificates should keep their stock certificates both now and after the merger is completed.

**Q: Whom should I contact if I have additional questions?**

**A:** If you are a Mid Penn shareholder and have any questions about the merger, or if you need additional copies of this document or the enclosed proxy card, you should contact:

Mid Penn Bancorp, Inc.

349 Union Street

Millersburg, Pennsylvania 17061

Attention: Investor Relations

Telephone: (717) 692-7105

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***Questions about the Phoenix Special Meeting***

**Q: What are the matters on which I am being asked to vote at the Phoenix special meeting?**

**A:** You are being asked to consider and vote on the following matters:

1. approval and adoption of the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/prospectus; and
2. adjournment of the Phoenix special meeting, if necessary, to solicit additional proxies.

**Q: How does the Phoenix board of directors recommend that I vote my shares?**

**A:** The Phoenix board of directors recommends that the Phoenix shareholders vote their shares as follows:

FOR approval and adoption of the merger agreement; and

FOR an adjournment of the Phoenix special meeting, if necessary, to solicit additional proxies.

As of the record date, directors and executive officers of Phoenix and their affiliates had the right to vote 126,817 shares of Phoenix common stock, or 44.9% of the outstanding Phoenix common stock entitled to be voted at the Phoenix special meeting. In accordance with the terms of the merger agreement, each of the directors of Phoenix has executed an Affiliate Letter in favor of Mid Penn pursuant to which he or she has agreed to vote all shares of Phoenix common stock owned by him or her in favor of approval and adoption of the merger agreement. Additionally, each of the directors of Mid Penn has executed an Affiliate Letter in favor of Phoenix pursuant to which he or she has agreed to vote all shares of Mid Penn common stock owned by him or her in favor of approval and adoption of the merger agreement and the transactions contemplated thereby.

**Q: What do I need to do now?**

**A:** After carefully reading and considering the information contained in this joint proxy statement/prospectus, please submit your proxy as soon as possible so that your shares will be represented at the Phoenix special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.

**Q: Who is entitled to vote at the Phoenix special meeting?**

**A:** Phoenix shareholders of record as of the close of business on November 12, 2014, which is referred to as the Phoenix record date, are entitled to notice of, and to vote at, the Phoenix special meeting.

**Q: How many votes do I have?**

**A:** Each outstanding share of Phoenix common stock is entitled to one vote.

**Q: How do I vote my Phoenix shares?**

**A:** You may vote your Phoenix shares by completing and returning the enclosed proxy card or by voting in person at the Phoenix special meeting.

**Voting by Proxy.** You may vote your Phoenix shares by completing and returning the enclosed proxy card. Your proxy will be voted in accordance with your instructions. If you do not specify a choice on one of the proposals described in this joint proxy statement/prospectus, your proxy will be voted in favor of that proposal.

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**ON YOUR PHOENIX PROXY CARD:**

mark your selections;

date and sign your name exactly as it appears on your card; and

return your completed proxy card in the enclosed postage-paid envelope.

**Voting in person.** If you attend the Phoenix special meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the Phoenix special meeting. If your shares are registered in the name of a broker or other nominee and you wish to vote at the Phoenix special meeting, you will need to obtain a legal proxy from your bank or brokerage firm. Please consult the voting form sent to you by your bank or broker to determine how to obtain a legal proxy in order to vote in person at the Phoenix special meeting.

Should you have any questions on the procedure for voting your shares, please contact Phoenix Bancorp, Inc., Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901, Attention: Investor Relations, telephone (570) 544-6438.

**Q: Why is my vote important?**

**A:** Because the merger cannot be completed without the affirmative vote of the holders of 70% of the outstanding shares of Phoenix common stock on the Phoenix record date, every shareholder's vote is important. In addition, the Phoenix special meeting will include a proposal to adjourn the meeting, if necessary to solicit additional proxies.

**Q: If my shares of Phoenix common stock are held in street name by my broker, will my broker automatically vote my shares for me?**

**A:** No. Your broker CANNOT vote your shares on any proposal at the Phoenix special meeting without instructions from you. You should instruct your broker as to how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker.

**Q: What if I fail to instruct my broker?**

**A:** If you do not provide your broker with instructions, your broker generally will not be permitted to vote your shares on the merger proposal or any other proposal (a so-called broker non-vote) at the Phoenix special meeting. For purposes of determining the number of votes cast with respect to the merger proposal, broker non-votes, if any, submitted by brokers or nominees in connection with the Phoenix special meeting will have the same effect

as a vote against for purposes of determining the number of votes cast, but will be treated as present for quorum purposes.

**Q: What constitutes a quorum for the Phoenix special meeting?**

A: As of the Phoenix record date, 282,206 shares of Phoenix common stock were issued and outstanding, each of which will be entitled to one vote at the meeting. Under Phoenix's bylaws, the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast constitutes a quorum for the transaction of business at the Phoenix special meeting. If you vote by proxy, your shares will be included for determining the presence of a quorum. Both abstentions and broker non-votes are also included for purposes of determining the presence of a quorum.

**Q: Assuming the presence of a quorum, what is the vote required to approve the matters to be considered at the Phoenix special meeting?**

A: The affirmative vote at the Phoenix special meeting, in person or by proxy, of the holders of 70% of the outstanding shares of Phoenix common stock is required to approve and adopt the merger agreement. The

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affirmative vote, in person or by proxy, of a majority of votes cast at the Phoenix special meeting is required to approve the proposal to adjourn the Phoenix special meeting, if necessary, to solicit additional proxies, and any other matter that may properly come before the Phoenix special meeting. Because the affirmative vote of the holders of 70% of outstanding shares of Phoenix is required to approve and adopt the merger agreement, abstentions and broker non-votes with respect to the merger agreement will effectively act as votes against on such proposal. Abstentions and broker non-votes will not affect the outcome of the adjournment proposal or any other matters that properly come before the Phoenix special meeting.

**Q: Do I have appraisal or dissenters rights?**

**A:** Yes. Under Pennsylvania law, Phoenix shareholders have the right to dissent from the merger agreement and the merger and to receive a payment in cash for the fair value of their shares of Phoenix common stock as determined by an appraisal process. This value may be more or less than the value you would receive in the merger if you do not dissent. If you dissent, you will receive a cash payment for the value of your shares that will be fully taxable to you. To perfect your dissenters rights, you must follow precisely the required statutory procedures. See *The Merger Phoenix Shareholders Have Dissenters Rights in the Merger*, on page 68 and the information at Annex D.

**Q: Can I attend the Phoenix special meeting and vote my shares in person?**

**A:** Yes. All shareholders, including shareholders of record and those who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the Phoenix special meeting. Holders of record of Phoenix common stock can vote in person at the Phoenix special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Phoenix special meeting. If you plan to attend the Phoenix special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

**Q: Can I change my vote?**

**A:** Yes. If you are a shareholder of record, you may revoke your proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to Phoenix's Corporate Secretary, or (3) attending the Phoenix special meeting in person, notifying the Corporate Secretary and voting by ballot at the Phoenix special meeting. The mailing address for Phoenix's Corporate Secretary is Phoenix Bancorp, Inc., Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901, Attention: Corporate Secretary. If your shares are registered in the name of a broker or other nominee, please follow the instructions provided by your nominee.

Any shareholder entitled to vote in person at the Phoenix special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy, but the mere presence (without notifying Phoenix's Corporate Secretary) of a shareholder at the Phoenix special meeting will not constitute revocation

of a previously given proxy.

**Q: Who will bear the cost of soliciting votes for the Phoenix special meeting?**

**A:** Mid Penn and Phoenix will bear the cost of preparing, assembling, printing, mailing and distributing these proxy materials equally. In addition to the mailing of these proxy materials, the solicitation of proxies or votes for the Phoenix special meeting may be made in person, by telephone, or by electronic communication by Phoenix's directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. In addition, Phoenix may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.



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**Q: What happens if additional proposals are presented at the Phoenix special meeting?**

**A:** Other than the proposals described in this joint proxy statement/prospectus, Phoenix does not expect any matters to be presented for a vote at the Phoenix special meeting. If you grant a proxy, the persons named as proxy holders, James Brennan and Angela Curran, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Phoenix special meeting.

**Q: Are there risks that I should consider in deciding whether to vote to approve and adopt the merger agreement?**

**A:** Yes. You should consider the risk factors set out in the section entitled *Risk Factors* beginning on page 35 of this joint proxy statement/prospectus.

**Q: What if I hold stock of both Mid Penn and Phoenix?**

**A:** If you hold shares of both Mid Penn and Phoenix, you will receive two separate packages of proxy materials. A vote as a Phoenix shareholder for the merger proposal or any other proposals to be considered at the Phoenix special meeting will not constitute a vote as a Mid Penn shareholder for the merger proposal or any other proposals to be considered at the Mid Penn special meeting, and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Mid Penn or Phoenix, or submit separate proxies as both a Mid Penn shareholder and a Phoenix shareholder as instructed.

**Q: Should I send in my Phoenix stock certificates?**

**A:** No. **Please do not send in your Phoenix stock certificates with your proxy.** You will receive separate written instructions and a letter of transmittal from an exchange agent designated by Mid Penn for exchanging Phoenix stock certificates for the merger consideration.

**Q: Whom should I contact if I have additional questions?**

**A:** If you are a Phoenix shareholder and have any questions about the merger, or if you need additional copies of this document or the enclosed proxy card, you should contact:

Phoenix Bancorp, Inc.

Rockwood Center, 1504 Rte. 61 South

Pottsville, Pennsylvania 17901

Attention: Investor Relations



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**SUMMARY**

*This summary highlights information contained elsewhere in this joint proxy statement/prospectus and may not contain all of the information that is important to you. We urge you to carefully read the entire joint proxy statement/prospectus and the other documents to which we refer in order to fully understand the merger and the related transactions. See **Where You Can Find More Information** on page 203. Each item in this summary refers to the page of this joint proxy statement/prospectus on which that subject is discussed in more detail.*

**Information about the Parties**

***Mid Penn Bancorp, Inc. (page 97)***

Mid Penn is a Pennsylvania business corporation and bank holding company with its headquarters in Millersburg, Pennsylvania. At June 30, 2014, Mid Penn had total consolidated assets of \$736.5 million. Mid Penn is the parent company of Mid Penn Bank, serving the community since 1868, which operates fourteen retail locations in Cumberland, Dauphin, Northumberland and Schuylkill Counties in Pennsylvania. Insurance products are offered through Mid Penn Bank's subsidiary, Mid Penn Insurance Services, LLC. Mid Penn common stock is traded on The Nasdaq Global Market under the symbol MPB.

The principal executive offices of Mid Penn are located at Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061, and its telephone number is (866) 642-7736.

***Phoenix Bancorp, Inc. (page 166)***

Phoenix is a Pennsylvania business corporation and bank holding company with its headquarters in Pottsville, Pennsylvania. At June 30, 2014, Phoenix had total consolidated assets of approximately \$141 million. Phoenix is the parent company for Miners Bank, which operates four branch offices in Luzerne and Schuylkill Counties in Pennsylvania. Phoenix common stock is sold in privately negotiated transactions, some of which are quoted on the OTCQB market under the symbol PXBP.

The principal executive offices of Phoenix are located at Phoenix Bancorp, Inc., Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901, and its telephone number is (570) 544-4787.

**The Merger (page 73)**

The terms and conditions of the merger are contained in the merger agreement, which is attached as Annex A to this joint proxy statement/prospectus and incorporated by reference herein. Please carefully read the merger agreement as it is the legal document that governs the merger.

**Phoenix Will Merge into Mid Penn (page 73)**

We are proposing the business combination of Mid Penn and Phoenix. Under the merger agreement, Phoenix will merge with and into Mid Penn, with Mid Penn remaining the surviving entity, and the separate existence of Phoenix will cease. Immediately after the corporate merger, Miners Bank, a wholly owned bank subsidiary of Phoenix, will merge with and into Mid Penn's wholly owned bank subsidiary, Mid Penn Bank, with Mid Penn Bank as the surviving bank, and the separate corporate existence of Miners Bank will cease.

Following the completion of the merger, the merger agreement provides that Mid Penn will continue to operate the branches of Miners Bank as a separate banking division of Mid Penn Bank under the name Miners Bank, a Division of Mid Penn Bank for a period of at least three years.

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**Mid Penn Will Hold Its Special Meeting on December 23, 2014 (page 94)**

The Mid Penn special meeting will be held on Tuesday, December 23, 2014 at 9:00 a.m., local time, at Mid Penn's headquarters at 349 Union Street, Millersburg, Pennsylvania 17061. At the Mid Penn special meeting, Mid Penn shareholders will be asked to:

1. approve and adopt the merger agreement; and
2. approve the adjournment or postponement of the Mid Penn special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the meeting to approve and adopt the merger agreement.

*Record Date.* Only holders of record of Mid Penn common stock at the close of business on November 14, 2014 will be entitled to vote at the Mid Penn special meeting. Each share of Mid Penn common stock is entitled to one vote. As of the Mid Penn record date, there were 3,496,916 shares of Mid Penn common stock issued and outstanding and entitled to vote at the Mid Penn special meeting.

*Required Vote.* The affirmative vote at the Mid Penn special meeting, in person or by proxy, of the holders of 66-2/3% of the outstanding shares of Mid Penn common stock is required to approve and adopt the merger agreement. The affirmative vote, in person or by proxy, of a majority of all votes cast at the Mid Penn special meeting is required to approve the proposal to adjourn or postpone the Mid Penn special meeting, if necessary, to solicit additional proxies and any other matter that may properly come before the Mid Penn special meeting. A majority of the outstanding Mid Penn common stock entitled to vote is necessary to constitute a quorum in order to transact business at the meeting.

As of the record date, directors and executive officers of Mid Penn and their affiliates had the right to vote 143,760 shares of Mid Penn common stock, or 4.1% of the outstanding Mid Penn common stock entitled to be voted at the Mid Penn special meeting. In accordance with the terms of the merger agreement, each of the directors of Mid Penn has executed an Affiliate Letter in favor of Phoenix pursuant to which he or she has agreed to vote all shares of Mid Penn common stock owned by him or her in favor of approval and adoption of the merger agreement and the transactions contemplated thereby.

**Phoenix Will Hold Its Special Meeting on December 23, 2014 (page 161)**

The Phoenix special meeting will be held on Tuesday, December 23, 2014 at 9:00 a.m., local time, at Phoenix's headquarters at Rockwood Center, 1504 Route 61 South, Pottsville, Pennsylvania 17901. At the Phoenix special meeting, Phoenix shareholders will be asked to:

1. approve and adopt the merger agreement; and
2. approve the adjournment or postponement of the Phoenix special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the Phoenix special meeting to approve and adopt the merger agreement.

*Record Date.* Only holders of record of Phoenix common stock at the close of business on November 12, 2014 will be entitled to vote at the Phoenix special meeting. Each share of Phoenix common stock is entitled to one vote. As of the Phoenix record date, there were 282,206 shares of Phoenix common stock issued and outstanding and entitled to vote at the Phoenix special meeting.

*Required Vote.* The affirmative vote at the Phoenix special meeting, in person or by proxy, of holders of 70% of the outstanding shares of Phoenix common stock is required to approve and adopt the merger agreement. The affirmative vote, in person or by proxy, of a majority of votes cast at the Phoenix special meeting is required to approve the proposal to adjourn or postpone the Phoenix special meeting, if necessary, to solicit additional

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proxies and any other matter that may properly come before the Phoenix special meeting. A majority of the outstanding Phoenix common stock entitled to vote is necessary to constitute a quorum in order to transact business at the meeting.

As of the record date, directors and executive officers of Phoenix and their affiliates had the right to vote 126,817 shares of Phoenix common stock, or 44.9% of the outstanding Phoenix common stock entitled to be voted at the Phoenix special meeting. In accordance with the terms of the merger agreement, each of the directors of Phoenix has executed an Affiliate Letter in favor of Mid Penn pursuant to which he or she has agreed to vote all shares of Phoenix common stock owned by him or her in favor of approval and adoption of the merger agreement.

### **Phoenix Shareholders Will Receive Shares of Mid Penn Common Stock and/or Cash in the Merger Depending on Their Election and Any Proration (page 74).**

Phoenix shareholders will have the right to elect to receive merger consideration, without interest, for each of their shares of Phoenix common stock. Each Phoenix shareholder will have the opportunity to elect to receive in exchange for each share of Phoenix common stock owned immediately prior to completion of the merger either: (i) a cash payment of \$51.60 per share; (ii) 3.167 shares of Mid Penn common stock; or (iii) a combination of cash and shares of Mid Penn common stock.

The amount of merger consideration issuable to Phoenix shareholders was subject to a pre-closing adjustment based on, with respect to one OREO property held by Miners Bank, the wholly owned banking subsidiary of Phoenix, the estimated costs, if any, for environmental remediation that may be required and any loss in connection with the maintenance and disposition costs of such property, net of any tax benefit and any recoveries from the sale of any parcels. The amount of merger consideration issuable to Phoenix shareholders upon completion of the merger will not be reduced or otherwise adjusted pursuant to this provision as such costs will not exceed the \$400,000 threshold set forth in the merger agreement.

Each election will be subject to allocation and proration procedures in the merger agreement, which are intended to ensure that, in the aggregate, at least 80% of the Phoenix shares of common stock outstanding will be exchanged for Mid Penn common stock. Mid Penn has the right to permit greater than 80% of the Phoenix common shares to be exchanged for shares of Mid Penn common stock; however, if the holders of more than 20% of Phoenix shares elect to receive cash for their shares of Phoenix common stock, then such shareholders will receive shares of Mid Penn common stock in accordance with the proration procedures and the other requirements set forth in the merger agreement.

Record holders of Phoenix common stock may specify different elections with respect to different shares that you hold (if, for example, a Phoenix shareholder owns 100 shares of Phoenix common stock, such shareholder could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

As an example, based on the average of the high and low sale prices of Mid Penn common stock on The Nasdaq Global Market for the 10 trading days ending on November 12, 2014 (the most recent practicable date prior to the printing of this joint proxy statement/prospectus), for each share of Phoenix common stock held, a Phoenix shareholder would receive either \$51.60 in cash or 3.167 shares of Mid Penn common stock, subject to possible proration. Based on that price, the 3.167 shares of Mid Penn common stock would have a market value of \$48.89. Mid Penn will compute the actual amount of cash and number of shares of Mid Penn common stock that each Phoenix shareholder will receive in the merger using the formula contained in the merger agreement. For a summary of the formula contained in the merger agreement, see *The Merger Agreement Consideration To Be Received in the Merger* beginning on page 74.





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*Phoenix Contingent Rights.* If you purchased shares of Phoenix common stock pursuant to the Phoenix Private Placement Memorandum dated as of October 1, 2012 and received contingent rights to receive additional Phoenix common stock, which we refer to as the Phoenix contingent rights, due to the merger, each Phoenix contingent right will be exchanged for 0.1306 shares of Phoenix common stock (rounded up to the nearest whole share for each holder) prior to the consummation of the merger. To the extent that these additional shares of Phoenix common stock are outstanding on the record date for the election materials, such shares will also be subject to an election to receive either cash or stock. Otherwise, such additional shares of Phoenix common stock will be exchanged for shares of Mid Penn common stock. We estimate that the Phoenix contingent rights will convert into a maximum of 3,520 shares of Phoenix common stock, or 11,148 shares of Mid Penn common stock based upon the exchange ratio.

*Phoenix Stock Appreciation Rights.* Each Phoenix stock appreciation right unit to receive a cash payment based on the value under the Phoenix Bancorp, Inc./Miners Bank Stock Appreciation Rights Plan, which we refer to as the Phoenix SARs, that is outstanding immediately prior to the effective time of the merger will be converted to the right to receive cash equal to the product of (i) the total number of shares of Phoenix common stock you hold that are subject to a stock appreciation right and (ii) the excess, if any, of \$51.60 less the base price of the Phoenix SAR set forth in the Phoenix stock appreciation right award agreement, less any applicable tax withholding.

## **Regardless of Whether an Election is Made, a Phoenix Shareholder May Not Receive the Consideration Elected (page 75)**

Pursuant to the terms of the merger agreement, a minimum of 80% of the total number of shares of Phoenix common stock outstanding at the effective time of the merger will be converted into stock consideration, and the remaining outstanding shares of Phoenix common stock (excluding the shares of Phoenix common stock to be cancelled) not converted into shares of Mid Penn common stock will be converted into cash consideration. Mid Penn has the right to permit greater than 80% of the total number of shares of Phoenix common stock to be converted in the form of shares of Mid Penn common stock. As a result, if more Phoenix shareholders make valid elections to receive either Mid Penn common stock or cash than is available as merger consideration under the merger agreement, those Phoenix shareholders electing the over-subscribed form of consideration may have the over-subscribed consideration proportionately reduced and substituted with consideration in the other form, despite their election.

## **In Order to Make a Valid Election, Phoenix Shareholders Must Properly Complete and Deliver the Election Form (page 76)**

If a Phoenix shareholder wishes to elect the type of merger consideration such shareholder prefers to receive in the merger, such shareholder should carefully review and follow the instructions set forth in the form of election, which is being mailed to Phoenix shareholders immediately after this joint proxy statement/prospectus. Phoenix shareholders will need to sign, date and complete the election form and transmittal materials and return them to the exchange agent at the address given in the materials, together with the certificates representing shares of Phoenix common stock prior to the Election Deadline. **Phoenix shareholders should NOT send stock certificates with a proxy card returned to vote on the merger agreement.**

The election deadline will be at 5:00 p.m., New York City time, on Monday, December 22, 2014, which is the business day prior to the Phoenix special meeting of shareholders on December 23, 2014. If a Phoenix shareholder does not submit a properly completed and signed form of election to the exchange agent by the election deadline, such shareholder will have no control over the type of merger consideration to be received, and, consequently, at the discretion of Mid Penn, may receive only cash, only Mid Penn common stock or a combination of cash and Mid Penn common stock in the merger.



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Once a Phoenix shareholder has tendered stock certificates representing shares of Phoenix common stock to the exchange agent, such shareholder may not transfer shares of Phoenix common stock represented by those stock certificates until the merger is completed, unless such shareholder revokes a previous election by written notice to the exchange agent that is received prior to the election deadline. If the merger is not completed and the merger agreement is terminated, stock certificates will be returned by the exchange agent to the shareholder submitting them.

## **Expected Material United States Federal Income Tax Treatment as a Result of the Merger (page 90)**

The merger is structured to be treated as a reorganization for United States federal income tax purposes. Each of Mid Penn and Phoenix has conditioned the consummation of the merger on its receipt of a legal opinion from their respective legal counsel that this will be the case. The federal income tax treatment for Phoenix shareholders will depend primarily on whether Phoenix common stock is exchanged solely for Mid Penn common stock (with cash received instead of a fractional share of Mid Penn common stock), solely for cash, or for a combination of Mid Penn common stock and cash.

Generally, a Phoenix shareholder will not recognize gain or loss on the exchange of Phoenix common stock solely for Mid Penn common stock in the merger, except with respect to the cash received in lieu of a fractional share interest in Mid Penn common stock. If a Phoenix shareholder receives only cash in exchange for Phoenix common stock in the merger, then such shareholder generally will recognize gain or loss equal to the difference between the amount of cash received and the shareholder's adjusted tax basis in the shares of Phoenix common stock surrendered. If a Phoenix shareholder exchanges Phoenix common stock for a combination of Mid Penn common stock and cash, then such shareholder generally will recognize gain equal to the amount of cash received (not counting cash received in lieu of a fractional share interest in Mid Penn common stock) or the amount of gain realized, whichever is lower, but such shareholder will not recognize any loss. If a Phoenix shareholder receives cash instead of a fractional share interest in Mid Penn common stock, such shareholder will recognize gain or loss on receipt of that cash.

Exceptions to these conclusions or other considerations may apply, some of which are discussed beginning on page 90. Determining the actual tax consequences of the merger to a Phoenix shareholder can be complicated. Those consequences will depend on such shareholder's specific situation, on whether the shareholder elects to receive common stock, cash or a mix of common stock and cash, on whether an election is effective or must be changed under the proration provisions of the merger agreement, and on many variables that are not within our control. For further information, please refer to *Material United States Federal Income Tax Consequences of the Merger* on page 90. **Phoenix shareholders should also consult their own tax advisors for a full understanding of the federal income tax and other tax consequences of the merger as they apply specifically to them.**

*The United States federal income tax consequences described above may not apply to all holders of Phoenix common stock. The tax consequences for Phoenix shareholders will depend on their individual situations. Accordingly, Phoenix shareholders are strongly urged to consult their tax advisors for a full understanding of the particular tax consequences of the merger to them.*

## **Accounting Treatment of the Merger (page 89)**

The merger will be treated as a business combination using the acquisition method of accounting with Mid Penn treated as the acquirer under generally accepted accounting principles, which we refer to as GAAP.

## **Market Prices and Share Information (page 201)**

Mid Penn common stock is quoted on The Nasdaq Global Market under the symbol MPB. Phoenix common stock is not listed or traded on any exchange but instead is sold in privately negotiated transactions,

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some of which are quoted on the OTCQB market under the symbol PXBP. Phoenix common stock is traded sporadically and at irregular intervals. Phoenix common stock has only been quoted on the OTCQB market for a very short period of time, and the volume of quoted trades on the OTCQB market have generally been very low compared to the trades reported to, or known by, Phoenix management in privately negotiated transactions. Consequently, Phoenix management believes that, due to the higher volume and greater frequency of trades reported to it in privately negotiated transactions, those prices are more reflective of the actual market price of Phoenix common stock than those prices quoted on the OTCQB market. For more information regarding share price information of Phoenix common stock, see *Market Price and Dividend Information Phoenix* beginning on page 201.

The following table shows the closing sale prices of Mid Penn common stock as reported on The Nasdaq Global Market on August 26, 2014, the last trading day before announcement of the merger, and on November 12, 2014, the last practicable trading day prior to mailing this joint proxy statement/prospectus. The table also presents the equivalent value of the stock portion of the merger consideration per share of Phoenix common stock on August 26, 2014, and November 14, 2014, calculated by multiplying the closing sale prices of Mid Penn common stock on those dates by 3.167, which represent the exchange ratio of shares of Mid Penn common stock that Phoenix shareholders electing to receive Mid Penn common stock would receive in the merger for each share of Phoenix common stock.

	<b>Phoenix Common Stock</b>			
	<b>Mid Penn Common Stock</b>	<b>In Privately Negotiated Transactions</b>	<b>On the OTCQB Market</b>	<b>Equivalent Per Share Value</b>
Prior to execution of the merger agreement	\$ 16.00 <sup>(1)</sup>	\$ 40.00 <sup>(2)</sup>	\$ 28.00 <sup>(3)</sup>	\$ 50.67
At November 14, 2014	\$ 15.77 <sup>(4)</sup>	\$ 40.00 <sup>(5)</sup>	\$ 49.25 <sup>(6)</sup>	\$ 49.94

- (1) Closing price as of August 26, 2014.
- (2) Last reported price as of June 18, 2014, the last sale price reported to, or known by, Phoenix management in privately negotiated transactions prior to announcement of the merger.
- (3) Last reported price as of August 14, 2014, the last reported sale price on the OTCQB market prior to announcement of the merger.
- (4) Closing price as of November 12, 2014, the last closing price prior to mailing this joint proxy statement/prospectus.
- (5) Last reported price as of June 18, 2014, the last sale price reported to, or known by, Phoenix management in privately negotiated transactions prior to mailing this joint proxy statement/prospectus.
- (6) Last reported price as of August 29, 2014, the last reported sale price on the OTCQB market prior to mailing this joint proxy statement/prospectus.

*The market prices of Mid Penn and Phoenix common stock will fluctuate prior to the merger. You should obtain current stock price quotations for the shares.*

Upon completion of the merger, assuming 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock, former Phoenix shareholders will own approximately 17% of the outstanding shares of Mid Penn common stock.

**Griffin Financial Group, LLC Has Provided an Opinion to the Phoenix Board of Directors (page 49)**

In connection with the merger, Phoenix's financial advisor, Griffin Financial Group, LLC, or Griffin, delivered a written opinion, dated August 27, 2014, to the Phoenix board of directors as to the fairness, from a financial point of view and as of the date of the opinion, of the merger consideration in the merger to the shareholders of Phoenix.

The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitation on the review undertaken by Griffin in preparing the opinion, is attached as

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Annex B to this joint proxy statement/prospectus. The opinion was for the information of, and was directed to, the Phoenix board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Phoenix to engage in the merger or enter into the merger agreement or constitute a recommendation to any holder of Phoenix common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter (including, with respect to holders of Phoenix common stock, what election any such shareholder should make with respect to the merger consideration). Phoenix does not expect what it will request an updated opinion from Griffin.

### **Keefe, Bruyette & Woods, Inc. Has Provided an Opinion to the Mid Penn Board of Directors (page 56)**

In connection with the merger, Mid Penn's financial advisor, Keefe, Bruyette & Woods, Inc., or KBW, delivered a written opinion, dated August 27, 2014, to the Mid Penn board of directors as to the fairness, from a financial point of view and as of the date of the opinion, of the aggregate merger consideration in the merger to Mid Penn.

The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as Annex C to this joint proxy statement/prospectus. The opinion was for the information of, and was directed to, the Mid Penn board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Mid Penn to engage in the merger or enter into the merger agreement or constitute a recommendation to the Mid Penn board of directors in connection with the merger, and it does not constitute a recommendation to any holder of Mid Penn common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter (including, with respect to holders of Phoenix common stock, what election any such shareholder should make with respect to the merger consideration).

### **Board of Directors and Executive Officers of Mid Penn after the Merger (page 68)**

Following completion of the merger, Mid Penn will appoint Vincent J. Land, Robert J. Moisey and Noble C. Quandel, Jr. to serve on the board of directors of Mid Penn and Mid Penn Bank, including waiving any bylaw restriction otherwise applicable to any such individual in connection with their appointment. Mr. Land will be appointed to serve in the class of directors whose term expires in 2016. Messrs. Moisey and Quandel will be appointed to serve in the class of directors whose term expires in 2017. For so long as such individual serves as a director of Mid Penn, Mid Penn will cause such individual to serve on the Mid Penn Bank board of directors.

Except as described in the previous paragraph, the directors and executive officers of Mid Penn and Mid Penn Bank immediately prior to the consummation of the merger will continue to be the directors and executive officers of the respective entity.

### **The Mid Penn Board of Directors Recommends That Mid Penn Shareholders Vote FOR Approval and Adoption of the Agreement and Plan of Merger (page 56)**

The Mid Penn board of directors believes that the merger is in the best interests of Mid Penn and its shareholders and has unanimously approved the merger and the merger agreement. The Mid Penn board of directors recommends that Mid Penn shareholders vote FOR approval and adoption of the merger agreement. The Mid Penn board also recommends that its shareholders vote FOR the proposal to adjourn the Mid Penn special meeting, if necessary, to solicit additional proxies.

### **The Phoenix Board of Directors Recommends That Phoenix Shareholders Vote FOR Approval and Adoption of the Agreement and Plan of Merger (page 48)**

The Phoenix board of directors believes that the merger is in the best interests of Phoenix and its shareholders and has unanimously approved the merger and the merger agreement. The Phoenix board of



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directors recommends that Phoenix shareholders vote FOR approval and adoption of the merger agreement. The Phoenix board also recommends that its shareholders vote FOR the proposal to adjourn the Phoenix special meeting, if necessary, to solicit additional proxies.

**Phoenix's Directors and Executive Officers Have Financial Interests in the Merger that May Differ from the Interests of Phoenix Shareholders (page 71)**

In addition to their interests as Phoenix shareholders, the directors and certain executive officers of Phoenix may have interests in the merger that are different from or in addition to interests of other Phoenix shareholders. These interests include, among others, provisions in the merger agreement regarding board membership, as well as change in control agreements, employment agreements, indemnification, insurance, and eligibility to participate in various employee benefit plans. For purposes of the Phoenix agreements and plans, the completion of the merger will generally constitute a change in control. These additional interests may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than a Phoenix shareholder may view it. The financial interests of Phoenix's directors and executive officers in the merger include the following:

the appointment, effective at the closing of the merger, of three current individuals (Vincent J. Land, Robert J. Moisey and Noble C. Quandel, Jr.) to the boards of directors of Mid Penn and Mid Penn Bank and the payment of compensation to such individuals in accordance with the policies of Mid Penn and Mid Penn Bank, respectively, which currently consists of the following payments to each non-employee directors: an annual retainer of \$15,000 and between \$100 and \$500 for each committee meeting attended, depending on the committee;

the continued indemnification of current directors and executive officers of Phoenix and its subsidiaries pursuant to the terms of the merger agreement and providing these individuals with continued director's and officer's liability insurance;

the retention of certain executive officers of Phoenix, and payment of compensation to such executive officers, pursuant to existing employment agreements with Phoenix and Miners Bank;

certain executive officers of Phoenix are parties to Phoenix stock appreciation right agreements which will vest upon a change in control;

certain Phoenix employees are parties to split dollar life insurance plans which, if not previously terminated, may provide an enhanced benefit upon death after a separation of service after a change of control; and

certain executive officers of Phoenix will be entitled to severance or change-in-control benefits upon termination of employment after the closing of the merger.

Phoenix's board of directors was aware of these interests and took them into account in its decision to approve and adopt the agreement and plan of merger. For information concerning these interests, please see the discussion beginning on page 71 under the caption *The Merger Phoenix's Directors and Executive Officers Have Financial*

*Interests in the Merger.*

**Holders of Phoenix Common Stock Have Dissenters' Rights (page 68)**

If you are a Phoenix shareholder, you have the right under the Pennsylvania Business Corporation Law to dissent from the merger agreement and the merger, and to demand and receive cash for the fair value of your shares of Phoenix common stock. For a complete description of the dissenters' rights of Phoenix shareholders, please see the discussion under the caption *The Merger: Phoenix Shareholders Have Dissenters' Rights in the Merger* beginning on page 68. In order to assert dissenters' rights, a Phoenix shareholder must:

file a written notice of intent to dissent with Phoenix prior to the shareholder vote at the Phoenix special meeting;

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make no change in your beneficial ownership of Phoenix common stock after you give notice of your intention to demand fair value of your shares of Phoenix common stock;

not vote to approve and adopt the merger agreement at the Phoenix special meeting;

file a written demand for payment and deposit any certificates representing the Phoenix shares for which dissenters' rights are being asserted as requested by the notice that will be sent by Mid Penn or Phoenix after the completion of the merger; and

comply with certain other statutory procedures set forth in Pennsylvania law.

***If you are a Phoenix shareholder and you sign and return your proxy without voting instructions, we will vote your proxy in favor of the transaction and you will lose any dissenters' rights that you may have. A copy of the relevant provisions of Pennsylvania law related to dissenters' rights are attached to this joint proxy statement/prospectus as Annex D.***

## **The Rights of Phoenix Shareholders Will Be Governed by Pennsylvania Law and the Articles of Incorporation and Bylaws of Mid Penn after the Merger (page 191)**

The rights of Phoenix shareholders will change as a result of the merger due to differences in Mid Penn's and Phoenix's governing documents. A description of shareholder rights under each of the Mid Penn and Phoenix governing documents, and the material differences between them, is included in the section entitled *Comparison of Shareholders Rights* found on page 191.

## **Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 86)**

Currently, we expect to complete the merger in the first quarter of 2015. As more fully described in this joint proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, approval by the requisite vote of the Mid Penn shareholders and the Phoenix shareholders; the receipt of all required regulatory approvals from the Board of Governors of the Federal Reserve System, which we refer to as the FRB, the Federal Deposit Insurance Corporation, which we refer to as the FDIC, and the Pennsylvania Department of Banking and Securities, which we refer to as the PDB; the exercise of dissenters' rights under the Pennsylvania Business Corporation Law with respect to no more than 7% of the outstanding Phoenix common shares; the approval for listing on Nasdaq of the shares of Mid Penn common stock issuable pursuant to the merger; the exchange of the then-outstanding shares of Phoenix Senior Non-Cumulative Perpetual Preferred Stock, Series A, which we refer to as the Phoenix SBLF preferred stock, for shares of a series of Mid Penn preferred stock, having rights preferences, privileges and voting powers, and limitations and restrictions, taken as a whole, that are not materially less favorable to the holders of the Phoenix SBLF preferred stock than the rights, preferences, privileges and voting powers, and limitations and restrictions of the Phoenix SBLF preferred stock, taken as a whole, which we refer to as Mid Penn SBLF preferred stock; and the receipt of a legal opinion from counsel to each of Mid Penn and Phoenix regarding the tax treatment of the merger. For additional information regarding the Phoenix SBLF preferred stock and the Mid Penn SBLF preferred stock, see *Risk Factors Following consummation of the merger, Mid Penn may be unable to redeem the Mid Penn SBLF preferred stock before the dividend rate increases to 9%* beginning on page 39 and *Comparison of Shareholders Rights Outstanding Preferred Stock Phoenix* beginning on page 191.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

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**No Solicitation of Other Offers (page 83)**

Phoenix has agreed that it, its subsidiaries, its directors and officers and those of its subsidiaries will not, and Phoenix will not authorize, permit or cause its and each of its subsidiaries employees and agents to, between the date of the merger agreement and the closing of the merger, directly or indirectly:

initiate, solicit, induce or encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, relates or could reasonably be expected to lead to an alternative acquisition proposal;

respond to any inquiry relating to an alternative acquisition proposal or an alternative acquisition transaction;

recommend or endorse an alternative acquisition transaction;

participate in any discussions or negotiations regarding, or furnish information or data with respect to Phoenix or any of its subsidiaries to any person (other than Mid Penn) that may relate to an alternative acquisition proposal;

release anyone from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Phoenix is a party; or

enter into any agreement, agreement in principle or letter of intent with respect to any alternative acquisition proposal or approve or resolve to approve any alternative acquisition proposal or any agreement, agreement in principle or letter of intent relating to an alternative acquisition proposal.

The merger agreement does not, however, prohibit Phoenix from furnishing information or access to a third party who has made an alternative acquisition proposal and participating in discussions and negotiating with such person prior to the receipt of shareholder approval if specified conditions are met. Among those conditions is a good faith determination by the Phoenix board of directors, after consultation with and having considered the advice of its outside legal counsel and its independent financial advisor, that the alternative acquisition proposal constitutes, or is reasonably likely to lead to, a bona fide written proposal that

would, if consummated, result in the acquisition of all, but not less than all, of the issued and outstanding shares of Phoenix common stock or all, or substantially all, of the assets of Phoenix and its subsidiaries on a consolidated basis;

would result in a transaction that:

involves consideration to Phoenix shareholders that is more favorable than the consideration to be paid to Phoenix shareholders pursuant to the merger agreement, considering, among other things, the nature of the consideration being offered and any material regulatory approvals or other risks associated with the timing of the proposed transaction beyond or in addition to those specifically contemplated by the merger agreement, and which proposal is not conditioned upon obtaining additional financing, and

is, in light of the other terms of such proposal, more favorable to Phoenix than the merger and the transactions contemplated by the merger agreement; and

is reasonably likely to be completed on the terms proposed, in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

We refer to the foregoing as a superior proposal.

For further discussion of the restrictions on solicitation of acquisition proposals from third parties, see *The Merger Agreement Agreement Not to Solicit Other Offers* beginning on page 83.

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**Termination of the Merger Agreement (page 86)**

We may mutually agree to terminate the merger agreement before completing the merger, even after Phoenix or Mid Penn shareholder approval. In addition, either of us may decide to terminate the merger agreement, if (i) a court or governmental entity issues a final order that is not appealable prohibiting the merger, (ii) a bank regulator which must grant a regulatory approval as a condition to the merger denies such approval of the merger and such denial has become final and is not appealable, (iii) the shareholders of Mid Penn or Phoenix fail to approve the merger at their respective meetings, or (iv) the other party breaches the merger agreement in a way that would entitle the party seeking to terminate the merger agreement not to consummate the merger, subject to the right of the breaching party to cure the breach within 30 days following written notice, provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement. Either of us may terminate the merger agreement if the merger has not been completed by June 15, 2015, or such later date as agreed to by the parties in writing, unless the reason the merger has not been completed by that date is a breach of the merger agreement by the party seeking to terminate the merger agreement.

Mid Penn may terminate the merger agreement if the Phoenix board of directors (1) has received a superior proposal and, in connection with the receipt of such superior proposal and in accordance with the terms of the merger agreement, enters into a letter of intent, agreement in principle or an acquisition agreement with respect to such superior proposal, (2) fails to make, withdraws, modifies or qualifies its recommendation of the merger agreement in a manner adverse to Mid Penn, or (3) delivers a written notice to Mid Penn of its determination to accept such superior proposal.

Phoenix may terminate the merger agreement if Phoenix receives a superior proposal and, in accordance with the terms of the merger agreement, delivers a written notice to Mid Penn of its determination to accept the alternative acquisition proposal. Phoenix may also terminate the merger agreement within five business days of the later of (i) the date on which the last required regulatory approval necessary for consummation of the merger and the transactions contemplated by the merger agreement has been obtained, without regard to any requisite waiting period, or (ii) the date of the meeting of Phoenix shareholders to adopt and approve the merger agreement, which we refer to as the Determination Date, if Phoenix's board determines, by a majority vote of its members, that each of the following have occurred:

the average of the daily closing sales prices of a share of Mid Penn common stock as reported on Nasdaq for the 20 consecutive trading days immediately preceding the Determination Date is less than 80% of the closing sale price of Mid Penn common stock on the last trading date before the date of the merger agreement; and

the average of the daily closing sales prices of a share of Mid Penn common stock as reported on Nasdaq for the 20 consecutive trading days immediately preceding the Determination Date is such that the price performance of Mid Penn common stock during this period is lower than the price performance of the Nasdaq Bank Index during the same period minus 20%.

**Termination Fee (page 87)**

Phoenix will pay Mid Penn a termination fee of \$580,000 in the event that the merger agreement is terminated:

by Mid Penn because Phoenix (1) has received a superior proposal, and Phoenix, in accordance with the terms of the merger agreement, enters into a letter of intent, agreement in principle or an acquisition agreement with respect to such superior proposal, (2) fails to make, withdraws, modifies or qualifies its recommendation of the merger agreement in a manner adverse to Mid Penn, or (3) has otherwise made a determination to accept such superior proposal; or



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by Phoenix, if Phoenix receives a superior proposal and, in accordance with the terms of the merger agreement, delivers a written notice to Mid Penn of its determination to accept the alternative acquisition proposal in accordance with the terms of the merger agreement.

**Regulatory Approvals Required for the Merger (page 70)**

The FRB must approve the merger under the provisions of the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act ), relating to the acquisition of a bank holding company by another bank holding company, and the applicable waiting period must expire before it can be completed. In addition, the PDB must approve the merger under the Pennsylvania Banking Code of 1965 (the Banking Code ). The applications for approval of the merger were filed with the FDIC on November 10, 2014, with the PDB on November 11, 2014 and with the FRB on November 13, 2014.

For further discussion of the regulatory requirements in connection with the merger, see *The Merger Regulatory Approvals Required for the Merger* beginning on page 70.

**Table of Contents****SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF MID PENN (UNAUDITED)**

The following table provides historical consolidated summary financial data for Mid Penn. The data for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 are derived from Mid Penn's audited financial statements for the periods then ended. The results of operations for the six months ended June 30, 2014 and 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. Mid Penn's management prepared the unaudited information on the same basis as it prepared Mid Penn's audited consolidated financial statements. In the opinion of Mid Penn's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates.

(Dollars in thousands, except per share data)	For the six months ended June 30,		Years Ended December 31,				
	2014	2013	2013	2012	2011	2010	2009
<b>INCOME DATA:</b>							
Total Interest Income	\$ 15,250	\$ 14,055	\$ 28,983	\$ 30,366	\$ 31,545	\$ 30,148	\$ 31,336
Total Interest Expense	2,227	2,749	5,057	7,125	9,522	10,642	13,304
Net Interest Income	13,023	11,306	23,926	23,241	22,023	19,506	18,032
Provision for Loan and Lease Losses	822	910	1,685	1,036	1,205	2,635	9,520
Noninterest Income	1,668	1,688	3,290	3,683	2,996	3,414	3,656
Noninterest Expense	9,806	9,649	19,391	19,693	18,048	17,121	16,671
Income (Loss) Before Provision for (Benefit from) Income Taxes	4,063	2,435	6,140	6,195	5,766	3,164	(4,503)
Provision for (Benefit from) Income Taxes	845	384	1,201	1,244	1,223	416	(2,208)
Net Income (Loss)	3,218	2,051	4,939	4,951	4,543	2,748	(2,295)
Series A Preferred Stock Dividends and Discount Accretion		14	14	514	514	514	514
Series B Preferred Stock Dividends	175	134	309				
Net Income (Loss) Available to Common Shareholders	3,043	1,903	4,616	4,437	4,029	2,234	(2,809)

COMMON  
STOCK DATA  
PER SHARE:

Earnings (Loss) Per Common Share (Basic)	\$ 0.87	\$ 0.55	\$ 1.32	\$ 1.27	\$ 1.16	\$ 0.64	\$ (0.81)
Earnings (Loss) Per Common Share (Full Diluted)	0.87	0.55	1.32	1.27	1.16	0.64	(0.81)
Cash Dividends	0.15	0.05	0.25	0.25	0.20		0.52
Book Value Per Common Share	15.03	13.20	13.71	13.57	12.47	10.98	10.55
Tangible Book Value Per Common Share	14.68	12.84	13.35	13.19	12.10	10.58	10.15
AVERAGE SHARES OUTSTANDING (BASIC)	3,494,901	3,490,403	3,491,653	3,486,543	3,481,414	3,479,780	3,479,780
AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	3,494,901	3,490,403	3,491,653	3,486,543	3,481,414	3,479,780	3,479,780
BALANCE SHEET DATA:							
Investments	\$ 142,836	\$ 133,956	\$ 122,803	\$ 154,295	\$ 159,043	\$ 70,702	\$ 47,345
Loans and Leases, Net of Unearned Interest	548,615	518,658	546,462	484,220	482,717	467,735	480,385
Allowance for Loan and Lease Losses	6,130	6,267	6,317	5,509	6,772	7,061	7,686
Total Assets	736,480	705,649	713,125	705,200	715,383	637,457	606,010
Total Deposits	632,005	609,973	608,130	625,461	634,055	554,982	500,015
Short-term Borrowings	7,620	27,512	23,833			1,561	16,044
Long-term Debt	33,054	11,734	23,145	22,510	22,701	27,883	38,057
Shareholders Equity	57,560	51,094	52,916	52,220	53,452	48,201	46,704
RATIOS:							
Return on Average Assets	0.90%	0.59%	0.71%	0.69%	0.66%	0.44%	(0.39)%
Return on Average Shareholders Equity	11.67%	7.81%	9.37%	8.78%	8.96%	5.71%	(0.04)%
Cash Dividend Payout Ratio	17.24%	9.09%	18.94%	19.69%	17.24%	0.00%	(64.20)%
	1.12%	1.21%	1.16%	1.14%	1.40%	1.51%	1.60%

Allowance for  
 Loan and Lease  
 Losses to Loans  
 and Leases  
 Average  
 Shareholders  
 Equity to Average  
 Assets

7.82%	7.57%	7.56%	7.98%	7.37%	7.73%	8.88%
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**Table of Contents****SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF PHOENIX (UNAUDITED)**

The following table provides historical consolidated summary financial data for Phoenix. The data for the years ended December 31, 2013 and 2012 are derived from Phoenix's audited financial statements for the periods then ended. The results of operations for the six months ended June 30, 2014 and 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. Phoenix's management prepared the unaudited information on the same basis as it prepared Phoenix's audited consolidated financial statements. In the opinion of Phoenix's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates.

	As of or for the six months ended June 30,		As of or for the Years ended December 31,	
	2014	2013	2013	2012
<b>Income Statement Data</b>				
Interest Income	\$ 2,914	\$ 2,959	\$ 5,941	\$ 6,037
Interest Expense	229	281	535	808
Net interest income	2,685	2,678	5,406	5,229
Provision for loan losses	68	70	218	253
Net interest income after provision for loan losses	2,617	2,608	5,188	4,976
Other operating income	409	350	898	1,396
Other operating expenses	2,758	2,662	5,388	5,443
Income before income taxes	268	296	698	929
Income tax expense	41	62	145	219
Net income	227	234	553	710
Preferred stock dividend	13	15	29	35
Net income available to common shareholders	\$ 214	\$ 219	\$ 524	\$ 675
<b>Per share Data</b>				
Net earnings basic	\$ 0.75	\$ 0.80	\$ 1.93	\$ 2.80
Net earnings basic	\$ 0.75	\$ 0.80	\$ 1.93	\$ 2.80
Book value per share	\$ 48.75	\$ 48.06	\$ 48.37	\$ 52.58
Weighted average common shares basic	281,048	266,144	271,028	240,814
Weighted average common shares diluted	281,048	266,144	271,028	240,814
<b>Balance Sheet Data</b>				
Assets	141,504	133,286	137,764	132,339
Investment Securities	14,035	12,746	13,677	13,293
Loans, net	114,641	109,479	111,016	108,166
Deposits	119,557	113,146	112,513	111,725
Other Liabilities	702	563	520	755

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Shareholders equity	16,554	15,772	16,196	15,398
Shares outstanding	281,530	273,557	280,595	242,945
<b>Performance Ratios</b>				
Return on average assets	0.31%	0.33%	0.39%	0.39%
Return on average shareholders equity	2.63%	2.75%	3.28%	4.50%
Net interest margin	4.17%	4.28%	4.25%	4.19%
Noninterest expense as a percentage of average assets	1.99%	2.00%	4.01%	4.09%
Efficiency Ratio	89.14%	87.91%	85.47%	82.16%

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	As of or for the six months ended June 30,		As of or for the Years ended December 31,	
	2014	2013	2013	2012
<b>Asset Quality</b>				
Allowance for loan losses to loans	1.08%	1.03%	1.09%	1.12%
Net charge-offs to average loans outstanding	(0.07)%	(0.29)%	(0.19)%	(0.17)%
Non-performing loans to total loans	0.47%	0.57%	1.03%	0.45%
Allowance for loan losses to non-performing assets	117.39%	135.08%	105.78%	224.31%
<b>Liquidity and Capital Ratios</b>				
Average loans to average deposits	98.00%	97.42%	98.02%	88.69%
Average equity to average assets	11.77%	11.98%	11.89%	11.29%
Bank Tier 1 leverage ratio	10.37%	10.87%	10.94%	10.74%
Bank Tier 1 risk based capital ratio	13.12%	14.48%	14.24%	14.35%
Bank Total risk based capital ratio	14.28%	15.62%	15.42%	15.60%

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**PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

The following unaudited pro forma combined consolidated financial information assumes that 80% of the outstanding shares of Phoenix common stock will be exchanged for Mid Penn common stock at an exchange ratio of 3.167 shares of Mid Penn common stock for each share of Phoenix common stock and that the remaining 20% of the outstanding shares of common stock will be exchanged for cash consideration of \$51.60 for each share of Phoenix common stock. Utilizing the exchange ratio of 3.167 and assuming that 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock, it is anticipated that Phoenix common shareholders will own approximately 17% of the voting stock of the combined company after the merger.

The unaudited pro forma combined consolidated financial information is based upon the assumption that the total number of shares of Phoenix common stock immediately prior to the completion of the merger will be 285,726 and utilizes the exchange ratio of 3.167 for 80% of Phoenix's outstanding shares and cash of \$51.60 for the remaining 20% of Phoenix's shares, which will result in 723,915 shares of Mid Penn common stock being issued in the transaction.

The following unaudited pro forma combined consolidated financial statements as of and for the periods ended June 30, 2014 and December 31, 2013 combine the historical consolidated financial statements of Mid Penn and Phoenix. The unaudited pro forma combined consolidated financial statements give effect to the proposed merger as if the merger occurred on June 30, 2014 with respect to the consolidated balance sheet, and at the beginning of the applicable period, for the six months ended June 30, 2014 and for the year ended December 31, 2013, with respect to the consolidated income statement.

The notes to the unaudited pro forma combined consolidated financial statements describe the pro forma amounts and adjustments presented below. The pro forma information includes adjustments related to the estimated fair value of assets and liabilities and is subject to adjustment as additional information becomes available and as additional analysis is performed. The pro forma information does not include anticipated cost savings or revenue enhancements. THIS PRO FORMA DATA IS NOT NECESSARILY INDICATIVE OF THE OPERATING RESULTS THAT MID PENN WOULD HAVE ACHIEVED HAD IT COMPLETED THE MERGER AS OF THE BEGINNING OF THE PERIOD PRESENTED AND SHOULD NOT BE CONSIDERED AS REPRESENTATIVE OF FUTURE OPERATIONS.

The unaudited pro forma combined consolidated financial information presented below is based on, and should be read together with, the historical financial information that Mid Penn and Phoenix have included in or incorporated by reference in this joint proxy statement/prospectus as of and for the indicated periods.



**Table of Contents****Pro Forma Combined Consolidated Balance Sheets as of June 30, 2014***Unaudited (In thousands, except share and per share data)*

(Dollars in thousands, except share and per share data)	Mid Penn	Phoenix	Combined	Pro Forma Adjustments	Pro Forma Combined
<b>ASSETS</b>					
Cash and due from banks	\$ 11,220	\$ 2,998	\$ 14,218	\$	\$ 14,218
Interest-bearing balances with other financial institutions	659	313	972		972
Total cash and cash equivalents	11,879	3,311	15,190		15,190
Interest-bearing time deposits with other financial institutions	5,872	750	6,622		6,622
Available for sale investment securities	142,836	13,646	156,482		156,482
Loans and leases, net of unearned interest	548,615	115,897	664,512	(991) <sup>(2)(3)</sup>	663,521
Less: Allowance for loan and lease losses	(6,130)	(1,256)	(7,386)	1,256 <sup>(4)</sup>	(6,130)
Net loans and leases	542,485	114,641	657,126	265	657,391
Bank premises and equipment, net	12,515	2,960	15,475		15,475
Restricted investment in bank stocks	2,729	389	3,118		3,118
Foreclosed assets held for sale	1,083	519	1,602	(519) <sup>(5)</sup>	1,083
Accrued interest receivable	2,887	366	3,253		3,253
Deferred income taxes	2,004	86	2,090	(308) <sup>(6)</sup>	1,782
Goodwill	1,016	689	1,705	5 <sup>(1)</sup>	1,710
Core deposit and other intangibles, net	230		230	1,370 <sup>(11)</sup>	1,600
Cash surrender value of life insurance	8,476	3,609	12,085		12,085
Other assets	2,468	538	3,006		3,006
<b>Total Assets</b>	<b>\$ 736,480</b>	<b>\$ 141,504</b>	<b>\$ 877,984</b>	<b>\$ 813</b>	<b>\$ 878,797</b>
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>					
<b>Deposits:</b>					
Noninterest bearing demand	\$ 49,194	\$ 27,922	\$ 77,116	\$	\$ 77,116
Interest bearing demand	215,294	3,563	218,857		218,857
Money market	208,421	33,945	242,366		242,366
Savings	31,161	23,389	54,550		54,550
Time	127,935	30,738	158,673	(61) <sup>(7)</sup>	158,612
Total Deposits	632,005	119,557	751,562	(61)	751,501
Short-term borrowings	7,620	1,150	8,770		8,770
Long-term debt	33,054	3,500	36,554	2,981 <sup>(8)(9)</sup>	39,535
Accrued interest payable	600	41	641		641

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Other liabilities	5,641	702	6,343	239 <sup>(12)</sup>	6,582
Total Liabilities	678,920	124,950	803,870	3,159	807,029
<b>Shareholders' Equity:</b>					
Preferred stock	5,000	2,625	7,625		7,625
Common stock	3,496	336	3,832	388 <sup>(10)</sup>	4,220
Treasury stock		(1,453)	(1,453)	1,453 <sup>(10)</sup>	
Additional paid-in capital	29,876	6,034	35,910	4,825 <sup>(10)</sup>	40,735
Retained earnings	17,960	8,772	26,732	(8,772) <sup>(10)</sup>	17,960
Accumulated other comprehensive income	1,228	240	1,468	(240) <sup>(10)</sup>	1,228
Total Shareholders' Equity	57,560	16,554	74,114	(2,346)	71,768
Total Liabilities and Shareholders' Equity	\$ 736,480	\$ 141,504	\$ 877,984	\$ 813	\$ 878,797
<b>Per Share Data:</b>					
Common Shares outstanding	3,496,054	285,726	3,781,780	723,915	4,219,969
Book value per common share	\$ 15.03	\$ 48.75			\$ 15.20
<b>Tangible book value per common share:</b>					
Total equity	\$ 57,560	\$ 16,554			\$ 71,768
Less: preferred stock	5,000	2,625			7,625
Less: goodwill and intangibles	1,246	689			3,310
Total tangible equity	\$ 51,314	\$ 13,240			\$ 60,833
Tangible book value per common share	\$ 14.68	\$ 46.34			\$ 14.42

**Table of Contents****Pro Forma Consolidated Statements of Income****For the Year Ended December 31, 2013***Unaudited (In thousands, except share and per share data)*

	Mid Penn	Phoenix	Combined	Pro Forma Adjustments	Pro Forma Combined
<b>INTEREST INCOME</b>					
Interest & fees on loans and leases	\$ 26,305	\$ 5,694	\$ 31,999	\$ (58) <sup>(2)</sup>	\$ 31,941
Interest on interest-bearing balances	109	11	120		120
Interest and dividends on investment securities:					
U.S. Treasury and government agencies	591	55	646		646
State and political subdivision obligations, tax-exempt	1,921	41	1,962		1,962
Other securities	46	139	185		185
Interest on federal funds sold and securities purchased under agreements to resell	11	1	12		12
<b>Total Interest Income</b>	<b>28,983</b>	<b>5,941</b>	<b>34,924</b>	<b>(58)</b>	<b>34,866</b>
<b>INTEREST EXPENSE</b>					
Interest on deposits	4,436	462	4,898	31 <sup>(7)</sup>	4,929
Interest on short-term borrowings	26	3	29		29
Interest on long-term debt	595	70	665	43 <sup>(8)(9)</sup>	708
<b>Total Interest Expense</b>	<b>5,057</b>	<b>535</b>	<b>5,592</b>	<b>74</b>	<b>5,666</b>
<b>Net Interest Income</b>	<b>23,926</b>	<b>5,406</b>	<b>29,332</b>	<b>(132)</b>	<b>29,200</b>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>1,685</b>	<b>218</b>	<b>1,903</b>		<b>1,903</b>
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	<b>22,241</b>	<b>5,188</b>	<b>27,429</b>	<b>(132)</b>	<b>27,297</b>
<b>NONINTEREST INCOME</b>					
Income from fiduciary activities	492		492		492
Service charges on deposits	576	293	869		869
Net gain on sales of investment securities	220	171	391		391
Earnings from cash surrender value of life insurance	231	110	341		341
Mortgage banking income	348	134	482		482
ATM debit card interchange income	508	177	685		685

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Merchant services income	330		330		330
Other income	585	13	598		598
<b>Total Noninterest Income</b>	<b>3,290</b>	<b>898</b>	<b>4,188</b>		<b>4,188</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and employee benefits	10,788	2,952	13,740		13,740
Occupancy expense, net	1,128	454	1,582		1,582
Equipment expense	1,299	301	1,600		1,600
Pennsylvania Bank Shares tax expense	464	123	587		587
FDIC Assessment	486	88	574		574
Legal and professional fees	705	289	994		994
Director fees and benefits expense	319	102	421		421
Marketing and advertising expense	253	63	316		316
Software licensing	947	489	1,436		1,436
Telephone expense	436	60	496		496
(Gain) loss on sale/write-down of foreclosed assets	(302)	69	(233)		(233)
Intangible amortization	29	44	73	137 <sup>(11)</sup>	210
Loan collection costs	214	47	261		261
Other expenses	2,625	307	2,932		2,932
<b>Total Noninterest Expense</b>	<b>19,391</b>	<b>5,388</b>	<b>24,779</b>	<b>137</b>	<b>24,916</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>					
INCOME TAXES	6,140	698	6,838	(269)	6,569
Provision for income taxes	1,201	145	1,346	(91) <sup>(13)</sup>	1,255
<b>NET INCOME</b>	<b>4,939</b>	<b>553</b>	<b>5,492</b>	<b>(178)</b>	<b>5,314</b>
Preferred stock dividends and discount accretion	323	29	352		352
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>					
	\$ 4,616	\$ 524	\$ 5,140	\$ (178)	\$ 4,962
<b>Weighted average common shares outstanding:</b>					
Basic	3,491,653	271,028		723,915	4,215,568
Diluted	3,491,653	271,028		723,915	4,215,568
<b>Earnings per common share:</b>					
Basic	\$ 1.32	\$ 1.93		\$ (0.25)	\$ 1.18
Diluted	\$ 1.32	\$ 1.93		\$ (0.25)	\$ 1.18

**Table of Contents****Pro Forma Consolidated Statements of Income****For the Six Months Ended June 30, 2014***Unaudited (In thousands, except share and per share data)*

	Mid Penn	Phoenix	Combined	Pro Forma Adjustments	Pro Forma Combined
<b>INTEREST INCOME</b>					
Interest & fees on loans and leases	\$ 13,465	\$ 2,759	\$ 16,224	\$ (29) <sup>(2)</sup>	\$ 16,195
Interest on interest-bearing balances	20	5	25		25
Interest and dividends on investment securities:					
U.S. Treasury and government agencies	635	23	658		658
State and political subdivision obligations, tax-exempt	1,055	28	1,083		1,083
Other securities	75	98	173		173
Interest on federal funds sold and securities purchased under agreements to resell		1	1		1
<b>Total Interest Income</b>	<b>15,250</b>	<b>2,914</b>	<b>18,164</b>	<b>(29)</b>	<b>18,135</b>
<b>INTEREST EXPENSE</b>					
Interest on deposits	1,968	190	2,158	15 <sup>(7)</sup>	2,173
Interest on short-term borrowings	21	4	25		25
Interest on long-term debt	238	35	273	21 <sup>(8)(9)</sup>	294
<b>Total Interest Expense</b>	<b>2,227</b>	<b>229</b>	<b>2,456</b>	<b>36</b>	<b>2,492</b>
<b>Net Interest Income</b>	<b>13,023</b>	<b>2,685</b>	<b>15,708</b>	<b>(65)</b>	<b>15,643</b>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>822</b>	<b>68</b>	<b>890</b>		<b>890</b>
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	<b>12,201</b>	<b>2,617</b>	<b>14,818</b>	<b>(65)</b>	<b>14,753</b>
<b>NONINTEREST INCOME</b>					
Income from fiduciary activities	325		325		325
Service charges on deposits	263	144	407		407
Net gain on sales of investment securities	150		150		150
Earnings from cash surrender value of life insurance	102	58	160		160
Mortgage banking income	113	45	158		158
ATM debit card interchange income	265	96	361		361

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Merchant services income	133		133		133
Net gain on sales of SBA loans	78		78		78
Other income	239	66	305		305
<b>Total Noninterest Income</b>	<b>1,668</b>	<b>409</b>	<b>2,077</b>		<b>2,077</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and employee benefits	5,391	1,447	6,838		6,838
Occupancy expense, net	704	276	980		980
Equipment expense	611	172	783		783
Pennsylvania Bank Shares tax expense	208	68	276		276
FDIC Assessment	271	49	320		320
Legal and professional fees	265	179	444		444
Director fees and benefits expense	155	47	202		202
Marketing and advertising expense	132	26	158		158
Software licensing	449	302	751		751
Telephone expense	196	41	237		237
Loss on sale/write-down of foreclosed assets	57		57		57
Intangible amortization	14		14	69 <sup>(11)</sup>	83
Loan collection costs	153	16	169		169
Other expenses	1,200	135	1,335		1,335
<b>Total Noninterest Expense</b>	<b>9,806</b>	<b>2,758</b>	<b>12,564</b>	<b>69</b>	<b>12,633</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>					
Provision for income taxes	4,063	268	4,331	(134)	4,197
	845	41	886	(46) <sup>(13)</sup>	840
<b>NET INCOME</b>	<b>3,218</b>	<b>227</b>	<b>3,445</b>	<b>(88)</b>	<b>3,357</b>
Preferred stock dividends	175	13	188		188
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>					
	\$ 3,043	\$ 214	\$ 3,257	\$ (88)	\$ 3,169
Weighted average common shares outstanding:					
Basic	3,494,901	284,967		723,915	4,218,816
Diluted	3,494,901	284,967		723,915	4,218,816
Earnings per common share:					
Basic	\$ 0.87	\$ 0.75		\$ (0.12)	\$ 0.75
Diluted	\$ 0.87	\$ 0.75		\$ (0.12)	\$ 0.75

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(1) The acquisition will be effected by the distribution of cash and issuance of shares of Mid Penn common stock to Phoenix's common shareholders. The following unaudited pro forma combined consolidated financial information assumes that 80% of the outstanding shares of Phoenix common stock will be exchanged for Mid Penn common stock at an exchange ratio of 3.167 shares of Mid Penn common stock for each share of Phoenix common stock and that the remaining 20% of the outstanding shares of common stock will be exchanged for cash consideration of \$51.60 for each share of Phoenix common stock.

The unaudited pro forma combined consolidated financial information is based upon the assumption that the total number of shares of Phoenix common stock immediately prior to the completion of the merger will be 285,726 and utilizes the exchange ratio of 3.167 for 80% of Phoenix's outstanding shares and cash of \$51.60 for the remaining 20% of Phoenix's shares. This will result in the issuance of 723,915 shares of Mid Penn common shares with an estimated fair value of \$11.6 million, for a total estimated purchase price of \$14.5 million. The final purchase price will be determined based upon the estimated fair value of Mid Penn common stock and cash consideration paid at the completion date of the merger. The final allocation of the purchase price will be determined after the merger is completed and additional analyses are performed to determine the fair values of Phoenix's tangible and identifiable intangible assets and liabilities as of the date the merger is completed. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein. The unaudited pro forma combined consolidated financial information has been prepared to include the estimated adjustments necessary to record the assets and liabilities of Phoenix at their respective fair values and represents management's best estimate based upon the information available at this time. These pro forma adjustments included herein are subject to change as additional information becomes available and as additional analyses are performed. Such adjustments, when compared to the information shown in this document, may change the amount of the purchase price allocation to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities.

The total estimated purchase price for the purpose of this unaudited pro forma combined consolidated financial information is \$14.5 million. Goodwill is created when the purchase price consideration exceeds the fair value of the net assets acquired or a bargain purchase gain results when the current fair value of the net assets acquired exceeds the purchase price consideration. For purposes of this analysis as of June 30, 2014, goodwill of \$694,000 results from the transaction; however, the final purchase accounting analysis will be performed as of the merger date and these amounts are subject to change based on operations subsequent to June 30, 2014, as additional information becomes available and as additional analyses are performed. The following table provides the calculation and allocation of the purchase price used in the pro forma financial statements and a reconciliation of pro forma shares to be outstanding.

## Summary of Purchase Price Calculation and Goodwill Resulting From Merger

*(In Thousands, Except Per Share Data)*

Purchase Price Consideration in Common Stock		
Phoenix shares outstanding to be exchanged	228,581	
Exchange ratio	3.1670	
Mid Penn shares to be issued	723,915	
Mid Penn assumed price based on per share consideration	\$ 16.00	
Purchase price assigned to Phoenix shares exchanged for Mid Penn shares		\$ 11,583
Per share value assigned to Phoenix shares to be converted to cash consideration	\$ 51.60	
Purchase price assigned to Phoenix shares exchanged for cash		2,949

Total purchase price		\$ 14,532
Net Assets Acquired:		
Phoenix common shareholders equity	\$ 13,240	
Core deposit intangible	1,370	
Adjustments to reflect assets acquired at fair value:		
Loans interest rate fair value	579	
Loans credit	(1,570)	
Allowance for loan losses	1,256	
OREO	(519)	
Net tax impact of valuation adjustment	(308)	
Adjustment to reflect liabilities acquired at fair value:		
Interest bearing deposits	61	
Borrowings	(32)	
Contingent liabilities	(239)	
		13,838
Goodwill resulting from merger		\$ 694



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- (2) A fair value premium of \$579 to reflect fair values of loans based on current interest rates of similar loans. The adjustment will be substantially recognized over approximately 10 years using an amortization method based upon the expected life of the loans and is expected to decrease pro forma pre-tax interest income by \$58 in the first year following consummation.
- (3) A fair value discount of \$1,570 to reflect the credit risk of the loan portfolio. No pro forma earnings impact was assumed from the loan credit adjustment. The estimated fair value of the loans in the loan portfolio approximates their carrying value.
- (4) Reversal of the Phoenix allowance for loan losses of \$1,256 in accordance with acquisition method of accounting for the acquisition.
- (5) Reversal of the Phoenix foreclosed assets held for sale of \$519 to write this asset to a \$0 carrying value.
- (6) Reflect the deferred tax impact of \$308 from the accumulated purchase accounting adjustments using an assumed tax rate of 34%.
- (7) A fair value discount of \$61 to reflect the fair values of certain interest-bearing deposit liabilities based on current interest rates for similar instruments. The adjustment will be recognized using an amortization method based upon the estimated maturities of the deposit liabilities. This adjustment is expected to decrease pro forma pre-tax interest expense by \$31 in the first year following consummation.
- (8) A fair value adjustment of \$32 to reflect fair values of FHLB borrowings with various terms and maturities. The adjustment will be recognized using an amortization method based on the maturities of these liabilities. This adjustment is expected to decrease pro forma pre-tax interest expense by \$16 in the first year following consummation.
- (9) Long-term borrowings will be increased by \$2,949 at a rate of 2% for a period of 5 years to be utilized to fund the cash payment portion of the merger consideration of \$2,949. This adjustment will increase pre-tax interest expense by \$59 in the first year following consummation.
- (10) Adjustment to reflect the issuance of common shares of Mid Penn common stock with a \$1.00 par value in connection with the acquisition and the adjustments to shareholders' equity for the elimination of Phoenix historical equity accounts.

Adjustment to common stock, par value \$1.00	\$ 724
Less: historical value of Phoenix common stock	336
Adjustment to common stock in the pro-forma unaudited combined consolidated balance sheet	\$ 388
Adjustment to additional paid-in capital	\$ 10,859
Less: historical value of Phoenix common stock	6,034
Adjustment to additional paid-in capital in the pro-forma unaudited combined consolidated balance sheet	\$ 4,825

- (11) Adjustment for core deposit intangible to reflect the fair value of this asset and the related amortization using an expected life of 10 years. The amortization of the core deposit intangible is expected to increase pro forma pre-tax noninterest expense by \$137 in the first year following consummation.
- (12) Adjustment for contingent liabilities assumed from Phoenix for amounts due to employees upon a change in control.
- (13) Adjustment assumes a tax rate of 34% related to fair value adjustments on pre-tax amounts in the unaudited pro forma combined consolidated statement of income.



**Table of Contents****COMPARATIVE PER SHARE DATA (UNAUDITED)**

The following table sets forth certain historical Mid Penn and Phoenix per share data. This data should be read together with Mid Penn's and Phoenix's historical financial statements and notes thereto, included elsewhere in or incorporated by reference in this document. Please see *Information About Mid Penn Bancorp, Inc.* beginning on page 97, *Information About Phoenix Bancorp, Inc.* beginning on page 166 and *Where You Can Find More Information* beginning on page 203. **The per share data is not necessarily indicative of the operating results that Mid Penn would have achieved had it completed the merger as of the beginning of the periods presented and should not be considered as representative of future operations.**

	As of and for the Year Ended December 31, 2013	As of and for the Six Months Ended June 30, 2014 <i>(In dollars)</i>
<b>Comparative Per Share Data:</b>		
<b>Basic and diluted net income (loss) per common share:</b>		
Mid Penn historical	\$ 1.32	\$ 0.87
Phoenix historical	1.93	0.75
Pro forma combined <sup>(1)(2)</sup>	1.18	0.75
Equivalent pro forma for one share of Phoenix common stock <sup>(3)</sup>	3.73	2.38
<b>Book value per common share:</b>		
Mid Penn historical	\$ 13.71	\$ 15.03
Phoenix historical	48.37	48.75
Pro forma combined <sup>(1)(2)</sup>	14.10	15.20
Equivalent pro forma for one share of Phoenix common stock <sup>(3)</sup>	44.65	48.14
<b>Tangible book value per common share:</b>		
Mid Penn historical	\$ 13.35	\$ 14.68
Phoenix historical	45.91	46.34 <sup>(4)</sup>
Pro forma combined <sup>(1)(2)</sup>	13.41	14.42
Equivalent pro forma for one share of Phoenix common stock <sup>(3)</sup>	42.47	45.65
<b>Cash dividends declared per share:</b>		
Mid Penn historical	\$ 0.25	\$ 0.15
Phoenix historical	0.74	0.40
Pro forma combined <sup>(1)(2)</sup>	0.25	0.15
Equivalent pro forma for one share of Phoenix common stock <sup>(3)</sup>	0.79	0.48

- (1) The pro forma combined basic earnings and diluted earnings of Mid Penn's common stock is based on the pro forma combined net income per common share for Mid Penn and Phoenix divided by the pro forma common shares or diluted common shares of the combined entity, assuming 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock at an exchange ratio of 3.167 shares of Mid Penn common stock for each share of Phoenix common stock in accordance with the merger agreement. The pro forma information includes adjustments related to the estimated fair value of assets and liabilities and is subject to

adjustment as additional information becomes available and as additional analysis is performed. The pro forma information does not include anticipated cost savings or revenue enhancements.

- (2) The pro forma combined book value of Mid Penn's common stock is based on pro forma combined common shareholders' equity of Mid Penn and Phoenix divided by total pro forma common shares of the combined entities, assuming 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock at an exchange ratio of 3.167 shares of Mid Penn common stock for each share of

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Phoenix common stock in accordance with the merger agreement. The unaudited pro forma combined consolidated information does not include anticipated cost savings or revenue enhancements.

- (3) The pro forma equivalent per share amount is calculated by multiplying the pro forma combined per share amount by an assumed exchange ratio of 3.167, assuming 80% of the outstanding shares of Phoenix common stock are exchanged for Mid Penn common stock at an exchange ratio of 3.167 shares of Mid Penn common stock for each share of Phoenix common stock in accordance with the merger agreement.
- (4) Includes 3,520 shares of Phoenix common stock issuable upon the settlement of the outstanding Phoenix contingent rights in the denominator for this calculation.

**Mid Penn Recent Operating Results (UNAUDITED)**

For the nine months ended September 30, 2014, Mid Penn reported net income available to common shareholders of \$4,550,000, compared to \$3,303,000 for the same period of 2013. Basic earnings per common share for the nine months ended September 30, 2014 and the corresponding period of 2013 were \$1.30 and \$0.95. Net interest income for the nine months ended September 30, 2014 was \$19,567,000 compared to \$17,747,000 for the nine months ended September 30, 2013. At September 30, 2014, Mid Penn had total assets of \$764,403,000, net loans of \$561,750,000, total deposits of \$645,997,000, and shareholders equity of \$58,811,000.

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**RISK FACTORS**

In considering whether to vote in favor of the proposal to approve and adopt the merger agreement, you should consider all of the information included in this document and its annexes and all of the information included in the documents we have incorporated by reference and the risk factors identified by Mid Penn with respect to its operations included in its filings with the Securities and Exchange Commission. See *Where You Can Find More Information*, beginning on page 203. In particular, you should consider the following risk factors.

***Because the market price of Mid Penn common stock will fluctuate, Phoenix shareholders cannot be sure of the value of the stock portion of the merger consideration they may receive.***

Upon completion of the merger, each share of Phoenix common stock will be converted into the right to receive merger consideration consisting of shares of Mid Penn common stock and/or cash pursuant to the terms of the merger agreement, subject to the requirement that at least 80% of the outstanding shares of Phoenix common stock be exchanged for shares of Mid Penn common stock. The value of the stock portion of the merger consideration to be received by Phoenix shareholders is fixed at 3.167 shares of Mid Penn common stock for each share of Phoenix common stock. The sale prices for shares of Mid Penn common stock may vary from the sale prices of Mid Penn common stock on the date we announced the merger, on the date this joint proxy statement/prospectus was mailed to Phoenix shareholders and on the date of the Phoenix special meeting. Any change in the market price of Mid Penn common stock prior to closing the merger may affect the value of the stock portion of the merger consideration that Phoenix shareholders will receive upon completion of the merger. Phoenix is not permitted to resolicit the vote of Phoenix shareholders solely because of changes in the market price of either company's stock. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects and regulatory considerations. Many of these factors are beyond our control. You should obtain current market quotations for shares of Mid Penn common stock.

***The market price of Mid Penn common stock after the merger may be affected by factors different from those currently affecting the shares of Phoenix.***

The businesses of Mid Penn and Phoenix differ and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations of Mid Penn. For a discussion of the business of Mid Penn, see *Information About Mid Penn Bancorp, Inc.* beginning on page 97 and other documents incorporated by reference in this joint proxy statement/prospectus and referred to under *Where You Can Find More Information* beginning on page 203.

***Phoenix shareholders will have a reduced ownership percentage and voting interest after the merger and will exercise less influence over management.***

Phoenix's shareholders currently have the right to vote in the election of the board of directors of Phoenix and on certain other matters affecting Phoenix. When the merger occurs, each Phoenix shareholder that receives shares of Mid Penn common stock will become a shareholder of Mid Penn with a percentage ownership of the combined organization that is much smaller than the shareholder's current percentage ownership of Phoenix. Upon completion of the merger, if 80% of the outstanding shares of Phoenix common stock are converted into shares of Mid Penn common stock, the former Phoenix shareholders will own approximately 17% of the outstanding shares of Mid Penn common stock.

Because of this, Phoenix's shareholders will have less influence on the management and policies of Mid Penn than they now have on the management and policies of Phoenix.

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***Future issuances of Mid Penn equity securities could dilute shareholder ownership and voting interest.***

Mid Penn's articles of incorporation authorize the issuance of up to 10,000,000 shares of common stock. Any future issuance of equity securities by Mid Penn may result in dilution in the percentage ownership and voting interest of Mid Penn shareholders. Also, any securities Mid Penn sells in the future may be valued differently and the issuance of equity securities for future services, acquisitions or other corporate actions may have the effect of diluting the value of shares held by Mid Penn shareholders.

***The merger agreement limits Phoenix's ability to pursue alternatives to the merger.***

The merger agreement contains no shop provisions that, subject to specified exceptions, limit Phoenix's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Phoenix. In addition, a termination fee is payable by Phoenix under certain circumstances, generally involving the decision to pursue an alternative transaction. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Phoenix from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share value than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Phoenix than it might otherwise have proposed to pay, if the merger with Mid Penn had not been announced.

***Phoenix shareholders may receive aggregate consideration in a form different from what they elect.***

Although each Phoenix shareholder may elect to receive all cash, all Mid Penn common stock or a mix of cash and stock in the merger, the pools of cash and Mid Penn common stock available for all Phoenix shareholders will be subject to the allocation and proration provisions of the merger agreement, and at least 80% of the Phoenix shares will be exchanged for shares of Mid Penn common stock. As a result, a Phoenix shareholder might receive a portion of the consideration for the merger in the form that such shareholder did not elect.

***If you are a Phoenix shareholder and you tender shares of Phoenix common stock to make an election, you will not be able to sell those shares, unless you revoke your election prior to the Election Deadline.***

If you are a registered Phoenix shareholder and want to make a valid cash or stock election, you will have to deliver your stock certificates, and a properly completed and signed form of election to the exchange agent. For further details on the determination of the Election Deadline, see *The Merger Agreement Conversion of Shares; Exchange of Certificates; Elections as to Form of Consideration Form of Election* beginning on page 76. The Election Deadline may be significantly in advance of the closing of the merger. You will not be able to sell any shares of Phoenix common stock that you have delivered as part of your election unless you revoke your election before the deadline by providing written notice to the exchange agent. If you do not revoke your election, you will not be able to liquidate your investment in Phoenix common stock for any reason until you receive cash and/or Mid Penn common stock in the merger or the merger agreement is terminated and the certificates are returned to you. In the time between the Election Deadline and the closing of the merger, the trading price of Phoenix common stock may decrease, and you might otherwise want to sell your shares of Phoenix common stock to gain access to cash, make other investments, or reduce the potential for a decrease in the value of your investment. The date that you will receive your merger consideration depends on the completion date of the merger, which is uncertain. The completion date of the merger might be later than expected due to unforeseen events, such as delays in obtaining regulatory approvals.

***Holders of Mid Penn common stock do not have dissenters' appraisal rights in the merger.***



Dissenters' rights are statutory rights that, if applicable under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the merger consideration offered to shareholders in connection with the extraordinary transaction. Under Pennsylvania law, shareholders do not have

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dissenters' rights with respect to shares of any class of stock which, at the record date fixed to determine shareholders entitled to receive notice of and to vote at the meeting of shareholders at which a merger or consolidation was acted on, were listed on a national securities exchange. Because Mid Penn's common stock is listed on the Nasdaq Global Market, a national securities exchange, holders of Mid Penn common stock will not be entitled to dissenters' appraisal rights in the merger with respect to their shares of Mid Penn common stock.

***The merger is subject to the receipt of consents and approvals from governmental and regulatory entities that may impose conditions that could have an adverse effect on Mid Penn.***

Before the merger may be completed, various waivers, approvals or consents must be obtained from the FRB and the PDB. These governmental entities may impose conditions on the completion of the merger or require changes to the terms of the merger. Such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on, or limiting the revenues of, Mid Penn following the merger, any of which might have an adverse effect on Mid Penn following the merger. In addition, neither Mid Penn nor Phoenix is obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any condition or restriction that the boards of directors of Mid Penn or Phoenix reasonably determines would materially and adversely affect the business, operations, financial condition, property or assets of Mid Penn, Mid Penn Bank, Phoenix, or Miners Bank or would materially impair the value of Phoenix or Miners Bank to Mid Penn or of Mid Penn or Mid Penn Bank to Phoenix. Either Mid Penn or Phoenix could choose to waive this condition.

***Phoenix directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Phoenix shareholders.***

Phoenix's directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Phoenix shareholders. For example, three individuals currently serving on the board of directors of Phoenix will serve on the boards of directors of Mid Penn and Mid Penn Bank after the merger; all of such directors will receive compensation for their services as directors. In addition, certain officers or employees are parties to employment agreements under which they may receive severance payments under certain circumstances upon the change of control of Phoenix resulting from the merger, as follows:

the appointment, effective at the closing of the merger, of three current individuals (Vincent J. Land, Robert J. Moisey and Noble C. Quandel, Jr.) to the boards of directors of Mid Penn and Mid Penn Bank and the payment of compensation to such individuals in accordance with the policies of Mid Penn and Mid Penn Bank, respectively, which currently consists of the following payments to each non employee directors: an annual retainer of \$15,000 and between \$100 and \$500 for each committee meeting attended, depending on the committee;

the continued indemnification of current directors and executive officers of Phoenix and its subsidiaries pursuant to the terms of the merger agreement and providing these individuals with continued director's and officer's liability insurance;

the retention of certain executive officers of Phoenix, and payment of compensation to such executive officers, pursuant to existing employment agreements with Phoenix and Miners Bank;

certain executive officers of Phoenix are parties to Phoenix stock appreciation right agreements which will vest upon a change in control;

certain Phoenix employees are parties to split dollar life insurance plans which, if not previously terminated, may provide an enhanced benefit upon death after a separation of service after a change of control; and

certain of executive officers of Phoenix will be entitled to severance or change-in-control benefits upon termination of employment after the closing of the merger.

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Phoenix's board of directors was aware of these interests and took them into account in its decision to approve and adopt the agreement and plan of merger. For information concerning these interests, please see the discussion under the caption *The Merger Phoenix's Directors and Executive Officers Have Financial Interests in the Merger* beginning on page 71.

***The shares of Mid Penn common stock to be received by Phoenix shareholders receiving the stock consideration as a result of the merger will have different rights from the shares of Phoenix common stock.***

Upon completion of the merger, Phoenix shareholders who receive the stock consideration will become Mid Penn shareholders. Their rights as shareholders will be governed by Pennsylvania corporate law and the articles of incorporation and bylaws of Mid Penn. The rights associated with Phoenix common stock are different from the rights associated with Mid Penn common stock. See the section of this joint proxy statement/prospectus titled *Comparison of Shareholders' Rights* beginning on page 191 for a discussion of the different rights associated with Mid Penn common stock.

***If the merger is not consummated by June 15, 2015, either Mid Penn or Phoenix may choose not to proceed with the merger.***

Either Mid Penn or Phoenix may terminate the merger agreement if the merger has not been completed by June 15, 2015, unless the failure of the merger to be completed by such date has resulted from the failure of the party seeking to terminate the merger agreement to perform its obligations.

***Termination of the merger agreement could negatively affect Phoenix.***

If the merger agreement is terminated, there may be various consequences, including:

Phoenix's businesses may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger; and

the market price of Phoenix common stock might decline to the extent that the current market price reflects a market assumption that the merger will be completed.

If the merger agreement is terminated and Phoenix's board of directors seeks another merger or business combination, Phoenix shareholders cannot be certain that Phoenix will be able to find a party willing to offer equivalent or more attractive consideration than the consideration Mid Penn has agreed to provide in the merger.

If the merger agreement is terminated and a different business combination is pursued, Phoenix may be required to pay a break-up fee of \$580,000 to Mid Penn under certain circumstances. See *The Merger Agreement Termination Fee* beginning on page 87.

***The unaudited pro forma financial data included in this joint proxy statement/prospectus is preliminary and Mid Penn's actual financial position and results of operations after the merger may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.***

The unaudited pro forma financial data in this joint proxy statement/prospectus is presented for illustrative purposes only and is not necessarily indicative of what the combined company's actual financial position or results of operations would have been had the merger been completed on the dates indicated. The pro forma financial data reflect adjustments, which are based upon preliminary estimates, to record Phoenix's identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. Accordingly, the final purchase accounting adjustments may differ materially from the pro forma adjustments reflected in this document.

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***The fairness opinions obtained by the boards of directors of Phoenix and Mid Penn from the parties' respective financial advisors will not reflect changes in circumstances subsequent to the date of the merger agreement and the date of the fairness opinions.***

The Phoenix board of directors obtained a fairness opinion dated August 27, 2014, from Phoenix's financial advisor, Griffin. The Mid Penn board of directors obtained a fairness opinion dated August 27, 2014, from Mid Penn's financial advisor, KBW. Neither Phoenix nor Mid Penn has obtained and neither will obtain an updated opinion as of the date of this joint proxy statement/prospectus from their respective financial advisor. Changes in the operations and prospects of Mid Penn or Phoenix, general market and economic conditions and other factors that may be beyond the control of Mid Penn and Phoenix, and on which the fairness opinion was based, may alter the value of Mid Penn or Phoenix or the price of shares of Mid Penn common stock or Phoenix common stock by the time the merger is completed. The opinions do not speak to the time the merger will be completed or to any other date other than the date of such opinions. As a result, the opinions do not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of Griffin's opinion to the Phoenix board of directors, please see *The Merger Opinion of Griffin Financial Group, LLC, Financial Advisor to Phoenix* beginning on page 49 of this joint proxy statement/prospectus. For a description of KBW's opinion to the Mid Penn board of directors, please see *The Merger Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Mid Penn* beginning on page 56.

***Following the consummation of the merger, investors in the combined company will own an institution with different financial and other characteristics than either Mid Penn or Phoenix on a standalone basis.***

Following the consummation of the merger, current shareholders of Mid Penn and Phoenix will become shareholders in a combined company that will have different financial and other characteristics than either company had on a standalone basis. For example, the merger will result in a combined company with higher dollar amounts of total assets, risk-based assets and non-performing assets, including non-performing loans and other real estate owned, from the amounts historically experienced by Mid Penn or Phoenix individually. Although the total dollar amount of non-performing loans will increase for the combined company following the merger, the percentage of non-performing loans to total loans was 1.75% on a pro forma basis at June 30, 2014, compared to historical amounts of 2.02% for Mid Penn and 0.48% for Phoenix as of such date. On a pro forma basis, after giving effect to the merger, total risk-based capital as of June 30, 2014 was 12.32%, compared to historical amounts of 11.46% for Mid Penn and 15.56% for Phoenix as of such date. If we are unable to successfully combine the businesses of Mid Penn and Phoenix, our future earnings may be adversely affected, which in turn could adversely impact the amount of capital of the combined company.

***Following consummation of the merger, Mid Penn may be unable to redeem the Mid Penn SBLF preferred stock before the dividend rate increases to 9%.***

In July 2011, Phoenix elected to participate in the Small Business Lending Fund, which we refer to as the SBLF, and, as of the date of this joint proxy statement/prospectus, the United States Treasury owns 1,740 shares of the Phoenix SBLF preferred stock. Holders of the Phoenix SBLF preferred stock are, and the holders of the Mid Penn SBLF preferred stock to be exchanged for the Phoenix SBLF preferred stock will be, entitled to receive non-cumulative cash dividends payable at the rate and in the manner prescribed in the certificate of designations of such preferred stock. The current annual dividend rate will be fixed at 1.0 percent through January 5, 2016, 4.5 years after the closing of the SBLF transaction, when the annual dividend rate will be fixed at 9.0 percent, regardless of the level of qualified small business lending of Miners Bank or, if following the consummation of the merger, Mid Penn Bank. Depending on a variety of factors, including market conditions, Mid Penn's financial condition at the time, and its ability to obtain regulatory approval, Mid Penn may be unable to redeem the Mid Penn SBLF preferred stock, and any such increases in

the dividend rate could have a material adverse effect on Mid Penn's earnings and liquidity. For more information regarding the terms of the Phoenix SBLF preferred stock, see *Comparison of Shareholders' Rights Outstanding Preferred Stock Phoenix* beginning on page 191.

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**Table of Contents*****The merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include, among others: approval and adoption of the merger agreement by Mid Penn and Phoenix shareholders, regulatory approvals, absence of orders prohibiting the completion of the merger, effectiveness of the registration statement of which this joint proxy statement/prospectus is a part, approval of the shares of Mid Penn common stock to be issued to Phoenix shareholders for listing on the Nasdaq Global Market, the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements, and the receipt by both parties of legal opinions from their respective tax counsels. See *The Merger Agreement Termination of the Merger Agreement* beginning on page 86 for a more complete discussion of the circumstances under which the merger agreement could be terminated. Therefore, the conditions to closing of the merger may not be fulfilled and the merger may not be completed.

***We may fail to realize all of the anticipated benefits of the merger.***

The success of the merger will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of Mid Penn and Phoenix. However, to realize these anticipated benefits and cost savings, we must successfully combine the businesses of Mid Penn and Phoenix. If we are not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all, or may take longer to realize than expected.

Mid Penn and Phoenix have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on Mid Penn or Phoenix during the transition period.

Another expected benefit from the merger is an expected increase in the revenues of the combined company from anticipated sales of Mid Penn's greater variety of financial products, and from increased lending out of Mid Penn's substantially larger capital base, to Phoenix's existing customers and to new customers in Phoenix's market area who may be attracted by the combined company's enhanced offerings. An inability to successfully market Mid Penn's products to Phoenix's customer base could cause the earnings of the combined company to be less than anticipated.

***Failure to complete the merger could negatively affect the market price of Mid Penn's and Phoenix's common stock.***

If the merger is not completed for any reason, Mid Penn and Phoenix will be subject to a number of material risks, including the following:

the market price of their common stock may decline to the extent that the current market prices of their shares already reflect a market assumption that the merger will be completed;

costs relating to the merger, such as legal, accounting and financial advisory fees, and, in specified circumstances, additional reimbursement and termination fees, must be paid even if the merger is not



completed; and

the diversion of management's attention from the day-to-day business operations and the potential disruption to each company's employees and business relationships during the period before the completion of the merger may make it difficult to regain financial and market positions if the merger does not occur.

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**Table of Contents*****The combined company will incur significant transaction and merger-related costs in connection with the merger.***

Mid Penn and Phoenix expect to incur costs associated with combining the operations of the two companies. Additional unanticipated costs may be incurred in the integration of the businesses of Mid Penn and Phoenix. Whether or not the merger is consummated, Mid Penn and Phoenix will incur substantial expenses, such as legal, accounting, printing and financial advisory fees, in pursuing the merger. Although Mid Penn and Phoenix expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

***Unanticipated costs relating to the merger could reduce Mid Penn's future earnings per share.***

Mid Penn and Phoenix believe that they have reasonably estimated the likely incremental costs of the combined operations of Mid Penn and Phoenix following the merger. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as unanticipated costs to integrate the two businesses, increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, including negative changes in the value of Phoenix's loan portfolio, could have a material adverse effect on the results of operations and financial condition of Mid Penn following the merger. In addition, if actual costs are materially different than expected costs, the merger could have a significant dilutive effect on Mid Penn's earnings per share.

***Phoenix will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Phoenix and consequently on Mid Penn. These uncertainties may impair Phoenix's ability to attract, retain and motivate key personnel until the merger is consummated, and could cause customers and others that deal with Phoenix to seek to change existing business relationships with Phoenix. Retention of certain employees may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles with Mid Penn. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Mid Penn, Mid Penn's business following the merger could be harmed. In addition, the merger agreement restricts Phoenix from making certain acquisitions and taking other specified actions until the merger occurs without the consent of Mid Penn. These restrictions may prevent Phoenix from pursuing attractive business opportunities that may arise prior to the completion of the merger. Please see the section entitled *The Merger Agreement Covenants and Agreements* beginning on page 79 of this joint proxy statement/prospectus for a description of the restrictive covenants to which Phoenix is subject under the merger agreement.

***Future governmental regulation and legislation, including the Dodd-Frank Act and the implementation of Basel III capital standards, could limit Mid Penn's future growth.***

Mid Penn and its subsidiaries are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of the operations of Mid Penn. These laws may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance fund. Any changes to these laws may negatively affect Mid Penn's ability to expand its services and to increase the value of its business. Additionally, the capital standards of Basel III and a number of provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, remain to be implemented through the rulemaking process at various regulatory agencies. Certain aspects of the new law and regulations, including without limitation, higher capital requirements and the costs of compliance with disclosure and reporting requirements that may be issued by the Bureau of Consumer Financial Protection or other banking regulators, could have a significant adverse impact on the

combined company's business, financial condition and results of operations. Compliance with the Dodd-Frank Act may require us to make changes to our business and operations and will likely result in additional costs and a diversion of management's time from other business activities, any

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of which may adversely impact our results of operations, liquidity or financial condition. Although we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on Mid Penn, these changes could be materially adverse to Mid Penn.

***The federal income tax consequences of the merger for Phoenix stockholders will be dependent upon the merger consideration received.***

The federal income tax consequences of the merger to you will depend upon the merger consideration you receive. In general, if you exchange your shares of Phoenix common stock solely for cash, you will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash you receive and your adjusted tax basis in your Phoenix common stock. If you receive solely Mid Penn common stock in exchange for your Phoenix common stock, you generally will not recognize any gain or loss for federal income tax purposes. However, you generally will have to recognize gain or loss in connection with cash received in lieu of fractional shares of Mid Penn common stock. If you receive a combination of cash and Mid Penn common stock in the transaction, you generally will not recognize loss but will recognize gain, if any, to the extent of any cash received. For a more detailed discussion of the federal income tax consequences of the transaction to you, see *Material United States Federal Income Tax Consequences of the Merger* on page 90.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus contains or incorporates by reference a number of forward-looking statements, including statements about the financial conditions, results of operations, earnings outlook and prospects of Mid Penn, Phoenix and the potential combined company and may include statements for the period following the completion of the merger. Forward-looking statements are typically identified by words such as plan, believe, expect, anticipate, intend, outlook, estimate, forecast, project and other similar words and expressions.

The forward-looking statements involve certain risks and uncertainties. The ability of either Mid Penn or Phoenix to predict results or the actual effects of its plans and strategies, or those of the combined company, is subject to inherent uncertainty. Factors that may cause actual results or earnings to differ materially from such forward-looking statements include those set forth under *Risk Factors* beginning on page 35, as well as, among others, the following:

those discussed and identified in public filings with the SEC made by Mid Penn;

completion of the merger is dependent on, among other things, receipt of shareholder and regulatory approvals, the timing of which cannot be predicted with precision and which may not be received at all;

the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events;

higher than expected increases in Mid Penn's or Phoenix's loan losses or in the level of nonperforming loans;

a continued weakness or unexpected decline in the U.S. economy, in particular in central Pennsylvania;

a continued or unexpected decline in real estate values within Mid Penn's and Phoenix's market areas;

unanticipated reduction in Mid Penn's or Phoenix's respective deposit bases or funding sources;

government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the FRB;

legislative and regulatory actions could subject Mid Penn to additional regulatory oversight which may result in increased compliance costs and/or require Mid Penn to change its business model;

the integration of Phoenix's business and operations with those of Mid Penn may take longer than anticipated, may be more costly than anticipated and may have unanticipated adverse results relating to

Phoenix's or Mid Penn's existing businesses; and

the anticipated cost savings and other synergies of the merger may take longer to be realized or may not be achieved in their entirety, and attrition in key client, partner and other relationships relating to the merger may be greater than expected.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this joint proxy statement/prospectus or the date of any document incorporated by reference in this joint proxy statement/prospectus.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/prospectus and attributable to Mid Penn or Phoenix or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this joint proxy statement/prospectus. Except to the extent required by applicable law or regulation, Mid Penn and Phoenix undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events.

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**Table of Contents****THE MERGER*****Background of the Merger***

Over the past few years, the board of directors and executive officers of Phoenix have periodically discussed and reviewed Phoenix's business, performance and prospects, including its strategic alternatives. In the context of such reviews, the strategic alternatives considered by the Phoenix board have included, among other things, continuing its ongoing operations as an independent community financial institution, acquiring other depository institutions, opening new branch offices or entering into a merger or acquisition transaction with a similarly sized or larger institution. The Phoenix board also periodically reviewed the competitive business environment, which it sees as very challenging, in its market area as well as merger and acquisition activity in the financial services industry in general and in central Pennsylvania in particular.

The Phoenix board of directors and management have also been aware in recent years of changes in the financial services industry and the regulatory environment as well as the competitive challenges facing a financial institution such as Phoenix. These challenges have included increasing government regulations, increasing expense burdens and commitments for technology and training, an interest rate environment which has resulted in a significant compression in the interest rate spread and margin, a deep and long recession followed by a slow economic recovery, and increasing competition in the delivery of financial products and services combined with increased customer expectations for the availability of sophisticated financial products and services from financial institutions. The most concerning of these factors has been the significant regulatory and compliance burden for smaller community banks and the probability of an extended period of low interest rates and compressing margins.

Periodically, members of management of Phoenix and Mid Penn would meet socially or otherwise to discuss the state of the financial services industry, the regulatory environment and business prospects. During the fourth quarter of 2013, George H. Groves, President and CEO of Phoenix, met with Rory G. Ritrievi, President and CEO of Mid Penn, to discuss the state of the financial services market in central Pennsylvania. During the meeting, among other topics, they discussed a possible business combination between Phoenix and Mid Penn. The discussion during the meeting was general in nature and centered around business models, culture and philosophies. As a result of the meeting, the parties entered into a confidentiality agreement on November 27, 2013.

On January 29, 2014, Mid Penn provided Phoenix with an oral preliminary, nonbinding indication of interest that indicated a purchase price range of 1.1x to 1.2x Phoenix's tangible book value, with 20% of the merger consideration to be paid in cash and 80% of the merger consideration to be paid in shares of Mid Penn common stock.

On February 19, 2014, executive officers of Phoenix discussed Phoenix's strategic alternatives and the overall banking industry environment with representatives of Griffin, an investment banking firm acting as Phoenix's financial advisor. On March 12, 2014, the Phoenix board of directors met to discuss the process of reviewing strategic alternatives. Representatives of Griffin also attended this meeting. The Phoenix board of directors instructed Griffin to contact Mid Penn along with another potential buyer selected by Phoenix, to commence a targeted process to determine interest in a potential combination with Phoenix. During April and May 2014, another potential buyer executed a confidentiality agreement and, along with Mid Penn, had access to an online data room that provided additional due diligence information about Phoenix.

On May 14, 2014, Mr. Ritrievi and two directors of Mid Penn met with the Phoenix board of directors at its regularly scheduled meeting to discuss a potential merger, to provide information with respect to Mid Penn's business and strategic direction and to answer questions. Phoenix management attended this meeting.

In late May 2014, the other potential buyer notified Griffin that it declined to pursue a transaction with Phoenix.

On May 28, 2014, the executive committee of the Mid Penn board of directors met with Mid Penn management and KBW, an investment banking firm acting as Mid Penn's financial advisor, to discuss a potential combination with Phoenix. Following such discussions, KBW was instructed to provide Griffin with a verbal



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indication of interest in a merger valuing Phoenix at between 0.90x and 0.95x Phoenix's tangible book value. Griffin reviewed Mid Penn's indication of interest with the Phoenix board of directors and its management, on June 11, 2014. Based on the level of interest indicated by Mid Penn, the Phoenix board of directors, following a discussion with its management and representatives of Griffin, instructed Griffin to solicit interest from another financial institution selected by Phoenix.

During the remainder of June 2014, Griffin contacted the other financial institution, who executed a confidentiality agreement and was granted access to the online data room. On June 27, 2014, Griffin received a nonbinding indication of interest from this other financial institution, which valued Phoenix at between 0.99x to 1.08x Phoenix's tangible book value, with up to 50% of the merger consideration in cash and an offer to one current member of the Phoenix board of directors to serve on its board of directors. The pricing was subsequently adjusted to 1.08x Phoenix's tangible book value.

Also during June 2014, Mid Penn, with the assistance of KBW, continued to evaluate a potential transaction with Phoenix. On July 2, 2014, the executive committee of the Mid Penn board of directors met with Mid Penn management and KBW to discuss submitting a revised indication of interest. Following this discussion, KBW was authorized by Mid Penn to submit a nonbinding indication of interest in a merger valuing Phoenix at 1.10x Phoenix's tangible book value at March 31, 2014, with the valuation to be based upon the then tangible book value at closing. On July 3, 2014, KBW, on behalf of Mid Penn, submitted a nonbinding indication of interest which also proposed a fixed exchange ratio with the merger consideration to be 80% shares of Mid Penn common stock and 20% cash, an offer to two mutually agreed upon members of the current Phoenix board of directors to serve on the Mid Penn board of directors and a proposal to retain the separate charter of Miners Bank for three years so long as Mid Penn recognizes agreed upon cost savings and annual operating budget objectives.

The board of directors of Phoenix met on July 10, 2014, to discuss the nonbinding indications of interest submitted by Mid Penn and the other party with representatives from Griffin. The Phoenix board of directors unanimously agreed that the Mid Penn nonbinding indication of interest was more favorable. It then discussed with representatives of Griffin a potential timeline of a proposed transaction and further due diligence activities. After extensive discussions, the Phoenix board of directors authorized Griffin to have further discussions with Mid Penn and KBW concerning the financial terms of the proposed merger and authorized Mr. Groves to notify Mid Penn that it would seek to conduct in-depth due diligence of Mid Penn. In early August 2014, Phoenix engaged Bybel Rutledge LLP, which we refer to as Bybel, as special counsel for this transaction. From early July 2014 through August 2014, Mid Penn and Phoenix conducted extensive due diligence on the other, and continued to refine and conduct additional due diligence thereafter. On August 4, 2014, Mid Penn invited Phoenix management and representatives of Griffin, Bybel, KBW and Stevens & Lee P.C., which we refer to as S&L, Mid Penn's legal advisor, to an in-person meeting at its corporate headquarters for further due diligence.

On August 7, 2014, Phoenix management discussed with representatives of Griffin the results of their due diligence and clarification requests of Mid Penn's nonbinding indication of interest. Based upon these discussions, on August 8, 2014, Griffin contacted KBW requesting that Mid Penn submit a nonbinding discussion term sheet clarifying aspects of its proposal as it relates to, among other things, post-closing operation of Miners Bank, assumption of the Phoenix SBLF preferred stock, treatment of the Phoenix contingent rights and matters related to retention of Phoenix executives and employees post-closing. On August 10, 2014, Mid Penn management had a telephonic conference call with representatives of KBW and S&L to discuss the request for a term sheet. On August 12, 2014, KBW, on behalf of Mid Penn, provided a nonbinding discussion term sheet to Griffin indicating that the aggregate deal value with respect to the acquisition of Phoenix would be based upon 1.11x an agreed upon adjusted tangible book value of Phoenix as of June 30, 2014, with Mid Penn also being valued at 1.11x its tangible book value as of June 30, 2014, for purposes of calculating an exchange ratio; the Phoenix contingent rights would be paid out pursuant to their terms;

upon closing, Mid Penn would invite Messrs. Land, Moisey and Quandel to serve on the Mid Penn board of directors; Miners Bank will merge with and into Mid Penn Bank at closing; Mid Penn Bank will operate the branches of Miners Bank as a separate division post-closing; Mid Penn would assume the then outstanding shares of Phoenix SBLF preferred stock; and

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Mid Penn will offer customary severance benefits to those Phoenix employees without employment agreements or change of control agreements for a 12-month period post-closing and will honor Phoenix's existing agreements with certain members of Phoenix's management. On August 13, 2014, representatives of Griffin presented the discussion term sheet to the Phoenix board of directors at its regularly scheduled meeting. Representatives of Bybel were also present at this meeting. They discussed with the Phoenix board of directors their fiduciary duties under Pennsylvania law and answered questions from members of the Phoenix board of directors regarding the transaction.

On August 14, 2014, S&L (on Mid Penn's behalf) presented Phoenix and its special counsel, Bybel, with a draft of the proposed merger agreement. Over the next few weeks, Phoenix and Mid Penn, with the assistance of their respective financial and legal advisors, negotiated the terms of the merger and the merger agreement and exchanged drafts of the merger agreement. On August 22, 2014 and August 25, 2014, Bybel and S&L had conference calls regarding legal due diligence and open issues regarding the merger agreement but were not able to fully resolve all open issues. On August 26, 2014, members of Phoenix and Mid Penn management, Bybel, and S&L held a conference call to resolve the remaining open issue regarding a merger consideration adjustment with respect to potential environmental liability in connection with Other Real Estate Owned property, which we refer to as OREO property, currently held by Miners Bank.

From August 23, 2014 through August 27, 2014, representatives of Phoenix and Bybel reviewed disclosure schedules to the merger agreement delivered by Mid Penn. From August 26, 2014 through August 27, 2014, representatives of Mid Penn and S&L reviewed disclosure schedules to the merger agreement delivered by Phoenix.

On August 27, 2014, at its regularly scheduled meeting, the Mid Penn board of directors reviewed and considered the merger proposal set forth in the merger agreement and related documents negotiated by Phoenix and Mid Penn. The Mid Penn board of directors received a presentation regarding the financial aspects of the proposed merger from Mid Penn's financial advisor, KBW. Management of Mid Penn also summarized its earlier presentation to the board on the results of the due diligence conducted on Phoenix. Representatives of S&L and KBW responded to questions from members of the Mid Penn board of directors. At the meeting, KBW provided its oral opinion, which was confirmed by a written opinion, dated August 27, 2014, to the Mid Penn board of directors to the effect that, subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its written opinion, as of the date of the opinion, the aggregate merger consideration in the proposed merger to be paid by Mid Penn was fair to Mid Penn from a financial point of view. The merger consideration was determined through negotiation between Phoenix and Mid Penn and the decision to enter into the merger agreement was solely that of the Mid Penn board of directors. After careful and deliberate consideration of the information reviewed and discussed, as well as the interests of Mid Penn's shareholders, customers, employees and communities served by Mid Penn, the Mid Penn board of directors unanimously (i) determined that the merger agreement and the transactions contemplated thereby were advisable and fair to and in the best interests of Mid Penn, (ii) approved and adopted the merger agreement and approved the merger and the other transactions contemplated thereby and (iii) subject to the fiduciary duties of the Mid Penn board of directors, recommended the approval and adoption of the merger agreement and the transactions contemplated thereby by Mid Penn's shareholders.

On August 27, 2014, the Phoenix board of directors held a special meeting to review and consider the merger proposal as set forth in the merger agreement and related documents negotiated by Phoenix and Mid Penn. The Phoenix board of directors received presentations regarding the proposed merger from its financial advisor, Griffin, and the merger agreement from its special counsel, Bybel. Representatives of Bybel and Griffin discussed with the Phoenix board of directors the potential merger consideration adjustment with respect to potential environmental liability in connection with OREO property currently held by Miners Bank and responded to questions from members of the Phoenix board of directors. At the meeting, Griffin provided its opinion that, based upon and subject to the assumptions, limitations,

qualifications and conditions set forth in its written opinion, as of the date of the meeting, the merger consideration to be paid by Mid Penn was fair, from a financial point of view, to the common equity shareholders of Phoenix. The merger consideration was

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determined through negotiation between Phoenix and Mid Penn and the decision to enter into the merger agreement was solely that of the Phoenix board of directors. After careful and deliberate consideration of this information, as well as the interests of Phoenix's shareholders, customers, employees and communities served by Phoenix, the Phoenix board of directors unanimously (i) determined that the merger agreement and the transactions contemplated thereby were advisable and in the best interests of Phoenix, (ii) approved and adopted the merger agreement and approved the merger and the other transactions contemplated thereby with such changes to the merger consideration adjustment feature to address potential environmental liability in connection with OREO property currently held by Miners Bank consistent with the discussions at the meeting of the Phoenix board of directors and (iii) subject to the fiduciary duties of the Phoenix board of directors, recommended the approval and adoption of the merger agreement and the transactions contemplated thereby by Phoenix's shareholders. After the completion of the Phoenix board meeting, on August 27, 2014, Bybel and S&L finalized and clarified the terms of the merger agreement related to the merger consideration adjustment feature with respect to potential environmental liability in connection with OREO property currently held by Miners Bank in accordance with the discussions at the meeting of the Phoenix board of directors.

On August 27, 2014, Phoenix and Mid Penn executed the merger agreement and the related affiliate letters, and the transaction was publicly announced after the close of the market.

### ***Phoenix's Reasons for the Merger***

The Phoenix board of directors believes that the merger is advisable and fair to, and in the best interests of, Phoenix and its shareholders. Accordingly, the Phoenix board of directors, at its meeting held on August 27, 2014, approved the merger agreement and recommends that its shareholders vote FOR the proposal to approve and adopt the merger agreement. In approving the merger agreement, the Phoenix board of directors consulted with legal counsel as to its legal duties and the terms of the merger agreement and with its financial advisor with respect to the financial aspects of the transaction and specific transaction terms. In arriving at its determination, the Phoenix board of directors also considered a number of factors, including the following:

the Phoenix board of directors' familiarity with and review of information concerning Phoenix's and Mid Penn's business, results of operations, financial condition, competitive position and future prospects;

the current and prospective environments in which Phoenix and Mid Penn operate, including national, regional and local economic conditions, the competitive environment for banks and other financial institutions generally, the increased regulatory burdens on financial institutions generally and the trend toward consolidation in the banking industry and in the financial services industry;

the financial presentation of Griffin and the opinion of Griffin that, as of the date of its opinion, the merger consideration was fair, from a financial point of view, to Phoenix's shareholders;

results that might be obtained by Phoenix if Phoenix continued to operate independently and the likely benefits to Phoenix's shareholders of such a course, compared with the value and attributes of the merger consideration offered by Mid Penn;

the financial attributes of Phoenix common stock, dividend yield, liquidity, and corporate fundamentals versus the financial attributes of Mid Penn common stock, dividend yield, liquidity and corporate fundamentals;

65% pro forma increase in dividend to Phoenix shareholders receiving stock in the transaction;

the financial terms of the proposed merger;

the methodology and formula for Phoenix's shareholders to receive at their election stock, cash, or a combination of stock and cash in exchange for their shares of Phoenix common stock. Based on the exchange ratio, Phoenix shareholders will receive 3.167 shares of Mid Penn common stock or \$51.60 cash for each share of Phoenix common stock. The Phoenix board of directors found the proposed consideration attractive because it was favorable relative to the premiums paid in other recent bank

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mergers. Also, the Phoenix board of directors found the premium offered by Mid Penn to be substantial, given Phoenix's future financial prospects, and the other indications of interest received during the process. Phoenix's board of directors considered the presentations of Griffin, at the August 13, 2014, and August 27, 2014 meetings concerning the financial terms of the proposed merger;

the elimination of the pending increased cost of capital due to the increase in dividend payments under the SBLF was considered a positive attribute of the transaction;

the non-financial terms of the proposed merger, including the transaction and resulting company structure and continued use of the name Miners Bank, a division of Mid Penn Bank ;

three current members of the Phoenix board of directors will be appointed to the Mid Penn board of directors;

Griffin, Phoenix's board of directors, and Phoenix's management performed a review of Mid Penn. As a part of Phoenix's due diligence review, Phoenix reviewed Mid Penn's business, operations, financial conditions, earnings and prospects. These factors were found to be favorable;

Phoenix's current condition and historical operating results and the potential effects of a merger with Mid Penn;

the potential effects of the merger on Phoenix's depositors and customers and the communities served by Phoenix, which was deemed to be favorable given that they would be served by a geographically diversified organization with greater resources than Phoenix has and given the structure of the transaction with an Phoenix branch division; and

the future business prospects of Mid Penn.

The above discussion of the information and factors considered by the Phoenix board of directors is not intended to be exhaustive, but includes the material factors considered by the Phoenix board of directors in arriving at its determination to approve, and to recommend that the Phoenix shareholders vote to approve and adopt, the merger agreement and related transactions. In view of the wide variety of factors considered and discussed by the Phoenix board of directors in connection with its evaluation of the merger and the complexity of these factors, the Phoenix board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision; rather it considered all of the factors as a whole. The Phoenix board of directors discussed and considered the foregoing factors and reached general consensus that the merger with Mid Penn was in Phoenix's best interest and the best interests of Phoenix's shareholders. In considering the foregoing factors, individual directors may have given differing weights to different factors. The board of directors relied on the experience and expertise of Griffin for quantitative analysis of the financial terms of the merger agreement. The Phoenix board of directors recommends that Phoenix shareholders vote FOR the approval and adoption of the merger agreement and the related transactions. It should also be noted that this explanation of the reasoning of the Phoenix board of directors and all other information presented in this section is forward-looking in

nature and, therefore, should be read in light of the factors discussed under the heading *Cautionary Statement Regarding Forward-Looking Statements* beginning on page 43.

***Recommendation of Phoenix's Board of Directors***

The Phoenix board of directors believes that the terms of the transaction are in the best interests of Phoenix and its shareholders and has unanimously approved the merger agreement. **Accordingly, the Phoenix board of directors unanimously recommends that Phoenix's shareholders vote FOR approval and adoption of the merger agreement.**



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***Opinion of Griffin Financial Group, LLC , Financial Advisor to Phoenix***

Pursuant to an engagement letter dated March 5, 2014, Phoenix engaged Griffin to explore strategic alternatives and to act as Phoenix's financial advisor in connection with potential merger transactions. Griffin is a nationally recognized, FINRA licensed investment banking firm which is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. Phoenix hired Griffin on the basis of Griffin's qualifications, experience in transactions similar to the merger and its reputation in the investment community. Pursuant to this engagement, Phoenix requested Griffin to provide its opinion as to the fairness, from a financial point of view, of the merger consideration (as defined in the merger agreement) to be paid to Phoenix's common equity shareholders in the proposed merger of Phoenix with Mid Penn.

At a meeting of the Phoenix board of directors held on August 27, 2014, to evaluate the proposed merger with Mid Penn, Griffin reviewed the financial aspects of the proposed merger and provided its opinion to Phoenix's Board that, as of such date, and subject to factors, qualifications, limitations and assumptions set forth in the opinion, the merger consideration to be paid by Mid Penn in connection with the proposed merger was fair, from a financial point of view, to the common equity shareholders of Phoenix.

The full text of Griffin's written opinion is attached as Annex B to this proxy statement/prospectus and is incorporated herein by reference. Phoenix's shareholders are urged to read the opinion in its entirety for a description of the assumptions made, matters considered, procedures followed and qualifications and limitations on the review undertaken by Griffin. The Griffin opinion is subject to the assumptions and conditions contained in its opinion and is necessarily based on economic, market and other conditions as in effect on, and the information made available to Griffin as of, the date of its opinion. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.

***Griffin's opinion speaks only as of the date of the opinion. The opinion is directed to the Phoenix board of directors and is limited to the fairness, from a financial point of view, of the merger consideration received by the common equity shareholders of Phoenix in the merger. Griffin does not express an opinion as to the underlying decision by Phoenix to engage in the merger or the relative merits of the merger compared to other strategic alternatives which may be available to Phoenix.***

In providing its opinion, Griffin:

reviewed a draft of the merger agreement;

reviewed and discussed with Phoenix certain publicly available business and financial information concerning Mid Penn, and the economic and regulatory environments in which it operates;

reviewed and discussed with Phoenix and Mid Penn their respective financial information as of and for the six months ended June 30, 2014, and as of and for the 12 month periods ended December 31, 2013 and December 31, 2012;

discussed with the management of Phoenix and Mid Penn matters relating to their respective financial condition, liquidity, net income, asset quality, reserve levels, capital adequacy and regulatory status, stock market valuation (as applicable) and related matters as of such dates and for the periods then ended;

compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving whole bank acquisitions during such time frames as deemed relevant by Griffin;

compared the financial condition and implied valuation of Phoenix to the financial condition and valuation of certain institutions deemed relevant by Griffin;

evaluated, from publicly available sources and discussions with the management of Mid Penn, the capacity of Mid Penn to complete the merger on a timely basis;

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performed a discounted cash flow analysis, and such other financial studies and analyses and considered such other information as deemed appropriate for the purpose of its opinion.

In addition, Griffin held discussions with certain members of management of Phoenix and Mid Penn with respect to certain aspects of the merger, including past and current business operations, regulatory relations, financial condition, dividend and capital policies, market opportunities within each of their core operating markets, and other matters that it deemed appropriate for the purpose of the opinion. Griffin also evaluated and compared to certain banking peers Mid Penn's market structure, its stock market performance, its ownership concentrations, and the trading history of its common stock which is being used as a part of the merger consideration.

Griffin's opinion has been approved by its fairness opinion committee in conformity with its policies and procedures established under the requirement of Rule 5150 of the Financial Industry Regulatory Authority. In conducting its review and providing its opinion, Griffin relied upon the accuracy and completeness of all of the financial and other information provided to it or otherwise publicly available. Griffin did not independently verify the accuracy or completeness of any such information or assume any responsibility for such verification or accuracy. Griffin did not review individual loan files or deposit information of Phoenix, nor did Griffin conduct or was Griffin provided with any valuation or appraisal of any assets, deposits or other liabilities of Phoenix, nor did Griffin evaluate the solvency of Phoenix today or in the future under any state or federal laws relating to bankruptcy, receivership insolvency or similar matters. In relying on financial analyses provided to or discussed with Griffin by Phoenix or derived therefrom, Griffin assumed that such analyses have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management. Griffin expresses no view as to any analyses, forecasts, estimates, or the assumptions on which they were based. Griffin's review of Mid Penn and its ability to complete the transaction was limited to publicly available information, certain management information and a discussion with the management of Mid Penn regarding the past and current business operations, financial condition and future prospects of Mid Penn.

For purposes of providing its opinion, Griffin assumed that, in all respects material to its analysis:

the merger will be completed substantially in accordance with the terms set forth in the draft merger agreement provided to Griffin;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct in all respects material to Griffin's analysis;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers or modifications to the merger agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any termination, divestiture requirements, termination or other payments or

amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger. Griffin's opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of the date of its opinion. Subsequent developments may affect Griffin's opinion and Griffin does not have any obligation to update, revise, confirm or reaffirm its opinion. Griffin's opinion is limited to the fairness, from a financial point of view, to the common equity shareholders of Phoenix with regards to the merger consideration to be received by the common equity shareholders in the transaction as of the date of the opinion. Griffin expressed no opinion as to the fairness of the merger to the holders of the

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Phoenix's SBLF preferred stock, creditors or other stakeholders of Phoenix or as to the underlying decision by Phoenix to engage in the merger, the relative merits of the merger compared to other transactions available to the company, or the relative merits of the merger compared to other strategic alternatives which may be available to Phoenix. Griffin did not and was not asked to contact any other interested parties other than those specifically indicated by the Phoenix board of directors. Furthermore, Griffin did not take into account, and expresses no opinion with respect to the amount or nature of any bonuses and any other compensation or consideration to any officers, directors, or employees of Phoenix paid or payable by reason or as a result of the merger.

The preparation of the fairness opinion is a comprehensive and complex analytical process, involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In accordance with customary investment banking practice, Griffin employed generally accepted valuation methods in reaching its opinion. Estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. The following is a summary of the material financial analyses undertaken by Griffin and presented by Griffin to the Phoenix board of directors in connection with rendering the Griffin opinion. The following summary, however, does not purport to be a complete description of the financial analyses performed by Griffin or the presentation made by Griffin to the Phoenix board of directors. In arriving at its opinion, Griffin did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized within include information presented in tabular format. Accordingly, Griffin believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

*Summary of Proposal*

Pursuant to the merger agreement by and between Mid Penn and Phoenix, Phoenix will merge with and into Mid Penn. Each issued and outstanding share of Phoenix's common stock, other than shares of Phoenix common stock held in treasury or owned by Mid Penn and its affiliates, will be exchanged for the right to receive 3.1670 shares of Mid Penn common stock or cash equal to \$51.60 per share, subject to adjustments and limitations described in the merger agreement. Shares of Phoenix's common stock held in treasury or owned by Mid Penn and its affiliates will be cancelled. The Phoenix SBLF preferred stock will be assumed by Mid Penn in the transaction.

At August 26, 2014, the closing price for shares of Mid Penn's common stock was \$16.00 per share, so that the aggregate value of the merger consideration on that date was \$14.35 million, or \$50.86 per Phoenix outstanding common share. Merger consideration of \$14.35 million is 108.4% of Phoenix's tangible common equity at June 30, 2014 and 26.0x Phoenix's earnings attributable to common shareholders for the twelve month period ended June 30, 2014.

*Financial Impact Analysis*

Griffin performed pro forma merger analyses that combined projected balance sheet and income statement information for Phoenix and Mid Penn. Mid Penn growth and earnings estimates were based on published analyst's estimates. Phoenix growth, earnings estimates and other assumptions were derived from material provided by Phoenix and/or validated by Phoenix management. The analyses indicated that the merger is expected to be dilutive to

Mid Penn's tangible book value per common share, accretive to earnings per common share, and that Mid Penn is expected to maintain well-capitalized capital ratios. The analyses indicated that for

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Phoenix shareholders electing to receive 100% common stock consideration, the merger is dilutive to Phoenix's tangible book value per common share and accretive to earnings per common share. Actual results are expected to be different from the assumptions used and the projected results, and these differences may be material.

*Selected Companies Analysis*

Using publicly available information, Griffin compared the financial performance and condition of Phoenix to the following publicly traded banks headquartered in Pennsylvania with less than \$500 million in total assets, ROAA for the last twelve months between 0 and 100 bps, and NPAs/Assets less than 2.5%. Companies included in this group were:

Juniata Valley Financial Corp.

Jonestown Bank and Trust Co.

Standard Financial Corp.

CBT Financial Corporation

Alliance Bancorp, Inc. of Pennsylvania

Allegheny Valley Bancorp, Inc.

Woodlands Financial Services Company

FedFirst Financial Corporation

WVS Financial Corp.

Landmark Bancorp, Inc.

Clarion County Community Bank

Community First Bancorp, Inc.

To perform this analysis, Griffin used financial information as of the most recently available quarter, and market price information as of August 26, 2014 as reported by SNL Financial. Griffin's analysis showed the following concerning Phoenix's and its peers' financial condition, risk profile, valuation and liquidity:

**Financial Condition & Performance**

	Phoenix/ Miners Bank	Minimum	Average	Median	Maximum
Total Assets	140,923	98,516	343,857	381,204	478,125
Common Equity	14,967	10,258	39,163	36,173	73,880
NPAs & 90+ PD/ Assets (%)	0.76	0.20	1.32	1.29	2.41

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Common Texas Ratio (%)	6.89	1.90	12.12	11.00	23.86
ROAA (%)	0.41	0.30	0.63	0.69	0.91
ROAE (%)	3.72	2.28	5.81	6.34	9.29
Net Interest Margin (%)	4.21	1.49	3.32	3.52	3.77
Efficiency Ratio (%)	85.87	63.49	73.41	74.29	79.77
Non-interest Inc/ Operating Rev (%)	12.25	5.19	16.98	17.31	28.20
Tang Common Equity/ Tang Assets (%)	10.18	5.52	10.71	10.27	15.42
Leverage Ratio (%)	10.37	8.90	10.98	10.19	14.49

**Valuation & Liquidity**

	Minimum	Average	Median	Maximum
Tangible Book Value per Share	7.94	21.96	21.84	40.15
Market Cap	5.51	37.91	35.79	75.21
Avg Daily Volume (3 mo)	32	1,659	504	8,564
Institutional Ownership (%)		13.89	6.28	50.91
Price/ Tangible Book (%)	53.68	97.58	99.49	153.80
Price/ Book (%)	53.68	91.38	91.47	147.34
Price/ Last-twelve-months EPS (x)	10.25	19.43	14.49	46.11
Dividend Yield (%)	0.83	2.70	2.65	4.90
LTM Dividend Payout Ratio (%)	11.50	47.34	43.93	108.51
Price Change (%)	(12.30)	3.36	3.92	21.95



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No company used as a comparison in the above analysis is identical to Phoenix. In addition, Griffin presumed that the trading valuations for peers exclude any change in control premium. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and of the banking environment at the time of the opinion.

*Selected Transactions Analysis*

Griffin reviewed publicly available information as reported by SNL Financial related to Mid-Atlantic acquisitions of banks and bank holding companies with under \$300 million in total assets announced in the last twelve months.

**Acquirer**

Codorus Valley Bancorp, Inc.  
Southern National Bancorp of Virginia, Inc.  
1<sup>st</sup> Constitution Bancorp  
Salisbury Bancorp, Inc.  
Kearny Financial  
Bridge Bancorp, Inc.  
GNB Financial Services, Inc.  
HV Bancorp, Inc.  
ESSA Bancorp, Inc.  
GNB Financial Services, Inc.

**Acquiree**

Madison Bancorp, Inc.  
Prince George's Federal Savings Bank  
Rumson-Fair Haven Bank & Trust Co.  
Riverside Bank  
Atlas Bank  
FNB NY Bancorp, Inc.  
FNBM Financial Corporation  
Victory Bancorp, Inc.  
Franklin Security Bancorp, Inc.  
Liberty Centre Bancorp, Inc.

For each transaction referred to above, Griffin derived and compared, among other things, the following implied ratios:

1. Price per common share paid for the acquired company to tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition; and
2. Price per common share paid for the acquired company to last twelve months earnings per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition.

The results of the analysis are set forth in the following table:

	Phoenix	Minimum	Average	Median	Maximum
Total Assets (\$000)	140,629	27,873	154,214	142,697	271,832
NPAs/Assets (%)	0.76	0.30	2.30	1.08	7.13
LTM ROAA (%)	0.41	(2.37)	(0.27)	0.13	1.29
LTM ROAE (%)	3.72	(24.46)	(1.95)	1.15	14.89
Price/LTM EPS (x)	25.96	10.90	22.15	22.73	31.50
Price/Tangible Book (%)	108.40	40.63	93.61	102.74	128.87

No company or transaction used as a comparison in the above analyses is identical to Phoenix, Mid Penn or the merger. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and of the banking environment at the time of the opinion.

*Discounted Cash Flow Analysis*

Griffin performed a discounted cash flow analysis to estimate a range of the present value of estimated free cash flows that Phoenix could generate on a stand-alone basis. In performing this analysis, Griffin utilized the following assumptions, among others:

A required tangible common equity to tangible assets capitalization level of 8% with any earnings in excess of required capital retention treated as distributable earnings;

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Earnings assumptions derived from material provided by Phoenix and validated by Phoenix management

A range of discount rates of 11.0% to 16.0% based on a normalized risk free interest rate as recommended by Duff & Phelps, the latest published Duff & Phelps US Equity Risk Premium recommendation, and a size premium, also published by Duff & Phelps

A projected terminal value multiple range of 100% to 130% of Phoenix's forecasted 2019 tangible common equity based on current trading multiples, observed transaction multiples, industry practice, and Griffin's professional judgment. This range represents 25.4x to 33.1x Phoenix's forecasted 2019 earnings.

These calculations resulted in a range of implied values of \$8.5 million to \$12.5 million, as compared to the merger consideration of \$14.35 million for Phoenix's common stock. The discounted cash flow present value analysis is a widely used valuation methodology that relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual value or expected value of Phoenix.

Phoenix retained Griffin as its exclusive financial adviser to its board of directors regarding the merger. As part of its investment banking business, Griffin is, from time to time, engaged in the valuation of bank and bank holding company securities in connection with mergers and acquisitions, public and private placement of listed and unlisted securities, rights offerings and other forms of valuations for various purposes. As specialists in the securities of banking companies, Griffin has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, Griffin may, from time to time, purchase securities from, and sell securities to, Phoenix and Mid Penn. As a market maker in securities, Griffin may from time to time have a long or short position in, and buy or sell, debt or equity securities of institutions like and possibly including Phoenix and Mid Penn for Griffin's own account and for the accounts of its customers. To the extent Griffin held any such positions, it was disclosed to Phoenix and Mid Penn.

Pursuant to the Griffin engagement agreement, Phoenix agreed to pay Griffin (a) an engagement fee of \$25,000, (b) a fee of \$75,000 payable upon the delivery of its fairness opinion and (c) a fee equal to the greater of 100 basis points of the Aggregate Transaction Value or \$185,000, contingent on the completion of a transaction. In addition, Phoenix has agreed to reimburse Griffin for reasonable out of pocket expenses incurred in connection with Griffin's engagement and to indemnify and hold harmless partners, officers, agents, employees and affiliates from and against all losses, claims, judgments, liabilities, costs, damages and expenses based upon or arising from Griffin's engagement. During the two years preceding the date of its opinion to Phoenix, Griffin did not receive compensation for investment banking services from Phoenix or Mid Penn. Griffin is affiliated with Stevens & Lee, which has provided certain legal services to Mid Penn and has been compensated at a market rate for these services.

***Mid Penn's Reasons for the Merger***

The board of directors and senior management of Mid Penn periodically review and evaluate the economic and regulatory environments in which Mid Penn and its affiliated companies operate. Part of this review in recent years has included an acknowledgement of the effects of additional oversight and regulation on revenues, expenses and capital requirements for financial institutions, particularly community banks, as a result of the passage in 2010 of the Dodd-Frank Act and other factors. The board of directors and senior management generally believe that greater size and scale can help a community-oriented financial institution address the costs of anticipated additional regulation as well as provide additional revenue opportunities. In light of these observations, Mid Penn has elected to pursue a controlled growth strategy, which may include both organic growth and the targeted acquisition of other financial

institutions with strong performance characteristics in Mid Penn's market area or in contiguous market areas. This strategy may also include a bank holding company model with Mid Penn serving as the holding company for Mid Penn Bank as well as additional separately chartered banking subsidiaries in contiguous markets in northern Pennsylvania or in other markets.

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Mid Penn entered into the merger agreement to further implement this strategy, as well as to provide additional opportunities for revenue growth. Mid Penn's board of directors reviewed and discussed the transaction with senior management, as well as Mid Penn's financial and legal advisors, in unanimously determining that the merger was advisable and in the best interests of Mid Penn. In reaching its determination, the Mid Penn board of directors considered a number of factors, including the following:

the board's understanding of the business operations, management, financial condition, asset quality, product offerings, and prospects of Phoenix based on, among other things, presentations of management;

the board's concurrence with management that the merger provides Mid Penn with an expansion opportunity into a favorable market that extends the Mid Penn market area contiguously to the northeast;

the board's view that Phoenix's product offerings and business mix are compatible with those of Mid Penn and provide Mid Penn with opportunities to accelerate loan growth and to build upon the market share of secondary market loan generations, as well as opportunities to expand Mid Penn's mortgage banking, insurance, wealth management, trust services, and investment business activities;

the board's understanding, based on information then available, that the merger is expected to be accretive to earnings, excluding merger costs, within 12 months after closing;

the results of the due diligence examination of Phoenix and its business operations, including asset quality and composition of its investment portfolio, undertaken by management;

the board's assessment of the compatibility of the respective employee and business cultures of Mid Penn and Phoenix and the ability of Mid Penn to effectively operate Miners Bank as a separate banking division of Mid Penn Bank;

the board's view that the combined company will have the potential for a stronger competitive position in a market place where relatively greater size and scale may become increasingly more important factors for financial performance and success; and

the financial presentation, dated August 27, 2014, of KBW to the Mid Penn board of directors and the opinion, dated August 27, 2014, of KBW to the Mid Penn board of directors as to the fairness, from a financial point of view and as of the date of the opinion, of the aggregate merger consideration in the proposed merger to Mid Penn, as more fully described below under *Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Mid Penn*.

The foregoing discussion of the information and factors considered by Mid Penn's board of directors is not exhaustive, but includes the material factors considered by the board. In view of the wide variety of factors considered by the board of directors of Mid Penn in connection with its evaluation of the merger and the complexity of these matters, the

board of directors did not consider it practical to, and did not attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The Mid Penn board of directors evaluated the factors described above, including asking questions of the Mid Penn legal and financial advisors. In considering the factors described above, individual members of Mid Penn's board of directors may have given different weights to different factors. It should also be noted that this explanation of the reasoning of the Mid Penn board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading *Cautionary Statement Regarding Forward-Looking Statements* beginning on page 43.

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***Recommendation of Mid Penn's Board of Directors***

The Mid Penn board of directors believes that the terms of the transaction are in the best interests of Mid Penn and its shareholders and has unanimously approved the merger agreement. **Accordingly, the Mid Penn board of directors unanimously recommends that Mid Penn shareholders vote FOR adoption of the merger agreement.**

***Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Mid Penn***

Mid Penn engaged KBW to render financial advisory and investment banking services to Mid Penn, including an opinion to the Mid Penn board of directors as to the fairness, from a financial point of view, to Mid Penn of the aggregate merger consideration in the proposed merger. Mid Penn selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

At the meeting held on August 27, 2014 at which the Mid Penn board evaluated the proposed merger, KBW reviewed the financial aspects of the proposed merger and rendered an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the aggregate merger consideration in the proposed merger was fair, from a financial point of view, to Mid Penn. The Mid Penn board approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as Annex C to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.

**KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the Mid Penn board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the aggregate merger consideration in the merger to Mid Penn. It did not address the underlying business decision of Mid Penn to engage in the merger or enter into the merger agreement. KBW's opinion did not and does not constitute a recommendation to the Mid Penn board in connection with the merger, and it does not constitute a recommendation to any Mid Penn shareholder or any shareholder of any other entity as to how to vote in connection with the merger or any other matter (including, with respect to the Phoenix shareholders, what election any such shareholder should make with respect to the merger consideration), nor does it constitute a recommendation on whether or not any such shareholder should enter into a voting, shareholders' or affiliates' agreement with respect to the merger or exercise any dissenters' or appraisal rights that may be available to such shareholder.**

KBW's opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Mid Penn and Phoenix and the merger, including, among other things:

a draft, dated August 26, 2014, of the merger agreement (the most recent draft then made available to KBW);

the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2013 of Mid Penn;



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the unaudited quarterly financial statements and quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2014 of Mid Penn;

the audited financial statements for the three fiscal years ended December 31, 2013 for Phoenix;

the unaudited quarterly financial statements for the fiscal quarters ended March 31, 2014 and June 30, 2014 of Phoenix;

certain regulatory filings of Mid Penn and Phoenix, including the quarterly call reports filed with respect to each quarter during the three year period ended June 30, 2014 of Mid Penn and Phoenix;

certain other interim reports and other communications of Mid Penn and Phoenix to their respective shareholders; and

other financial information concerning the businesses and operations of Mid Penn and Phoenix furnished to KBW by Mid Penn from Mid Penn and Phoenix or which KBW was otherwise directed to use for purposes of its analysis.

KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

the historical and current financial position and results of operations of Mid Penn and Phoenix;

the assets and liabilities of Mid Penn and Phoenix;

the nature and terms of certain other merger transactions and business combinations in the banking industry;

a comparison of certain financial information of Phoenix and certain financial and stock market information for Mid Penn with similar information for certain other companies the securities of which are publicly traded;

financial and operating forecasts and projections of Mid Penn and Phoenix which were prepared by Mid Penn management, provided to and discussed with KBW by such management, and used and relied upon by KBW at the direction of such management with the consent of the Mid Penn board; and

estimates regarding certain pro forma financial effects of the merger on Mid Penn (including, without limitation, the cost savings and related expenses expected to result from the merger) that were prepared by

Mid Penn management, provided to and discussed with KBW by such management and used and relied upon by KBW at the direction of such management with the consent of the Mid Penn board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also held discussions with senior management of Mid Penn regarding the past and current business operations, regulatory relations, financial condition and future prospects of Mid Penn and Phoenix and such other matters that KBW deemed relevant to its inquiry.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it or publicly available and did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of Mid Penn as to the reasonableness and achievability of the financial and operating forecasts and projections of Mid Penn and Phoenix (and the assumptions and bases therefor) that were prepared by such management and provided to and discussed with KBW by such management and directed by Mid Penn to use, and KBW assumed that such forecasts and projections were reasonably prepared on a basis reflecting the best available estimates and judgments of such management and that such forecasts and projections would be realized in the amounts and in

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the time periods estimated by such management. KBW further relied upon Mid Penn management as to the reasonableness and achievability of the estimates regarding certain pro forma financial effects of the merger on Mid Penn (and the assumptions and bases for such estimates, including but not limited to cost savings and related expenses expected to result from the merger and other pro forma effects assumed or estimated with respect to the merger) that were prepared by Mid Penn management and provided to and discussed with KBW by such management, and KBW assumed, with the consent of Mid Penn, that all such estimates were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Mid Penn management and that such estimates would be realized in the amounts and in the time periods estimated by such management. As part of its engagement, KBW had not been provided with direct access to, or had discussions with, Phoenix management in connection with the proposed merger. In addition, the forecasts, projections and estimates of Phoenix that KBW was directed by Mid Penn management to use reflected differences from, and adjustments to, certain information prepared by Phoenix and provided to Mid Penn. Accordingly, at the direction of Mid Penn and with the consent of the Mid Penn board of directors, KBW relied upon the judgments and assessments of Mid Penn management regarding its discussions with Phoenix management with respect to Phoenix and the proposed merger, and in rendering its opinion its reliance upon Mid Penn management as to the reasonableness and achievability of the forecasts, projections and estimates of Phoenix used by KBW includes reliance upon the judgments and assessments of Mid Penn management with respect to such differences and such adjustments.

The forecasts, projections and estimates of Mid Penn and Phoenix prepared and provided to KBW by the management of Mid Penn were not prepared with the expectation of public disclosure. All such information was based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such forecasts, projections and estimates. KBW assumed, based on discussions with the management of Mid Penn, and at the direction of such management and with the consent of the Mid Penn board of directors, that all such forecasts, projections and estimates referred to above provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Mid Penn or Phoenix since the date of the last financial statements of each such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with Mid Penn's consent, that the aggregate allowances for loan and lease losses for Mid Penn and Phoenix were adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of Mid Penn or Phoenix, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of Mid Penn or Phoenix under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed that, in all respects material to its analyses:

the merger and the bank merger would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which KBW assumed would not differ in any respect material to its analyses from the latest draft of the merger agreement that had been reviewed by it) with no additional payments or adjustments to the aggregate merger consideration or additional forms of consideration;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement were true and correct;

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each party to the merger agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

there are no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the merger or any related transaction and that all conditions to the completion of the merger and any related transaction would be satisfied without any waivers or modifications to the merger agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger or any related transaction, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of Mid Penn, Phoenix or the combined entity or the contemplated benefits of the merger, including the cost savings expected to result from the merger.

KBW assumed that the merger would be consummated in a manner that complied with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. KBW further assumed that Phoenix relied upon the advice of its counsel, independent accountants and other advisors (other than KBW) as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Mid Penn, Phoenix, the merger, the bank merger and any other related transaction, and the merger agreement. KBW did not provide advice with respect to any such matters.

KBW's opinion addressed only the fairness, from a financial point of view, as of the date of such opinion, of the merger consideration in the merger to Mid Penn. KBW expressed no view or opinion as to any terms or other aspects of the merger or any related transaction (including the bank merger), including without limitation, the form or structure of the merger (including the form of merger consideration or the allocation among cash and stock) or any related transaction, the treatment of outstanding preferred stock and other securities of Phoenix in the merger, any consequences of the merger or any related transaction to Mid Penn, its shareholders, creditors or otherwise, or any terms, aspects, merits or implications of any employment, voting, support, shareholder, settlement or other agreements, arrangements or understandings contemplated or entered into in connection with the merger or otherwise. KBW's opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW's opinion may have affected, and may affect, the conclusion reached in KBW's opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW's opinion did not address, and KBW expressed no view or opinion with respect to:

the underlying business decision of Mid Penn to engage in the merger or enter into the merger agreement;

the relative merits of the merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by Mid Penn or the Mid Penn board;

the fairness of the amount or nature of any compensation to any officers, directors or employees of any party to the merger, or any class of such persons, relative to any compensation to the holders of Mid Penn common stock or Phoenix common stock or relative to the aggregate merger consideration;

the effect of the merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of Mid Penn, Phoenix or any other party to any other transaction contemplated by the merger agreement;

whether Mid Penn has sufficient cash, available lines of credit or other sources of funds to enable it to pay the aggregate cash portion of the aggregate merger consideration to the holders of Phoenix common stock at the closing of the merger;

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the election by holders of Phoenix common stock to receive stock or cash, or any combination thereof, as merger consideration or the actual allocation between the stock consideration and the cash consideration among such holders (including, without limitation, any re-allocation thereof as a result of proration or otherwise pursuant to the merger agreement);

any adjustment (as provided in the merger agreement) to the aggregate merger consideration assumed to be paid in the merger for purposes of KBW's opinion;

the actual value of the Mid Penn common stock to be issued in the merger;

the prices, trading range or volume at which Mid Penn common stock would trade following the public announcement of the merger or the consummation of the merger;

any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or

any legal, regulatory, accounting, tax or similar matters relating to Mid Penn, Phoenix, their respective shareholders, or relating to or arising out of or as a consequence of the merger or any related transaction (including the bank merger), including whether or not the merger or the bank merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Phoenix and Mid Penn. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Mid Penn board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Mid Penn board with respect to the fairness of the merger consideration. The type and amount of consideration payable in the merger were determined through negotiation between Phoenix and Mid Penn and the decision to enter into the merger agreement was solely that of the Mid Penn board.

The following is a summary of the material financial analyses presented by KBW to the Mid Penn board in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the Mid Penn board, but summarizes the material analyses performed in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its

analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses. For purposes of the financial analyses described below, KBW utilized an implied transaction value for the proposed merger of \$14.53 million in the aggregate (based upon 281,430 shares of Phoenix common stock outstanding and 3,537 shares of Phoenix common stock to be issued in connection with the contingent rights issued by Phoenix with respect to deposits at its Hazleton branch).



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*Selected Companies Analysis.* Using publicly available information, KBW compared the financial performance, financial condition and market performance of Mid Penn to 20 selected publicly traded commercial banks and bank holding companies headquartered in Pennsylvania with total assets between \$500 million and \$1 billion. Merger targets were excluded from the selected companies.

The selected companies included in Mid Penn's peer group were:

First National Community Bancorp, Inc.	QNB Corp.
Citizens Financial Services, Inc.	1 <sup>st</sup> Summit Bancorp of Johnstown, Inc.
ENB Financial Corp.	Somerset Trust Holding Company
FNB Bancorp, Inc.	Integrity Bancshares, Inc.
Royal Bancshares of Pennsylvania, Inc.	Norwood Financial Corp.
Embassy Bancorp, Inc.	DNB Financial Corporation
Fidelity D & D Bancorp, Inc.	Kish Bancorp, Inc.
CCFNB Bancorp, Inc.	Dimeco, Inc.
Honat Bancorp, Inc.	Emclair Financial Corp.
CB Financial Services, Inc.	American Bank Incorporated

To perform this analysis, KBW used last-twelve-months ( LTM ) profitability data as of June 30, 2014 and other financial information as of or for the most recent completed quarter available and market price information as of August 25, 2014. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Mid Penn's historical financial statements, or the data presented under the section *The Merger Opinion of Griffin Financial Group, LLC, Financial Advisor to Phoenix*, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of Mid Penn and the selected companies in its peer group:

	Mid Penn	Peer Group Average	Peer Group Median	Peer Group 25 <sup>th</sup> Percentile	Peer Group 75 <sup>th</sup> Percentile
LTM Core Return on Average Assets (%) <sup>(1)</sup>	0.94	0.94	0.90	0.73	1.08
LTM Core Return on Average Equity (%) <sup>(1)</sup>	12.11	11.07	9.50	7.61	10.79
LTM Net Interest Margin (%)	4.16	3.45	3.38	3.17	3.85
LTM Fee Income / Revenue Ratio (%) <sup>(2)</sup>	10.3	16.7	16.8	13.4	21.9
Efficiency Ratio (%)	63.8	65.5	63.9	74.1	55.7

(1) Core income excludes extraordinary items, nonrecurring revenue/expenses and gain/loss on sale of securities.

(2) Excludes gain/loss on sale of securities.

KBW's analysis also showed the following concerning the financial condition of Mid Penn and the selected companies in its peer group:

	Mid Penn	Peer Group Average	Peer Group Median	Peer Group 25 <sup>th</sup> Percentile	Peer Group 75 <sup>th</sup> Percentile
Tangible Common Equity / Tangible Assets (%)	7.01	8.63	8.39	6.96	10.60
Total Risk-Based Capital Ratio (%)	11.46	15.79	15.47	13.22	18.19
Loans / Deposits (%)	86.7	79.1	80.4	70.7	91.6
Loan Loss Reserve / Gross Loans (%)	1.12	1.54	1.44	1.26	1.79
Nonperforming Assets / Loans + OREO (%)	2.21	2.18	1.92	2.75	0.93
LTM Net Charge-Offs / Average Loans	0.41	0.02	0.10	0.00	0.21

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In addition, KBW's analysis showed the following concerning the market performance of Mid Penn and, to the extent publicly available, the selected companies in its peer group:

	Mid Penn	Peer Group Average	Peer Group Median	25 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile
One Year Stock Price Change (%)	34.7	10.5	10.1	0.0	18.3
One Year Total Return (%)	38.1	13.3	13.8	3.5	21.5
YTD Price Change (%)	11.9	3.7	5.6	0.4	10.6
Stock Price / Book Value per Share (x)	1.07	1.23	1.11	1.03	1.32
Stock Price / Tangible Book Value per Share (x)	1.09	1.26	1.20	1.06	1.33
Stock Price / LTM earnings per share ( EPS ) (x)	9.8	11.7	11.0	9.7	12.8
Dividend Yield (%) <sup>(1)</sup>	2.5	2.5	2.9	1.3	3.8
LTM Dividend Payout (%) <sup>(2)</sup>	24.4	28.9	32.7	21.8	43.8

(1) Represents current dividend annualized excluding special dividends as a percentage of closing stock price as of August 25, 2014

(2) Represents current dividend annualized excluding special dividends as a percentage of LTM EPS.

Using publicly available information, KBW then compared the financial performance and financial condition of Phoenix's sole banking subsidiary, Miners Bank, to 15 selected publicly traded commercial banks and bank holding companies headquartered in Pennsylvania with total assets between \$100 million and \$350 million. Merger targets were excluded from the selected companies. KBW also reviewed the market performance of the selected companies.

The selected companies included in Phoenix's peer group were:

West Milton Bancorp, Inc.	Mars National Bank
Woodlands Financial Services Company	Mauch Chunk Trust Financial Corp.
Neffs Bancorp, Inc.	Peoples Limited
York Traditions Bank	Landmark Bancorp, Inc.
Scottdale Bank & Trust Company	Fleetwood Bank Corporation
GNB Financial Services, Inc.	JTNB Bancorp, Inc.
First Resource Bank	Turbotville National Bancorp, Inc.
UNB Corporation	

To perform this analysis, KBW used LTM profitability data as of as of June 30, 2014 and other financial information as of or for the most recent completed quarter available and market price information as of August 25, 2014. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Phoenix's historical financial statements, or the data presented under the section *The Merger Opinion of Griffin Financial Group, LLC, Financial Advisor to Phoenix*, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.



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KBW's analysis showed the following concerning the financial performance of Miners Bank and the selected companies in its peer group:

	Miners Bank	Peer Group Average	Peer Group Median	Peer Group 25 <sup>th</sup> Percentile	Peer Group 75 <sup>th</sup> Percentile
LTM Core Return on Average Assets (%) <sup>(1)</sup>	0.32	0.81	0.76	0.50	1.07
LTM Core Return on Average Equity (%) <sup>(1)</sup>	2.97	7.62	7.58	5.02	8.61
LTM Net Interest Margin (%)	4.16	3.36	3.31	3.19	3.62
LTM Fee Income / Revenue Ratio (%) <sup>(2)</sup>	11.5	14.0	15.7	10.5	18.2
LTM Efficiency Ratio (%)	86.8	71.1	73.1	80.0	59.8

(1) Core income excludes extraordinary items, nonrecurring revenue/expenses and gain/loss on sale of securities.

(2) Excludes gain/loss on sale of securities.

KBW's analysis also showed the following concerning the financial condition of Miners Bank and the selected companies in its peer group:

	Miners Bank	Peer Group Average	Peer Group Median	Peer Group 25 <sup>th</sup> Percentile	Peer Group 75 <sup>th</sup> Percentile
Tangible Common Equity / Tangible Assets (%)	10.18	10.62	9.33	8.70	11.93
Total Risk Based Capital Ratio (%)	14.28	19.63	17.47	14.02	20.70
Loans / Deposits (%)	96.0	65.1	64.7	50.6	80.4
Loan Loss Reserve / Gross Loans (%)	1.08	1.24	1.16	1.04	1.41
Nonperforming Assets / Loans + OREO (%)	0.92	1.71	1.35	2.63	0.77
LTM Net Charge-Offs / Average Loans (%)	0.07	0.09	0.06	(0.01)	0.16

In addition, KBW's analysis showed the following concerning the market performance, to the extent publicly available, of the selected companies in Miners Bank's peer group (excluding the impact of certain selected companies LTM EPS multiples considered to be not meaningful because they were greater than 30.0x):

	Peer Group Average	Peer Group Median	Peer Group 25 <sup>th</sup> Percentile	Peer Group 75 <sup>th</sup> Percentile
One Year Stock Price Change (%)	19.5	4.0	(1.5)	20.4
One Year Total Return (%)	22.4	7.1	1.7	24.5
YTD Stock Price Change (%)	16.8	1.5	(2.2)	12.6
Stock Price / Book Value per Share (x)	1.13	0.97	0.85	1.21
Stock Price / Tangible Book Value per Share (x)	1.14	0.97	0.85	1.21

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Stock Price / LTM EPS	12.0	11.9	10.2	13.3
Dividend Yield (%) <sup>(1)</sup>	1.7	2.3	0.0	3.0
LTM Dividend Payout (%) <sup>(2)</sup>	24.0	27.1	4.5	38.9

(1) Represents current dividend annualized excluding special dividends as a percentage of closing stock price as of August 25, 2014

(2) Represents current dividend annualized excluding special dividends as a percentage of LTM EPS.

No company used as a comparison in the above selected companies analysis is identical to Mid Penn, Phoenix or Miners Bank. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

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*Select Transactions Analysis.* KBW reviewed publicly available information related to 17 selected bank transactions in the Mid Atlantic and New England regions announced after January 1, 2013 with transaction values between \$5 million and \$30 million. Mergers of equals, bankruptcy transactions and transactions that were ultimately terminated were excluded from the selected transactions. The selected transactions included in the group were:

<b>Acquiror</b>	<b>Acquired Company</b>
Codorus Valley Bancorp, Inc.	Madison Bancorp, Inc.
GNB Financial Services, Inc.	FNBM Financial Corporation
Institution for Savings in Newburyport and Its Vicinity	Rockport National Bancorp, Inc.
Bankwell Financial Group, Inc.	Quinnipiac Bank & Trust Company
Salisbury Bancorp, Inc.	Riverside Bank
Southern National Bancorp of Virginia, Inc.	Prince George's Federal Savings Bank
HV Bancorp, Inc.	Victory Bancorp, Inc.
Mascoma Mutual Financial Services Corporation	Connecticut River Bancorp, Inc.
ESSA Bancorp, Inc.	Franklin Security Bancorp, Inc.
MVB Financial Corp.	CFG Community Bank
Bridge Bancorp, Inc.	FNBNY Bancorp, Inc.
1 <sup>st</sup> Constitution Bancorp	Rumson-Fair Haven Bank & Trust Co.
Bankwell Financial Group, Inc.	Wilton Bank
Haven Bancorp, MHC	Hilltop Community Bancorp, Inc.
New Hampshire Thrift Bancshares, Inc.	Central Financial Corporation
Riverview Financial Corporation	Union Bancorp, Inc.
Liberty Bank	Southern Connecticut Bancorp, Inc.

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following, to the extent publicly available and in each case based on the acquired company's then latest publicly available financial statements prior to the announcement of the acquisition:

Tangible book value per share of the acquired company;

Tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000); and

LTM EPS of the acquired company.

KBW also reviewed the price per common share paid for the acquired company for each selected transaction in which the acquired company was publicly traded as a premium to the closing price of the acquired company one day prior to the announcement of the acquisition (expressed as a percentage and referred to as the one-day market premium). The above transaction multiples and premiums for the selected transactions were compared with the corresponding transaction multiples and premiums for the proposed merger based on the implied transaction value for the proposed merger of \$14.53 million and using historical financial information for Phoenix as of June 30, 2014.

The results of the analysis are set forth in the following table (excluding the impact of certain selected transactions LTM EPS multiples and one-day market premiums, each of which was not considered to be meaningful):

	Mid Penn/ Phoenix Merger	Selected Transactions Average	Selected Transactions Median	Selected Transactions 25 <sup>th</sup> Percentile	Selected Transactions 75 <sup>th</sup> Percentile
Transaction Price to Tangible Book Value (x)	1.10	1.09	1.08	0.89	1.27
Core Deposit Premium (%)	1.1	(0.7)	0.0	(3.6)	3.4
LTM EPS (x)	26.6	26.4	29.4	20.8	31.7
One-Day Market Premium (%)	NA	43.7	50.0	32.5	56.5



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No company or transaction used as a comparison in the above analysis is identical to Phoenix, Miners Banks or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Relative Contribution Analysis.* KBW analyzed the relative standalone contribution of Mid Penn and Phoenix to various pro forma balance sheet and income statement items of the combined entity. This analysis did not include purchase accounting adjustments. To perform this analysis, KBW used balance sheet data for Mid Penn and Phoenix as of June 30, 2014, historical earnings data for Mid Penn and Phoenix, and earnings estimates for Mid Penn and Phoenix provided by Mid Penn management. Data for Phoenix included the Phoenix redemption of 875 shares of the Phoenix SBLF preferred stock on July 9, 2014. The results of KBW's analysis are set forth in the following table, which also compares the results of KBW's analysis with the implied pro forma ownership percentages of Mid Penn and Phoenix shareholders in the combined company based on both the actual cash and stock consideration mix provided for in the proposed merger and assuming, for illustrative purposes, 100% stock consideration in the proposed merger:

	Mid Penn as a % of Total	Phoenix as a % of Total
<b>Ownership</b>		
Ownership at 80.0% stock / 20.0% cash	83%	17%
Illustrative Ownership at 100% stock	79%	21%
<b>Balance Sheet</b>		
Assets	84%	16%
Gross Loans Held for Investment	83%	17%
Deposits	84%	16%
Tangible Common Equity	79%	21%
<b>Income Statement</b>		
LTM GAAP Net Income	91%	9%
2014 Est. GAAP Net Income	91%	9%
2015 Est. GAAP Net Income	91%	9%
2016 Est. GAAP Net Income	90%	10%

*Pro Forma Financial Impact Analysis.* KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of Mid Penn and Phoenix. Using closing balance sheet estimates as of December 31, 2014 for Mid Penn and Phoenix, financial forecasts and projections relating to the earnings of Mid Penn and Phoenix and pro forma assumptions (including, without limitation, purchase accounting adjustments, cost savings and related expenses), in each case provided by, and discussed with, Mid Penn management. KBW analyzed the estimated financial impact of the merger on certain projected financial results. This analysis indicated that the merger could be accretive to Mid Penn's 2015 and 2016 estimated EPS and dilutive to Mid Penn's estimated tangible book value per share as of December 31, 2014. Furthermore, the analysis indicated that each of Mid Penn's tangible common equity to tangible assets ratio, leverage ratio, Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio as of December 31, 2014 could be lower. For all of the above analysis, the actual results achieved by Mid Penn's following the merger may vary from the projected results, and the variations may be material.

*Discounted Cash Flow Analysis.* KBW performed a discounted cash flow analysis to estimate a range for the implied equity value of Phoenix. In this analysis, KBW used financial forecasts and projections relating to the earnings and

assets of Phoenix and cost saving estimates prepared and provided to KBW by Mid Penn management, and assumed discount rates ranging from 13.0% to 18.0%. The ranges of values were derived by adding (i) the present value of the estimated free cash flows that Phoenix could generate over the five-year period from 2015 to 2020, and (ii) the present value of Phoenix's implied terminal value at the end of such period. KBW assumed that Phoenix would maintain a tangible common equity to tangible assets ratio of 9.00% and would

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retain sufficient earnings to maintain that level based on these assumptions. In calculating the terminal value of Phoenix, KBW applied a range of 10.0x to 14.0x estimated 2020 net income. This discounted cash flow analysis resulted in a range of implied equity value of Phoenix of \$15.24 million to \$23.96 million.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Phoenix.

*Miscellaneous.* KBW acted as financial advisor to Mid Penn in connection with the proposed merger and did not act as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may from time to time purchase securities from, and sell securities to, Mid Penn and Phoenix. As a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Mid Penn and Phoenix for its own account and for the accounts of its customers. To the extent KBW had any such position as of the date of KBW's opinion, it was disclosed to Mid Penn.

Pursuant to its engagement agreement with KBW, Mid Penn agreed to pay KBW an aggregate cash fee of \$250,000, \$125,000 of which became payable upon delivery of its opinion to the Mid Penn board of directors and the balance of which is contingent upon consummation of the merger. Mid Penn also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. Other than this present engagement, during the two years preceding the date of its opinion, KBW has not provided investment banking and financial advisory services to Mid Penn. During the two years preceding the date of its opinion, KBW has not provided investment banking and financial advisory services to Phoenix. KBW may in the future provide investment banking and financial advisory services to Mid Penn or Phoenix and receive compensation for such services.

***Certain Non-Public, Unaudited, Forward-Looking Information Provided by Mid Penn and Phoenix***

Neither Mid Penn nor Phoenix, as a matter of course, publicly discloses business plans and strategies or makes public projections as to future revenues, earnings, or other results. During the course of negotiating the merger and conducting due diligence, however, Mid Penn and Phoenix provided certain internally prepared prospective financial and budget information to the other. This information was prepared by the respective managements of Mid Penn and Phoenix in early 2014 based on information available at the time of preparation.

None of the prospective financial or budget information was prepared with a view toward public disclosure, nor with a view toward complying with U.S. generally accepted accounting principles, or GAAP, the published guidelines of the SEC or the guidelines of the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information, but, in the view of Mid Penn and Phoenix, such information was prepared on a reasonable basis and reflected the best estimates and judgments available as of the date of their preparation. This information, however, should not be relied upon as being necessarily indicative of future results. The prospective financial information is forward-looking and therefore inherently subject to the general risks that Mid Penn and Phoenix face in their respective businesses, including those discussed under *Risk Factors* in this joint proxy statement/prospectus and the factors described under *Cautionary Note Regarding Forward-Looking Statements* in this

joint proxy statement/prospectus. Furthermore, the unaudited prospective financial information does not take into account any circumstances or events occurring after the date of preparation.

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Neither Mid Penn's nor Phoenix's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

Set forth below is selected prospective financial information from internally prepared budget information utilized by Mid Penn's management which was provided to the Phoenix board of directors and Griffin and considered by Griffin in the financial analyses performed in connection with its opinion to the Phoenix board of directors.

Mid Penn	
<i>Amounts in thousands</i>	
Budgeted 12/31/14 Gross Loans	\$ 590,200
Budgeted 12/31/14 Total Deposits	\$ 646,104
Budgeted 2014 Net Income	\$ 5,891

Set forth below is selected prospective financial information from internally prepared budget information utilized by Phoenix's management which was provided to its board of directors and Griffin and considered by Griffin in the financial analyses performed in connection with its opinion to the Phoenix board of directors.

Phoenix	
<i>Amounts in thousands</i>	
Budgeted 12/31/14 Gross Loans	\$ 125,435
Budgeted 12/31/14 Total Deposits	\$ 128,257
Budgeted 2014 Net Income	\$ 402

Set forth below is a summary of selected prospective financial information provided by Mid Penn to its board of directors and KBW and used by KBW in the financial analyses performed in connection with its opinion to the Mid Penn board of directors, which information, in the case of Mid Penn, consists of updated internally prepared budget information utilized by Mid Penn's management and, in the case of Phoenix, was derived by Mid Penn from the internally prepared financial information prepared by Phoenix described above.

	Earnings						
	2014		2015		2016		2017
	Per Share	Aggregate	Per Share	Aggregate	Per Share	Aggregate	Aggregate
<i>In millions, except per share data</i>							
Mid Penn	\$ 1.50	\$ 5.25	\$ 1.63	\$ 5.70	5% growth thereafter		N/A
Phoenix <sup>(1)</sup>	\$ 1.84	\$ 0.50	\$ 2.18	\$ 0.59	\$ 2.58	\$ 0.70	5% growth thereafter

(1) Prior to any anticipated cost savings.

The following prospective targeted ROAA information for Phoenix was provided to KBW by Mid Penn management: 0.35% for the year ended 2014, 0.40% for the year ended 2015, and 0.45% for the year ended 2016. Mid Penn

management also assumed balance sheet growth of 5.0% per year for each of Mid Penn and Phoenix.

The foregoing financial information and the assumptions underlying it have not been updated since the date of preparation in early 2014. The information should not be considered public guidance and will not be provided in the ordinary course of business for either Mid Penn or Phoenix. There can be no assurance that actual results will follow these internal projections.

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***Board of Directors and Management of Mid Penn Following Completion of the Merger***

Mid Penn shall take such actions as are necessary (including waiving any bylaw restrictions) to appoint Vincent J. Land, Robert J. Moisey and Noble C. Quandel, Jr. to serve on the Mid Penn board of directors following the completion of the merger. Mr. Land shall serve as a director of Mid Penn in the class of directors whose term expires in 2016, and each of Messrs. Moisey and Quandel shall serve as director of Mid Penn in the class of directors whose term expires in 2017. For so long as such individual serves as a director of Mid Penn, Mid Penn shall cause such individual to serve on the board of directors of Mid Penn Bank.

The officers of Mid Penn and Mid Penn Bank will not change as a result of the merger.

***Phoenix Shareholders Have Dissenters' Rights in the Merger***

*General*

If you are a Phoenix shareholder, under Pennsylvania law you have the right to dissent from the merger agreement and obtain the fair value of your Phoenix shares in cash as determined by an appraisal process in accordance with the procedures under Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law of 1988, as amended. Following is a summary of the rights of dissenting shareholders. The summary is qualified in its entirety by reference to Annex D which sets forth the applicable dissenters' rights provisions of Pennsylvania law. If you are considering exercising your dissenters' rights, you should read carefully the summary below and the full text of the law set forth in Annex D.

In the discussion of dissenters' rights, the term fair value means the value of a share of Phoenix common stock immediately before the day of the effective date of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

Before the effective date of the merger, send any written notice or demand required in order to exercise your dissenters' rights to Phoenix Bancorp, Inc., Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901 (Attn: George H. Groves, President and Chief Executive Officer). After the effective date of the merger, send any correspondence to Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061 (Attn: Rory G. Ritrievi, President and Chief Executive Officer).

*Notice of Intention to Dissent*

If you wish to dissent from the merger, you must do the following:

prior to the vote on the merger agreement by Phoenix shareholders at the Phoenix special meeting, file with Phoenix a written notice of your intention to demand payment for the fair value of your shares of Phoenix common stock if the merger with Mid Penn is completed;

make no change in your beneficial ownership of Phoenix common stock from the date you give notice of your intention to demand fair value of your shares of Phoenix common stock continuously through the day of the merger; and

not vote your Phoenix common stock to approve and adopt the merger agreement at the Phoenix special meeting.

***Simply providing a proxy against or voting against the proposed merger at the Phoenix special meeting of shareholders will not constitute notice of your intention to dissent. Further, if you submit a proxy but do not indicate how you wish to vote, you will be deemed to have voted in favor of the merger, and your right to dissent will be lost.*** A beneficial owner of Phoenix common stock whose shares are held of record in street name by a brokerage firm or other nominee must obtain the written consent of the record holder to such beneficial owner's exercise of dissenters' rights and must submit the consent to Phoenix, as the case may be, no later than the time of the filing of the notice of intention to dissent by such beneficial owner.



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### *Notice to Demand Payment*

If the merger is approved and adopted by the required vote of Phoenix shareholders, Mid Penn or Phoenix will mail a notice to all those dissenting shareholders who gave due notice of their intention to demand payment of the fair value of their shares and who did not vote to approve and adopt the merger agreement. The notice will state where and when dissenting Phoenix shareholders must deliver a written demand for payment and where such dissenting shareholder must deposit certificates for Phoenix common stock in order to obtain payment. The notice will include a form for demanding payment, which will include a request for certification of the date on which the shareholder, or the person on whose behalf the shareholder dissents, acquired beneficial ownership of the shares, and a copy of the relevant provisions of Pennsylvania law. The time set for receipt of the demand for payment and deposit of stock certificates will be not less than 30 days from the date of mailing of the notice.

### *Failure to Comply with Required Steps to Dissent*

You must take each step in the indicated order and in strict compliance with Pennsylvania law in order to maintain your dissenters' rights. If you fail to follow these steps, you will lose the right to dissent, and you will receive the same merger consideration as those Phoenix shareholders who do not dissent.

### *Payment of Fair Value of Shares*

Promptly after the effective date of the merger, or upon timely receipt of demand for payment if the closing of the merger has already taken place, Mid Penn will send each dissenting shareholder who has deposited his, her or its stock certificates, the amount that Mid Penn estimates to be the fair value of the Phoenix common stock held by such dissenting shareholder or give written notice that no remittance will be made. The remittance or notice will be accompanied by:

a closing balance sheet and statement of income of Phoenix for the fiscal year ending not more than 16 months before the date of remittance or notice, together with the latest available interim financial statements;

a statement of Mid Penn's estimate of the fair value of Phoenix common stock; and

a notice of the right of the dissenting shareholder to demand payment or supplemental payment, accompanied by a copy of the relevant provisions of Pennsylvania law.

### *Estimate by Dissenting Shareholder of Fair Value of Shares*

If a dissenting shareholder believes that the amount stated or remitted by Mid Penn is less than the fair value of the Phoenix common stock, the dissenting shareholder must send its estimate of the fair value (deemed a demand for payment of the amount of the deficiency) of the Phoenix common stock to Mid Penn within 30 days after Mid Penn mails its remittance or notice. If the dissenting shareholder does not file its estimated fair value within 30 days after the mailing by Mid Penn of its remittance or notice, the dissenting shareholder will be entitled to no more than the amount stated in the notice or remitted by Mid Penn.

### *Valuation Proceedings*

If any demands for payment remain unsettled within 60 days after the latest to occur of:

the effective date of the merger;

timely receipt by Phoenix or Mid Penn, as the case may be, of any demands for payment; or

timely receipt by Phoenix or Mid Penn, as the case may be, of any estimates by dissenters of the fair value, then, Mid Penn may file an application, in the Court of Common Pleas of Schuylkill County, Pennsylvania, requesting that the court determine the fair value of the Phoenix common stock. If this happens, all dissenting shareholders whose demands have not been settled, no matter where they reside, will become parties to the proceeding. In addition, a copy of the application will be delivered to each dissenting shareholder.

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If Mid Penn were to fail to file the application, then any dissenting shareholder, on behalf of all dissenting shareholders who have made a demand and who have not settled their claim against Mid Penn, may file an application in the name of Mid Penn at any time within the 30-day period after the expiration of the 60-day period and request that the Schuylkill County Court of Common Pleas determine the fair value of the shares. The fair value determined by the Schuylkill County Court of Common Pleas may, but need not, equal the dissenting shareholders' estimates of fair value. If no dissenter files an application, then each dissenting shareholder entitled to do so shall be paid no more than Mid Penn's estimate of the fair value of the Phoenix common stock, and may bring an action to recover any amount not previously remitted, plus interest at a rate the Schuylkill County Court of Common Pleas finds fair and equitable.

Mid Penn intends to negotiate in good faith with any dissenting shareholder. If, after negotiation, a claim cannot be settled, then Mid Penn will file an application requesting that the fair value of the Phoenix common stock be determined by the Schuylkill County Court of Common Pleas.

### *Cost and Expenses*

The costs and expenses of any valuation proceedings performed by the Schuylkill County Court of Common Pleas, including the reasonable compensation and expenses of any appraiser appointed by such court to recommend a decision on the issue of fair value, will be determined by such court and assessed against Mid Penn, except that any part of the costs and expenses may be apportioned and assessed by such court against any or all of the dissenting shareholders who are parties and whose action in demanding supplemental payment is dilatory, obdurate, arbitrary, vexatious or in bad faith, in the opinion of such court.

***Phoenix shareholders wishing to exercise their dissenters' rights should consult their own counsel to ensure that they fully and properly comply with applicable requirements.***

### ***Regulatory Approvals Required for the Merger***

The merger is subject to the approval of the FRB under the Bank Holding Company Act. In addition, the merger is subject to the approval of the PDB under the Banking Code.

In reviewing Mid Penn's application for approval of the merger under the Bank Holding Company Act, the FRB must consider, among other factors, the competitive effect of the merger, the managerial and financial resources and future prospects of Mid Penn, the effect of the merger on the convenience and needs of the communities to be served, including the records of performance of the subsidiary banks of the merging companies in meeting the credit needs of the communities under the Community Reinvestment Act, the effectiveness of Mid Penn in combating money laundering activities, and the extent to which the merger would result in greater or more concentrated risks to the stability of the United States banking or financial system. Applicable regulations require publication of notice of the application and an opportunity for the public to comment on the application in writing and to request a hearing.

The merger is also subject to the approval of the PDB under the Banking Code. The Banking Code authorizes the acquisition of a bank holding company by another bank holding company. In reviewing an application for approval of a merger, the PDB will consider, among other things, whether the plan of merger adequately protects the interests of the depositors, other creditors and shareholders, and whether the bank merger would be consistent with adequate and sound banking practices and in the public interest on the basis of the financial history and condition of the banks involved, their future prospects, the character of their management, the potential effect of the bank merger on competition, and the convenience and needs of the areas primarily to be served by the resulting institution.

Mid Penn filed the required applications with the FDIC on November 10, 2014, with the PDB on November 11, 2014 and with the FRB on November 13, 2014. The merger will not proceed in the absence of regulatory approvals. Although neither Mid Penn nor Phoenix knows of any reason why regulatory approval

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from the FRB, the FDIC, or the PDB would not be obtained in a timely manner, neither Mid Penn nor Phoenix can be certain when such approvals will be obtained or if they will be obtained.

The parties are not aware of any other governmental approvals or actions that may be required to consummate the merger. If any other approval or action is required, it is contemplated that such approval or action would be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

### ***Phoenix's Directors and Executive Officers Have Financial Interests in the Merger***

In considering the recommendation of the Phoenix board of directors that you vote to adopt the merger agreement, you should be aware that Phoenix's directors and executive officers may have financial interests in the merger that are different from, or in addition to, the interests of the Phoenix shareholders generally. Phoenix's board of directors was aware of and considered these interests, among other matters, in approving and adopting the agreement and plan of merger. For purposes of all of the Phoenix agreements and plans described below, the consummation of the transactions contemplated by the merger agreement generally will constitute a change in control of Phoenix.

### ***Appointment of Three Phoenix Directors to the Board of Directors of Mid Penn and Mid Penn Bank***

Effective at the closing of the merger, three current members of the Phoenix board of directors (Vincent J. Land, Robert J. Moisey, and Noble C. Quandel, Jr.) will be appointed to the boards of directors of Mid Penn and Mid Penn Bank and the payment of compensation to such individuals will be in accordance with the policies of Mid Penn and Mid Penn Bank, respectively. Currently, each non-employee director receives an annual retainer of \$15,000 and between \$100 and \$500 for each committee meeting attended, depending on the committee. For more information regarding the compensation of directors of Mid Penn and Mid Penn Bank, see *Information About Mid Penn Bancorp, Inc. Directors and Executive Officers of Mid Penn Compensation of the Mid Penn Board of Directors* beginning on page 151.

### ***Existing Employment Agreements and Change in Control Agreements***

Miners Bank is a party to employment agreements with Dave Snyder, Leo Blecker, and Paul Spiegel. Miners Bank has change in control agreements with James Brennan, Richard Ketner, and John Spevak.

*Employment Agreements.* Miners Bank and Dave Snyder entered into an employment agreement dated March 31, 2014. The initial term of the agreement was one year; however, the agreement renews every year unless notice of nonrenewal is given. Under the agreement, Mr. Snyder received a base salary of \$108,000 per year. The agreement provides that upon an involuntary termination or a termination for Good Reason (as defined in the agreement) before or after a change of control, Mr. Snyder will be entitled to an amount equal to twelve (12) months of his annual base salary payable in twelve (12) equal monthly payments. Mr. Snyder is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of twelve (12) months after termination.

Miners Bank and Leo Blecker entered into an employment agreement dated March 24, 2014. The initial term of the agreement was one year; however, the agreement renews every year unless notice of nonrenewal is given. Under the agreement, Mr. Blecker received a base salary of \$97,000 per year. The agreement provides that upon an involuntary termination or a termination for Good Reason (as defined in the agreement) before or after a change of control, Mr. Blecker will be entitled to an amount equal to eighteen (18) months of his annual base salary payable in eighteen (18) equal monthly payments. Mr. Blecker is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of eighteen (18) months after termination.

Miners Bank and Paul Spiegel entered into an employment agreement dated March 25, 2014. The initial term of the agreement was one year; however, the agreement renews every year unless notice of nonrenewal is given. Under the agreement, Mr. Spiegel received a base salary of \$97,000 per year. The agreement provides that upon an involuntary termination or a termination for Good Reason (as defined in the agreement) before or after a change of control, Mr. Spiegel will be entitled to an amount equal to eighteen (18) months of his annual base salary payable in eighteen (18) equal monthly payments. Mr. Spiegel is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of eighteen (18) months after termination.

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*Change in Control Agreements.* Miners Bank and John Spevak entered into a change in control agreement dated March 28, 2014. The agreement provides that upon an involuntary termination after a change of control, Mr. Spevak will be entitled to an amount equal to twelve (12) months of his annual base salary payable in a lump sum. Mr. Spevak is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of twelve (12) months after termination.

Miners Bank and James Brennan entered into a change in control agreement dated March 28, 2014. The agreement provides that upon an involuntary termination after a change of control, Mr. Brennan will be entitled to an amount equal to twelve (12) months of his annual base salary payable in a lump sum. Mr. Brennan is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of twelve (12) months after termination.

Miners Bank and Richard Ketner entered into a change in control agreement dated March 25, 2014. The agreement provides that upon an involuntary termination after a change of control, Mr. Ketner will be entitled to an amount equal to twelve (12) months of his annual base salary payable in a lump sum. Mr. Ketner is also subject to noncompetition and nonsolicitation of customers or employees provisions for a period of twelve (12) months after termination.

### *Existing Deferred Compensation Agreement*

Miners Bank is a party to executive deferred compensation agreement with George Groves. Under the agreement, Mr. Groves may defer a portion of his base salary and bonus and such deferral will receive interest at an annual rate equal to the Prime Rate as published in the Wall Street Journal for December 31<sup>st</sup> of the prior plan year plus one percent (1%). Mr. Groves will receive payments upon reaching retirement age of seventy-two (72). If, within twenty-four (24) months after a change-in-control, Mr. Groves' employment is terminated, he will receive his account balance in a lump sum.

### *Existing Split Dollar Agreements*

Messrs. Blecker, Groves, Ketner, Snyder, Spevak, and Spiegel and other employees are parties to a split dollar agreement whereby the employee's beneficiary will receive a percentage up to fifty percent (50%) of the net death proceeds of the bank owned life insurance on the employee's life. If an employee is terminated after a change-in-control and, subsequently dies, the employee's beneficiary will be entitled to receive fifty percent (50%) of the net death proceeds. Miners Bank may terminate the agreement at any time prior to the employee's death.

### *Phoenix Stock Appreciation Rights*

Messrs. Blecker, Groves, Ketner, Snyder, Spevak, and Spiegel have Phoenix SARs. Each Phoenix SAR that is outstanding immediately prior to the effective time of the merger will be converted to the right to receive cash equal to the product of (i) the total number of shares of Phoenix common stock the executive holds that are subject to a Phoenix stock appreciation right agreement and (ii) the excess, if any, of \$51.60 less the base price of the Phoenix SAR set forth in the Phoenix stock appreciation right award agreement, less any applicable tax withholding.

### *Indemnification and Insurance*

The merger agreement provides that Mid Penn will, for six years following the acquisition, indemnify all current and former officers and directors of Phoenix and its subsidiaries in accordance with Pennsylvania law and the indemnification provisions of Phoenix's articles of incorporation and bylaws, and that the articles of incorporation will not be amended, repealed, or otherwise modified by Phoenix, except as required by law. In addition, for six years after

the acquisition, Mid Penn agreed to maintain liability insurance coverage with respect to matters arising at or prior to the merger for each current or former officer or director of Phoenix or any of its subsidiaries, in amounts and on terms not materially less advantageous than the coverage provided prior to the acquisition, subject to a limit on the cost of such insurance of 150% of its current cost.



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**THE MERGER AGREEMENT**

*The following describes certain aspects of the merger, including material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this joint proxy statement/prospectus as Annex A and is incorporated by reference in this joint proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing this merger.*

***Terms of the Merger***

Each of the Phoenix board of directors and the Mid Penn board of directors has unanimously approved and adopted the agreement and plan of merger, which provides for the merger of Phoenix with and into Mid Penn. Mid Penn will be the surviving corporation in the merger. Each share of Mid Penn common stock issued and outstanding immediately prior to completion of the merger will remain issued and outstanding as one share of common stock of Mid Penn. Each share of Phoenix common stock issued and outstanding at the effective time of the merger (with the exception of Company-Owned Stock, as defined below) will be converted into either shares of Mid Penn common stock or cash, as described below. See *Consideration to Be Received in the Merger*. Company-Owned Stock means shares of Phoenix stock held by Phoenix or any of its subsidiaries or by Mid Penn or any of its subsidiaries, in each case other than in a fiduciary capacity or as a result of debts previously contracted in good faith. Each share of Phoenix common stock held as Company-Owned Stock immediately prior to the effective time of the merger will be canceled and retired and no consideration will be issued in exchange. Mid Penn does not own any shares of common stock of Phoenix.

The Mid Penn articles of incorporation will be the articles of incorporation, and the Mid Penn bylaws will be the bylaws of the combined company after completion of the merger. No such change will alter the amount or kind of merger consideration to be provided under the merger agreement, adversely affect the tax treatment of the merger as a reorganization under Section 368(a) of the Internal Revenue Code, or materially impede or delay completion of the merger.

***Closing and Effective Time of the Merger***

The merger will be completed only if all of the following occur:

the agreement and plan of merger is approved and adopted by both the Mid Penn shareholders and the Phoenix shareholders;

all required governmental and regulatory consents and approvals have been obtained without a condition or restriction that or requirement that would, in the good faith judgment of the board of directors of Mid Penn or Phoenix, materially and adversely affect the business, operations, financial condition, property or assets of the combined company or materially impair the value of Phoenix or Miners Bank to Mid Penn or of Mid Penn or Mid Penn Bank to Phoenix; and

all other conditions to the merger discussed in this joint proxy statement/prospectus and the merger agreement are either satisfied or waived.

The merger will become effective when articles of merger are filed with the Department of State of the Commonwealth of Pennsylvania. We may agree, however, to a later time for completion of the merger and specify that time in accordance with Pennsylvania law. In the merger agreement, we have agreed to cause the completion of the merger to occur no later than five (5) business days following the satisfaction or waiver of the conditions specified in the merger agreement (other than those conditions that by their nature are to be satisfied at the closing, or on another mutually agreed date). It currently is anticipated that the effective time of the merger will occur in the first quarter of 2015, but we cannot guarantee when or if the merger will be completed.

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As a result of the merger each Phoenix shareholder will have the right, with respect to each share of Phoenix common stock held (excluding Company-Owned Stock), to elect to receive merger consideration consisting of 3.167 shares of Mid Penn common stock, \$51.60 in cash or a combination thereof, in accordance with the election and allocation procedures.

The amount of merger consideration issuable to Phoenix shareholders was subject to a pre-closing adjustment based on, with respect to one OREO property held by Miners Bank, the wholly owned banking subsidiary of Phoenix, the estimated costs, if any, for environmental remediation that may be required and any loss in connection with the maintenance and disposition costs of such property, net of any tax benefit and any recoveries from the sale of any parcels. Pursuant to the merger agreement, Mid Penn had the right, at its election, reduce the amount of merger consideration payable to Phoenix shareholders if, and only to the extent that, these costs exceed \$400,000. Prior to the date of this joint proxy statement/prospectus, the parties determined that such costs would not exceed \$400,000. Accordingly, the amount of merger consideration issuable to Phoenix shareholders will not be reduced or otherwise adjusted pursuant to this provision.

Under the terms of the merger agreement, at least 80% of the total number of shares of Phoenix common stock outstanding at the effective time of the merger (excluding Company-Owned Stock) will be converted into stock consideration, and the remaining outstanding shares of Phoenix common stock (excluding Company-Owned Stock) will be converted into cash consideration up to \$2.9 million. To the extent necessary to satisfy these relative proportion of types of consideration, certain allocation and proration procedures, described below in *Proration Procedures*, will be used.

Phoenix shareholders must return their properly completed and signed form of election to the exchange agent prior to the Election Deadline, in accordance with the instructions provided with the election form. If you are a Phoenix shareholder and you do not return your form of election by the Election Deadline or improperly complete or do not sign your form of election, you will receive cash, shares of Mid Penn common stock or a mixture of cash and shares of Mid Penn common stock, based on what is available after giving effect to the valid elections made by other shareholders, as well as the adjustment described below.

If you are a Phoenix shareholder, you may specify different elections with respect to different shares held by you (for example, if you have 200 shares, you could make a cash election with respect to 100 shares and a stock election with respect to the other 100 shares).

*Phoenix Contingent Rights.* If you purchased shares of Phoenix common stock pursuant to the Phoenix Private Placement Memorandum dated as of October 1, 2012 and received contingent rights to receive additional Phoenix common stock, which we refer to as the Phoenix contingent rights, due to the merger, each Phoenix contingent right will be exchanged for 0.1306 shares of Phoenix common stock (rounded up to the nearest whole share for each holder) prior to the consummation of the merger. To the extent that these additional shares of Phoenix common stock are outstanding on the record date for the election materials, such shares will also be subject to an election to receive either cash or stock. Otherwise, such additional shares of Phoenix common stock will be exchanged for shares of Mid Penn common stock. We estimate that the Phoenix contingent rights will convert into a maximum of 3,520 shares of Phoenix common stock, or 11,148 shares of Mid Penn common stock based upon the exchange ratio.

*Phoenix Stock Appreciation Rights.* Each Phoenix SARs that is outstanding immediately prior to the effective time of the merger will be converted to the right to receive cash equal to the product of (i) the total number of shares of Phoenix common stock you hold that are subject to a stock appreciation right and (ii) the excess, if any, of \$51.60 less

the base price of the Phoenix SAR set forth in the Phoenix stock appreciation right award agreement, less any applicable tax withholding.

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### **Cash Election**

The merger agreement provides that each Phoenix shareholder who makes a valid cash election will have the right to receive, in exchange for each share of Phoenix common stock held by such holder, an amount in cash equal to \$51.60 without interest, or the cash consideration. Because the maximum percentage of the total number of shares of Phoenix common stock to be converted into cash is no greater than 20%, however, a Phoenix shareholder who makes a cash election may nevertheless receive a mix of cash and stock. Holders of 100 or fewer shares that elect to receive cash will not have their shares converted to Mid Penn's common stock, regardless of the proration procedures.

### **Stock Election**

The merger agreement provides that each Phoenix shareholder who makes a valid stock election will have the right to receive, in exchange for each share of Phoenix common stock held, 3.167 shares of Mid Penn common stock. We sometimes refer to such shares of Mid Penn common stock as the common stock consideration. Because the percentage of the total number of shares of Phoenix common stock to be converted into Mid Penn common stock is capped, a Phoenix shareholder who makes a stock election may nevertheless receive a mix of cash and stock. At its discretion, however, if the common stock consideration is over-subscribed, Mid Penn may increase the total common stock consideration. The merger agreement provides that at least 80% of the total number of shares of Phoenix common stock will be converted into Mid Penn common stock.

No fractional shares of Mid Penn common stock will be issued to any holder of Phoenix common stock upon completion of the merger. For each fractional share that would otherwise be issued, Mid Penn will pay cash in an amount equal to the fraction multiplied by the closing price for a share of Mid Penn common stock as reported on Nasdaq for the trading day immediately preceding the closing date. No interest will be paid or accrued on cash payable to holders in lieu of fractional shares.

### **Non-Election Shares**

If you are a Phoenix shareholder and you do not make an election to receive cash or Mid Penn common stock in the merger, your elections are not received by the exchange agent by the Election Deadline, your forms of election are improperly completed and/or are not signed, or you do not send together with your forms of elections your certificates representing shares of Phoenix common stock (or a properly completed notice of guaranteed delivery), you will be deemed to not have made an election. Shareholders not making an election may be paid in only cash, only Mid Penn common stock or a mix of cash and shares of Mid Penn common stock depending on, and after giving effect to, the number of valid cash elections and stock elections that have been made by other Phoenix shareholders using the proration adjustment described below.

### **Proration Procedures**

If, after taking into account all valid elections, Phoenix shareholders elect to convert exactly 80% of the total outstanding shares of Phoenix common stock into Mid Penn common stock, then any Phoenix shareholders who elected to receive any portion of the merger consideration in cash will be entitled to receive that portion in cash and any Phoenix shareholders who did not make an election will be entitled to receive only cash. If Phoenix shareholders elect to convert exactly 20% of the total outstanding shares of Phoenix common stock into cash, then any Phoenix shareholders who elected to receive any portion of the merger consideration in stock will be entitled to receive that portion in stock and any Phoenix shareholders who did not make an election will be entitled to receive only stock.

If, after taking into account all valid elections, Phoenix shareholders elect to convert more than 20% of the total outstanding shares of Phoenix common stock into cash, then any Phoenix shareholders who elected to receive any portion of the merger consideration in Mid Penn common stock will be entitled to receive that

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portion in stock, and, as a group, any Phoenix shareholders who elected to receive a portion of the merger consideration in cash and any Phoenix shareholders who did not make an election will be subject to a proration process that will result in the holder receiving shares of Mid Penn common stock in lieu of some cash.

If, after taking into account all valid elections, Phoenix shareholders elect to convert more than 80% of the total outstanding shares of Phoenix common stock into Mid Penn common stock, then Mid Penn, at its sole discretion, may increase the percentage of shares convertible into Mid Penn common stock. To the extent that Phoenix shareholders make elections to convert more than 80% of the total outstanding shares of Phoenix common stock into Mid Penn common stock and Mid Penn does not decide to increase the number of shares convertible into Mid Penn common stock to accommodate the excess elections, the elections will be treated as follows: (i) any Phoenix shareholder who elected to receive any portion of the merger consideration in cash will be entitled to receive that portion in cash; (ii) any Phoenix shareholders who did not make an election will be entitled to receive only cash; and (iii) any Phoenix shareholders who elected to receive all or a portion of the merger consideration in Mid Penn common stock, will be subject to a proration process that will result in the holder receiving cash in lieu of some Mid Penn common stock.

If Phoenix shareholders elect to convert 100% of the total outstanding shares of Phoenix common stock into Mid Penn common stock, then the merger consideration will be distributed on a pro rata basis to all shareholders such that 80% of the shares are converted into Mid Penn common stock and 20% of the shares are converted into cash; provided, however, that Mid Penn, in its sole discretion, may decide to increase the percentage of shares convertible into Mid Penn common stock to accommodate all or a portion of the elections in excess of 80%.

Finally, if Phoenix shareholders elect to convert 100% of the total outstanding shares of Phoenix common stock into cash, the merger consideration will be distributed on a pro rata basis to all shareholders such that 20% of the shares are converted into cash and 80% are converted into stock.

Mid Penn is not making any recommendation as to whether Phoenix shareholders should elect to receive only Mid Penn common stock, only cash or a combination of both types of consideration. Mid Penn is also not making any recommendation as to whether Phoenix shareholders should elect to receive a specific ratio of cash or Mid Penn common stock. Each Phoenix shareholder must make his or her own decision with respect to the election to receive Mid Penn common stock, cash or a combination thereof for his or her shares of Phoenix stock. In addition, because the tax consequences of receiving cash will differ from the tax consequences of receiving Mid Penn common stock, each shareholder should carefully read the discussion included below under *Material United States Federal Income Tax Consequences of the Merger* beginning on page 90 and consult their personal tax advisor.

***Conversion of Shares; Exchange of Certificates; Elections as to Form of Consideration***

The conversion of Phoenix common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. As soon as reasonably practicable after completion of the merger but in any event within five business days, the exchange agent will exchange certificates representing shares of Phoenix common stock for the merger consideration, without interest, to be received in the merger pursuant to the terms of the merger agreement. If you have not previously submitted your stock certificates, however, you will be required to submit your certificates before you will receive your merger consideration. Registrar and Transfer Company will be the exchange agent in the merger and will receive forms of election, exchange certificates for the merger consideration and perform other duties as explained in the merger agreement.

**Form of Election**

The form of election and related transmittal materials are being mailed to Phoenix shareholders separately from the mailing of this joint proxy statement/prospectus. The form of election and related documents will allow Phoenix shareholders to make cash or stock elections or a combination of both.



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**The Election Deadline is Monday, December 22, 2014, which is the business day prior to the Phoenix special shareholders meeting.**

If you wish to elect the type of merger consideration you will receive in the merger, you should carefully review and follow the instructions that will be set forth in the form of election. Shareholders who hold their shares of Phoenix common stock in street name or through a bank, broker or other nominee should follow the instructions of the bank, broker or other nominee for making an election with respect to such shares of Phoenix common stock. Shares of Phoenix common stock as to which the holder has not made a valid election prior to the Election Deadline will be treated as non-election shares.

To make a valid election, each Phoenix shareholder must submit a properly completed form of election, together with stock certificates, so that it is actually received by the exchange agent at or prior to the Election Deadline in accordance with the instructions on the form of election. A form of election will be properly completed only if accompanied by certificates representing all shares of Phoenix common stock covered by the form of election (or appropriate evidence as to the loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification, as will be described in the form of election). If you are a Phoenix shareholder and you cannot deliver your stock certificates to the exchange agent by the Election Deadline, you may deliver a notice of guaranteed delivery promising to deliver your stock certificates, as will be described in the form of election, so long as (1) the guarantee of delivery is from a firm which is a member of any registered national securities exchange or a commercial bank or trust company in the United States and (2) the actual stock certificates are in fact delivered to the exchange agent by the time set forth in the guarantee of delivery.

Generally, an election may be revoked or changed, but only by written notice received by the exchange agent by 5:00 p.m. local time for the exchange agent, on the business day prior to the Election Deadline accompanied by a properly completed and signed revised form of election. Phoenix shareholders will not be entitled to revoke or change their elections following the Election Deadline. As a result, if you have made elections, you will be unable to revoke your elections or sell your shares of Phoenix common stock during the interval between the Election Deadline and the date of completion of the merger.

Shares of Phoenix common stock as to which the holder has not made a valid election prior to the Election Deadline, including as a result of revocation, will be deemed non-election shares. If it is determined that any purported cash election or stock election was not properly made, the purported election will be deemed to be of no force or effect and the holder making the purported election will be deemed not to have made an election for these purposes, unless a proper election is subsequently made on a timely basis.

## **Letter of Transmittal**

Soon after the completion of the merger, the exchange agent will mail a letter of transmittal to only those persons who were Phoenix shareholders at the effective time of the merger and who have not previously submitted a form of election and properly surrendered shares of Phoenix common stock to the exchange agent. This mailing will contain instructions on how to surrender shares of Phoenix common stock (if these shares have not already been surrendered) in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

If a certificate for Phoenix common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

**Dividends and Distributions**

Until Phoenix common stock certificates are surrendered for exchange, any dividends or other distributions declared after the effective time with respect to Mid Penn common stock into which shares of Phoenix common

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stock may have been converted will accrue but will not be paid. Mid Penn will pay to former Phoenix shareholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their Phoenix stock certificates.

***Representations and Warranties***

The merger agreement contains customary representations and warranties of Phoenix and Mid Penn relating to their respective businesses. The representations must be true and correct in all material respects, as of the date of the merger agreement and as of the effective date of the merger as though made on and as of the effective date (except that representations and warranties that by their terms speak as of the date of the merger agreement or some other date must be true and correct in all material respects as of such date). The representations and warranties in the merger agreement do not survive the effective time of the merger.

Each of Mid Penn and Phoenix has made representations and warranties to the other regarding, among other things:

corporate matters, including due organization and qualification;

capitalization;

authority relative to execution and delivery of the merger agreement and the absence of breach or violations of organizational documents or other obligations as a result of the merger;

required governmental filings and consents;

the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;

financial statements and the absence of undisclosed liabilities;

filing of tax returns and payment of taxes;

the absence of circumstances and events reasonably likely to have a material adverse effect;

material contracts, real estate leases, and other certain types of contracts;

properties;

insurance coverage;

legal proceedings;

compliance with applicable laws;

employee matters, including employee benefit plans;

environmental matters;

brokers, finders and financial advisors;

loan related matters;

related party transactions;

required vote;

securities registration obligations;

risk management arrangements;

the receipt of a fairness opinion from the party's financial advisor;

trust accounts;

information supplied; and

quality of representations.

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Mid Penn also has made representations and warranties to Phoenix regarding the preparation and filing of the reports filed by the Mid Penn with the SEC, absence of financing and no ownership of Phoenix common stock.

Phoenix has also made representations and warranties to Mid Penn regarding credit card accounts and merchant processing, intellectual property, labor matters and anti-takeover laws.

The representations and warranties described above and included in the merger agreement were made by each of Mid Penn and Phoenix to the other party. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Mid Penn and Phoenix in connection with negotiating the terms of the merger agreement (including by reference to information contained in disclosure schedules delivered by the parties under the merger agreement), and may have been included in the merger agreement for the purpose of allocating risk between Mid Penn and Phoenix rather than to establish matters as facts. The merger agreement is described herein, and included as Annex A, only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding Phoenix, Mid Penn or their respective businesses. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this joint proxy statement/prospectus and in the documents incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information* beginning on page 203.

## ***Covenants and Agreements***

Each of Phoenix and Mid Penn has undertaken customary covenants that place restrictions on it and its subsidiaries until the effective time of the merger. In general, each of Mid Penn and Phoenix has agreed to operate its respective business in the usual, regular and ordinary course of business, use commercially reasonable efforts to preserve intact its business organization and assets and maintain its rights and franchises, and voluntarily take no action that would materially and adversely affect the ability to obtain any regulatory approvals required for the merger or materially affect its ability to perform its covenants under the merger agreement.

In addition, Phoenix has agreed that, with certain exceptions and except with Mid Penn's prior written consent (which is not to be unreasonably withheld), that Phoenix will not, and will not permit any of its subsidiaries to, among other things, undertake the following extraordinary actions:

change or waive any provision of its articles of incorporation, charter or bylaws, except as required by law, or appoint any new directors to its board of directors, except to fill any vacancy in accordance with its bylaws;

except as set forth in the merger agreement, change the number of authorized or issued shares of its capital stock, issue any shares of capital stock, or issue or grant any right or agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, make any grant or award under any option or benefit plan, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of capital stock;

enter into, amend in any material respect or terminate any contract or agreement (including without limitation any settlement agreement with respect to litigation) except in the ordinary course of business or as required by law;

make application for the opening or closing of any, or open or close any, branch or automated banking facility;

except as set forth in the merger agreement, take specified actions relating to director and employee compensation, employment agreements, benefits, hiring and promotions;

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except as otherwise expressly permitted under the merger agreement, enter into or, except as may be required by law, materially modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees; or make any contributions to any defined contribution plan not in the ordinary course of business consistent with past practice;

merge or consolidate it or any of its subsidiaries with any other corporation; sell or lease all or any substantial portion of its assets or businesses or that of any of its subsidiaries; make any acquisition of all or any substantial portion of the business or assets of any other party other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructuring, or the collection of any loan or credit arrangement between it or any of its subsidiaries, and any other party; enter into a purchase and assumption transaction with respect to deposits and liabilities; voluntarily revoke or surrender of its certificate of authority to maintain, or file an application for the relocation of, any existing branch office, or file an application for a certificate of authority to establish a new branch office;

except as otherwise provided in the merger agreement, sell or otherwise dispose of its capital stock or that of any of its subsidiaries or sell or otherwise dispose of any of its assets or those of any of its subsidiaries other than in the ordinary course of business consistent with past practice; except for transactions with the Federal Home Loan Bank, subject any of its assets or those of any of its subsidiaries to a lien, pledge, security interest or other encumbrance (other than in connection with deposits, repurchase agreements, bankers acceptances, treasury tax and loan accounts established in the ordinary course of business and transactions in federal funds and the satisfaction of legal requirements in the exercise of trust powers) other than in the ordinary course of business consistent with past practice;

incur any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money), except in the ordinary course of business consistent with past practice;

voluntarily take any action that would result in any of its representations and warranties or the representations and warranties of its banking subsidiary becoming untrue in any material respect or any of the conditions set forth in the merger agreement not being satisfied, except in each case as may be required by applicable law or any regulatory authority;

change any method, practice or principle of accounting, except as may be required from time to time by generally accepted accounting principles or any regulatory authority responsible for regulating it or its respective banking subsidiary;

waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing material agreement or indebtedness with an annual value of \$1,000,000 or greater to which it or any of its subsidiaries is a party;

purchase any securities, including equity or debt securities, except in accordance with past practice pursuant to policies approved by its board of directors currently in effect; provided that any such individual purchase shall not exceed \$500,000 with the aggregate of all purchases not exceeding \$1,000,000;

except as permitted under the merger agreement, issue or sell any equity or debt securities;

make or acquire any new loan or other credit facility commitment (including without limitation, lines of credit and letters of credit), except (i) in accordance with past practice pursuant to policies approved by its board of directors in effect on August 27, 2014, (ii) with respect to loans or commitments with a classification of less than Satisfactory or similar category, in accordance with Miners Bank's internal rating system, the aggregate borrowings from Miners Bank in connection with such relationship shall not exceed 75% of the general limit to one customer of Miners Bank under Pennsylvania law as of the



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date of such loan or other commitment, and (iii) with respect to each other loan or other commitment, the aggregate borrowings from Miners Bank in connection with such relationship shall not exceed the general limit to one customer of Miners Bank under Pennsylvania law as of the date of such loan or other commitment;

except as set forth in the merger agreement, enter into, renew, extend or modify any other transaction (other than a deposit transaction) with any affiliate;

except as set forth in the merger agreement, enter into any futures contract, option, interest rate caps, interest rate floors, interest rate exchange agreement or other agreement or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest;

except for the execution of the merger agreement, and actions taken or that will be taken in accordance with the merger agreement and performance thereunder, take any action that would give rise to a right of payment to any individual under any employment agreement;

enter into any new line of business;

make any material change in policies in existence on August 27, 2014 with regard to (i) underwriting, the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon, (ii) investments, (iii) asset/liability management, (iv) deposit pricing or gathering, or (v) other material banking policies except as may be required by changes in applicable law or regulations or by a regulatory authority;

except for the execution of the merger agreement, and the transactions contemplated therein, take any action that would give rise to an acceleration of the right to payment to any individual under any of its employee plans;

except as set forth in the merger agreement, make any capital expenditures in excess of \$25,000 individually or \$100,000 in the aggregate, other than pursuant to binding commitments existing on August 27, 2014 and other than expenditures necessary to maintain existing assets in good repair;

except as set forth in the merger agreement, purchase or otherwise acquire any assets or incur any liabilities other than in the ordinary course of business consistent with past practices and policies;

undertake, renew, extend or enter into any lease, contract or other commitment for its account, other than in the normal course of providing credit to customers as part of its banking business, involving a payment by it or any subsidiary of more than \$25,000 annually, containing any financial commitment extending beyond 24

months from August 27, 2014 or involving any of its affiliates; provided that the aggregate of such payments (other than to affiliates) shall not exceed \$50,000;

except as set forth in the merger agreement, pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of \$25,000 individually or \$60,000 in the aggregate, and that does not create negative precedent and provided that it may not charge-off through settlement, compromise or discharge more than \$100,000 of the outstanding principal balance of any loan that is 90 or more days contractually past due without first discussing the decision with Mid Penn;

foreclose upon or take a deed or title to any commercial real estate without first conducting a Phase I environmental assessment of the property or foreclose upon any commercial real estate if such environmental assessment indicates the presence of certain environmental materials;

purchase or sell any mortgage loan servicing rights other than in the ordinary course of business consistent with past practice;

issue any broadly distributed communication to employees relating to post-closing employment, benefit or compensation information without the prior consent of Mid Penn or issue any broadly

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distributed communication to customers without the prior approval of Mid Penn, except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the merger; or

agree or commit to do any of the actions prohibited by the preceding points.

Phoenix also agreed to take all such necessary action to suspend the acceptance of dividends and other contributions of participants in the Phoenix Dividend Reinvestment and Stock Purchase Plan.

Each of Mid Penn and Phoenix has agreed to additional covenants which include, among other things, commitments to:

provide certain financial and regulatory information upon request;

maintain insurance in reasonable amounts;

obtain as soon as practicable all consents and approvals necessary or desirable to close the merger; and

take all commercially reasonable actions which are necessary or advisable to complete the merger.

Mid Penn has further agreed that Mid Penn will:

provide employees of Phoenix and its subsidiaries who remain employed after the effective time with base compensation that is, in the aggregate, no less favorable than provided by Phoenix and its subsidiaries on the date of the merger agreement and employee benefits that are substantially comparable, in the aggregate, to the employee benefits provided by Phoenix and its subsidiaries to its employees on the date of the merger agreement or to Mid Penn to similarly situated employees;

for purposes of determining eligibility and vesting for certain Mid Penn employee benefit plans (and not for benefit accrual purposes), provide credit for meeting eligibility and vesting requirements in such plans for service as an employee of Phoenix or Miners Bank or any predecessor of Phoenix;

pay severance benefits to any continuing employees of Phoenix or Miners Bank, who were employed as of August 27, 2014, whose employment is either terminated within 12 months of the closing of the merger or is not offered or retained in substantially comparable employment, with respect to job description, responsibilities and pay, with Mid Penn or Mid Penn Bank, as applicable, other than for circumstances constituting cause and who is not party to an agreement that provides for specific severance payments, equal to two weeks salary for each year of service with Phoenix or Miners Bank with a minimum payment of two weeks and a maximum payment of 26 weeks;

honor the terms of all employment and change in control agreements, all as disclosed to Mid Penn in the Phoenix disclosure schedules to the merger agreement;

for a period of six years after the merger, to indemnify, defend and hold harmless all current and former officers, directors and employees of Phoenix or Miners Bank against all claims which arise out of the fact that such person is or was a director, officer or employee of Phoenix or its subsidiaries and which relate to any matter of fact existing at or prior to the merger, to the fullest extent as would have been permitted by Phoenix under Pennsylvania law and under Phoenix's articles of incorporation and bylaws;

maintain, for six years following the merger, Phoenix's current and former directors' and officers' liability insurance policies covering the officers and directors of Phoenix with respect to matters occurring at or prior to the merger, except that Mid Penn may substitute similar policies, and that Mid Penn is not required spend more than 150% of the annual cost currently expended by Phoenix in order to obtain this insurance;

reserve a sufficient number of shares of its common stock and to maintain sufficient liquid accounts or borrowing capacity to fulfill its obligations in connection with the merger; and

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refrain from amending its articles of incorporation or bylaws in a manner that would materially and adversely affect the economic benefits of the merger to holders of Phoenix common stock or materially impede Mid Penn's ability to complete the merger, except as required by law, take any action that would reasonably likely to result in the any of the conditions to closing not being satisfied or prevent or materially delay the merger, or taking any action that would adversely affect the merger from qualifying as a reorganization under Section 368(a) of the Internal Revenue Code.

The merger agreement also contains mutual covenants relating to the preparation of this joint proxy statement/prospectus, the regulatory application and the holding of the meetings of Mid Penn shareholders and Phoenix shareholders, respectively, access to information of the other company and public announcements with respect to the transactions contemplated by the merger agreement. Phoenix and Mid Penn have also agreed to use all reasonable best efforts to take all actions needed to obtain necessary governmental and third-party consents and to consummate the transactions contemplated by the merger agreement.

### ***Miners Bank Post-Closing Operation***

Immediately, or as soon as reasonably practicable, after the consummation of the merger, in accordance with the bank plan of merger between Miners Bank and Mid Penn Bank, Miners Bank will merge with and into Mid Penn Bank, with Mid Penn Bank surviving such merger.

The merger agreement also provides that, following the completion of the merger and for at least three years immediately thereafter, Mid Penn will continue to operate Miners Bank as a separate banking division of Mid Penn Bank under the name Miners Bank, a Division of Mid Penn Bank.

### ***Reasonable Best Efforts to Obtain the Required Shareholder Vote***

Each of Mid Penn and Phoenix has agreed to hold a meeting of its respective shareholders as soon as is reasonably practicable for the purpose of obtaining shareholder approval and adoption of the merger agreement and to use all reasonable lawful action to obtain such approval. Subject to its fiduciary duties, as determined in good faith after consultation with its outside legal counsel, each of Mid Penn's and Phoenix's boards of directors have agreed to recommend that its shareholders vote in favor of the agreement and plan of merger.

### ***Agreement Not to Solicit Other Offers***

Phoenix has agreed that it, its subsidiaries and their respective officers, directors, employees, representatives, agents or affiliates will not, directly or indirectly:

initiate, solicit, induce or encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, relates or could reasonably be expected to lead to an alternative acquisition proposal;

respond to any inquiry relating to an alternative acquisition proposal or an alternative acquisition transaction;

recommend or endorse an alternative acquisition transaction;

participate in any discussions or negotiations regarding, or furnish information or data to any person that may relate to an alternative acquisition proposal;

release anyone from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Phoenix is a party; or

enter into any agreement, agreement in principle or letter of intent with respect to any alternative acquisition proposal or approve or resolve to approve any alternative acquisition proposal or any agreement, agreement in principle or letter of intent relating to an alternative acquisition proposal.

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Acquisition proposal means any inquiry, offer or proposal, whether or not in writing, as to any of the following (other than the merger between Mid Penn and Phoenix) involving Phoenix, or any of its subsidiaries, as the case may be:

any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving it or any of its subsidiaries;

any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of it or any of its subsidiaries representing, in the aggregate, twenty-five percent (25%) or more of the assets of it and each of its subsidiaries on a consolidated basis;

any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing fifteen percent (15%) or more of the votes attached to the outstanding securities of it or any of its subsidiaries;

any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning twenty-five percent (25%) or more of any class of equity securities of it or any of its subsidiaries; or

any transaction which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

Phoenix may, however, participate in discussions with, and may furnish information to, a third party in connection with a bona fide unsolicited acquisition proposal if, and only if:

Phoenix has received a bona fide unsolicited written acquisition proposal that did not result from a breach of the merger agreement;

the Phoenix board of directors determines in good faith, after consultation with and having received the advice of its outside legal counsel and independent financial advisor, that the acquisition proposal is, or is reasonably likely to lead to, a superior proposal (as defined in *Summary No Solicitation of Other Offers* on page 21);

Phoenix has provided Mid Penn with at least one business day's prior notice of its determination that the acquisition proposal is, or is reasonably likely to lead to, a superior proposal; and

prior to furnishing or providing access to any information or data with respect to Phoenix, Phoenix receives from the third party making the proposal a confidentiality agreement on terms no less favorable than the

terms of the existing confidentiality agreement between Phoenix and Mid Penn.

Phoenix has also agreed to promptly provide to Mid Penn any non-public information about Phoenix that it provides to the third party making the proposal, to the extent such information was not previously provided to Mid Penn.

In addition, Phoenix has agreed that it will not:

withdraw, qualify or modify in a manner adverse to Mid Penn, its recommendation to its shareholders to approve the merger agreement, except to the extent otherwise permitted and described below;

approve or recommend, or publicly propose to approve or recommend, any acquisition proposal other than with respect to the Mid Penn merger; or

enter into (or cause Phoenix or any of the Phoenix Subsidiaries to enter into) any letter of intent or other agreement relating to an acquisition proposal other than with respect to the Mid Penn merger.



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Up until the time of the Phoenix shareholder meeting, however, Phoenix may withdraw, qualify or modify in a manner adverse to Mid Penn its recommendation to Phoenix shareholders to approve the merger agreement, or take any of the other actions listed above in this paragraph with respect to another acquisition proposal if but only if:

the Phoenix board of directors has reasonably determined in good faith, after consultation with and having considered the advice of its outside legal counsel and financial advisor that the failure to take such actions would be inconsistent with the board's fiduciary duties to Phoenix's shareholders under applicable law;

it has provided at least three business days' notice to Mid Penn that a bona fide unsolicited proposal constitutes a superior proposal; and

after taking into account any adjusted, modified or amended terms as may have been committed to by Mid Penn in writing, the Phoenix board of directors has again in good faith determined that the other acquisition proposal constitutes a superior proposal.

### ***Expenses and Fees***

In general, each of Mid Penn and Phoenix will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement except for the cost of printing and mailing the joint proxy statement/prospectus, which shall be shared equally.

### ***Indemnification and Insurance***

The merger agreement requires Mid Penn to indemnify Phoenix's and its subsidiaries' current and former directors, officers and employees to the fullest extent as would have been permitted under Pennsylvania law and the Phoenix articles of incorporation or the Phoenix bylaws or similar governing documents. The merger agreement provides that in the event of any threatened or actual claim, action, suit, proceeding or investigation in which any person who is or has been a director, officer or employee of Phoenix or is threatened to be made party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of Phoenix or any of its subsidiaries or predecessors, or (ii) the merger agreement, Mid Penn will defend against and respond thereto.

Mid Penn has agreed to indemnify and hold harmless each such indemnified party against any losses, claims, damages, liabilities, costs, expenses (including reasonable attorney's fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each party to the fullest extent permitted by law), judgments, fines and amounts paid in settlement in connection with any such threatened or actual claim, action, suit proceeding or investigation. The merger agreement also requires that Mid Penn provide advancement of expenses to all past and present officers, directors and employees of Phoenix and its subsidiaries in their capacities as such against all such losses, claims, damages, costs, expenses, liabilities, judgments or amounts paid in settlement to the fullest extent permitted by applicable laws.

Mid Penn will have no further obligation to any indemnified party when and if a court of competent jurisdiction ultimately determines, and such determination is final and non-appealable, that indemnification is prohibited by law or to any indemnified party that commits fraud. Mid Penn's indemnification obligations continue for six years after completion of the merger, but the right to indemnification in respect of any claim asserted within that time period

continues until the final disposition of the claim.

The merger agreement provides that Mid Penn will maintain for a period of six years after completion of the merger Phoenix's current directors and officers liability insurance policies, or policies of at least the same coverage and amount and containing terms and conditions that are not less advantageous than the current policy, with respect to acts or omissions occurring prior to the effective time of the merger, except that Mid Penn is not required to incur an annual premium expense greater than 200% of Phoenix's current annual directors and officers liability insurance premium.

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***Conditions to Complete the Merger***

Completion of the merger is subject to the fulfillment or waiver of certain conditions, including:

the approval and adoption of the agreement and plan of merger by the requisite vote of each of the Mid Penn shareholders and the Phoenix shareholders;

the effectiveness of the registration statement of which this joint proxy statement/prospectus is a part with respect to the Mid Penn common stock to be issued in the merger under the Securities Act and the absence of any stop order or proceedings initiated or threatened by the SEC for that purpose;

the receipt by each of Mid Penn and Phoenix of a legal opinion with respect to certain United States federal income tax consequences of the merger;

the receipt and effectiveness of all required governmental and other approvals, authorizations and consents on terms and conditions that would not have a material adverse effect on Mid Penn or Phoenix, and the expiration of all related waiting periods required to complete the merger;

the absence of any law, statute, regulation, judgment, decree, injunction or other order in effect by any court or other governmental entity that prohibits completion of the transactions contemplated by the merger agreement;

the approval for listing on The Nasdaq Global Market of the shares of Mid Penn common stock issuable in the merger; and

Mid Penn and Phoenix shall have taken all actions reasonably necessary to provide for, and shall have received all approvals required for the exchange of the then-outstanding shares of Phoenix SBLF preferred stock for shares of a series of Mid Penn SBLF preferred stock.

For additional information regarding the Phoenix SBLF preferred stock and the Mid Penn SBLF preferred stock, see *Risk Factors* *Following consummation of the merger, Mid Penn may be unable to redeem the Mid Penn SBLF preferred stock before the dividend rate increases to 9%* beginning on page 39 and *Comparison of Shareholders Rights Outstanding Preferred Stock Phoenix* beginning on page 191.

Each of Mid Penn's and Phoenix's obligations to complete the merger is also separately subject to the satisfaction or waiver of a number of conditions including:

the absence of a material adverse effect on the other party;

the truth and correctness of the representations and warranties of each other party in the merger agreement, subject generally to the materiality standard provided in the merger agreement, and the performance by each other party in all material respects of their obligations under the merger agreement and the receipt by each party of certificates from the other party to that effect;

the exercise of rights to demand appraisal under the Pennsylvania Business Corporation Law with respect to no more than 7% of the outstanding shares of Phoenix common stock; and

Mid Penn having delivered the merger consideration to the exchange agent.

We cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this joint proxy statement/prospectus, we have no reason to believe that any of these conditions will not be satisfied.

### ***Termination of the Merger Agreement***

The merger agreement can be terminated at any time prior to completion by mutual consent or by either party in the following circumstances:

if there is a breach by the other party that would cause the failure of the closing conditions, unless the breach is capable of being, and is, cured within 30 days of notice of the breach and the terminating party is not itself in material breach;

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if the merger has not been completed by June 15, 2015, unless the failure to complete the merger by that date was due to the terminating party's material breach of a representation, warranty, covenant or other agreement under the merger agreement;

if any of the required regulatory approvals are denied (and the denial is final and non-appealable);

if any court of competent jurisdiction or governmental authority issues an order, decree, ruling or takes any other action restraining, enjoining or otherwise prohibiting the merger (and such order, decree, ruling or action is final and non-appealable); or

if the shareholders of either Mid Penn or Phoenix fail to approve and adopt the merger agreement at their respective meetings.

In addition, Mid Penn's board of directors may terminate the merger agreement if the Phoenix board of directors receives a superior proposal and enters into a letter of intent, agreement in principle or an acquisition agreement with respect to such proposal, withdraws its recommendation of the merger agreement, fails to make such a recommendation or modifies or qualifies its recommendation, in a manner adverse to Mid Penn, or delivers a written notice to Mid Penn of its determination to accept such proposal.

Further, Phoenix's board of directors may terminate the merger agreement if Phoenix has received a superior proposal and has delivered a written notice to Mid Penn of its determination to accept such proposal.

Phoenix may also terminate the merger agreement within five business days of the Determination Date (Determination Date means the later of (i) the date on which all regulatory approvals, and waivers, if applicable, necessary for consummation of the merger and the transactions contemplated by the merger agreement have been received or (ii) the date of the meeting of Phoenix shareholders to consider the merger) if its board of directors determines that both of the following conditions have occurred and gives written notice to Mid Penn of such determination:

the average of the daily closing sales prices of a share of Mid Penn common stock as reported on Nasdaq for the 20 consecutive trading days immediately preceding the Determination Date is less than 80% of the closing sale price of Mid Penn common stock on the last trading date before the date of the merger agreement; and

the average of the daily closing sales prices of a share of Mid Penn common stock as reported on Nasdaq for the 20 consecutive trading days immediately preceding the Determination Date is such that the price performance of Mid Penn common stock is lower than the price performance of the Nasdaq Bank Index minus 20%.

Phoenix may not terminate in these circumstances, however, if Mid Penn exercises its option to increase the consideration to be received by Phoenix shareholders such that the implied value of the merger would be equivalent to the lesser of (i) \$41.28 or (ii) the product of (A) the quotient obtained by dividing the closing price of the Nasdaq Bank Index on the Determination Date by the closing price of the Nasdaq Bank Index on August 26, 2014 and (B) 3.167.

*Effect of Termination.* If the merger agreement is terminated, it will become void, and there will be no liability on the part of Mid Penn or Phoenix, except that both Mid Penn and Phoenix will remain liable for any willful breach of the merger agreement and designated provisions of the merger agreement, including the payment of fees and expenses, the confidential treatment of information and publicity restrictions, will survive the termination.

***Termination Fee***

Phoenix will pay Mid Penn a termination fee of \$580,000 in the event that the merger agreement is terminated:

by Mid Penn because Phoenix has received an alternative acquisition proposal, and Phoenix (1) enters into a letter of intent, agreement in principal or an acquisition agreement with respect to the alternative

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acquisition proposal, (2) fails to make, withdraws, modifies or qualifies its recommendation of the merger agreement in a manner adverse to Mid Penn, or (3) delivers a written notice to Mid Penn of its determination to accept the alternative acquisition proposal; or

by Phoenix, if Phoenix receives an alternative acquisition proposal and delivers a written notice to Mid Penn of its determination to accept the alternative acquisition proposal.

***Amendment, Waiver and Extension of the Merger Agreement***

Subject to applicable law, the parties may amend the merger agreement by written agreement between Phoenix and Mid Penn executed in the same manner as the merger agreement.

At any time prior to the completion of the merger, each of the parties, by action taken or authorized by their respective board of directors, to the extent legally allowed, may:

extend the time for the performance of any of the obligations or other acts of the other party;

waive any inaccuracies in the representations and warranties of the other party; or

waive compliance by the other party with any of the other agreements or conditions contained in the merger agreement.

However, after any approval of the transactions contemplated by the agreement and plan of merger by the shareholders of Phoenix and Mid Penn, there may not be, without further approval of such shareholders, any amendment which reduces the amount or value or changes the form of a consideration payable to Phoenix shareholders.

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**ACCOUNTING TREATMENT**

Mid Penn will account for the merger using the acquisition method under U.S. generally accepted accounting principles. Under the acquisition method of accounting, the tangible and identifiable intangible assets and liabilities of Phoenix will be recorded, as of completion of the merger, at their respective fair values. The excess of the purchase price over the net assets acquired will be recorded as goodwill to the extent not allocated to core deposit or other intangibles. Goodwill resulting from the merger will not be amortized but will be reviewed for impairment at least annually. Core deposits and other intangibles with finite useful lives recorded in connection with the merger will be amortized. If the net assets acquired exceed the purchase price, the resulting difference will be recorded as a bargain purchase gain.

Financial statements and reported results of operations of Mid Penn issued after completion of the merger will not be restated retroactively to reflect the historical financial position or results of operations of Phoenix.



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**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

**General**

The following is a summary of the anticipated material United States federal income tax consequences of the merger generally applicable to a holder of Phoenix common stock. This discussion is based upon provisions of the Internal Revenue Code, applicable current and proposed United States Treasury Regulations, judicial authorities, and administrative rulings and practice, all as in effect as of the date of this joint proxy statement/prospectus, as well as representations and facts provided by Mid Penn and Phoenix to Stevens & Lee, P.C., or Stevens & Lee, counsel to Mid Penn. Future legislative, judicial, or administrative changes or interpretations which may or may not be retroactive, or the failure of any such facts or representations to be true, accurate and complete, may affect the statements and conclusions described in this discussion.

This discussion is not intended to be a complete description of all of the United States federal income tax consequences of the merger and no information is provided with respect to the tax consequences of the merger under any other tax laws, including any alternative minimum tax or applicable state, local and foreign tax laws. Further, the following discussion may not apply to a holder of Phoenix common stock subject to special treatment under the Internal Revenue Code, including but not limited to a holder of Phoenix common stock that is:

a financial institution;

an insurance company;

a dealer or broker in securities or foreign currencies;

a trader in securities who elects mark-to-market accounting;

a tax-exempt organization;

a mutual fund;

a trust;

an estate;

a person who holds shares of Phoenix common stock in an individual retirement account (IRA), 401(k) plan or similar tax-favored account;

a person who acquired shares of Phoenix common stock on exercise of an employee stock option or otherwise as compensation;

a person whose functional currency for United States federal income tax purposes is not the United States dollar;

a person who is a former citizen or former long-term resident of the United States;

a partnership or other pass-through entity (or a person holding Phoenix common stock through a partnership or other pass-through entity);

a person who holds shares of Phoenix common stock as part of a hedge, straddle, conversion or constructive sale transaction; or

a person who receives Mid Penn common stock with respect to any Phoenix contingent rights.

In addition, this discussion applies only to a holder of Phoenix common stock who is holding such stock as a capital asset and who is a United States person as defined in Section 7701(a)(30) of the Internal Revenue Code.

No ruling has been or will be requested from the Internal Revenue Service regarding the tax consequences of the merger. Moreover, the opinion of Stevens & Lee described in this discussion is not binding on the Internal

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Revenue Service, and this opinion would not prevent the Internal Revenue Service from challenging the United States federal income tax treatment of the merger. Because of the complexities of the tax laws in general, and the complexities of the tax consequences associated with the receipt of cash in the merger in particular, holders of Phoenix common stock should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the merger as they apply to their specific situations. This section is not intended to be tax advice to any shareholder.

### **Tax Opinion of Stevens & Lee**

In connection with the filing with the SEC of the registration statement of which this proxy statement/prospectus is a part, Stevens & Lee has delivered its opinion addressing the United States federal income tax consequences of the merger as described below. This opinion is based upon the facts, representations and assumptions set forth or referred to in such opinion. In rendering this opinion, Stevens & Lee has relied on representations and facts provided by Mid Penn and Phoenix. This opinion is to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The following are the material federal income tax consequences of qualification of the merger as such a reorganization:

holders of Phoenix common stock who receive Mid Penn common stock in the merger in exchange for all of their shares of Phoenix common stock will not recognize any gain or loss with respect to shares of Mid Penn common stock received (except with respect to cash received instead of a fractional share interest in Mid Penn common stock);

holders of Phoenix common stock who receive only cash in the merger in exchange for all of their shares of Phoenix common stock will recognize gain or loss equal to the difference between the amount of cash received and the shareholder's adjusted tax basis in the shares of Phoenix common stock exchanged therefor;

each holder of Phoenix common stock who receives Mid Penn common stock and cash (other than cash in lieu of a fractional share interest in Mid Penn common stock) in the merger in exchange for the holder's shares of Phoenix common stock will recognize the gain, if any, realized by the holder, in an amount not in excess of the amount of cash received (other than cash received instead of a fractional share interest in Mid Penn common stock), but will not recognize any loss on the exchange; and

holders of Phoenix common stock who receive cash instead of a fractional share interest in Mid Penn common stock will recognize gain or loss equal to the difference between the cash received and the portion of the basis of the holder's shares of Phoenix common stock allocable to that fractional share interest.

Mid Penn and Phoenix's obligations to consummate the merger are conditioned on the receipt by Mid Penn and Phoenix of additional opinions of Stevens & Lee and Bybel Rutledge LLP, or Bybel Rutledge, counsel to Phoenix, dated the closing date of the merger, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Such closing opinions will be subject to and based on facts, representations and assumptions set forth or referred to therein. In rendering their closing date opinions, Stevens & Lee and Bybel Rutledge may rely on representations and facts provided by Mid Penn and Phoenix. The opinions will be based on the assumption that the merger will be completed in accordance with the merger agreement.

**Character of Gain Where Phoenix Common Stock is Exchanged in the Merger Solely for Cash**

If, pursuant to the merger, all of the shares of Phoenix common stock actually owned by a shareholder are exchanged solely for cash, the shareholder generally will recognize capital gain or loss equal to the difference between the amount of cash received and the shareholder's adjusted tax basis in the shares of Phoenix common stock exchanged therefor. This gain or loss will generally be long-term capital gain or loss if the shareholder's holding period with respect to the shares of Phoenix common stock exchanged is more than one year as of the

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effective date of the merger. If, however, any such shareholder actually or constructively (through the constructive ownership rules of the Internal Revenue Code) owns shares of Mid Penn stock immediately after the merger, part or all of the cash received may be treated as dividend income if the exchange has the effect of a distribution of a dividend with respect to the shareholder. The application of the law to a shareholder described in the previous sentence is particularly complex; accordingly, any such shareholder should consult his or her tax advisor.

**Character of Gain Where Phoenix Common Stock Is Exchanged in the Merger for Mid Penn Common Stock and Cash**

For purposes of calculating gain in this transaction, if a shareholder receives Mid Penn common stock and cash (other than cash received instead of a fractional interest in Mid Penn common stock), gain or loss must be calculated by the shareholder separately for each identifiable block of shares exchanged, and is equal to the sum of the amount of cash and the fair market value of Mid Penn common stock received with respect to that block of shares minus the shareholder's adjusted tax basis in that block of shares. In addition, a loss realized on one block of shares may not be used to offset a gain realized on another block of shares.

As noted above, in the case of a Phoenix shareholder that exchanges his or her shares of Phoenix common stock for a combination of Mid Penn common stock and cash pursuant to the merger, such shareholder will recognize the gain, if any, realized by such shareholder in the exchange but not in excess of the amount of cash received. In general, the determination of whether any gain recognized in the exchange should be treated as capital gain or has the effect of a distribution of a dividend depends upon whether, and to what extent, the exchange reduces the shareholder's deemed percentage stock ownership of Mid Penn. For purposes of this determination, the shareholder is treated as if he or she first exchanged all of his or her shares of Phoenix common stock solely for Mid Penn common stock and then Mid Penn immediately redeemed (in a deemed redemption) a portion of such Mid Penn common stock in exchange for the cash the shareholder actually received. The gain recognized in the exchange will be treated as capital gain if the deemed redemption (i) is substantially disproportionate with respect to the shareholder or (ii) is not essentially equivalent to a dividend.

The deemed redemption should generally be substantially disproportionate with respect to a shareholder if the percentage of the outstanding stock of Mid Penn the shareholder owns, actually and constructively, immediately after the deemed redemption is less than 80% of the percentage of the outstanding stock of Mid Penn the shareholder is deemed to own, actually and constructively, immediately before the deemed redemption, and the shareholder owns less than 50% of the total combined voting power of all classes of Mid Penn stock immediately after the redemption.

Whether the deemed redemption is not essentially equivalent to a dividend with respect to a shareholder will depend on the shareholder's particular circumstances. In order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in the shareholder's actual and constructive percentage stock ownership of Mid Penn. In general, that determination requires a comparison of the percentage of the outstanding stock of Mid Penn the shareholder is deemed to own, actually and constructively, immediately before the deemed redemption and the percentage of the outstanding stock of Mid Penn the shareholder actually and constructively owns immediately after the deemed redemption. The Internal Revenue Service has ruled that a minority shareholder (*i.e.*, a shareholder whose relative stock interest is minimal in relation to the number of shares outstanding and who exercises no control with respect to corporate affairs) generally is treated as having a meaningful reduction in interest if a cash payment results in at least a relatively minor reduction in the shareholder's actual and constructive percentage ownership.

**Tax Basis and Holding Period**

The aggregate tax basis of the Mid Penn common stock received by a Phoenix shareholder in the merger (including fractional shares deemed received and redeemed as described below) will be the same as the aggregate tax basis of the shares of Phoenix common stock surrendered by such shareholder for the Mid Penn common

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stock, decreased by the amount of any cash received (other than cash received instead of a fractional share interest in Mid Penn common stock) by the shareholder and increased by the amount of income or gain recognized by the shareholder in the exchange (which does not include gain recognized in respect of fractional shares deemed received and redeemed (as described below)).

Each Phoenix shareholder's holding period in any shares of Mid Penn common stock received in the merger (including any fractional shares deemed received and redeemed as described below) will, in each instance, include the period during which the shares of Phoenix common stock surrendered in exchange therefor were held, provided that those shares of Phoenix common stock were held as capital assets on the effective date of the merger.

**Cash Received in Lieu of a Fractional Share Interest**

Cash received by a Phoenix shareholder in lieu of a fractional share interest in Mid Penn common stock will be treated as though the fractional share had been received and then redeemed for cash, and in general gain or loss will be recognized, measured by the difference between the amount of cash received and the portion of the basis of the shares of Phoenix common stock allocable to such fractional interest. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of Phoenix common stock was more than one year as of the effective date of the merger. If, however, the receipt of cash instead of a fractional share of Mid Penn common stock has the effect of the distribution of a dividend with respect to a shareholder, part or all of the cash received may be treated as a dividend.

**Mid Penn and Phoenix**

Mid Penn and Phoenix will each be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code. As a result, no gain or loss will be recognized by Mid Penn or Phoenix as a result of the merger (except for amounts resulting from any required change in accounting methods and any deferred income, deferred gain or deferred loss to be taken into account under the relevant consolidated return regulations).

**Backup Withholding**

Backup withholding at a 28% rate will generally apply to merger consideration that includes cash if the exchanging Phoenix shareholder fails to properly certify that it is not subject to backup withholding, generally on Internal Revenue Service Form W-9. Certain holders, including, among others, United States corporations, are not subject to backup withholding, but they may still need to furnish a Form W-9 or otherwise establish an exemption. Any amounts withheld from payments to a Phoenix shareholder under the backup withholding rules are not additional taxes and will be allowed as a refund or credit against the shareholder's United States federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

**Medicare Tax**

In addition to income taxes, any individual shareholder with adjusted gross income (including certain foreign income that is exempt from U.S. taxes) in excess of \$250,000 for a married couple filing a joint return (in excess of \$200,000 for individuals filing as single) will be subject to the 3.8% Medicare tax on all or part of the income recognized by such individual as a result of the Merger.

***Tax matters are very complicated, and the tax consequences of the merger to each holder of Phoenix common stock will depend on the facts of that shareholder's particular situation. The discussion set forth above does not address all United States federal income tax consequences that may be relevant to a particular holder of Phoenix***

*common stock and may not be applicable to holders in special situations. Holders of Phoenix common stock are urged to consult their own tax advisors regarding the specific tax consequences of the merger. Further, such discussion does not address tax consequences that may arise with respect to Mid Penn by reason of any actions taken or events occurring subsequent to the merger.*



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**THE MID PENN SPECIAL MEETING**

This joint proxy statement/prospectus is being furnished to Mid Penn shareholders by Mid Penn's board of directors in connection with the solicitation of proxies from the holders of Mid Penn common stock for use at the Mid Penn special meeting and any adjournments or postponements of the Mid Penn special meeting.

**Date, Time and Place**

The Mid Penn special meeting will be held on Tuesday, December 23, 2014 at 9:00 a.m., local time, at Mid Penn's headquarters at 349 Union Street, Millersburg, Pennsylvania 17601, subject to any adjournments or postponements.

**Matters to be Considered**

At the Mid Penn special meeting, Mid Penn shareholders will be asked to consider and vote upon the following proposals:

1. approval and adoption of the merger agreement as described in detail under the heading *The Merger* beginning on page 44;
2. approval of a proposal to authorize the board of directors to adjourn or postpone the Mid Penn special meeting, if necessary, to solicit additional proxies to approve and adopt the merger agreement; and
3. transaction of any such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting.

At this time, the Mid Penn board of directors is unaware of any matters, other than those set forth above, that may properly come before the Mid Penn special meeting.

**Shareholders Entitled to Vote**

The close of business on November 14, 2014 has been fixed by Mid Penn's board of directors as the record date for the determination of those holders of Mid Penn common stock who are entitled to notice of and to vote at the Mid Penn special meeting and any adjournment or postponement of the Mid Penn special meeting.

At the close of business on the record date there were 3,496,916 shares of Mid Penn common stock outstanding and entitled to vote, held by approximately 1,030 holders of record. A list of the shareholders of record entitled to vote at the Mid Penn special meeting will be available for examination by Mid Penn shareholders. A list of such shareholders will be available for inspection at the Mid Penn special meeting and for ten days prior to the Mid Penn special meeting at Mid Penn's headquarters located at 349 Union Street, Millersburg, Pennsylvania 17601, during normal business hours.

**Quorum and Required Vote**

Each holder of record of shares of Mid Penn common stock as of the Mid Penn record date is entitled to cast one vote per share at the Mid Penn special meeting on each proposal. The presence, in person or by proxy, of the holders of a

majority of the issued and outstanding shares of Mid Penn common stock entitled to vote at the Mid Penn special meeting constitutes a quorum for the transaction of business at the Mid Penn special meeting. The affirmative vote at the Mid Penn special meeting, in person or by proxy, of the holders of 66-2/3% of the outstanding shares of Mid Penn common stock is required to approve and adopt the merger agreement. The affirmative vote, in person or by proxy, of a majority of all votes cast at the Mid Penn special meeting is required to approve the other proposals to be considered at the Mid Penn special meeting. Because the affirmative vote of the holders of 66-2/3% of outstanding shares of Mid Penn common stock is required to approve and adopt the merger agreement, abstentions and broker non-votes with respect to the merger agreement will effectively act as no votes on such proposal. Abstentions and broker non-votes will not affect the outcome of the other proposals to be considered at the Mid Penn special meeting.

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### **How Shares Will Be Voted at the Mid Penn Special Meeting**

All shares of Mid Penn common stock represented by properly executed proxies received before or at the Mid Penn special meeting, and not properly revoked, will be voted as specified in the proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval and adoption of the merger agreement and FOR the adjournment or postponement of the Mid Penn special meeting, if necessary, to permit further solicitation of proxies as included in this joint proxy statement/prospectus.

If you hold shares of Mid Penn common stock in street name through a bank, broker or other nominee holder, the nominee holder may only vote your shares in accordance with your instructions. If you do not give specific instructions to your nominee holder as to how you want your shares voted, your nominee will indicate that it does not have authority to vote on the proposal, which will result in what is called a broker non-vote. Broker non-votes will be counted for purposes of determining whether there is a quorum present at the Mid Penn special meeting, but they will not be deemed to have been voted on any of the proposals. Abstentions and broker non-votes will not affect the outcome of any of the proposals, except for the proposal to approve and adopt the merger agreement.

If any other matters are properly brought before the Mid Penn special meeting, the proxies named in the proxy card will have discretion to vote the shares represented by duly executed proxies in their sole discretion.

### **How to Vote Your Shares**

Mid Penn shareholders may vote their shares at the Mid Penn special meeting or by one of the following methods:

*Voting by Mail.* You may vote by completing and returning the enclosed proxy card. Your proxy will be voted in accordance with your instructions. If you do not specify a choice on one of the proposals described in this joint proxy statement, your proxy will be voted in favor of that proposal.

*Voting by Internet.* If you are a registered shareholder, you may vote electronically through the Internet by following the instructions included with your proxy card. If your shares are registered in the name of a broker or other nominee, your nominee will provide you separate voting instructions for voting your shares.

*Voting by Telephone.* You may vote by phone if you are a registered shareholder of Mid Penn by following the instructions included with your proxy card.

*Voting in Person.* If you attend the meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the Mid Penn special meeting. If your shares are registered in the name of a broker or other nominee and you wish to vote at the Mid Penn special meeting, you will need to obtain a legal proxy from your bank or brokerage firm. Please consult the voting form sent to you by your bank or broker to determine how to obtain a legal proxy in order to vote in person at the Mid Penn special meeting. Should you have any questions on the procedure for voting your shares, please contact Corporate Secretary, Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061.

### **How to Change Your Vote**

If you are a registered shareholder, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to the Secretary of Mid Penn, or (3) attending the Mid Penn special meeting in person, notifying the Secretary and voting by ballot at the Mid Penn special meeting. The Mid Penn Secretary's mailing address is 349 Union Street, Millersburg, Pennsylvania 17061. If

your shares are registered in the name of a broker or other nominee, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity's procedures.

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**Solicitation of Proxies**

Mid Penn will bear the entire cost of soliciting proxies from you. In addition to solicitation of proxies by mail, Mid Penn will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Mid Penn common stock and secure their voting instructions. Mid Penn will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, Mid Penn may use several of its regular employees, who will not be specially compensated, to solicit proxies from Mid Penn shareholders, either personally or by telephone, facsimile, letter or other electronic means.

Mid Penn and Phoenix will share equally the expenses incurred in connection with the copying, printing and distribution of this joint proxy statement/prospectus.

**Mid Penn Affiliate Letter**

As of the record date, directors of Mid Penn and their affiliates had the right to vote 140,489 shares of Mid Penn common stock, or 4.0% of the outstanding Mid Penn common stock entitled to be voted at the Mid Penn special meeting. In accordance with the terms of the merger agreement, each of the directors of Mid Penn has executed an Affiliate Letter in favor of Phoenix pursuant to which he or she has agreed to vote all shares of Mid Penn common stock owned by him or her in favor of approval and adoption of the merger agreement and the transactions contemplated thereby.

**Attending the Meeting**

All holders of Mid Penn common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the Mid Penn special meeting. Shareholders of record can vote in person at the Mid Penn special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Mid Penn special meeting. If you plan to attend the Mid Penn special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without both proper proof of share ownership and proper photo identification.

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**Table of Contents****INFORMATION ABOUT MID PENN BANCORP, INC.*****Business******Mid Penn Bancorp, Inc.***

Mid Penn is a one-bank holding company, incorporated in the Commonwealth of Pennsylvania in August 1991, and is headquartered in Millersburg, Pennsylvania. On December 31, 1991, Mid Penn acquired, as part of the holding company formation, all of the outstanding common stock of Mid Penn Bank, and Mid Penn Bank became a wholly owned subsidiary of Mid Penn. Mid Penn provides a full range of financial services through the branch network of wholly owned banking subsidiary, Mid Penn Bank. Mid Penn also offers personal and commercial insurance products through Mid Penn Insurance Services, LLC, a subsidiary of Mid Penn Bank. Mid Penn's business has consisted primarily of managing and supervising Mid Penn Bank, and its principal source of income has been dividends paid by Mid Penn Bank. Mid Penn is a registered bank holding company with the FRB under the Bank Holding Company Act. Mid Penn's common stock is traded on the Nasdaq Global Market under the symbol MPB. The website for Mid Penn is <http://www.midpennbank.com>.

Mid Penn'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. As of June 30, 2014, Mid Penn had total consolidated assets of \$736 million, net loans of \$542 million, total deposits of \$632 million and shareholders' equity of \$58 million. The deposits of Mid Penn Bank are insured by the FDIC to the maximum extent permitted by law.

As of June 30, 2014, Mid Penn did not own or lease any properties. Mid Penn Bank owns or leases the banking offices as identified in the section *Information About Mid Penn Bancorp, Inc. - Properties*.

All Mid Penn employees are employed by Mid Penn Bank. At December 31, 2013, Mid Penn Bank had 178 full-time and 20 part-time employees. Mid Penn Bank and its employees are not subject to a collective bargaining agreement, and Mid Penn Bank believes it enjoys good relations with its personnel.

***Mid Penn Bank***

Millersburg Bank, the predecessor to Mid Penn 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 1971, Millersburg Trust Company adopted the name Mid Penn Bank. The Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation supervise Mid Penn Bank. Mid Penn Bank's legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061. Mid Penn Bank presently has 14 offices located in Dauphin, Northumberland, Schuylkill, and Cumberland Counties, Pennsylvania.

Mid Penn's primary business consists of attracting deposits and loans from its network of community banking offices operated by Mid Penn Bank. Mid Penn 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 Mid Penn Bank are insured by the Deposit Insurance Fund of the FDIC to the maximum extent provided by law. In addition, Mid Penn Bank provides a full range of trust and retail investment services. Mid Penn Bank also offers other services such as Internet banking, telephone banking, cash management services, automated teller services and safe deposit boxes.

*Business Strategy*

Mid Penn Bank engages in a full-service commercial banking and trust business, making available to the community a wide range of financial services. These services are provided to small and middle-market businesses, high net worth individuals, and retail consumers through 14 full service banking facilities.

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Mid Penn's market currently, and historically, has lower unemployment than the U.S. as a whole. This is due in part to a diversified manufacturing and services base and the presence of state government offices, which help shield the local area from national trends. At December 31, 2013, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 5.3% versus the seasonally adjusted national unemployment rate of 6.7%

Mid Penn Bank seeks to develop long-term customer relationships, maintain high quality service and provide quick responses to customer needs. Mid Penn believes that an emphasis on local relationship building and its conservative approach to lending are important factors in the success and growth of Mid Penn.

Mid Penn 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. Mid Penn 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 Mid Penn Bank and must obtain appropriate approvals for credit extensions in excess of conservatively assigned lending limits. Mid Penn 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.

### *Lending Activities*

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

to establish a diversified commercial loan portfolio; and

to provide a satisfactory return to Mid Penn's shareholders by properly pricing loans to include the cost of funds, administrative costs, bad debts, local economic conditions, competition, customer relationships, the term of the loan, credit risk, collateral quality and a reasonable profit margin.

Credit risk is managed through portfolio diversification, underwriting policies and procedures and loan monitoring practices. Mid Penn 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, 2013, Mid Penn Bank's highest concentration of credit is in Commercial Real Estate. Most of Mid Penn Bank's business activity with customers is located in Central Pennsylvania, specifically in Dauphin, lower Northumberland, western Schuylkill, and eastern Cumberland Counties.

### *Investment Activities*

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

Mid Penn's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded on the balance sheet at fair value. Mid Penn's investments include US Treasury, agency and municipal securities that derive fair values relative to investments of the same type with similar maturity dates. As the interest rate environment changes, Mid Penn's fair value of existing securities will change. This difference in value, or unrealized loss, amounted to \$1,132,000, as of December 31, 2013. A majority of the investments are high quality



United States and municipal securities that, if held to maturity, are expected to result in no loss to Mid Penn Bank.

For additional information with respect to Mid Penn's business activities, see *Management's Discussion and Analysis of Financial Condition and Results of Operations of Mid Penn*.

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**Table of Contents***Sources of Funds*

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

*Competition*

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

Many competitors are significantly larger than Mid Penn Bank and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, Mid Penn 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 *Supervision and Regulation*.

Mid Penn has been able to compete effectively with other financial institutions by emphasizing customer service. Mid Penn's customer service model is based on convenient hours, efficient and friendly employees, local decision making, and quality products. 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 Mid Penn operates.

The 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. The recent economic turmoil has negatively impacted the returns on many of these investments and impacted the manner in which investors distribute their funds across investment alternatives. The safety of traditional bank products has again become an attractive option during this period of market volatility. Mid Penn's ability to attract funds in the future will be impacted by the public's appetite for the safety of insured or local investments versus the returns offered by alternative choices as part of their personal investment mix.

**Supervision and Regulation***General*

Bank holding companies and banks are extensively regulated under both Federal and state laws. The regulation and supervision of Mid Penn and Mid Penn Bank are designed primarily for the protection of depositors, the Deposit Insurance Fund, and the monetary system, and not Mid Penn 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 a banking regulator takes any enforcement action, the value of an equity investment in Mid Penn could be substantially reduced or eliminated.

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Federal and state banking laws contain numerous provisions affecting various aspects of the business and operations of Mid Penn and Mid Penn Bank. Mid Penn is subject to, among others, the regulations of the Securities and Exchange Commission and the FRB, and Mid Penn Bank is subject to, among others, the regulations of the Pennsylvania Department of Banking and Securities and the FDIC. 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 Mid Penn or Mid Penn Bank. They are summaries only and are qualified in their entirety by reference to such statutes and regulations.

### *Holding Company Regulation*

Mid Penn is a registered bank holding company subject to supervision and regulation by the FRB. As such, it is subject to the Bank Holding Company Act and many of the FRB's regulations promulgated thereunder. The FRB has broad enforcement powers over bank holding companies, including the power to impose substantial fines and civil penalties.

The Bank Holding Company Act requires Mid Penn to file an annual report with the FRB regarding the holding company and its subsidiary bank. The FRB also makes examinations of the holding company. Mid Penn Bank is not a member of the Federal Reserve System; however, the FRB 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 FRB also makes policy that guides the declaration and distribution of dividends by bank holding companies.

The Bank Holding Company Act restricts a bank holding company's ability to acquire control of additional banks. In addition, the Bank Holding Company Act 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 Mid Penn, 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

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FDIC Improvement Act's 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. Mid Penn has not elected to become a financial holding company at this time.

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;

insurance underwriting and agency;

sponsoring mutual funds and investment companies;

merchant banking activities; and

activities that the FRB 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 NASDAQ have adopted numerous rules implementing the provisions of the Sarbanes-Oxley Act that affect Mid Penn. The changes are intended to allow shareholders to monitor more effectively the performance of companies and management.

#### *Bank Regulation*

Mid Penn Bank, a Pennsylvania-chartered institution, is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities and the FDIC. The deposits of Mid Penn 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 Mid Penn Bank. Moreover, the FDIC may terminate deposit insurance of Mid Penn Bank under certain circumstances. Mid Penn 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 civil and criminal penalties, and to appoint a conservator or receiver if any of a number of conditions is met. In addition, Mid Penn Bank is subject to a variety of local, state and federal laws that affect its operations.

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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, Mid Penn is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) of eight percent. At least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less goodwill ( Tier 1 Capital 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 FRB 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 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 FRB will continue to consider a Tangible Tier 1 Leverage Ratio (deducting all intangibles) in evaluating proposals for expansion or new activity. The FRB has not advised Mid Penn of any specific minimum Tier 1 leverage ratio.

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

The capital ratios of Mid Penn and Mid Penn Bank are described in Note 17 to Mid Penn s Consolidated Financial Statements, which are incorporated herein by reference.

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 Mid Penn or the fair value of Mid Penn stock.

### *Regulatory Capital Changes*

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of \$250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

A minimum ratio of common tier 1 capital to risk-weighted assets of 4.5%.

A minimum ratio of tier 1 capital to risk-weighted assets of 6%.

A minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule).



A minimum leverage ratio of 4%.

In addition, the final rules establishes a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

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Under the proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

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

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

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

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

Mid Penn is in the process of assessing the impact of these changes on the regulatory ratios of Mid Penn and Mid Penn Bank on the capital, operations, liquidity and earnings of Mid Penn and Mid Penn Bank.

*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.

*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 Mid Penn 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

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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*

Mid Penn is a legal entity separate and distinct from its subsidiary, Mid Penn Bank. There are various legal and regulatory limitations on the extent to which Mid Penn Bank can, among other things, finance, or otherwise supply funds to, Mid Penn. Specifically, dividends from Mid Penn Bank are the principal source of Mid Penn's cash funds and there are certain legal restrictions under Pennsylvania law and Pennsylvania banking regulations on the payment of dividends by state-chartered banks. The relevant regulatory agencies also have authority to prohibit Mid Penn and Mid Penn 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 Mid Penn and Mid Penn 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 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 certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain management fees to any controlling person. Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed critically undercapitalized and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

*Deposit Insurance*

The FDIC insures deposits of Mid Penn Bank through the Deposit Insurance Fund (DIF). The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon a variety of factors that include the balance of insured deposits as well as the degree of risk the institution poses to the insurance fund. The FDIC insures deposits up to \$250,000. Mid Penn Bank pays an insurance premium into the DIF

based on the quarterly average daily deposit liabilities net of certain exclusions. The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose

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greater risks to the DIF. The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Subsequently, the rate for each institution within a risk category may be adjusted depending upon different factors that either enhance or reduce the risk the institution poses to the DIF, including the unsecured debt, secured liabilities and brokered deposits related to each institution. Finally, certain risk multipliers may be applied to the adjusted assessment. In 2009, the FDIC increased the amount assessed from financial institutions by increasing its risk-based deposit insurance assessment scale. The quarterly annualized assessment scale for 2009 ranged from twelve basis points of assessable deposits for the strongest institutions to 77.5 basis points for the weakest.

On November 12, 2009, the FDIC approved a rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution's risk-based deposit insurance assessments will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Consequently, Mid Penn's prepayment of DIF premiums made in December 2009 resulted in a prepaid asset of \$2,719,000 at December 31, 2009. At December 31, 2010, 2011, and 2012 the prepaid asset was \$1,878,000, \$871,000, and \$12,000, respectively. At December 31, 2013, the prepaid asset was \$0.

Beginning with the second quarter of 2011, as mandated by the recently enacted Dodd-Frank Act, the assessment base that the FDIC will use to calculate assessment premiums will be a bank's average assets minus average tangible equity. As the asset base of the banking industry is larger than the deposit base, the range of assessment rates will change to a low of 2.5 basis points through a high of 45 basis points, per \$100 of assets; however, the dollar amount of total actual premiums is expected to be roughly the same.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the Deposit Insurance Fund to achieve a reserve ratio of 1.35% of Insurance Fund insured deposits by September 2020. In addition, the FDIC has established a designated reserve ratio of 2.0%, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35% ratio, the FDIC is required to implement assessment formulas that charge banks over \$10 billion in asset size more than banks under that size. Those new formulas began in the second quarter of 2011, but did not affect Mid Penn Bank. Under the Dodd-Frank Act, the FDIC is authorized to make reimbursements from the insurance fund to banks if the reserve ratio exceeds 1.50%, but the FDIC has adopted the designated reserve ratio of 2.0% and has announced that any reimbursements from the fund are indefinitely suspended.

### *Environmental Laws*

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

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### *Consumer Protection Laws*

A number of laws govern the relationship between Mid Penn 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 conditioning the availability or terms of credit on the purchase of another banking product) further restrict Mid Penn 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 Mid Penn and Mid Penn 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 Mid Penn and Mid Penn 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

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 Mid Penn and Mid Penn 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.

Effective April 1, 2003, Regulation W of the FRB comprehensively amended 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.

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### *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 Act's requirements could have serious legal and reputational consequences for the institution. Mid Penn 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.

### *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 Mid Penn and Mid Penn 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 Mid Penn Bank.

### *JOBS Act*

In 2012, the Jumpstart Our Business Startups Act (the JOBS Act) became law. The JOBS Act is aimed at facilitating capital raising by smaller companies and banks and bank holding companies by implementing the following changes:

raising the threshold requiring registration under the Securities Exchange Act of 1934 (the Exchange Act ) for banks and bank holdings companies from 500 to 2,000 holders of record;

raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;

raising the limit for Regulation A offerings from \$5 million to \$50 million per year and exempting some Regulation A offerings from state blue sky laws;

permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;

allowing private companies to use crowdfunding to raise up to \$1 million in any 12-month period, subject to certain conditions; and

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creating a new category of issuer, called an Emerging Growth Company, for companies with less than \$1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity IPO and complying with public company reporting obligations for up to five years. While the JOBS Act is not expected to have any immediate application to Mid Penn, management will continue to monitor the implementation rules for potential effects which might benefit Mid Penn.

### *Dodd-Frank Act*

The Dodd-Frank Act, which became law in July 2010, significantly changes regulation of financial institutions and the financial services industry, including: creating a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which will be responsible for implementing, examining and enforcing compliance with federal consumer financial laws; permanently raising the current standard maximum deposit insurance amount to \$250,000; establishing strengthened capital standards for banks, and disallowing certain trust preferred securities from qualifying as Tier 1 capital (subject to certain grandfather provisions for existing trust preferred securities); establishing new minimum mortgage underwriting standards; granting the FRB the power to regulate debit card interchange fees; and implementing corporate governance changes. Many aspects of the Dodd-Frank Act are subject to rulemaking that will take effect over several years, thus making it difficult to assess the impact of the statute on the financial industry, including Mid Penn, at this time.

It is difficult to predict at this time the specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is presently unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of Mid Penn business activities, require changes to certain of Mid Penn's business practices, impose upon Mid Penn more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect Mid Penn's business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

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

Changes in regulations applicable to Mid Penn or Mid Penn Bank, or shifts in monetary or other government policies, could have a material effect on Mid Penn's business. Mid Penn's and Mid Penn 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. Mid Penn cannot predict the likelihood of any major changes or the impact such changes might have on Mid Penn and/or Mid Penn 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.

Mid Penn's earnings are, and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the FRB have had, and will

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likely continue to have, an impact on the operating results of commercial banks because of the FRB's power to implement national monetary policy to, among other things, curb inflation or combat recession. The FRB 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 Mid Penn and Mid Penn Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, Mid Penn Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business. Congress is currently debating major legislation that may fundamentally change the regulatory oversight of banking institutions in the United States. Whether any legislation will be enacted or additional regulations will be adopted, and how they might impact Mid Penn cannot be determined at this time.

***Properties***

With the exception of the Market Square Office and Derry Street Loan Operations Center in Harrisburg, Pennsylvania, Mid Penn Bank owns its main office, Operations Center, and branch offices and certain parking facilities related to its banking offices, all of which are free and clear of any lien. Mid Penn Bank's main office and all branch offices are located in Pennsylvania. All of these properties are in good condition and are deemed by management to be adequate for Mid Penn Bank's purposes. The table below sets forth the location of each of Mid Penn Bank's properties.

<b>Property Location</b>	<b>Description of Property</b>	<b>Property Location</b>	<b>Description of Property</b>
Millersburg	Main Office & Branch Office	Lykens Office	Branch Office
349 Union Street		550 Main Street	
Millersburg, PA 17061		Lykens, PA 17048	
Elizabethville Office	Branch Office	Allentown Boulevard Office	Branch Office
4642 State Route 209		5500 Allentown Boulevard	
Elizabethville, PA 17023		Harrisburg, PA 17112	
Dalmatia Office	Branch Office	Market Square Office	Branch Office
132 School House Road		17 N. Second Street	
Dalmatia, PA 17017		Harrisburg, PA 17101	
Carlisle Pike Office	Branch Office	Steelton Office	Branch Office
4622 Carlisle Pike		51 South Front Street	

Mechanicsburg, PA 17050		Steelton, PA 17113	
Derry Street Office	Branch Office	Middletown Office	Branch Office
4509 Derry Street		1100 Spring Garden Drive	
Harrisburg, PA 17111		Middletown, PA 17057	
Front Street Office	Branch Office	Camp Hill Office	Branch Office
2615 North Front Street		2101 Market Street	
Harrisburg, PA 17110		Camp Hill, PA 17011	
Tower City Office	Branch Office	Operations Center	Operations Center
545 East Grand Avenue		894 N. River Road	
Tower City, PA 17980		Halifax, PA 17032	
Dauphin Office	Branch Office	Derry Street Loan	Administrative Office
1001 Peters Mountain Road		Administrative Operations	
Dauphin, PA 17018		4099 Derry Street	
		Harrisburg, PA 17111	

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### ***Legal Proceedings***

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

### ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

### ***Management's Discussion and Analysis of Financial Condition and Results of Operations of Mid Penn***

#### ***Critical Accounting Estimates***

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

Management of Mid Penn considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of Mid Penn's investment securities for other-than-temporary impairment, the valuation of deferred tax assets, and the assessment of goodwill for impairment to be the accounting areas that require the most subjective and complex judgments.

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

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

Accounting Standards Codification (ASC) Topic 350, *Intangibles-Goodwill and Other*, requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. Mid Penn did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2013. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events



occur.

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Mid Penn recognizes deferred tax assets and liabilities for the future effects of temporary differences and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the consolidated statements of income in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management's judgment it is more likely than not that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair Mid Penn's ability to benefit from the asset in the future.

The following is Management's Discussion of Consolidated Financial Condition as of June 30, 2014, compared to year-end 2013, and the Results of Operations for the three and six months ended June 30, 2014, compared to the same period in 2013.

This discussion should be read in conjunction with the financial tables, statistics, and the audited financial statements and notes thereto included elsewhere in this joint proxy statement/prospectus. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year.

**Results of Operations***Overview for Quarter Ended June 30, 2014*

Net income available to common shareholders was \$1,619,000, \$0.46 basic earnings per common share, for the quarter ended June 30, 2014, as compared to net income available to common shareholders of \$1,279,000, or \$0.37 basic earnings per common share, for the quarter ended June 30, 2013, a 26.6% increase. During the six months ended June 30, 2014, net income available to common shareholders was \$3,043,000, or \$0.87 basic earnings per common share, versus \$1,903,000, or \$0.55 basic earnings per common share for the same period in 2013, a 59.9% increase.

Net interest income increased \$904,000, or 15.5%, to \$6,751,000 for the quarter ended June 30, 2014 from \$5,847,000 during the quarter ended June 30, 2013. Through the first six months of 2014, net interest income increased \$1,717,000, or 15.2%, to \$13,023,000 from \$11,306,000 during the same period in 2013.

The provision for loan and lease losses in the second quarter of 2014 was \$275,000, compared to \$415,000 in the second quarter of 2013. During the six months ended June 30, 2014, the provision for loan and lease losses was \$822,000 compared to \$910,000 for the six months ended June 30, 2013.

Net income as a percent of average assets (return on average assets or ROA) and shareholders' equity (return on average equity or ROE) were as follows on an annualized basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Return on average assets	0.94%	0.78%	0.90%	0.59%
Return on average equity	12.11%	10.33%	11.67%	7.81%

Total assets increased \$23,355,000 to \$736,480,000 at June 30, 2014, from \$713,125,000 at December 31, 2013.

Available for sale investment securities increased \$20,033,000 from \$122,803,000 at December 31, 2013 to \$142,836,000 at June 30, 2014. Due to the strategic increase in public funds deposits, Mid Penn increased the amount of pledgeable investments in its portfolio. Gross loans increased \$2,153,000 during the first six months of 2014, while

interest-bearing time deposits with other financial institutions decreased \$1,641,000 from \$7,513,000 at December 31, 2013 to \$5,872,000 at June 30, 2014. Mid Penn has been allowing a substantial portion of maturing interest-bearing time deposits with other financial institutions run off to fund loan growth and purchase higher yielding investment securities. Total deposits increased \$23,875,000 from \$608,130,000 at

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December 31, 2013 to \$632,005,000 at June 30, 2014. Interest bearing demand and money market deposit balances increased \$25,889,000 to \$423,715,000 at June 30, 2014 from \$397,826,000 at December 31, 2013 due to the addition of large cash management, non-profit, and government accounts. Time deposits declined \$4,438,000 from \$132,373,000 at December 31, 2013 as less aggressive certificate of deposit rates have allowed non-relationship time deposits to run off and shifted the funding composition towards lower-cost deposits, including public funds. This strategy, coupled with strong earning assets, has improved margins and provided positive momentum to net interest income during the first half of 2014. Short-term borrowings decreased \$16,213,000 from \$23,833,000 at December 31, 2013 to \$7,620,000 at June 30, 2014, while long-term debt increased \$9,909,000 from \$23,145,000 at December 31, 2013 due to the addition of a \$10,000,000 FHLB Advance borrowing. The long-term debt borrowing was taken as a prudent and planned asset liability management strategy to take advantage of low long-term borrowing rates. This strategy was taken in light of the decrease in short-term borrowings, which is primarily attributed to the increase in deposits, as well as the additional FHLB Advance borrowing, which lessened Mid Penn's need for overnight funds.

*Net Interest Income/Funding Sources*

Net interest income, Mid Penn's primary source of revenue, is the amount by which interest income on loans and investments exceeds interest incurred on deposits and borrowings. The amount of net interest income is affected by changes in interest rates and changes in the volume and mix of interest-sensitive assets and liabilities. Net interest income and corresponding yields are presented in the analysis below on a taxable-equivalent basis. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is adjusted by an amount equivalent to the federal income taxes which would have been paid if the income received on these assets was taxable at the statutory rate of 34%.

For the three months ended June 30, 2014, Mid Penn's taxable-equivalent net interest margin increased to 4.16%, from 3.73% for the three months ended June 30, 2013. Net interest income, on a taxable-equivalent basis, in the three months ended June 30, 2014, increased to \$7,154,000 from \$6,184,000 during the same three months of 2013. These increases are primarily attributable to the rise in investment security yields from 2.38% to 3.62%, increasing tax-effected investment security income by \$332,000, or 37.8%, as well as the increase in loan volume, which equated to an increase in tax-effected loan income of \$477,000, or 7.2%, during the three months ended June 30, 2014 compared to the same period in 2013.

For the six months ended June 30, 2014, Mid Penn's taxable-equivalent net interest margin increased to 4.08% from 3.63% for the six months ended June 30, 2012. Net interest income, on a taxable equivalent basis, in the first six months of 2014, increased to \$13,809,000 from \$11,969,000 in the first six months of 2013. These increases are primarily attributable to the rise in investment security yields from 2.33% to 3.63%, increasing tax-effected investment security income by \$591,000, or 34.5%, as well as the increase in loan volume, which equated to an increase in tax-effected loan income of \$793,000, or 6.1%, during the six months ended June 30, 2014 compared to the same period in 2013.

Included in the net interest income increase for the three and six months ended June 30, 2014 is \$346,000 in recaptured nonaccrual interest from two large commercial real estate loans to a commercial borrower that were returned to accruing status in June 2014, and does not have a material impact on Mid Penn interim consolidated financial statements.

Although the effective interest rate impact on earning assets and funding sources can be reasonably estimated at current interest rate levels, the options selected by customers, and the future mix of the loan, investment, and deposit products in Mid Penn Bank's portfolios, may significantly impact future operating results. In addition, Mid Penn's net

interest income may be impacted by further interest rate actions of the FRB.

*Provision for Loan Losses*

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at a level adequate to absorb management's estimate of probable losses in the loan and lease portfolio.

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Mid Penn's provision for loan and lease losses is based upon management's monthly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans and leases, analyze delinquencies, ascertain loan and lease growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets Mid Penn serves.

Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which takes into consideration the risk characteristics of the loan and lease portfolio, the growth in the loan and lease portfolio during the first six months of 2014, and shifting collateral values from December 31, 2013 to June 30, 2014.

Following its model for loan and lease loss allowance adequacy, management recorded a \$275,000 provision for the three months ended June 30, 2014, as compared to a provision of \$415,000 for the three months ended June 30, 2013. During the six months ended June 30, 2014, the provision for loan and lease losses was \$822,000, as compared to \$910,000 for the six months ended June 2013. The allowance for loan and lease losses as a percentage of total loans was 1.12% at June 30, 2014, compared to 1.16% at December 31, 2013. For further discussion of factors affecting the provision for loan and lease losses please see Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses in the Financial Condition section of this Management's Discussion and Analysis.

*Noninterest Income*

Noninterest income decreased \$64,000, or 7.6%, during the second quarter of 2014 versus the same period in 2013. During the six months ended June 30, 2014, noninterest income decreased \$20,000, or 1.2%, versus the same period in 2013. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	Three Months Ended June 30,			
	2014	2013	\$ Variance	% Variance
Income from fiduciary activities	\$ 167	\$ 110	\$ 57	51.8%
Net gain on sales of investment securities		112	(112)	-100.0%
Mortgage banking income	75	115	(40)	-34.8%
Other income	113	83	30	36.1%

(Dollars in Thousands)	Six Months Ended June 30,			
	2014	2013	\$ Variance	% Variance
Income from fiduciary activities	\$ 325	\$ 249	\$ 76	30.5%
Net gain on sales of investment securities	150	112	38	33.9%
Mortgage banking income	113	225	(112)	-49.8%
Merchant services income	133	174	(41)	-23.6%
Net gain on sales of SBA loans	78		78	NA
Other income	239	286	(47)	-16.4%

Income from fiduciary activities increased during the three and six months ended June 30, 2014 versus the same periods in 2013. This variance is the result of increased sales of third party mutual funds and annuities during 2014 versus 2013. Mid Penn recognized investment security gains in the six months ended June 30, 2014 to take advantage of opportunities to enhance the investment portfolio's overall performance. Mortgage banking income was down during the three and six months ended June 30, 2014. Refinancing activity subsided relative to 2013 due to rate increases, while purchase activity was hampered by harsh winter weather conditions throughout the Mid Penn market area during the first quarter of 2014. Merchant services income was also adversely impacted by harsh weather

conditions during the first quarter as merchants lost out on sales due to the lack of traffic. Net gain on sales of SBA loans increased during the six months ended June 30, 2014 versus the same period in 2013 due to Mid Penn beginning the sale of the guaranteed portion of Small Business Association (SBA) loans in the secondary market. Other income increased in the second quarter of 2014 compared to the

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same period in 2013 primarily due to increases in letter of credit and loan satisfaction fees. Other income decreased for the six months ended June 30, 2014 because 2013's figure included reimbursements from loan collection costs by a commercial borrower and unclaimed funds from the flexible spending and dental reimbursement plans from the 2011-2012 plan year, which were not received in 2014.

*Noninterest Expenses*

Noninterest expenses increased \$456,000, or 9.9%, during the second quarter of 2014, versus the same period in 2013. During the six months ended June 30, 2014, noninterest expenses increased \$157,000, or 1.6%, versus the same period in 2013. The changes were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended June 30,			
	2014	2013	\$ Variance	% Variance
Salaries and employee benefits	\$ 2,843	\$ 2,685	\$ 158	5.9%
Occupancy expense, net	322	269	53	19.7%
Equipment expense	310	345	(35)	-10.1%
Software licensing	212	246	(34)	-13.8%
Gain on sale/write-down of foreclosed assets	(30)	(303)	273	-90.1%
Other expenses	646	614	32	5.2%

(Dollars in Thousands)	Six Months Ended June 30,			
	2014	2013	\$ Variance	% Variance
Salaries and employee benefits	\$ 5,391	\$ 5,542	\$ (151)	-2.7%
Occupancy expense, net	704	579	125	21.6%
Equipment expense	611	661	(50)	-7.6%
Pennsylvania Bank Shares tax expense	208	261	(53)	-20.3%
FDIC Assessment	271	333	(62)	-18.6%
Legal and professional fees	265	320	(55)	-17.2%
Loss (gain) on sale/write-down of foreclosed assets	57	(322)	379	-117.7%

Salaries and employee benefits increased during the three months ended June 30, 2014 due to the establishment of a bonus pool for employees based upon the strong earnings results during 2014 and would be paid, if earnings performance continues to excel, after the conclusion of the calendar year's results are finalized. Salaries and employee benefits decreased during the six months ended June 30, 2014, primarily due to improved actual medical claims from Mid Penn's self-funded insurance plan. The first half of 2014 also reflects the benefit of lower staffing levels in operational areas derived from the conversion to a hosted computer environment with the Mid Penn primary computer vendor during the fourth quarter of 2013. Occupancy expense increased during the three and six months ended June 30, 2014 due to increases in snow removal costs and heating as a result of the harsh weather conditions during the first and early second quarter. Equipment expense decreased during the three and six months ended June 30, 2014 due to reduced repair and replacement costs on existing equipment. Pennsylvania Bank Shares tax expense decreased during the six months ended June 30, 2014 due to a change in the calculation methodology. FDIC assessments consist of premiums paid by FDIC-insured institutions. The assessments are based on statutory and risk classification factors. FDIC assessments decreased during the six months ended June 30, 2014 mainly due to a reduction in Mid Penn Bank's risk rating over that period. Software licensing decreased during the three months ended June 30, 2014, primarily due to migration to a hosted computer environment with the Mid Penn primary computer vendor during the fourth quarter



of 2013. Legal and professional fees decreased during the six months ended June 30, 2014 due to a decrease in consultant expenses over the same period last year, which included one-time set-up fees associated with the migration of Mid Penn's core banking data from an in-house environment to a service bureau hosted platform. (Gain) loss on sale/write-down of foreclosed assets decreased during the three and six months ended June 30, 2014 versus the same periods in 2013 due to the write-down of foreclosed assets as a result of updated appraisals on subject properties

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within the portfolio and the recognition of a substantial gain on the sale of a property during the second quarter of 2013. Other expenses increased during the three months ended June 30, 2014 versus the same period in 2013 primarily due to a migration to a per item cost structure associated with the transition to a hosted computer environment with the Mid Penn primary computer vendor during the fourth quarter of 2013.

*Income Taxes*

The provision for income taxes was \$475,000 for the three months ended June 30, 2014, as compared to the provision for income taxes of \$292,000 in the same period last year. The effective tax rate for the three months ended June 30, 2014, was 21.8% compared to 17.6% for the three months ended June 30, 2013. The provision for income taxes for the six months ended June 30, 2014 was \$845,000, as compared to \$384,000 during the same period in 2013. The effective tax rate for the six months ended June 30, 2014 was 20.8% compared 15.8% for the six months ended June 30, 2013. This increase is mainly due to Mid Penn's strong earnings in 2014 coupled with tax-exempt interest representing a smaller percentage of pre-tax income as compared to the same period last year. Generally, Mid Penn's effective tax rate is below the statutory rate due to earnings on tax-exempt loans, investments, and bank-owned life insurance, as well as the impact of tax credits. The realization of deferred tax assets is dependent on future earnings. Mid Penn currently anticipates that future earnings will be adequate to fully utilize deferred tax assets.

**Financial Condition***Loans*

During the first six months of 2014, Mid Penn experienced an increase in loans outstanding of \$2,153,000, or 0.4%. Commercial real estate accounted for the majority of the growth while balances in the residential portfolio declined due to weaker demand in the mortgage market.

(Dollars in thousands)	June 30, 2014		December 31, 2013	
	Amount	%	Amount	%
Commercial real estate, construction and land development	\$ 280,852	51.2%	\$ 274,279	50.2%
Commercial, industrial and agricultural	107,410	19.6%	107,492	19.7%
Residential mortgage	156,535	28.5%	160,294	29.3%
Consumer	3,818	0.7%	4,397	0.8%
	\$ 548,615	100.0%	\$ 546,462	100.0%

Most of Mid Penn's lending activities are with customers located within the trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County, Pennsylvania. This region currently, and historically, has lower unemployment than the U.S. as a whole. This is due in part to a diversified manufacturing and services base and the presence of state government offices which help shield the local area from national trends. At June 30, 2014, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 4.9% versus the seasonally adjusted national unemployment rate of 6.1%.

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

During the first six months of 2014, Mid Penn had net charge-offs of \$1,009,000 compared to net charge-offs of \$152,000 during the same period of 2013. Loans charged off during the first six months of 2014 were comprised of 13

commercial real estate loans spread among eight unrelated relationships totaling \$862,000, three residential real estate loans to unrelated borrowers totaling \$86,000, one home equity loan for \$43,000, one commercial and industrial loan for \$41,000, and five consumer loans to unrelated borrowers totaling \$23,000. The remaining \$3,000 was comprised of deposit account charge-offs. Mid Penn may need to make future adjustments to the allowance and the provision for loan and lease losses if economic conditions or loan credit quality differs substantially from the assumptions used in making Mid Penn's evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.

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Changes in the allowance for loan and lease losses for the six months ended June 30, 2014 and 2013 are summarized as follows:

(Dollars in thousands)	Six Months Ended June 30,	
	2014	2013
Average total loans outstanding (net of unearned interest)	\$ 546,706	\$ 489,282
Period ending total loans outstanding (net of unearned interest)	548,615	518,658
Balance, beginning of period	6,317	5,509
Loans charged off during period	(1,058)	(280)
Recoveries of loans previously charged off	49	128
Net chargeoffs	(1,009)	(152)
Provision for loan and lease losses	822	910
Balance, end of period	\$ 6,130	\$ 6,267
Ratio of net loans charged off to average loans outstanding (annualized)	0.37%	0.06%
Ratio of allowance for loan losses to net loans at end of period	1.12%	1.21%

Other than as described herein, Mid Penn does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Further, based on known information, Mid Penn believes that the effects of current and past economic conditions and other unfavorable business conditions may influence certain borrowers' abilities to comply with their repayment terms. Mid Penn continues to monitor closely the financial strength of these borrowers. Mid Penn does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not normally structure construction loans with interest reserve components. Mid Penn has not in the past performed any commercial real estate or other type loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not extend loans at maturity solely due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

At June 30, 2014, total nonperforming loans amounted to \$11,090,000, or 2.02% of loans and leases net of unearned income, as compared to levels of \$11,710,000, or 2.14%, at December 31, 2013 and \$16,885,000, or 3.26%, at June 30, 2013.

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Nonperforming Assets:			
Nonaccrual loans	\$ 8,826	\$ 10,877	\$ 16,003
Accruing troubled debt restructured loans	2,264	833	882
Total nonperforming loans	11,090	11,710	16,885
Foreclosed real estate	1,083	965	1,030

Total non-performing assets	12,173	12,675	17,915
Accruing loans 90 days or more past due			
Total risk elements	\$ 12,173	\$ 12,675	\$ 17,915
Nonperforming loans as a % of total loans outstanding	2.02%	2.14%	3.26%
Nonperforming assets as a % of total loans outstanding and other real estate	2.21%	2.32%	3.45%
Ratio of allowance for loan losses to nonperforming loans	55.28%	53.94%	41.60%

In the table above, loans renegotiated with borrowers represent Mid Penn's accruing troubled debt restructured loans. Troubled debt restructured loans that are no longer accruing interest are included in nonaccrual loans.

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Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit. The following table provides additional analysis of partially charged-off loans.

(Dollars in thousands)	June 30, 2014	December 31, 2013
Period ending total loans outstanding (net of unearned interest)	\$ 548,615	\$ 546,462
Allowance for loan and lease losses	6,130	6,317
Total Nonperforming loans	11,090	11,710
Nonperforming and impaired loans with partial charge-offs	2,704	2,103
Ratio of nonperforming loans with partial charge-offs to total loans	0.49%	0.38%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	24.38%	17.96%
Coverage ratio net of nonperforming loans with partial charge-offs	73.10%	65.75%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	1.12%	1.16%

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

Mid Penn considers a commercial loan or commercial real estate loan to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow ( DCF ) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90-day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan or commercial real estate loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the

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guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

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

By definition, troubled debt restructurings are considered impaired. Impairment for troubled debt restructured loans still accruing interest is tested each quarter for both the most effective impairment method to be utilized, and the level of impairment. As of June 30, 2014, there were seven accruing troubled debt restructured loans among six relationships. Five loans to unrelated borrowers represented \$782,000 in accruing troubled debt restructurings evaluated for impairment using the estimated fair value of the collateral securing the loan, while the remaining two accruing troubled debt restructurings representing \$1,482,000, were evaluated for impairment using the discounted cash flow methodology. As of December 31, 2013, there were five accruing troubled debt restructured loans to unrelated borrowers representing \$833,000. All five loans were evaluated for impairment using the estimated value of the collateral securing the loans.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as substandard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use the most current existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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

Mid Penn does not currently, or plan in the future to, use automated valuation methodologies as a method of valuing real estate collateral.



As of June 30, 2014, Mid Penn had several loan relationships, with an aggregate carrying balance of \$10,511,000, deemed impaired. This group of loans is further broken down into a group of loans with an aggregate carrying balance of \$7,219,000 for which specific allocations totaling \$1,232,000 have been included within the allowance for loan and lease losses. The remaining \$3,292,000 of loans requires no specific allocation

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within the loan loss reserve. The \$10,511,000 of impaired loan relationships is comprised of \$8,538,000 in real estate secured commercial relationships and \$1,973,000 in business relationships. There are specific allocations against the real estate secured group totaling \$978,000, spread among 7 loans to unrelated borrowers. Two large loans to commercial borrowers account for \$381,000 and \$217,000 of the specific allocation against real estate secured loans, while the other five loans account for the remaining \$380,000. The group of impaired business relationships with specific allocations consists of four loans among three relationships with \$254,000 in specific allocations set aside against these credits. One large commercial participation relationship comprised of two loans is responsible for a specific allocation of \$191,000 of the total pool attributable to this segment. Management currently believes that the specific reserves are adequate to cover foreseeable probable losses related to these relationships.

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risk on a monthly basis so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Mid Penn board of directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses an integral part of the examination process.

In establishing the allowance, management evaluates on a quantitative basis individual classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. In addition, an allowance for the remainder of the loan and lease portfolio is determined based on historical loss experience within certain components of the portfolio. These allocations may be modified if current conditions indicate that loan and lease losses may differ from historical experience.

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. These factors include:

Changes in local, regional, and national economic and business conditions affecting the collectability of the portfolio, the values of underlying collateral, and the condition of various market segments.

Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans.

Changes in the experience, ability, and depth of lending management and other relevant staff as well as the quality of the institution's loan review system.

Changes in the nature and volume of the portfolio and the terms of loans generally offered.

The existence and effect of any concentrations of credit and changes in the level of such concentrations.

While the allowance for loan and lease losses is maintained at a level believed to be adequate by management for covering estimated losses in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

Management believes, based on information currently available, that the allowance for loan and lease losses of \$6,130,000 is adequate as of June 30, 2014.

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*Liquidity*

Mid Penn's objective is to maintain adequate liquidity to meet funding needs at a reasonable cost and to provide contingency plans to meet unanticipated funding needs or a loss of funding sources, while minimizing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals and for funding corporate operations. Sources of liquidity are as follows:

A growing core deposit base;

Proceeds from the sale or maturity of investment securities;

Proceeds from interest-bearing time deposits with other financial institutions;

Payments received on loans and mortgage-backed securities;

Overnight correspondent bank borrowings on various credit lines; and,

Borrowing capacity available from the FHLB.

Major sources of cash in the first six months of 2014 came from the increase in demand deposits and savings accounts totaling \$28,313,000, proceeds from long-term debt borrowings of \$10,000,000, and the sale of investment securities of \$7,199,000.

Major uses of cash in the first six months of 2014 were the purchases of investment securities of \$30,111,000 and the decrease in short-term borrowings of \$16,213,000.

Major sources of cash in the first six months of 2013 came from the maturities of investment securities and interest-bearing time deposits with other financial institutions totaling \$34,820,000 and the increase in short-term borrowings of \$27,512,000.

Major uses of cash in the first six months of 2013 were the increase in net loans and leases of \$35,852,000, the purchases of investment securities of \$13,715,000, the decrease in time deposits of \$12,812,000, and the repayment of long-term debt borrowings of \$10,776,000.

Mid Penn believes its core deposits are stable even in periods of changing interest rates. Liquidity is measured and monitored daily, allowing management to better understand and react to balance sheet trends. These measurements indicate that liquidity generally remains stable and exceeds Mid Penn's minimum defined levels of adequacy. Other than the trends of continued competitive pressures and volatile interest rates, there are no known demands, commitments, events, or uncertainties that will result in, or that are reasonably likely to result in, liquidity increasing or decreasing in any material way.

On a quarterly basis, a comprehensive liquidity analysis is reviewed by the Asset Liability Committee and Mid Penn board of directors. The analysis provides a summary of the current liquidity measurements, projections, and future liquidity positions given various levels of liquidity stress. Management also maintains a detailed Contingency Funding Plan designed to respond to an overall decline in the financial condition of the banking industry or a problem specific to Mid Penn.

*Capital Resources*

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

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Shareholders' equity increased during the six months ended June 30, 2014 by \$4,644,000, or 8.8%, from December 31, 2013. Capital has been positively impacted in 2014 by positive earnings available to common shareholders of \$3,043,000 and other comprehensive income of \$2,100,000. All of Mid Penn's investment securities are classified as available for sale, making this portion of the balance sheet more sensitive to the changing market value of investments. Accumulated other comprehensive income associated with the change in investment securities increased \$2,094,000 from December 31, 2013, and accounts for the majority of the change in accumulated other comprehensive income (loss).

Banks are evaluated for capital adequacy based on the ratio of capital to risk-weighted assets and total assets. The risk-based capital standards require all banks to have Tier 1 capital of at least 4.0% and total capital (including Tier 1 capital) of at least 8.0% of risk-weighted assets. The capital standard based on average assets, also known as the leverage ratio, requires all, but the most highly-rated banks, to have Tier 1 capital of at least 4.0% of total average assets. At June 30, 2014, Mid Penn met the definition of a well-capitalized institution.

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of June 30, 2014 and December 31, 2013.

	Capital Adequacy					
	Actual:		Minimum Capital Required:		To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Corporation</b>						
As of June 30, 2014:						
Tier 1 Capital (to Average Assets)	\$ 55,259	7.6%	\$ 28,961	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	55,259	10.3%	21,449	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	61,453	11.5%	42,898	8.0%	N/A	N/A
<b>Bank</b>						
As of June 30, 2014:						
Tier 1 Capital (to Average Assets)	\$ 55,148	7.6%	\$ 28,961	4.0%	\$ 36,201	5.0%
Tier 1 Capital (to Risk Weighted Assets)	55,148	10.3%	21,449	4.0%	32,173	6.0%
Total Capital (to Risk Weighted Assets)	61,342	11.4%	42,898	8.0%	53,622	10.0%
<b>Corporation</b>						
As of December 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 52,693	7.5%	\$ 28,031	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	52,693	9.9%	21,234	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	59,100	11.1%	42,467	8.0%	N/A	N/A
<b>Bank</b>						
As of December 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 52,598	7.5%	\$ 28,041	4.0%	\$ 35,051	5.0%
Tier 1 Capital (to Risk Weighted Assets)	52,598	9.9%	21,234	4.0%	31,850	6.0%

Total Capital (to Risk Weighted Assets)	59,005	11.1%	42,467	8.0%	53,084	10.0%
<i>Regulatory Capital Changes</i>						

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of \$250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

A minimum ratio of common tier 1 capital to risk-weighted assets of 4.5%.

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A minimum ratio of tier 1 capital to risk-weighted assets of 6%.

A minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule).

A minimum leverage ratio of 4%.

In addition, the final rules establishes a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

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

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

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

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

### *Capital Purchase Program Participation*

On December 19, 2008, Mid Penn entered into and closed a letter agreement with the United States Department of the Treasury (the Treasury) pursuant to which the Treasury invested \$10,000,000 in Mid Penn under the Treasury's Capital Purchase Program (the CPP). Under the letter agreement, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation preference (Series A Preferred Stock), and (2) warrants to purchase up to 73,099 shares of the Mid Penn common stock at an exercise price of \$20.52 per share



(the Warrants ).

On December 28, 2012, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury all 10,000 shares of the Series A Preferred Stock issued to the Treasury, which constitutes all of the issued and outstanding shares of Series A Preferred Stock. Mid Penn repurchased the Series A Preferred Stock for a purchase price equal to the aggregate liquidation amount of the Preferred Stock of \$10,000,000, plus accrued but unpaid dividends of \$59,722. All 10,000 shares of Series A Preferred Stock have subsequently been cancelled.

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On January 23, 2013, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury on that date the Warrants for \$58,479. The Warrants have subsequently been cancelled.

As of the date hereof, Mid Penn has no further financial obligations under the Series A Preferred Stock, the Warrants, or the Treasury's CPP.

*Overview for Year Ended December 31, 2013*

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

2013 versus 2012

Mid Penn's net income available to common shareholders of \$4,616,000 for the year 2013 reflected an increase of \$179,000, or 4.0%, over the \$4,437,000 for the year 2012. This represented net income in 2013 of \$1.32 per common share compared to \$1.27 per common share in 2012.

Total assets of Mid Penn grew \$7,925,000, or 1.1%, in 2013 to close the year at \$713,125,000, compared to \$705,200,000 at year-end 2012. The majority of the asset growth was centered in the loan portfolio, which increased \$62,242,000, or 12.9%, to \$546,462,000. This loan growth was supported by a decrease in investments, which fell to \$122,803,000, or 20.4%, from \$154,295,000 at the end of 2012.

Total deposits decreased \$17,331,000, or 2.8%, from \$625,461,000 at the end of 2012 to \$608,130,000 at December 31, 2013. This was part of a comprehensive effort to improve Mid Penn's overall funding mix by reducing reliance on higher-priced money market and certificate of deposit funds and placing greater emphasis on less expensive demand deposits and savings balances. As a result of these efforts, demand deposits and savings comprise 45.9% of total deposits at the end of 2013 versus 40.2% of total deposits at the end of 2012. Mid Penn also had shifted to a short-term borrowing position of \$23,833,000 as part of its funding strategy by the end of 2013.

Mid Penn's return on average shareholders' equity, (ROE), a widely recognized performance indicator in the financial industry, was 9.37% in 2013 and 8.78% in 2012. Return on average assets (ROA), another performance indicator, was 0.71% in 2013 and 0.69% in 2012.

Mid Penn's performance during 2013 improved over the results reported in 2012. This improvement was the result of increased loan production, improving cost of funds, improvement in nonperforming loans, and consistent management of controllable expenses throughout 2013.

Net interest margin improved to 3.80% in 2013 from 3.63% in 2012. This improvement was driven by a 34 basis point improvement in the rate on supporting liabilities to 0.86% in 2013 from 1.20% in 2012. This improvement allowed average interest spread to increase to 3.70% from 3.49% in 2012 and net interest income on a tax equivalent basis to increase to \$25,250,000 in 2013 from \$24,494,000 in 2012. This increase was achieved in spite of the substantial pool of nonperforming loans being carried on the balance sheet. The amount of interest income lost on this pool of troubled loans in 2013 amounted to \$861,000. Further discussion of net interest margin can be found in the Net Interest Income section below.

Total nonperforming assets decreased \$425,000 from \$13,100,000 in 2012 to \$12,675,000 at the end of 2013. Decreasing nonaccrual loans were the leading source of improvement in nonperforming assets. Further discussion of these components can be found in the Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses section

below.

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Net charge-offs decreased to \$877,000 in 2013 from \$2,299,000 during 2012. Mid Penn increased provision for loan and lease losses from \$1,036,000 in 2012 to \$1,685,000 in 2013. This was largely driven by the increase in loans in the overall portfolio. Further discussion of these issues can be found in the Provision for Loan and Lease Losses section below.

Mid Penn Bank's tier one capital (to risk weighted assets) of \$52,693,000, or 9.9%, and total capital (to risk weighted assets) of \$59,100,000, or 11.1%, at December 31, 2013, are above the regulatory requirements. Tier one capital consists primarily of Mid Penn Bank's shareholders' equity and any qualifying preferred stock. Total capital also 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.

**2012 versus 2011**

Mid Penn recorded net income available to common shareholders of \$4,437,000 for the year 2012, compared to \$4,029,000 in 2011, which was an increase of \$408,000 or 10.1%. This represents net income in 2012 of \$1.27 per common share compared to \$1.16 per common share in 2011.

Total assets of Mid Penn contracted in 2012, falling to \$705,200,000, a decrease of \$10,183,000, or 1.4% from \$715,383,000 at year-end 2011. The majority of asset contraction came from a decrease in investments, which fell to \$154,295,000 or 3.0% from \$159,043,000 at the end of 2011. Federal funds sold also decreased, falling \$3,439,000 or 53.4% from \$6,439,000 at the end of 2011. These asset reductions were used to offset a reduction in deposits, which decreased 1.4% to \$625,461,000 from \$634,055,000 at year-end 2011. This deposit decrease was the result of the maturity of a \$10,000,000 brokered certificate of deposit early in 2012.

The continued soft economy was the major contributor to modest loan growth during 2012. Loan balances increased 0.3% to \$484,220,000 from \$482,717,000 in 2011. Mid Penn experienced weak loan demand during 2012 despite a desire to sensibly lend to support creditworthy existing and new customers in the marketplace. Adding additional strain to weakened demand was the increase in unscheduled payoffs of large loans within the portfolio. The continued low interest rate environment and weak economy has increased the competitive pressure from other lending institutions to attract borrowers from other institutions as well as incenting borrowers to use surplus cash reserves to pay down debt rather than expand their operations.

Mid Penn's return on average shareholders' equity, (ROE), a widely recognized performance indicator in the financial industry, was 8.78% in 2012 and 8.96% in 2011. Return on average assets (ROA), another performance indicator, was 0.69% in 2012 and 0.66% in 2011.

Mid Penn's performance during 2012 was a solid improvement over the results reported in 2011. This improvement was the result of reduced provision for loan and lease losses, improving cost of funds, consistent management of controllable expenses, and growth in noninterest income sources throughout 2012.

Net charge-offs increased from \$1,494,000 in 2011 to \$2,299,000 during 2012. Despite the increase in net charge-offs from 2011, Mid Penn was able to reduce provision for loan and lease losses from \$1,205,000 in 2011 to \$1,036,000 in 2012. This stemmed from the fact that \$1,499,000 of the net charge-offs during 2012 had a previously recorded balance included in the allowance for loan and lease losses. As Mid Penn continues to work to resolve the elevated levels of nonperforming loans, the relationship between net charge-offs and provision for loan and lease losses may continue to have a more tenuous link. Further discussion of these issues can be found in the Provision for Loan and Lease Losses section below.

Net interest margin improved to 3.63% in 2012 from 3.52% in 2011. This improvement was driven by a 48 basis point improvement in the rate on supporting liabilities from 1.68% in 2011 to 1.20% in 2012. This improvement allowed average interest spread to increase to 3.49% from 3.29% in 2011 and net interest income

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on a tax equivalent basis to increase from \$23,094,000 in 2011 to \$24,494,000 in 2012. This increase was achieved in spite of the substantial pool of nonperforming loans being carried on the balance sheet. The amount of interest income lost on this pool of troubled loans in 2012 amounted to \$2,974,000. Further discussion of net interest margin can be found in the Net Interest Income section below.

In addition to the interest lost on nonperforming loans, this pool of troubled assets increases Mid Penn's costs associated with the management and collection of this pool of assets. During 2012, the expenses associated with the increased collection and management efforts on troubled assets were \$369,000 as compared to \$299,000 in 2011. These expenses remain at historically high levels as Mid Penn resolves problems associated with the pool of troubled assets.

Mid Penn's fundamental operating performance in 2012 was sound despite these issues and the general economic conditions experienced by the banking industry as a whole.

Mid Penn Bank's tier one capital (to risk weighted assets) of \$48,764,000, or 10.0%, and total capital (to risk weighted assets) of \$54,363,000, or 11.1%, at December 31, 2012, are above the regulatory requirements. Tier one capital consists primarily of Mid Penn Bank's shareholders' equity and any qualifying preferred stock. Total capital also 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.

*Net Interest Income*

Net interest income, Mid Penn'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.

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

(Dollars in thousands)	Income and Rates on a Taxable Equivalent Basis for Years Ended								
	December 31, 2013			December 31, 2012			December 31, 2011		
	Average Balance	Average Interest	Average Rates	Average Balance	Average Interest	Average Rates	Average Balance	Average Interest	Average Rates
<b>ASSETS:</b>									
Interest Earning									
Balances	\$ 14,818	\$ 109	0.74%	\$ 26,092	\$ 236	0.90%	\$ 50,458	\$ 520	1.03%
Investment Securities:									
Taxable	68,524	617	0.90%	99,906	1,154	1.16%	81,017	1,632	2.01%
Tax-Exempt	66,147	2,911	4.40%	55,033	2,609	4.74%	35,238	2,015	5.72%
Total Securities	134,671			154,939			116,255		
Federal Funds Sold	3,580	11	0.31%	6,197	16	0.26%	9,922	25	0.25%
Loans and Leases, Net	508,638	26,639	5.24%	483,977	27,599	5.70%	475,677	28,424	5.98%
Restricted Investment in Bank Stocks	2,545	20	0.79%	2,772	5	0.18%	3,441		0.00%
Total Earning Assets	664,252	30,307	4.56%	673,977	31,619	4.69%	655,753	32,616	4.97%
Cash and Due from									
Banks	8,156			8,057			7,941		
Other Assets	25,472			24,422			24,756		
Total Assets	\$ 697,880			\$ 706,456			\$ 688,450		
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY:</b>									
Interest Bearing									
Deposits:									
NOW	\$ 182,118	659	0.36%	\$ 126,171	458	0.36%	\$ 57,342	144	0.25%
Money Market	202,393	1,194	0.59%	236,434	1,992	0.84%	248,615	2,992	1.20%
Savings	29,597	15	0.05%	28,632	14	0.05%	27,801	15	0.05%
Time	148,863	2,568	1.73%	180,356	3,683	2.04%	209,574	5,358	2.56%
Short-term									
Borrowings	10,533	26	0.25%	1,044	3	0.29%	803	4	0.50%
Long-term Debt	16,268	595	3.66%	22,605	975	4.31%	23,394	1,009	4.31%
Total Interest Bearing Liabilities	589,772	5,057	0.86%	595,242	7,125	1.20%	567,529	9,522	1.68%
Demand Deposits	49,318			47,670			63,484		
Other Liabilities	6,051			7,184			6,722		

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Shareholders Equity	52,739	56,360	50,715
Total Liabilities and Shareholders Equity	\$ 697,880	\$ 706,456	\$ 688,450
Net Interest Income	\$ 25,250	\$ 24,494	\$ 23,094
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets	4.56%	4.69%	4.97%
Rate on Supporting Liabilities	0.86%	1.20%	1.68%
Average Interest Spread	3.70%	3.49%	3.29%
Net Interest Margin	3.80%	3.63%	3.52%

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

Loan fees of \$1,020,000, \$1,148,000, and \$635,000 are included with interest income in Table 1 for the years 2013, 2012 and 2011, respectively.



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

(Dollars in thousands) <i>Taxable Equivalent Basis</i>	2013 Compared to 2012			2012 Compared to 2011		
	Increase (Decrease) Due to Change In:			Increase (Decrease) Due to Change In:		
	Volume	Rate	Net	Volume	Rate	Net
<b>INTEREST INCOME:</b>						
Interest Bearing Balances	\$ (102)	\$ (25)	\$ (127)	\$ (251)	\$ (33)	\$ (284)
<b>Investment Securities:</b>						
Taxable	(363)	(174)	(537)	380	(858)	(478)
Tax-Exempt	527	(225)	302	1,132	(538)	594
Total Investment Securities	164	(399)	(235)	1,512	(1,396)	116
Federal Funds Sold	(7)	2	(5)	(9)		(9)
Loans and Leases, Net	1,406	(2,366)	(960)	496	(1,321)	(825)
Restricted Investment Bank Stocks		15	15		5	5
Total Interest Income	1,462	(2,774)	(1,312)	1,748	(2,745)	(997)
<b>INTEREST EXPENSE:</b>						
<b>Interest Bearing Deposits:</b>						
NOW	203	(2)	201	173	141	314
Money Market	(286)	(512)	(798)	(147)	(853)	(1,000)
Savings		1	1		(1)	(1)
Time	(643)	(472)	(1,115)	(747)	(928)	(1,675)
Total Interest Bearing Deposits	(726)	(985)	(1,711)	(721)	(1,642)	(2,362)
Short-term Borrowings	27	(4)	23	1	(2)	(1)
Long-term Debt	(273)	(107)	(380)	(34)		(34)
Total Interest Expense	(972)	(1,096)	(2,068)	(754)	(1,644)	(2,397)
<b>NET INTEREST INCOME</b>	<b>\$ 2,434</b>	<b>\$ (1,678)</b>	<b>\$ 756</b>	<b>\$ 2,502</b>	<b>\$ (1,102)</b>	<b>\$ 1,400</b>

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%.

During 2013, net interest income increased \$756,000, or 3.1%, as compared to an increase of \$1,400,000, or 6.1%, in 2012. The average balances, effective interest differential, and interest yields for the years ended December 31, 2013, 2012, and 2011 and the components of net interest income, are presented in Table 1. A comparative presentation of the changes in net interest income for 2013 compared to 2012, and 2012 compared to 2011, is provided 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 decreased to 4.56% in 2013 from 4.69% in 2012. The yield on earning assets for 2011 was 4.97%. The change in the yield on earning assets was due primarily to changes in market interest rates and extreme rate competition within Mid Penn's market. The average prime rate for 2013, 2012, and 2011 was 3.25%. The yield on

earning assets is also negatively impacted by the loss of interest on nonperforming loans. During 2013, this loss of interest amounted to \$861,000. Had this interest been included in Mid Penn's earnings, the yield on earning assets would have increased by 13 basis points.

Interest expense decreased by \$2,068,000, or 29.0%, in 2013 as compared to a decrease of \$2,397,000, or 25.2%, in 2012. The cost of interest bearing liabilities decreased to 0.86% in 2013 from 1.20% in 2012. The cost of interest bearing liabilities for 2011 was 1.68%. The reduction in the cost of interest bearing liabilities was due to changes in market interest rates and Mid Penn's ability to replace higher-cost time deposits with lower-cost demand deposits.

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Net interest margin, on a tax equivalent basis was 3.80% in 2013 compared to 3.63% in 2012 and 3.52% in 2011. The interest rate impact of earning assets and funding sources due to changes in interest rates can be reasonably estimated at current interest rate levels, the options selected by customers, and the future mix of the loan, investment, and deposit products in Mid Penn Bank's portfolios, may significantly change the estimates used in the simulation models. In addition, Mid Penn's net interest income may be impacted by further interest rate actions of the FRB. Management continues to monitor the net interest margin closely.

*Provision for Loan and Lease Losses*

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at a level adequate to absorb management's estimate of probable losses in the loan and lease portfolio. Mid Penn's provision for loan and lease losses is based upon management's monthly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans and leases, analyze delinquencies, ascertain loan and lease growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets Mid Penn serves.

During 2013, Mid Penn continued to experience a challenging economic and operating environment. Given the economic pressures that impact some borrowers, Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which took into consideration the risk characteristics of the loan and lease portfolio and shifting collateral values from December 31, 2012 to December 31, 2013. For the year ended December 31, 2013, the provision for loan and lease losses was \$1,685,000, as compared to \$1,036,000 for the year ended December 31, 2012.

For the year ended December 31, 2013, Mid Penn had net charge-offs of \$877,000 compared to net charge-offs of \$2,299,000 during the year ended December 31, 2012. Loans charged off during 2013 were comprised of 12 commercial real estate loans totaling \$936,000. Seven of these loans totaling \$801,000 were to two borrowers with the remaining loans to unrelated borrowers. In addition, there were charge-offs for eight residential real estate loans to unrelated borrowers totaling \$167,000, four commercial and industrial loans to unrelated borrowers totaling \$183,000, and one home equity loan representing \$91,000 of the total charged off during 2013. The remaining \$96,000 was comprised of various consumer loans to unrelated borrowers.

During 2013, Mid Penn recovered \$596,000 against loans previously charged off compared to \$89,000 in 2012. The majority of the recoveries in 2013 were on six loans to unrelated borrowers totaling \$531,000. Of these six loans, a total of \$20,000 was recovered on two loans following regular repayment plans, \$60,000 was recovered on a loan following the liquidation of collateral by the borrower on which Mid Penn Bank could not establish a reliable value, and a \$165,000 recovery was made on a charged off credit after a successful court challenge. Mid Penn recorded an additional \$264,000 recovery following the sale of a large tract of land securing a charged down note and another \$22,000 on a loan when the original borrower repurchased a property for more than the appraised value. The remaining \$65,000 was recovered on a variety of loans to unrelated borrowers through ongoing collection efforts.

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

Following its model for loan and lease loss allowance adequacy, management recorded a \$1,685,000 provision in 2013, as well as a provision of \$1,036,000 in 2012, and \$1,205,000 in 2011. The allowance for loan and lease losses as a percentage of total loans was 1.16% at December 31, 2013, compared to 1.14% at December 31, 2012 and 1.40% at December 31, 2011. Several factors contributed to this increase in provision expense in 2013. First, the growth in

the loan portfolio was substantial in 2013. This growth had a material impact on the amount of required reserves within the allowance for loan and lease losses from qualitative and

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quantitative factors. Secondly, total impaired loans increased \$720,000, from \$10,192,000 at December 31, 2012 to \$10,912,000 at December 31, 2013. Specific reserves required on these impaired loans increased \$550,000, from \$1,383,000 at December 31, 2012 to \$1,933,000 at December 31, 2013. Additionally, the qualitative segment of the allowance for loan and lease losses increased \$415,000 to \$3,682,000 at December 31, 2013, from \$3,267,000 at December 31, 2012. This increase was primarily the result of the growth in the overall loan and lease portfolio. These increases were offset by a change in the mix of classified loans. Loans internally classified as special mention fell from \$7,916,000 at December 31, 2012 to \$4,214,000 at December 31, 2013, or a reduction of \$3,702,000. Loans internally classified as substandard but not impaired decreased \$6,168,000 from \$10,726,000 at December 31, 2012 to \$4,558,000 at December 31, 2013. Additionally during 2013, the historical loss experience within these segments of the portfolio continued to migrate downward as high levels of activity during 2009 and 2010 rolled out of the calculation and were replaced by more current experience. The combination of the shifting balances and migrating loss experience resulted in a decrease of \$177,000 in required balances in the allowance for loan and lease losses.

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

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

(Dollars in thousands)	Years ended December 31,				
	2013	2012	2011	2010	2009
Balance, beginning of year	\$ 5,509	\$ 6,772	\$ 7,061	\$ 7,686	\$ 5,505
Loans and leases charged off:					
Commercial real estate, construction and land development	936	499	545	1,413	2,841
Commercial, industrial and agricultural	183	834	546	787	4,158
Real estate residential	167	195	310	858	115
Consumer	187	860	142	146	209
Leases			44	230	108
Total loans and leases charged off	1,473	2,388	1,587	3,434	7,431
Recoveries on loans and leases previously charged off:					
Commercial real estate, construction and land development	286	15	26	21	
Commercial, industrial and agricultural	193	31	10	3	16
Real estate residential	23		19	70	
Consumer	92	43	32	80	76
Leases	2		6		
Total loans and leases recovered	596	89	93	174	92
Net charge-offs	877	2,299	1,494	3,260	7,339
Provision for loan and lease losses	1,685	1,036	1,205	2,635	9,520
Balance, end of year	\$ 6,317	\$ 5,509	\$ 6,772	\$ 7,061	\$ 7,686

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	2013	Years ended December 31,			2009
		2012	2011	2010	
Ratio of net charge-offs during the year to average loans and leases outstanding during the year, net of unearned discount	0.17%	0.48%	0.31%	0.69%	1.58%
Allowance for loan and lease losses as a percentage of total loans and leases at December 31	1.16%	1.14%	1.40%	1.51%	1.60%
Allowance for loan and lease losses as a percentage of non-performing assets at December 31	49.84%	42.05%	50.91%	35.05%	48.33%

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**Table of Contents***Noninterest Income*2013 versus 2012

Income from fiduciary activities for 2013 was \$492,000, an \$83,000, or 14.4%, decrease from \$575,000 in 2012. This revenue source is comprised of fees generated by Mid Penn's Trust department and fees from the sale of third-party mutual funds and annuities to Mid Penn Bank's retail and commercial customers. Fees from third-party mutual fund and annuity sales were \$267,000 in 2013 and \$389,000 in 2012. This decline in fee revenue is responsible for the variance from 2012.

Mid Penn recognized gains on sale of investment securities in 2013 of \$220,000 and \$267,000 in 2012 as a result of efforts to position the portfolio to provide improved earnings and cash flow in support of future loan growth.

Mortgage banking income suffered from increasing mortgage rates earlier in the year, which effectively shut off the flow of customers seeking to refinance their existing mortgages from higher rates. Mortgage banking income for 2013 was \$348,000, a decrease of \$327,000, or 48.4%, from \$675,000 in 2012.

Merchant services revenue increased to \$330,000 in 2013, an increase of \$74,000, or 28.9%, compared to \$256,000 for 2012. Sales efforts in this area were also very positive in 2013, adding to the enhanced revenue.

2012 versus 2011

Income from fiduciary activities for 2012 was \$575,000, a \$36,000, or 6.7%, increase from \$539,000 in 2011. This revenue source is comprised of fees generated by Mid Penn's Trust department and fees from the sale of third-party mutual funds and annuities to Mid Penn Bank's retail and commercial customers. Fees from third-party mutual fund and annuity sales were \$389,000 in 2012 and \$354,000 in 2011.

Service charges on deposit accounts amounted to \$565,000 for 2012, a decrease of \$139,000, or 19.7%, compared to \$704,000 for 2011. The decrease in service charges in 2012 occurred in spite of general growth in transaction accounts during 2012. During this period of economic downturn, customers seem to have become more conscientious about their account balances and avoiding unnecessary charges related to insufficient funds. In addition to this behavioral change, Mid Penn was negatively impacted by regulatory changes contained in the Dodd-Frank Act governing overdraft charges, which has resulted in a reduction in NSF revenue.

Mid Penn recognized gains on sale of investment securities in 2012 of \$267,000 as a result of efforts to position the portfolio to provide improved earnings and cash flow in support of future loan growth.

Mortgage banking income remained robust during the year ended December 31, 2012. Historically low long-term mortgage rates triggered a wave of refinancing and increasing purchase activity, generating robust fee income from this line of business. Mortgage banking income for 2012 was \$675,000, an increase of \$285,000, or 73.1%, over \$390,000 in 2011.

Merchant services revenue increased to \$256,000 in 2012, an increase of \$91,000, or 55.2%, compared to \$165,000 for 2011. During 2012, Mid Penn successfully renegotiated the revenue sharing contract with its vendor, significantly augmenting the revenue stream. Sales efforts in this area were also very positive in 2012, adding to the enhanced revenue.





**Table of Contents****TABLE 4: NONINTEREST INCOME**

(Dollars in thousands)	Years ended December 31,		
	2013	2012	2011
Income from fiduciary activities	\$ 492	\$ 575	\$ 539
Service charges on deposits	576	565	704
Net gain on sales of investment securities	220	267	
Earnings from cash surrender value of life insurance	231	247	258
Mortgage banking income	348	675	390
ATM debit card interchange income	508	472	452
Merchant services revenue	330	256	165
Other income	585	626	488
<b>Total Noninterest Income</b>	<b>\$ 3,290</b>	<b>\$ 3,683</b>	<b>\$ 2,996</b>

*Noninterest Expense*2013 versus 2012

Salaries and employee benefits represent the major component of noninterest expense. During 2013, increases in the workforce primarily included adding experienced team members to add depth to the sales and support areas of Mid Penn. In 2013, Mid Penn also recognized a full year of salary and employee benefits expense from the 2012 additions within the support functions throughout Mid Penn to enhance controls and support future growth. Commissions paid to employees in the retail investment and mortgage banking lines of business in 2013 were down \$192,000 from 2012 due to reduced activity in both of these business lines.

FDIC Assessment decreased \$548,000 to \$486,000 in 2013. Prior to 2011, assessments were calculated based on the total deposits of a financial institution. Beginning in the second quarter of 2011, the assessment base was changed from deposits to average total assets less tangible equity. This resulted in significant savings for Mid Penn. In addition, 2013 reflects the recognition of a refund of \$139,000 in overbillings from the FDIC due to an error by the FDIC in Mid Penn's assessment calculation.

Legal and professional fees increased to \$705,000 in 2013 from \$604,000 in 2012. This increase was primarily related to consultants used in the information technology area to improve Mid Penn Bank's network capabilities and successfully migrate to a service bureau processing environment.

Software licensing increased from \$648,000 in 2012 to \$947,000 in 2013. During 2013, Mid Penn incurred one-time charges of \$26,000 associated with the migration its core banking data processing software from an in-house environment to a service bureau hosted platform. This migration allowed for staffing reductions in the information technology and operations areas of \$39,000 for part of the year in 2013. The remaining increase is due to new service contracts on software to comply with various regulatory requirements and to expand Mid Penn Bank's online loan and deposit application capabilities.

Mid Penn recognized a gain on sale or write-down on foreclosed assets of \$302,000 in 2013. During 2013, Mid Penn recognized a gain of \$340,000 on the sale of a repossessed property. This gain was offset by Mid Penn's ongoing analysis of the carrying values of repossessed properties and the adjustment of their values to current market rates.

Loan collection costs decreased to \$214,000 in 2013 from \$369,000 in 2012. OREO expense increased to \$290,000 in 2013 from \$253,000 in 2012. These items represent the costs associated with working through collection efforts on the pool of nonperforming assets within the loan portfolio. While decreasing in total during 2013, they continue to be at historically elevated levels due to the size and nature of the nonperforming assets pool.

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ATM debit card processing and internet banking expenses have both increased in recent years due to increasing customer demand for these banking services.

### 2012 versus 2011

The major component of noninterest expense is salaries and employee benefits. Increases in the 2012 workforce primarily included adding experienced team members to add depth to the sales and support areas and bolster compliance functions of Mid Penn. Mid Penn also recognized in 2012 a full year of salary and employee benefits expense from the 2011 additions within the support functions throughout Mid Penn to enhance controls and support future growth. During 2012, medical benefits increased \$184,000 from 2011 levels, primarily due to the increase in actual medical claims experienced from Mid Penn's self-funded medical insurance plan. In addition, commission-based compensation paid to mortgage originators and retail investment representatives increased \$144,000 from 2011 levels and are reflective of the enhanced revenues generated from these lines of business.

Legal and professional fees increased from \$444,000 in 2011 to \$604,000 in 2012. Mid Penn incurred elevated legal fees in 2012 stemming from coordination with the U.S. Treasury on the repayment of Mid Penn's Capital Purchase Program funds and the buyout of the related warrants. In addition, Mid Penn engaged a computer consultant to perform an evaluation of the core computer system and its ancillary programs as a resource in making future enhancement decisions.

Loss on sale or write-down on foreclosed assets increased to \$96,000 in 2012. During 2012, this item increased as a result of Mid Penn's ongoing analysis of the carrying values of repossessed properties and the adjustment of their values to current market rates.

Loan collection costs increased to \$369,000 in 2012 from \$299,000 in 2011. OREO expense increased to \$253,000 in 2012 from \$161,000 in 2011. These items have risen as Mid Penn continues to work through collection efforts on the pool of nonperforming assets within the loan portfolio.

ATM debit card processing and internet banking expenses have both increased in recent years due to increasing customer demand for these banking services.

During 2012, Mid Penn reached the end of a three year contract for its insurance coverage and experienced an increase in premium costs upon renewal of its policies. Also during 2012, Mid Penn made increasing use of temporary employees to finalize the conversion of loan and credit documents from paper storage to an electronic storage mechanism, significantly reducing the need for floor space and fire protection safeguards for these documents.

**Table of Contents****TABLE 5: NONINTEREST EXPENSE**

(Dollars in thousands)	Years ended December 31,		
	2013	2012	2011
Salaries and employee benefits	\$ 10,788	\$ 10,518	\$ 9,519
Occupancy expense, net	1,128	1,077	1,075
Equipment expense	1,299	1,234	1,292
Pennsylvania Bank Shares tax expense	464	462	449
FDIC Assessment	486	1,034	1,057
Legal and Professional fees	705	604	444
Director fees and benefits expense	319	335	304
Marketing and advertising expense	253	378	354
Software licensing	947	648	697
Telephone expense	436	411	377
(Gain) loss / write-down on sale of foreclosed assets	(302)	96	(20)
Intangible amortization	29	45	65
Loan collection costs	214	369	299
ATM debit card processing expense	202	171	152
Internet banking expense	252	240	195
Meals, travel, and lodging expense	271	266	228
Insurance	129	126	86
OREO expense	290	253	161
Investor services	68	76	72
Contract labor	55	42	
Other expenses	1,358	1,308	1,242
<b>Total Noninterest Expense</b>	<b>\$ 19,391</b>	<b>\$ 19,693</b>	<b>\$ 18,048</b>

*Investments*

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

Mid Penn's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded at fair value. Mid Penn's investments 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, 2013, the unrealized loss on investment securities resulted in a decrease in shareholders' equity of \$747,000 (unrealized loss on securities of \$1,132,000 plus estimated income tax benefit of \$385,000). At December 31, 2012, the unrealized gain on investment securities resulted in an increase in shareholders' equity of \$2,432,000 (unrealized gain on securities of \$3,685,000 less estimated income tax expense of \$1,253,000). Mid Penn does not have any significant concentrations within its portfolio of investment securities. Table 6 provides a summary of Mid Penn's available for sale investment securities.

**TABLE 6: FAIR VALUE OF INVESTMENT SECURITIES**

(Dollars in thousands)	December 31,		
	2013	2012	2011
U.S. Treasury and U.S. government agencies	\$ 12,834	\$ 17,740	\$ 27,617
Mortgage-backed U.S. government agencies	39,392	66,686	82,668
State and political subdivision obligations	69,038	69,479	48,366
Equity securities	1,539	390	392
	\$ 122,803	\$ 154,295	\$ 159,043

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Maturity and yield information relating to the investment portfolio is shown in Table 7.

**TABLE 7: INVESTMENT MATURITY AND YIELD**

(Dollars in thousands)	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
As of December 31, 2013					
U.S. Treasury and U.S. government agencies	\$	\$ 12,834	\$	\$	\$ 12,834
Mortgage-backed U.S. government agencies		415	3,845	35,132	39,392
State and political subdivision obligations		6,977	26,596	35,465	69,038
Equity securities		1,020		519	1,539
	\$	\$ 21,246	\$ 30,441	\$ 71,116	\$ 122,803

	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
<b>Weighted Average Yields</b>					
U.S. Treasury and U.S. government agencies		3.44%			3.44%
Mortgage-backed U.S. government agencies		3.88%	4.06%	4.17%	4.16%
State and political subdivision obligations		5.52%	4.81%	4.90%	4.93%
Equity securities		6.38%		2.76%	5.16%
		4.27%	4.72%	4.52%	4.53%

*Loans*

At December 31, 2013, loans and leases totaled \$546,462,000, a \$62,242,000 or 12.9% increase from December 31, 2012. During 2013, Mid Penn experienced a net increase in commercial real estate, commercial/industrial, and residential real estate loans of approximately \$64,060,000. This increase was attributed to the increase in lending opportunities to credit-worthy borrowers within the markets Mid Penn serves as well as enhancements to the lending sales team during 2013.

At December 31, 2013, loans, net of unearned income, represented 80.2% of earning assets as compared to 72.4% on December 31, 2012, and 71.0% on December 31, 2011.

Mid Penn Bank's loan portfolio is diversified among individuals and small and medium-sized businesses generally located within Mid Penn 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. Mid Penn Bank has no concentration of credit

to any one borrower. Mid Penn Bank's highest concentration of credit is in Commercial Real Estate financings.

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A distribution of Mid Penn Bank's loan portfolio according to major loan classification is shown in Table 8.

**TABLE 8: LOAN PORTFOLIO**

(Dollars in thousands)	2013		2012		December 31, 2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, construction and land development	\$ 274,279	50.2	\$ 255,231	52.7	\$ 249,204	51.6	\$ 252,915	54.0	\$ 253,878	52.8
Commercial, industrial and agricultural	107,492	19.7	79,228	16.4	78,656	16.3	70,295	15.0	85,795	17.8
Real estate residential	160,294	29.3	143,243	29.6	146,846	30.4	136,048	29.1	128,522	26.7
Consumer	4,646	0.8	6,770	1.4	8,327	1.7	8,922	1.9	12,884	2.7
<b>Total Loans</b>	<b>546,711</b>	<b>100.0</b>	<b>484,472</b>	<b>100.0</b>	<b>483,033</b>	<b>100.0</b>	<b>468,180</b>	<b>100.0</b>	<b>481,079</b>	<b>100.0</b>
Unearned income	(249)		(252)		(316)		(445)		(694)	
Loans net of unearned discount	546,462		484,220		482,717		467,735		480,385	
Allowance for loan and lease losses	(6,317)		(5,509)		(6,772)		(7,061)		(7,686)	
<b>Net loans</b>	<b>\$ 540,145</b>		<b>\$ 478,711</b>		<b>\$ 475,945</b>		<b>\$ 460,674</b>		<b>\$ 472,699</b>	

Mid Penn's maturity and rate sensitivity information related to the loan portfolio is reflected in Table 9.

**TABLE 9: LOAN MATURITY AND INTEREST SENSITIVITY**

(Dollars in thousands)	One Year and Less	After One Year thru Five Years	After Five Years	Total
As of December 31, 2013				
Commercial real estate, construction and land development	\$ 18,323	\$ 44,063	\$ 211,893	\$ 274,279
Commercial, industrial and agricultural	41,892	33,058	32,542	107,492



Real estate residential mortgages	6,876	19,284	134,134	160,294
Consumer	1,150	2,392	855	4,397
	\$ 68,241	\$ 98,797	\$ 379,424	\$ 546,462
Rate Sensitivity				
Predetermined rate	\$ 67,197	\$ 83,488	\$ 253,620	\$ 404,305
Floating or adjustable rate	1,044	15,309	125,804	142,157
	\$ 68,241	\$ 98,797	\$ 379,424	\$ 546,462

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

Other than as described herein, Mid Penn does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Further, based on known information, Mid Penn believes that the effects of current and past economic conditions and other unfavorable business conditions may influence certain borrowers' abilities to comply with their repayment terms. Mid Penn continues to monitor closely the financial strength of these borrowers. Mid Penn does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not normally structure construction loans with interest reserve components. Mid Penn has not in the past performed any

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commercial real estate or other type loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not extend loans at maturity solely due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

**TABLE 10: NONPERFORMING ASSETS**

(Dollars in thousands)	2013	2012	December 31, 2011	2010	2009
<b>Nonperforming Assets:</b>					
Nonaccrual loans	\$ 10,877	\$ 11,831	\$ 11,800	\$ 17,228	\$ 14,933
Accruing troubled debt restructured loans	833	426	571	2,323	308
<b>Total nonperforming loans</b>	<b>11,710</b>	<b>12,257</b>	<b>12,371</b>	<b>19,551</b>	<b>15,241</b>
Foreclosed real estate	965	843	931	596	663
<b>Total nonperforming assets</b>	<b>12,675</b>	<b>13,100</b>	<b>13,302</b>	<b>20,147</b>	<b>15,904</b>
Accruing loans 90 days or more past due				19	661
<b>Total risk elements</b>	<b>\$ 12,675</b>	<b>\$ 13,100</b>	<b>\$ 13,302</b>	<b>\$ 20,166</b>	<b>\$ 16,565</b>
<b>Nonperforming loans as a % of total loans outstanding</b>	<b>2.14%</b>	<b>2.53%</b>	<b>2.56%</b>	<b>4.18%</b>	<b>3.17%</b>
<b>Nonperforming assets as a % of total loans outstanding and other real estate</b>	<b>2.32%</b>	<b>2.71%</b>	<b>2.76%</b>	<b>4.31%</b>	<b>3.31%</b>
<b>Ratio of allowance for loan losses to nonperforming loans</b>	<b>53.94%</b>	<b>44.95%</b>	<b>54.74%</b>	<b>36.12%</b>	<b>50.43%</b>

Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit. During 2013, nonperforming loans declined \$547,000 from \$12,257,000 at December 31, 2012. This improvement has been the result of slight improvement in some sectors of the general economy and maintaining a close relationship with troubled borrowers as they navigate their plan toward a resolution of credit issues.

Mid Penn's troubled debt restructured loans at December 31, 2013 totaled \$7,765,000 of which, \$833,000 are accruing residential mortgages in compliance with the terms of the modification. \$6,932,000 of the troubled debt restructured loans are included in nonaccrual loans. As a result of the evaluation, a specific allocation and, subsequently, charge offs have been taken as appropriate. Further discussion of troubled debt restructured loans can be found in Note 7 to Mid Penn's Consolidated Financial Statements. As of December 31, 2013, there were no defaulted troubled debt restructured loans as all troubled debt restructured loans were current with respect to their associated forbearance agreements.

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



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

**TABLE 11: PARTIALLY CHARGED OFF LOANS**

(Dollars in thousands)	December 31, 2013	December 31, 2012
Period ending total loans outstanding (net of unearned income)	\$ 546,462	\$ 484,220
Allowance for loan and lease losses	6,317	5,509
Total Nonperforming loans	11,710	12,257
Nonperforming and impaired loans with partial charge-offs	2,103	3,744
Ratio of nonperforming loans with partial charge-offs to total loans	0.38%	0.77%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	17.96%	30.55%
Coverage ratio net of nonperforming loans with partial charge-offs	65.75%	64.71%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	1.16%	1.15%

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

Mid Penn considers a commercial loan or commercial real estate loan to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow ( DCF ) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90-day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan or commercial real estate loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the

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guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

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

Mid Penn's rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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

Mid Penn does not currently, or plan in the future to, use automated valuation methodologies as a method of valuing real estate collateral.

As of December 31, 2013, Mid Penn had several unrelated loan relationships, with an aggregate carrying balance of \$10,912,000, deemed impaired. This pool of loans is further broken down into a group of loans with an aggregate carrying balance of \$7,838,000 for which specific allocations totaling \$1,933,000 have been included within the loan loss reserve for these loans. The remaining \$3,074,000 of loans requires no specific allocation within the loan loss reserve. The \$10,912,000 pool of impaired loan relationships is comprised of \$9,014,000 in real estate secured commercial relationships and \$1,898,000 in business relationships. There are specific allocations against the real estate secured pool totaling \$1,343,000, spread among thirteen relationships composed primarily of customers

engaged in real estate investment activities. The group of impaired business relationships with specific allocations is made up of four relationships and a specific allocation of \$590,000 has been set aside against these credits. One large commercial participation loan in this pool has shown exceptional

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collateral devaluation and is responsible for a specific allocation of \$548,000 of the total pool attributable to this segment. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships.

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risk on a monthly basis so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Mid Penn board of directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses an integral part of the examination process.

In establishing the allowance, management evaluates on a quantitative basis individual classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. In addition, an allowance for the remainder of the loan and lease portfolio is determined based on historical loss experience within certain components of the portfolio. These allocations may be modified if current conditions indicate that loan and lease losses may differ from historical experience.

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. These factors include:

Changes in local, regional, and national economic and business conditions affecting the collectability of the portfolio, the values of underlying collateral, and the condition of various market segments.

Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans.

Changes in the experience, ability, and depth of lending management and other relevant staff as well as the quality of the institution's loan review system.

Changes in the nature and volume of the portfolio and the terms of loans generally offered.

The existence and effect of any concentrations of credit and changes in the level of such concentrations. While the allowance for loan and lease losses is maintained at a level believed to be adequate by management for covering estimated losses in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.



Management believes, based on information currently available, that the allowance for loan and lease losses of \$6,317,000 is adequate as of December 31, 2013.

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

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

(Dollars in thousands)	December 31,				
	2013	2012	2011	2010	2009
Commercial real estate, construction and land development	\$ 4,015	\$ 3,122	\$ 3,567	\$ 3,775	\$ 3,334
Commercial, industrial and agricultural	1,187	1,299	2,276	2,448	3,545
Real estate residential	581	635	362	219	175
Consumer	513	444	424	424	467
Unallocated	21	9	143	195	165
	\$ 6,317	\$ 5,509	\$ 6,772	\$ 7,061	\$ 7,686

The 2013 provision of \$1,685,000 is an increase of \$649,000 from the \$1,036,000 provision in 2012. The growth in the loan portfolio during 2013, as well as increases in some specific reserves, necessitated a larger provision in 2013. See also the discussion in the Provision for Loan and Lease Losses section.

The allowance for loan and lease losses at December 31, 2013 was \$6,317,000, or 1.16%, of total loans less unearned discount as compared to \$5,509,000, or 1.14%, at December 31, 2012 and \$6,772,000, or 1.40%, at December 31, 2011.

*Deposits and Other Funding Sources*

Mid Penn's primary source of funds are deposits. Total deposits at December 31, 2013 decreased by \$17,331,000, or 2.8%, over December 31, 2012, which decreased by \$8,594,000, or 1.4%, over December 31, 2011. Average balances and average interest rates applicable to the major classifications of deposits for the years ended December 31, 2013, 2012, and 2011 are presented in Table 13.

Average short-term borrowings for 2013 were \$10,533,000 as compared to \$1,044,000 in 2012. These borrowings consisted of federal funds purchased.

At December 31, 2013, Mid Penn Bank had \$2,750,000 in brokered deposits, a decrease of \$1,378,000, or 33.4%, over December 31, 2012, which decreased by \$9,226,000, or 69.1%, over the same period in 2011. With continued success in the local deposit environment, along with the maturity of a \$10,000,000 brokered certificate of deposit in 2012, Mid Penn Bank has virtually eliminated its brokered deposit funding.

**TABLE 13: DEPOSITS BY MAJOR CLASSIFICATION**

(Dollars in thousands)	2013		December 31, 2012		2011	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate

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Noninterest-bearing demand deposits	\$ 49,318	0.00%	\$ 47,670	0.00%	\$ 63,484	0.00%
Interest-bearing demand deposits	182,118	0.36%	126,171	0.36%	57,342	0.25%
Money market	202,393	0.59%	236,434	0.84%	248,615	1.20%
Savings	29,597	0.05%	28,632	0.05%	27,801	0.05%
Time	148,863	1.73%	180,356	2.04%	209,574	2.56%
	\$ 612,289	0.72%	\$ 619,263	0.99%	\$ 606,816	1.40%

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

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

(Dollars in thousands)	December 31,		
	2013	2012	2011
Three months or less	\$ 4,745	\$ 7,207	\$ 7,824
Over three months to twelve months	16,953	18,340	21,979
Over twelve months	24,230	32,763	36,807
	\$ 45,928	\$ 58,310	\$ 66,610

*Capital Resources*

Shareholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The detailed computation of Mid Penn Bank's regulatory capital ratios can be found in Note 17 of the Mid Penn Consolidated Financial Statements. The greater a corporation's capital resources, the more likely it is to meet its cash obligations and absorb unforeseen losses. Too much capital, however, indicates that not enough of the corporation's earnings have been invested in the continued growth of the business or paid to shareholders. The buildup makes it difficult for a corporation to offer a competitive return on the shareholders' capital going forward. For these reasons capital adequacy has been, and will continue to be, of paramount importance.

Shareholders' equity increased in 2013 by \$696,000, or 1.3%, following a decrease in 2012 of \$1,232,000, or 2.3%, and an increase in 2011 by \$5,251,000, or 10.9%. Capital was positively impacted in 2013 by the net income available to common shareholders of \$4,616,000; however, the increase was muted by an increase in accumulated other comprehensive loss. Capital was negatively impacted in 2012 by the repayment and redemption of the \$10,000,000 in the Series A preferred stock, but the impact was softened by the net income available to common shareholders of \$4,437,000 and the issuance of the \$4,880,000 in Series B preferred stock in 2012. Subsequently, the Series B preferred stock offering of \$5,000,000 was completed on January 3, 2013. Capital was positively impacted in 2011 by the net income available to common shareholders of \$4,029,000 and the increase in other comprehensive income from the increase in value of the assets in the available for sale investment portfolio.

Mid Penn's normal intent for dividend payout is to provide quarterly cash returns to shareholders and earnings retention at a level sufficient to finance future growth. The dividends paid on common shares totaled \$0.25 for the years ended December 31, 2013 and December 31, 2012, while \$0.20 in dividends were paid for the year ended December 31, 2011.

The dividend payout ratio, which represents the percentage of annual net income returned to shareholders in the form of cash dividends, was 18.94% for 2013 and 19.69% for 2012.

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Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2013, and 2012, as follows:

(Dollars in thousands)	Actual		Capital Adequacy		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Minimum Capital Required	Ratio	Amount	Ratio
<b>Corporation</b>						
As of December 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 52,693	7.5%	\$ 28,031	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	52,693	9.9%	21,234	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	59,100	11.1%	42,467	8.0%	N/A	N/A
<b>Bank</b>						
As of December 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 52,598	7.5%	\$ 28,041	4.0%	\$ 35,051	5.0%
Tier 1 Capital (to Risk Weighted Assets)	52,598	9.9%	21,234	4.0%	31,850	6.0%
Total Capital (to Risk Weighted Assets)	59,005	11.1%	42,467	8.0%	53,084	10.0%
<b>Corporation</b>						
As of December 31, 2012:						
Tier 1 Capital (to Average Assets)	\$ 48,822	6.8%	\$ 28,530	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	48,822	10.0%	19,593	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	54,421	11.1%	39,185	8.0%	N/A	N/A
<b>Bank</b>						
As of December 31, 2012:						
Tier 1 Capital (to Average Assets)	\$ 48,764	6.9%	\$ 28,111	4.0%	\$ 35,138	5.0%
Tier 1 Capital (to Risk Weighted Assets)	48,764	10.0%	19,593	4.0%	29,389	6.0%
Total Capital (to Risk Weighted Assets)	54,363	11.1%	39,185	8.0%	48,981	10.0%

*Capital Purchase Program Participation*

On December 19, 2008, Mid Penn entered into and closed a letter agreement with the Treasury pursuant to which the Treasury invested \$10,000,000 in Mid Penn under the CPP. Under the letter agreement, the Treasury received (1) 10,000 shares of Series A Preferred Stock, and (2) warrants to purchase up to 73,099 shares of the Mid Penn common stock at an exercise price of \$20.52 per share.

On December 28, 2012, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury all 10,000 shares of the Series A Preferred Stock issued to the Treasury, which constitutes all of the issued and outstanding shares of Series A Preferred Stock. Mid Penn repurchased the Series A Preferred Stock for a purchase price equal to the aggregate liquidation amount of the Preferred Stock of \$10,000,000, plus accrued but unpaid dividends of \$59,722. All 10,000 shares of Series A Preferred Stock have subsequently been cancelled.

On January 23, 2013, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury on that date the Warrants for \$58,479. The Warrants have subsequently been cancelled.

As of the date hereof, Mid Penn has no further financial obligations under the Series A Preferred Stock, the Warrants, or the Treasury's CPP.

**Table of Contents***Federal Income Taxes*

Federal income tax expense for 2013 was \$1,201,000 compared to \$1,244,000 in 2012 and \$1,223,000 in 2011. The effective tax rate was 20% for 2013 and 2012, and 21% for 2011.

The tax expense in 2013 and 2012 resulted from net income generated in the normal course of business. Generally, Mid Penn's effective tax rate is below the statutory rate due to earnings on tax-exempt loans, investments, and bank-owned life insurance, and the impact of tax credits. The realization of deferred tax assets is dependent on future earnings. As a result of Mid Penn's adoption of ASC Topic 740, *Income Taxes*, no significant income tax uncertainties were identified; therefore, Mid Penn recognized no adjustment for unrealized income tax benefits for the periods ended December 31, 2013 and December 31, 2012. Mid Penn currently anticipates that future earnings will be adequate to fully utilize deferred tax assets.

*Liquidity*

Mid Penn's asset-liability management policy addresses the management of Mid Penn's liquidity position and its ability to raise sufficient funds to meet deposit withdrawals, fund loan growth and meet other operational needs. Mid Penn 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 Mid Penn through loans from the Federal Home Loan Bank and established federal funds (overnight) lines of credit. Mid Penn's major source of funds is its core deposit base.

Major sources of cash in 2013 came from the maturity of investment securities and interest-bearing time deposits totaling \$53,151,000, the increase in short-term borrowings of \$23,833,000, and the sale of investment securities of \$15,118,000.

Major uses of cash in 2013 were the increase in net loans and leases of \$65,896,000, the purchases of investment securities of \$27,881,000 and decrease in time deposits of \$31,280,000.

Major sources of cash in 2012 came from the maturity of investment securities of \$39,453,000, the sale of investment securities of \$17,895,000, and the increase in demand deposit and savings accounts of \$29,645,000.

Major uses of cash in 2012 were the purchases of investment securities of \$53,553,000, as well as the decrease in time deposits of \$38,239,000.

*Aggregate Contractual Obligations*

Table 15 represents Mid Penn's on-and-off balance sheet aggregate contractual obligations to make future payments as of December 31, 2013.

**TABLE 15: AGGREGATE CONTRACTUAL OBLIGATIONS**

(Dollars in thousands)	Note Reference	Total	Payments Due by Period			
			One Year or Less	One to Three Years	Three to Five Years	More than Five Years

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Certificates of deposit	9	\$ 132,373	\$ 60,006	\$ 59,196	\$ 11,451	\$ 1,720
Long-term debt	11	23,145		20,000		3,145
Operating lease obligations	19	141	113	28		
Payments under benefit plans	13	1,681	133	320	344	884
		\$ 157,340	\$ 60,252	\$ 79,544	\$ 11,795	\$ 5,749



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

### *Effects of Inflation*

A bank's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of a bank are monetary in nature. Management believes the impact of inflation on its financial results depends principally upon Mid Penn's ability to manage the balance sheet sensitivity to changes in interest rates and, by such reaction, mitigate 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 Mid Penn 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*

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

As of December 31, 2013, commitments to extend credit amounted to \$141,616,000 as compared to \$99,958,000 as of December 31, 2012.

Mid Penn also issues standby letters of credit to its customers. The risk associated with standby letters of credit is essentially the same as the credit risk involved in loan extensions to customers. Standby letters of credit decreased to \$8,458,000 at December 31, 2013, from \$10,417,000 at December 31, 2012.

### ***Quantitative and Qualitative Disclosures about Market Risk***

As a financial institution, Mid Penn's primary source of market risk is interest rate risk. Interest rate risk is the exposure to fluctuations in Mid Penn's future earnings (earnings at risk) resulting from changes in interest rates. This exposure or sensitivity is a function of the repricing characteristics of Mid Penn's portfolio of assets and liabilities. Each asset and liability reprices either at maturity or during the life of the instrument. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities that are subject to repricing in a future period of time.

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

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

Mid Penn's profitability.

Modeling techniques and simulation analysis involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturing deposit sensitivity, and

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loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of Mid Penn's interest rate risk position over time.

Management reviews interest rate risk on a quarterly basis. This analysis includes earnings scenarios whereby interest rates are increased and decreased by 100, 200, and 300 basis points. These scenarios, detailed in Table 16, indicate that Mid Penn would experience enhanced net interest income over a one-year time frame due to upward interest rate changes, while a reduction in interest rates would result in a less pronounced reduction in net interest income over a one-year time frame; however, actual results could vary significantly from the calculations prepared by Management. At December 31, 2013, all interest rate risk levels according to the model were within the tolerance limits of Board approved policy.

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

Change in Basis Points	December 31, 2013 % Change in Net Interest Income		Risk Limit	Change in Basis Points	December 31, 2012 % Change in Net Interest Income		Risk Limit
	300	22.98%			<sup>3</sup> -25%	300	
200	15.20%	<sup>3</sup> -15%	200	15.49%	<sup>3</sup> -15%		
100	7.21%	<sup>3</sup> -10%	100	7.32%	<sup>3</sup> -10%		
0			0				
(100)	-5.32%	<sup>3</sup> -10%	(100)	-5.03%	<sup>3</sup> -10%		
(200)	-10.37%	<sup>3</sup> -15%	(200)	-9.86%	<sup>3</sup> -15%		
(300)	-15.43%	<sup>3</sup> -25%	(300)	-14.72%	<sup>3</sup> -25%		

***Security Ownership of Certain Beneficial Owners and Management of MidPenn***

The following table sets forth, as of September 30, 2014, information regarding the number of shares and percentage of the outstanding shares of Mid Penn's common stock beneficially owned by (i) each director, executive officer, and by all directors and executive officers as a group, and (ii) each person who is known to Mid Penn to own beneficially more than 5% of Mid Penn common stock. Unless otherwise indicated in a footnote, none of the shares of Mid Penn common stock listed have been pledged as security.

<i>Name and Address of Beneficial Owner <sup>(1)</sup></i>	<i>Number of Shares Beneficially Owned <sup>(2)</sup></i>	<i>Percentage of Shares Beneficially Owned <sup>(3)</sup></i>
Robert A. Abel	2,666 <sup>(4)</sup>	*
Steven T. Boyer	3,308 <sup>(5)</sup>	*
Matthew G. DeSoto	10,153 <sup>(6)</sup>	*
Robert C. Grubic	34,289	*
Gregory M. Kerwin	26,022 <sup>(7)</sup>	*
Robert E. Klinger	2,746	*

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Theodore W. Mowery	9,313	*
John E. Noone	2,000 <sup>(8)</sup>	*
Rory G. Ritrievi	9,122 <sup>(9)</sup>	*
William A. Specht, III	36,561 <sup>(10)</sup>	1.1%
Scott W. Micklewright	2,336 <sup>(11)</sup>	*
Justin T. Webb	500	*
Kelly K. Neiderer	104 <sup>(12)</sup>	*
All Officers and Directors as a Group (14 persons)	139,624	4.1%
Inter vivos trust, for the benefit of Ruth Gilbert McCarty & Anna C. Gilbert Woodside, with NEBCO, the Trust Department of Mid Penn Bank, as Trustee, 349 Union Street, Millersburg, Pennsylvania 17061 <sup>(13)</sup>	177,387	5.1%

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- \* Represents less than 1% of shares beneficially owned.
- (1) Unless otherwise indicated, the address for each beneficial owner is c/o Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061. Certain information contained in this table has been compiled on the basis of public filings made by the beneficial owners named herein or their affiliates, including filings made on Schedule 13D or amendments thereto, as well as information provided to Mid Penn by such beneficial owners prior to the date of this joint proxy statement/prospectus.
  - (2) For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act, pursuant to which a person or group of persons is deemed to have beneficial ownership of any shares of Mid Penn common stock that such person owns or has the right to acquire within 60 days from the record date.
  - (3) For purposes of computing the Percentage of Shares Beneficially Owned column, any shares which a person does not currently own but has the right to acquire within 60 days from the date of this table are deemed to be outstanding for the purpose of computing the percentage ownership of such person.
  - (4) Shares held jointly by Mr. Abel and his spouse in a trust.
  - (5) Includes 2,908 shares held jointly by Mr. Boyer and his spouse.
  - (6) Includes 78 shares held by Mr. DeSoto as a 50% owner in a partnership account, for which he has sole voting power.
  - (7) Shares held jointly by Mr. Kerwin and his spouse.
  - (8) Shares held by Mr. Noone in a trust.
  - (9) Includes 1,621 shares held jointly by Mr. Ritrievi and his spouse.
  - (10) Includes 3,401 shares held jointly by Mr. Specht and his spouse. Mr. Specht is trustee of a family trust of which 15,783 shares are held for the benefit of Janet E. Specht and 15,427 shares are held for the benefit of William A. Specht, Jr.
  - (11) Shares held jointly by Mr. Micklewright and his spouse.
  - (12) Shares held jointly by Mrs. Neiderer and her spouse.
  - (13) The trustee retains sole investment power over the shares of Mid Penn common stock held by the Trust. Such shares are voted, pursuant to the terms of the Trust, by the decision of a majority of the three longest-serving directors of Mid Penn Bank.

***Directors and Executive Officers of Mid Penn******Governance***

The Mid Penn board of directors believes that the purpose of corporate governance is to ensure that it maximizes shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Mid Penn board of directors has adopted and adheres to corporate governance practices, which the Mid Penn board of directors and senior management believe promote this purpose, are sound and represent best practices. These governance practices, Pennsylvania law (the state of incorporation), the rules and listing standards of The NASDAQ Stock Market LLC ( NASDAQ ) and the SEC regulations, as well as best practices suggested by recognized governance authorities are continually reviewed.

Currently, the Mid Penn board of directors has ten members. Under the NASDAQ standards for independence, the following directors meet the standards for independence: Robert A. Abel, Steven T. Boyer, Matthew G. DeSoto, Robert C. Grubic, Gregory M. Kerwin, Robert E. Klinger, Theodore W. Mowery, John E. Noone and William A. Specht, III. This constitutes more than a majority of the Mid Penn board of directors. Only independent directors serve on the Audit, Compensation and Nominating and Corporate Governance Committees.

In determining the directors' independence, the Mid Penn board of directors considered loan transactions between Mid Penn Bank and the directors, their family members and businesses with whom they are associated, as well as any contributions made to non-profit organizations with whom they are associated.

**Table of Contents***Directors of Mid Penn and Mid Penn Bank*

The following information has been furnished to Mid Penn by the respective members of the Mid Penn board of directors. Each of them has been engaged in the occupations stated below during the periods indicated, or if no period is indicated, for more than five years.

**Class A Directors** (to serve until 2017)

**Matthew G. DeSoto**, age 37, has been a director since 2008. In 2013, Mr. DeSoto became President and Chief Executive Officer of MI Windows and Doors, Inc. in Gratz, PA, where he previously served as Chief Operating Officer. MI Windows and Doors is a nationwide fabricator of window and patio door products for residential projects. Mr. DeSoto has previously served on the Policy Advisory Board of the Harvard University Joint Center for Housing Studies and is an active member of the Young Presidents Organization. Mr. DeSoto attended The Pennsylvania State University obtaining a Bachelor of Science Degree in Marketing. The Mid Penn board of directors has determined that as President and Chief Executive Officer of MI Windows and Doors, Inc., Mr. DeSoto's knowledge in all aspects of business operations is an asset to Mid Penn and qualifies him to serve on the Mid Penn board of directors. Mr. DeSoto serves as Chairman of the Audit Committee and is a member of the Compensation Committee.

**Robert C. Grubic**, age 62, has been a director since 2006. In 1989, Mr. Grubic became President and Chief Executive Officer of Herbert, Rowland & Grubic, Inc., a consulting engineering firm based in Harrisburg, PA. He has been employed by the firm and its predecessor firm since 1973. Mr. Grubic has a Bachelor of Civil Engineering Degree from Villanova University and a Master of Administration Degree from The Pennsylvania State University. He serves on numerous civic and community boards and groups in the greater Harrisburg area. Mr. Grubic has overall management responsibility of the 240 person engineering firm of Herbert, Rowland & Grubic, Inc., including oversight of all financial, administrative, human resources and technical components of the firm. Due to his many years of experience in managing a successful engineering firm, the Mid Penn board of directors feels Mr. Grubic's vast knowledge of business operations is invaluable and qualifies him to serve on the Mid Penn board of directors. Mr. Grubic was appointed Chairman of the board of Mid Penn and Mid Penn Bank in 2012, after previously serving as Vice Chairman. Mr. Grubic also serves as Chairman of the Executive and Nominating and Corporate Governance Committees.

**Gregory M. Kerwin**, age 63, has been a director since 1999. In 1975, Mr. Kerwin became an associate, and is now senior partner in the firm of Kerwin & Kerwin, Attorneys at Law in Elizabethville, PA. A large part of the practice of the law firm deals in real estate transactions which involve bank financing. Mr. Kerwin has represented hundreds of clients (buyers, sellers and lenders) participating in such transactions. During the past 38 years, Mr. Kerwin, as solicitor, has represented over ten municipal governments and authorities in Northern Dauphin County. As a result of his association with these organizations, Mr. Kerwin is keenly aware of the strengths, assets and needs of Mid Penn Bank's local communities. Mr. Kerwin has a Bachelor of Arts Degree in Political Science from The Pennsylvania State University and a Juris Doctor from The Dickinson School of Law in Carlisle, PA. Because of his legal expertise, his knowledge in managing his own law firm and his knowledge of Mid Penn Bank's local community, the Mid Penn board of directors has determined that Mr. Kerwin adds value to Mid Penn and is qualified to serve on the Mid Penn board of directors, as well as on the Executive and Nominating and Corporate Governance Committees.

**John E. Noone**, age 54, has been a director since 2012. Mr. Noone is a Principal in QBN Development Group, LLC in Harrisburg, PA. He began his career in accounting and became a Pennsylvania Certified Public Accountant before entering banking and corporate finance. As Vice President and Regional Commercial Banking Manager, Mr. Noone managed a \$300 million Commercial Banking Division of Pennsylvania National Bank in Harrisburg, PA. He became an entrepreneur with the acquisition of McCann School of Business in 1993, which after significant growth was sold

in 2002. In 2003, Mr. Noone was a co-founder of Higher Education Solutions, LLC and began developing privatized student apartments for colleges and universities. The apartment portfolio of HES was sold in 2007, and he and his partner subsequently formed QBN Development Group, LLC.



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Mr. Noone is President of Shamrock Investments, LLC, a Central Pennsylvania firm investing in commercial real estate and private business equity. Mr. Noone earned a Bachelor of Science Degree in Business with a concentration in Accounting from Marywood University. He also completed the Central Pennsylvania School of Commercial Banking at Bucknell University and the Advanced Commercial Lending School at the University of Virginia. He is a member of the American Institute of Certified Public Accountants. Mr. Noone previously served on the Board of the Pennsylvania Economic Development Financing Authority, the Pennsylvania Chamber of Business and Industry, Pennsylvania Association of Private School Administrators and various other civic and community organizations. He is a current member of the Operational Committee of the Pennsylvania Community Development Bank and the Board of Governors at the West Shore Country Club. Due to his extensive business experience and his accounting and banking background, the Mid Penn board of directors has determined that Mr. Noone adds value to Mid Penn and is qualified to serve on the Mid Penn board of directors and as a Financial Expert on the Audit Committee. Mr. Noone also serves on the Nominating and Corporate Governance Committee.

**Class B Directors** (to serve until 2015)

**Steven T. Boyer**, age 51, has been a director since 2011. Mr. Boyer is President of the Cutting Tool Divisions of Alford-Polk, Inc. in Millersburg, PA. He is a College of Business Administration graduate from The Pennsylvania State University. Mr. Boyer is a member of the National Aerospace Standards 897 & 898 Committees and served on the Board of Directors of the United States Cutting Tool Institute from 2002 to 2007. He has served as a Board member of the Maroon & Gold Foundation, as a member of the Millersburg Lions Club, as a School Board Director of the Millersburg Area School District and Head Coach of the Millersburg High School Football team. The Mid Penn board of directors has determined that Mr. Boyer's vast business experience and community involvement qualify him to serve on the Mid Penn board of directors and on the Compensation Committee, adding value to Mid Penn.

**Robert E. Klinger**, age 56, has been a director since 2012. Mr. Klinger is President of Klinger Lumber Company, Inc., a family-owned business in Elizabethville, PA. As President, Mr. Klinger is involved in all aspects of the business including sales, marketing, inventory management, accounts receivable, accounts payable, human resources, safety programs and financial report analysis. He holds a degree in Marketing from Shippensburg University. From 1979 to 1991, he served as General Manager of a family-owned farming operation in Stanfield, AZ. Mr. Klinger is a member of the Elizabethville Community Volunteer Association and the Executive Board of the Elizabethville Area Bicentennial Committee. He previously served as Treasurer of the Northern Dauphin Revitalization Project. The Mid Penn board of directors has determined that Mr. Klinger's extensive knowledge of business operations and community involvement qualify him to serve on the Mid Penn board of directors as well as on the Audit Committee.

**Rory G. Ritrievi**, age 50, has been a director since 2009. On February 25, 2009, Mr. Ritrievi joined Mid Penn and Mid Penn Bank as President and Chief Executive Officer. Mr. Ritrievi has worked in the financial services industry for more than 27 years. He previously served as Senior Executive Vice President/Market President and Chief Lending Officer of Commerce Bank/Harrisburg, where he managed all aspects of the customer experience including the retail network, lending, marketing and public relations. As Chief Lending Officer, Mr. Ritrievi was responsible for loan production, credit quality and credit administration. Mr. Ritrievi holds a Juris Doctor from Widener University School of Law and a Bachelor of Arts Degree in Economics from the University of Pittsburgh. He is currently serving on the Board of Directors of the Pennsylvania Association of Community Bankers. Because of his education and leadership skills and his extensive knowledge and experience in many phases of banking, the Mid Penn board of directors concluded that Mr. Ritrievi was the right person to lead Mid Penn and Mid Penn Bank and that these attributes qualify him to serve as President and Chief Executive Officer of Mid Penn and Mid Penn Bank and also as a member of both boards. He also serves on the Executive Committee. Mr. Ritrievi has been a valuable addition to Mid Penn and Mid Penn Bank.



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**Table of Contents****Class C Directors** (to serve until 2016)

**Robert A. Abel**, age 55, has been a director since 2011. Mr. Abel, a Certified Public Accountant and Certified Specialist in Estate Planning, is a Principal, Shareholder and a member of the Board of Directors of Brown Schultz Sheridan & Fritz, in Camp Hill, PA. This regional firm with two offices provides tax, audit and consulting services. Mr. Abel has written many articles and participated in seminars on the topics of estate planning, wealth transfer and financial planning for the closely held corporation. He received a Bachelor of Science Degree from Shippensburg University, from which he graduated Summa Cum Laude. He is a member of the American Institute of Certified Public Accountants, the Pennsylvania Institute of Certified Public Accountants and the National Association of Estate Planners & Councils. He served as past Chairman of the Harrisburg YMCA and assisted in founding a non-profit organization. The Mid Penn board of directors has determined that Mr. Abel's vast knowledge in the accounting industry qualifies him to serve as a member of the Mid Penn board of directors, as Financial Expert of the Audit Committee and as a member of the Compensation Committee, adding great value to Mid Penn.

**Theodore W. Mowery**, age 55, has been a director since 2003. Mr. Mowery is a partner with Gunn Mowery, LLC in Camp Hill, PA. He is a licensed agent in life, health, property and casualty insurance and holds a Securities Series 6 and 63 license. Mr. Mowery is a founding partner of Gunn Mowery LLC, who currently employs 70 people and manages over \$150 million in insurance premiums. He is a founding partner in Gaughen Insurance, Inc. and is also a partner in Gunn Mowery Properties, LLC, a real estate holding company. Mr. Mowery serves as a Board member of the Lion Foundation. He is past President of the Camp Hill School Board, past President of the Mental Health Association of Cumberland, Dauphin and Perry Counties and past Board member of the West Shore Country Club. Mr. Mowery has a Bachelor of Arts Degree from Gettysburg College. Due to his vast knowledge of the insurance services industry and his experience in managing all aspects of his own company, the Mid Penn board of directors has determined that Mr. Mowery adds value to Mid Penn and is qualified to serve as a member of the Mid Penn board of directors, as well as Chairman of the Compensation Committee and as a member of the Nominating and Corporate Governance Committee.

**William A. Specht, III**, age 52, has been a director since 2006. Mr. Specht is President and Chief Executive Officer of Seal Glove Manufacturing, Inc., Ark Safety and Rescue Remedies. As President and Chief Executive Officer of his business affiliations, Mr. Specht is knowledgeable in all aspects of business operations. He also serves on the Boards of Directors of all three companies. Mr. Specht was appointed by the Dauphin County Commissioners to serve on the Dauphin County Planning Commission and currently serves as Vice Chairman. Mr. Specht previously served as a Board member of MANTEC, a non-profit corporation, a member of the Consumer Advisory Board of Capital Blue Cross and as a School Board Director of the Millersburg Area School District. Mr. Specht is an active member of the Millersburg community and has served and continues to serve in various capacities with various organizations. The Mid Penn board of directors has determined Mr. Specht's knowledge and management of his own business affiliations add value to Mid Penn and qualify him to serve on the Mid Penn board of directors. In 2012, Mr. Specht was appointed Vice Chairman of the Mid Penn board of directors of Mid Penn and Mid Penn Bank. Mr. Specht also serves on the Audit, Compensation and Executive Committees.

**Table of Contents***Executive Officers of Mid Penn and Mid Penn Bank*

The following table sets forth selected information about Mid Penn and Mid Penn Bank's executive officers, each of whom is elected by the Mid Penn board of directors and each of whom holds office at the Mid Penn board of directors discretion.

**Principal Occupation for the Past Five Years and Position Held with**

<b>Name</b>	<b>Age</b>	<b>Mid Penn Bancorp, Inc. and Subsidiaries</b>
Robert C. Grubic	62	Chairman of Mid Penn and Mid Penn Bank since May 2012 and Director of Mid Penn and Mid Penn Bank since 2006. He served as Vice Chairman of Mid Penn and Mid Penn Bank from 2008 to May 2012. Mr. Grubic is President and Chief Executive Officer of Herbert, Rowland & Grubic, Inc.
William A. Specht, III	52	Vice Chairman of Mid Penn and Mid Penn Bank since May 2012 and Director of Mid Penn and Mid Penn Bank since 2006. Mr. Specht is President and Chief Executive Officer of Seal Glove Manufacturing, Inc., Ark Safety and Rescue Remedies.
Rory G. Ritrievi	50	President, Chief Executive Officer and Director of Mid Penn and Mid Penn Bank since February 2009. He previously served as Senior Executive Vice President/Market President and Chief Lending Officer of Commerce Bank/Harrisburg.
Edward P. Williams	50	Interim principal Financial Officer of Mid Penn since August 8, 2014. Senior Vice President and Chief Financial Officer of Mid Penn Bank since March 2009. He served as Vice President and Director of Financial Reporting of Mid Penn Bank from June 2008 to March 2009.
Scott W. Micklewright	31	Executive Vice President of Mid Penn Bank since February 2013 and Chief Lending Officer of Mid Penn Bank since June 2010. He served as Senior Vice President from June 2010 to February 2013; Vice President and Commercial Loan Manager from September 2009 to June 2010; and Vice President and Senior Middle Market Loan Manager from March 2009 to September 2009. From 2006 to February 2009, he served in various positions with Commerce Bank, most recently as Commercial Loan Officer.
Justin T. Webb	31	Executive Vice President and Chief Risk Officer of Mid Penn Bank since July 2014. He was previously Senior Vice President and Chief Credit Officer of Mid Penn Bank from July 2012 to July 2014. Prior to joining Mid Penn Bank, he was previously employed by Bank of America and served as Vice President - Credit Risk Manager for the Commercial Real Estate Bank from January 2010 to July 2012, and as a Commercial Real Estate Debt Products Officer and Portfolio Manager prior to 2010.
Kelly K. Neiderer	49	Senior Vice President and Senior Banking Officer of Mid Penn Bank since January 2013. From July 2008 through September 2012, she held various positions with PNC Bank, most recently as a Senior Banking Advisor in the Wealth Management group.



**Table of Contents***Compensation of the Mid Penn Board of Directors*

Mid Penn Bank participates in the L.R. Webber Associates, Inc. Salary/Benefits Survey, which includes a survey of director fees and benefits. Mid Penn Bank also periodically conducts a survey of director fees, committee fees and other director compensation of banks that are similar in size and in similar markets to Mid Penn Bank. The Compensation Committee reviews these surveys and recommends to the full Mid Penn board of directors any changes to the compensation of the Mid Penn board of directors members for the upcoming year. The Mid Penn board of directors has final approval of the compensation of its directors. Board members, with the exception of the Chairman and Vice Chairman, receive an annual board fee of \$15,000. The Chairman receives an annual fee of 1.75 times the annual board fee, currently \$26,250, and the Vice Chairman receives 1.50 times the annual board fee, currently \$22,500. Committee fees are listed below:

Independent Board Meetings	\$500 per meeting attended
Nominating and Corporate Governance Committee Meetings	\$250 per meeting attended
Executive Committee Meetings	\$250 per meeting attended
Audit Committee Meetings	\$325 per meeting attended
Compensation Committee Meetings	\$300 per meeting attended
Compliance Committee Meetings (Bank only committee)	\$250 per meeting attended
Loan Committee Meetings (Bank only committee)	\$250 per meeting attended
Trust Committee Meetings (Bank only committee)	\$250 per meeting attended
Real Estate Committee Meetings (Bank only committee)	\$250 per meeting attended
Board Business Development Meetings	\$100 per meeting attended

In September 2013, John Noone was appointed to Mid Penn Bank's Asset/Liability Committee as a Board representative and receives \$250 for attending quarterly meetings. Mr. Ritrievi did not receive an annual fee for serving on the Mid Penn board of directors nor did he receive any fees for attending committee meetings. In 2013, the Mid Penn board of directors was paid \$215,433 in the aggregate, for all board fees and fees for committee meetings attended. This figure also includes retirement fees of \$4,808 paid to Mr. Coxon pursuant to the Mid Penn Bank Director Retirement Plan.

Mid Penn Bank maintains a deferred fee plan for directors, which enables a director to annually elect to defer payment of his fees until he terminates service on Mid Penn Bank's board of directors. For 2013, the maximum amount each director could defer was \$15,000. Participating directors may elect to receive either a lump sum or equal monthly installments in an amount equal to his deferral account (plus interest) upon retirement, early termination, disability, change in control or a hardship. If a director dies before distribution of his deferral account commences, his designated beneficiary is entitled to receive the amounts in his deferral account or the projected account balance at the time Mid Penn Bank adopted the deferred fee plan (limited by the amount of net coverage purchased by Mid Penn Bank), whichever is greater. For 2013, Messrs. Abel, Grubic, Klinger and Noone each deferred \$15,000.

In May 1995, Mid Penn Bank adopted the Mid Penn Bank Director Retirement Plan. Under the Director Retirement Plan, Bank directors who terminate their service on the Mid Penn board of directors other than for cause with at least five years of service are eligible to receive a retirement benefit. The five-year service requirement is waived if a director's service is terminated for disability or within 90 days of a change in control. The annual benefit is determined by multiplying the base retirement amount for the director's position (\$601.00 for the Chairman, \$300.50 for all other directors, which reflect the inflationary adjusted rates for 2013) by the number of full years the member served. The plan contains an annual inflationary adjustment provision. Benefits are paid in cash on a quarterly basis and continue for 60 quarterly payments or the director's death, if earlier.



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The following table summarizes the total compensation that non-employee directors earned for service as directors of Mid Penn and Mid Penn Bank for the year ended December 31, 2013.

*Director Compensation Table*

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$) <sup>(1)</sup>	Total (\$)
<b><u>Current Directors</u></b>			
Robert A. Abel	19,225	2,939	22,164
Steven T. Boyer	19,300	2,694	21,994
Matthew G. DeSoto	21,925	2,064	23,989
Robert C. Grubic	31,950	6,715	38,665
Gregory M. Kerwin	18,550	3,406	21,956
Robert E. Klinger	18,425	3,015	21,440
Theodore W. Mowery	21,350	2,948	24,298
John E. Noone	21,075	2,901	23,976
William A. Specht, III	31,625	2,760	34,385
<b><u>Retired Director as of 2013</u></b>			
<b><u>Annual Meeting</u></b>			
Jere M. Coxon <sup>(2)</sup>	7,200	14,352 <sup>(3)(4)</sup>	21,552

- (1) Amounts reflect the present value of the amount accrued to the directors in 2013 for Mid Penn Bank Director Retirement Plan.
- (2) Mr. Coxon retired at the 2013 Annual Meeting of Shareholders.
- (3) Amount includes \$4,808 paid to Mr. Coxon pursuant to the Mid Penn Bank Director Retirement Plan.
- (4) Amount includes compensation of \$9,544 for Mr. Coxon that was previously earned as board fees (and disclosed to shareholders) and deferred over Mr. Coxon's years of service to Mid Penn and Mid Penn Bank under Mid Penn Bank's deferred fee plan for directors.

**Compensation Discussion and Analysis****Introduction**

The Mid Penn Compensation Discussion and Analysis describes the key elements of Mid Penn's compensation program for the following named executive officers:

Rory G. Ritrievi, President and Chief Executive Officer of Mid Penn and Mid Penn Bank;

Kevin W. Laudenslager, Vice President and Chief Financial Officer of Mid Penn; Senior Executive Vice President and Chief Operating Officer of Mid Penn Bank (who resigned as an officer and employee effective August 4, 2014);

Scott W. Micklewright, Executive Vice President and Chief Lending Officer of Mid Penn Bank;

Justin T. Webb, Senior Vice President and Chief Credit Officer of Mid Penn Bank; and



Kelly K. Neiderer, Senior Vice President and Senior Banking Officer of Mid Penn Bank.

The Mid Penn board of directors has delegated the task of administering Mid Penn Bank's compensation program to the Compensation Committee, the primary responsibility of which is to assure that the executive officers of Mid Penn and its subsidiaries are compensated effectively in a manner consistent with the stated compensation strategy of Mid Penn and Mid Penn Bank, competitive practice and the requirements of the appropriate regulatory bodies.

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### *Compensation Objectives and Design*

Mid Penn and Mid Penn Bank seek to serve its customers and shareholders. To better accomplish this, Mid Penn's compensation objectives include offering a fair and competitive compensation package to attract and maintain competent, dedicated and ambitious managers whose efforts will enhance the products and services of Mid Penn and Mid Penn Bank, resulting in higher profitability, increased dividends to Mid Penn's shareholders and appreciation in market value of Mid Penn's common stock.

The elements of compensation for 2013 for the named executive officers were base salary and retirement and insurance benefits. To provide additional incentive for its named executive officers to meet performance targets or to remain in the employ of Mid Penn, the Compensation Committee has recommended that Mid Penn implement a restricted stock plan for the year 2014. Such plan would be consistent with Mid Penn's compensation objectives to attract and maintain competent individuals.

### *Management's Role in Determining Compensation*

The Compensation Committee considers the views and recommendations of the Chief Executive Officer in making compensation decisions affecting executive officers who report to him. The Chief Executive Officer's role in recommending compensation and compensation programs is to develop and recommend appropriate performance measures and targets for each individual, to report on the respective individual's performance, to provide data and background material to enable the Compensation Committee to assess the labor market and to make specific recommendations on each named executive officers' respective salary. The Chief Executive Officer does not recommend his own salary and is not present during the Compensation Committee's or board's discussions or decisions regarding his specific compensation.

### *Compensation Consultant's Role in Determining Compensation*

In 2013, the Compensation Committee did not hire a compensation consultant to specifically assist in determining the named executive officers' compensation. The Compensation Committee was provided data in the form of salary ranges excerpted from the L.R. Webber Salary/Benefits Survey for Financial Institutions for its review of the Chief Executive Officer's recommendations for base salary for the named executive officers who report to him and in determining if the Compensation Committee's recommendation of base salary for the Chief Executive Officer was appropriate.

### *Results of Shareholder Say on Pay Vote in Determining Compensation*

The Compensation Committee reviewed the shareholder response to the Say on Pay Vote in the Proxy Statement dated March 28, 2013. Since the Annual Meeting of Shareholders held in 2013 occurred after the increase in base salary was awarded in 2013, the Compensation Committee did not have the opportunity to consider the shareholders' overwhelming approval of executive compensation as described in the Compensation Discussion and Analysis and the tabular disclosure when reviewing whether to significantly change Mid Penn's compensation policies and practices.

The Compensation Committee did consider the overwhelming approval of executive compensation as described in the Compensation Discussion and Analysis and the tabular disclosure from the Annual Meeting of Shareholders held in 2012, and considering that the compensation and compensation programs did not change significantly, the Compensation Committee continued with its current approach of compensating executives in 2013. The Compensation Committee will consider the results of the meeting held in 2013 in awarding compensation in 2014.



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### **Components of Compensation**

#### *Base Salary*

Base salary levels are set to attract and retain executives who can further Mid Penn's and Mid Penn Bank's strategic objectives. Base salary is the most significant component of the named executive officers' compensation, and it is reviewed every year to determine whether the salary for each respective named executive officer is at the appropriate level. As mentioned above, the Chief Executive Officer reviews each named executive officer's performance in making specific salary recommendations to the Compensation Committee. The Compensation Committee reviews the Chief Executive Officer's performance in making a specific salary recommendation to the Mid Penn board of directors. The Chief Executive Officer and the Compensation Committee consider the named executive officer's general management performance; policy, procedure, and regulatory compliance; public relations; strategic objectives management; length of service with Mid Penn and Mid Penn Bank; and the named executive officer's position in making its determination of the appropriate level of base salary.

#### *Benchmarking*

The Compensation Committee did not benchmark the named executive officers' salary. However, Mid Penn Bank participated in the 2013 L.R. Webber Salary/Benefits Survey for Financial Institutions, which provides salary levels in ranges for financial institutions in Mid Penn Bank's asset size and in its geographic region. Data excerpted from the survey was provided to the Compensation Committee in order to educate its members on the current trends in compensation and benefits for financial institutions. The Compensation Committee did not rely directly upon the survey in determining increases in salaries, but used it as background material in judging whether the proposed increases were consistent with industry standards.

#### *Benefit Plans Available for All Employees*

Benefit plans are not tied to Mid Penn Bank or individual performance. The cost of providing such plans to all eligible employees and executive officers is not taken into account when determining specific salaries of the named executive officers and is seen as a cost of doing business.

#### *Group Insurance Plans*

The named executive officers participate in benefit plans that are generally available to all employees. These plans include group life insurance, group disability, health insurance and voluntary dental and vision benefits. Such plans are standard in the industry and in the geographic area for all industries, as well as necessary to compete for talented employees at all levels of Mid Penn Bank.

#### *Retirement Plans*

In an effort to encourage its named executive officers to save for retirement, Mid Penn Bank has established a 401(k) plan. Mid Penn Bank believes that it is important to assist employees in saving for retirement and believes that by providing a mechanism to save for retirement, Mid Penn Bank is providing the named executive officers with incentive to continue in the employ of Mid Penn Bank.

#### *Employee Stock Purchase Plan*

In 2010, the Mid Penn board of directors approved an Employee Stock Purchase Plan (the Plan ) effective January 1, 2011, to provide eligible employees of Mid Penn or Mid Penn Bank with an opportunity to purchase shares of common stock of Mid Penn through payroll deductions. Participation in the Plan did not provide any compensation to the employee in 2013; however, it provides eligible employees with a convenient method to acquire an interest in the long-term performance and success of Mid Penn, thereby providing them an incentive to ensure the success of Mid Penn.

**Table of Contents***Company Vehicle*

The President/Chief Executive Officer and the Vice President/Chief Financial Officer of Mid Penn are provided company vehicles. Provision of a company vehicle or for a car allowance is standard in the financial services industry as named executive officers frequently meet clients and business associates offsite.

*Accounting and Tax Treatments*

There were no decisions or changes made to compensation or benefit plans as a result of accounting and/or tax treatments.

*Material Differences in Named Executive Officers Compensation*

The differential between salary levels for each of the named executives is primarily driven by their respective positions with consideration also given to the experience and time in their respective positions.

*Executive Agreements*

There are no executive agreements at this time. The Compensation Committee will take under advisement whether executive agreements are in the best interest of Mid Penn and Mid Penn Bank in the future.

*Risk Association with Compensation Plans*

The Compensation Committee met with the Senior Risk Officer and reviewed Mid Penn's and Mid Penn Bank's compensation plans and has determined that the plans do not encourage any employee to take unnecessary and excessive risks, do not pose unnecessary risks to Mid Penn or Mid Penn Bank, and do not contain features which would encourage the manipulation of earnings.

**Executive Compensation**

The following discussion provides details of the various components of executive compensation.

*Summary Compensation Table*

The following table summarizes the total compensation awarded or earned for services in all capacities to Mid Penn or Mid Penn Bank for the years ended December 31, 2013, December 31, 2012, and December 31, 2011, for the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Non-Equity Incentive Compensation		All Other Compensation (\$) <sup>(1)</sup>	Total (\$)
				Stock Awards (\$)	Option Awards (\$)		
Rory G. Ritrievi	2013	330,938				15,994	346,932
	2012	325,000				12,205	337,205
	2011	283,462				9,106	292,568

President and Chief Executive Officer				
Kevin W. Laudenslager	2013	183,288	8,334	191,622
	2012	178,195	6,137	184,332
VP and Chief Financial Officer of Mid Penn Senior Executive VP and Chief Operating Officer of Mid Penn Bank <sup>(a)</sup>	2011	171,586	5,975	177,561
Scott W. Micklewright	2013	163,212	5,420	168,632
	2012	148,703	5,132	153,835
Executive VP and Chief Lending Officer of Mid Penn Bank	2011	143,274	4,995	148,269
Justin T. Webb	2013	143,519	2,349	145,868
Senior VP and Chief Credit Officer of Mid Penn Bank				
Kelly K. Neiderer	2013	119,019	290	119,309
Senior VP and Senior Banking Officer of Mid Penn Bank				

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(a) Mr. Laudenslager resigned as an officer and employee effective August 4, 2014.

(1) Includes the following amounts that were paid to or on behalf of the named executive officers:

	Year	Ritrievi <sup>(a)</sup>	Laudenslager <sup>(b)(c)</sup>	Micklewright <sup>(d)</sup>	Webb <sup>(e)</sup>	Neiderer
401(k) Match	2013	\$ 5,738	\$ 5,499	\$ 4,896	\$ 1,850	
	2012	\$ 5,625	\$ 5,346	\$ 4,461		
	2011	\$ 4,288	\$ 5,147	\$ 4,298		
Life Insurance	2013	\$ 718	\$ 586	\$ 524	\$ 499	\$ 290
	2012	\$ 925	\$ 791	\$ 671		
	2011	\$ 972	\$ 828	\$ 697		
Personal Use of Company Vehicle	2013	\$ 3,363	\$ 2,249			
	2012	\$ 1,337				
	2011	\$ 1,400				
Accrued under Director Retirement Plan	2013	\$ 2,664				
	2012	\$ 2,557				
	2011	\$ 2,446				
Disability Premium Reimbursement	2013	\$ 3,511				
	2012	\$ 1,761				
	2011					
Total	2013	\$ 15,994	\$ 8,334	\$ 5,420	\$ 2,349	\$ 290
	2012	\$ 12,205	\$ 6,137	\$ 5,132		
	2011	\$ 9,106	\$ 5,975	\$ 4,995		

(a) Mr. Ritrievi is eighty percent (80%) vested in the 401(k) match in 2013, sixty percent (60%) vested in the 401(k) match in 2012 and forty percent (40%) vested in the 401(k) match in 2011.

(b) Mr. Laudenslager is one hundred percent (100%) vested in the 401(k) match.

(c) Mr. Laudenslager resigned effective August 4, 2014.

(d) Mr. Micklewright is eighty percent (80%) vested in the 401(k) match in 2013, sixty percent (60%) vested in the 401(k) match in 2012 and forty percent (40%) vested in the 401(k) match in 2011.

(e) Mr. Webb is not vested in the 401(k) match in 2013.

*Mid Penn Bank Qualified Retirement Plan*

Mid Penn does not maintain a defined benefit pension plan. Mid Penn Bank, however, maintains the Mid Penn Bank Retirement Plan, created in 1949, restated in 1994, and last amended in 2011, which covers all Mid Penn Bank employees who meet eligibility requirements. The Mid Penn board of directors instituted a 401(k) Plan as part of the Retirement Plan effective January 1, 2007 for all Mid Penn Bank employees who satisfy eligibility requirements. Eligible employees are entitled to receive a share of Mid Penn Bank's contribution to the plan if they are Bank employees on December 31st. For the year 2013, the Mid Penn board of directors approved a matching contribution rate of 50% of the employee contribution, up to a maximum Bank contribution of 3%. The Mid Penn board of directors maintains the right to adjust its matching rate on an annual basis.



The annual contribution to the Retirement Plan is determined by Mid Penn Bank's board of directors based on the recommendation of the Compensation Committee. Distributions under the plan can be made to participating employees upon retirement, either normal or early retirement as defined in the plan, at death or disability of the participating employee or upon severing employment if either partially or fully vested. The plan provides for percentage vesting of 20% for the first full two years of service increasing annually thereafter to 100% vesting after six full years of participation. The plan provides for an accelerated vesting schedule in the event it becomes top-heavy. The market value of the plan was approximately \$7,308,738 at December 31, 2013.

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### *Employee Stock Ownership Plan*

Effective January 1, 1998, the Mid Penn board of directors adopted the Mid Penn Bank Employee Stock Ownership Plan for all Mid Penn Bank employees who satisfy length of service requirements. Participants did not contribute to the plan. In 2013, the Mid Penn board of directors approved the termination of the Employee Stock Ownership Plan. Participants in the plan were given the option to transfer their balances to the Mid Penn Bank Retirement Plan or to an IRA or to make a taxable withdrawal. As of December 31, 2013, the plan had a cash balance of \$6,786.83, which is comprised of outstanding distribution checks and funds to be used for expenses related to the termination of the plan.

### *Employment Agreements*

Neither Mid Penn nor Mid Penn Bank currently has employment agreements with any of its executives.

### *Risk Analysis of Compensation Practices and Policies*

Mid Penn Bank reviewed its compensation policies and practices for all employees and determined that they do not create risks that are reasonably likely to have a material adverse effect on Mid Penn or Mid Penn Bank. The Compensation Committee reviewed the terms, structure and implementation of incentive compensation structures with Mid Penn Bank's Senior Risk Officer. The Compensation Committee determined that such arrangements do not create risks that are reasonably likely to have a material adverse effect on Mid Penn or Mid Penn Bank.

### *Potential Payments Upon Termination or Change of Control*

As of December 31, 2013, none of the named executive officers are parties to any employment or change of control agreement with Mid Penn or Mid Penn Bank. Should a named executive officer have been terminated on December 31, 2013, the named executive officer would have only been entitled to benefits under Mid Penn Bank's retirement plan or disability plan which do not discriminate in scope, terms or operation, in favor of the named executive officers and are available generally to all salaried employees.

### *Certain Relationships and Related Transactions*

In December 2011, Mid Penn Bank entered into a lease agreement with a related interest of Robert Grubic to lease approximately 5,900 square feet of office space on Derry Street in Harrisburg, PA. In determining director independence, the Mid Penn board of directors considered this lease arrangement and concluded the lease arrangement does not impact the independence of Mr. Grubic. Neither Mid Penn nor Mid Penn Bank have entered into any other material transactions, proposed or consummated, with any director or executive officer of Mid Penn or Mid Penn Bank, or any associate of the foregoing persons. From time to time, Mid Penn Bank has engaged in and intends to continue to engage in banking and financial transactions in the ordinary course of business with directors and officers and their associates on comparable terms with similar interest rates as those prevailing from time to time for other customers.

Related party transactions greater than \$10,000 must be approved by the Mid Penn board of directors prior to any commitment by Mid Penn Bank to any such transaction. Directors do not participate in the discussions and are not present for voting on their own related party transactions. All of the material terms, conditions and purpose of the transaction shall be described in writing and provided to the Mid Penn board of directors, together with the written request for approval of any such related party transaction. The transaction should be reviewed and approved by the appropriate senior officer before being submitted to the Mid Penn board of directors for approval. Related party transactions for ongoing or continuing services can be reviewed and pre-approved within reasonable parameters by the

Mid Penn board of directors on an as-needed basis. If the terms, pricing or conditions change so as to go outside the specified parameters cited in the request, the transactions shall be resubmitted for review and approval after the fact.

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Mid Penn Bank has made loans to Mid Penn s and Mid Penn Bank s officers and directors and their immediate families and companies in which they had an ownership interest of 10% or more. Loans to such persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender and did not involve more than the normal risk of collectability or present other unfavorable features.

**Additional Information**

For additional information about Mid Penn and its subsidiaries, see *Where You Can Find More Information* beginning on page 203.

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**MID PENN SPECIAL MEETING PROPOSAL NO. 1**

**APPROVAL AND ADOPTION OF THE MERGER AGREEMENT**

Mid Penn is asking its shareholders to adopt the merger agreement. For a detailed discussion of the merger, including the terms and conditions of the merger agreement, see *The Merger*, beginning on page 44. As discussed in detail in the sections entitled *The Merger Mid Penn s Reasons for the Merger*, and *Recommendation of Mid Penn s Board of Directors*, beginning on pages 54 and 56, respectively, after careful consideration, the Mid Penn board of directors determined that the terms of the merger agreement and the transactions contemplated by it are in the best interests of Mid Penn and the board unanimously approved the merger agreement. ***Accordingly, Mid Penn s board of directors unanimously recommends that Mid Penn shareholders vote FOR adoption of the merger agreement.***

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**MID PENN SPECIAL MEETING PROPOSAL NO. 2**

**AUTHORIZATION TO VOTE ON ADJOURNMENT OR POSTPONEMENT**

**General**

If, at the Mid Penn special meeting, the number of shares of Mid Penn common stock, present in person or by proxy, is insufficient to constitute a quorum or the number of shares of Mid Penn common stock voting in favor is insufficient to adopt the merger agreement, Mid Penn management intends to move to adjourn or postpone the Mid Penn special meeting in order to enable the Mid Penn board of directors more time to solicit additional proxies. In that event, Mid Penn will ask its shareholders to vote on the adjournment or postponement proposal and not the proposal relating to adoption of the merger agreement.

In this proposal, Mid Penn is asking you to grant discretionary authority to the holder of any proxy solicited by the Mid Penn board of directors so that such holder can vote in favor of the proposal to adjourn or postpone the Mid Penn special meeting to solicit additional proxies. If the shareholders of Mid Penn approve the adjournment or postponement proposal, Mid Penn could adjourn or postpone the Mid Penn special meeting, and any adjourned or postponed session of the Mid Penn special meeting, and use the additional time to solicit additional proxies, including the solicitation of proxies from shareholders who have previously voted.

Generally, if the Mid Penn special meeting is adjourned or postponed, no notice of the adjourned or postponed meeting is required to be given to shareholders, other than an announcement at the Mid Penn special meeting of the place, date and time to which the meeting is adjourned or postponed.

**Vote Required**

The adjournment or postponement proposal requires affirmative vote of a majority of all votes cast, in person and by proxy, at the Mid Penn special meeting. Abstentions and broker non-votes will not affect the vote on the adjournment proposal.

**Recommendation of the Mid Penn Board of Directors**

The Mid Penn board of directors recommends a vote **FOR** the proposal to authorize the board of directors to adjourn or postpone the Mid Penn special meeting of shareholders to allow time for the further solicitation of proxies to adopt the merger agreement. All proxies will be voted **FOR** the adjournment proposal unless a shareholder specifies to the contrary on such shareholder's proxy card.

**SHAREHOLDER PROPOSALS FOR MID PENN 2015 ANNUAL MEETING**

Under SEC rules, Mid Penn shareholders intending to present a proposal at Mid Penn's 2015 annual meeting and have it included in Mid Penn's proxy materials must submit the proposal in writing to Mid Penn's Corporate Secretary at Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061. The proposal must have been received by MTR not later than November 28, 2014 and must otherwise comply with applicable law, including Rule 14a-8 of the Exchange Act.

In accordance with Mid Penn's bylaws, shareholder proposals intended to be presented at Mid Penn's 2015 annual meeting outside of Rule 14a-8 of the Exchange Act and shareholder nominations for directors to be elected at Mid Penn's 2015 annual meeting must have been received by Mid Penn not later than 120 days in advance of the

meeting. Such proposals must be delivered to, or mailed to and received by, Mid Penn's Corporate Secretary at Mid Penn Bancorp, Inc., 349 Union Street, Millersburg, Pennsylvania 17061 and must otherwise meet certain requirements as described in Mid Penn's bylaws.

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**THE PHOENIX SPECIAL MEETING**

This joint proxy statement/prospectus is being furnished to Phoenix shareholders by Phoenix's board of directors in connection with the solicitation of proxies from the holders of Phoenix common stock for use at the Phoenix special meeting and any adjournments or postponements of the Phoenix special meeting.

**Date, Time and Place**

The Phoenix special meeting will be held on Tuesday, December 23, 2014 at 9:00 a.m., local time, at Phoenix's headquarters at Rockwood Center, 1504 Route 61 South, Pottsville, Pennsylvania 17901, subject to any adjournments or postponements.

**Matters to be Considered**

At the Phoenix special meeting, Phoenix shareholders will be asked to consider and vote upon the following proposals:

1. approval and adoption of the merger agreement as described in detail under the heading "The Merger" beginning on page 44;
2. approval of a proposal to authorize the board of directors to adjourn or postpone the Phoenix special meeting, if necessary, to solicit additional proxies to adopt the merger agreement; and
3. transaction of any such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting.

At this time, the Phoenix board of directors is unaware of any matters, other than those set forth above, that may properly come before the Phoenix special meeting.

**Shareholders Entitled to Vote**

The close of business on November 12, 2014 has been fixed by Phoenix's board of directors as the record date for the determination of those holders of Phoenix common stock who are entitled to notice of and to vote at the Phoenix special meeting and any adjournment or postponement of the Phoenix special meeting.

At the close of business on the record date there were 282,206 shares of Phoenix common stock outstanding and entitled to vote, held by approximately 234 holders of record. A list of the shareholders of record entitled to vote at the Phoenix special meeting will be available for examination by Phoenix shareholders. A list of such shareholders will be available for inspection at the Phoenix special meeting and for ten days prior to the meeting at Phoenix's headquarters located at Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901, during normal business hours.

**Quorum and Required Vote**

Each holder of record of shares of Phoenix common stock as of the Phoenix record date is entitled to cast one vote per share at the Phoenix special meeting on each proposal. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Phoenix common stock entitled to vote at the Phoenix special meeting constitutes a quorum for the transaction of business at the Phoenix special meeting. The affirmative vote at the Phoenix special meeting, in person or by proxy, of the holders of 70% of the outstanding shares of Phoenix common



stock is required to approve and adopt the merger agreement. The affirmative vote, in person or by proxy, of a majority of votes cast at the Phoenix special meeting is required to approve the proposal to adjourn or postpone the Phoenix special meeting, if necessary, to solicit additional proxies, and any other matter that may properly come before the Phoenix special meeting.

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### **How Shares Will Be Voted at the Phoenix Special Meeting**

All shares of Phoenix common stock represented by properly executed proxies received before or at the Phoenix special meeting, and not properly revoked, will be voted as specified in the proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval and adoption of the merger agreement, and FOR the adjournment or postponement of the Phoenix special meeting, if necessary, to permit further solicitation of proxies as included in this joint proxy statement/prospectus.

If you hold shares of Phoenix common stock in street name through a bank, broker or other nominee holder, the nominee holder may only vote your shares in accordance with your instructions. If you do not give specific instructions to your nominee holder as to how you want your shares voted, your nominee will indicate that it does not have authority to vote on the proposal, which will result in what is called a broker non-vote. Broker non-votes will be counted for purposes of determining whether there is a quorum present at the Phoenix special meeting, but they will not be deemed to have been voted on any of the proposals. Abstentions and broker non-votes will not affect the outcomes of any of the proposals.

If any other matters are properly brought before the Phoenix special meeting, the proxies named in the proxy card will have discretion to vote the shares represented by duly executed proxies in their sole discretion.

### **How to Vote Your Shares**

Phoenix shareholders may vote in person at the Phoenix special meeting or by one of the following methods:

*Voting by Mail.* You may vote by completing and returning the enclosed proxy card. Your proxy will be voted in accordance with your instructions. If you do not specify a choice on one of the proposals described in this joint proxy statement, your proxy will be voted in favor of that proposal.

*Voting in Person.* If you attend the meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the Phoenix special meeting. If your shares are registered in the name of a broker or other nominee and you wish to vote at the meeting, you will need to obtain a legal proxy from your bank or brokerage firm. Please consult the voting form sent to you by your bank or broker to determine how to obtain a legal proxy in order to vote in person at the Phoenix special meeting. Should you have any questions on the procedure for voting your shares, please contact Phoenix's Corporate Secretary, Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901.

### **How to Change Your Vote**

If you are a registered shareholder, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to the Secretary of Phoenix, or (3) attending the Phoenix special meeting in person, notifying the Secretary and voting by ballot at the Phoenix special meeting. The Phoenix Secretary's mailing address is Rockwood Center, 1504 Rte. 61 South, Pottsville, Pennsylvania 17901. If your shares are registered in the name of a broker or other nominee, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity's procedures.

### **Dissenters' Rights**

Under Section 1930 and Chapter 15, Subchapter D, of the Pennsylvania Business Corporation Law of 1988, as amended, holders of Phoenix common stock who properly file a written notice of intention to dissent with Phoenix

will have the right to obtain a cash payment for the statutorily determined fair value of their shares (excluding any element of value arising in anticipation of the merger) in the event that the merger is completed. In order to exercise those rights, Phoenix shareholders must comply with the procedural requirements of Chapter 15, Subchapter D, of the Pennsylvania Business Corporation Law of 1988, as amended. The statutorily

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determined fair value cannot be predicted and could be more or less than the value of the merger consideration. Failure to take any of the steps required under Chapter 15, Subchapter D, of the Pennsylvania Business Corporation Law of 1988, as amended, on a timely basis may result in the loss of dissenters' rights. The provisions relating to dissenters' rights under the Pennsylvania Business Corporation Law of 1988 are attached to this joint proxy statement/prospectus as Annex D. See *The Merger Phoenix Shareholders Have Dissenters' Rights in the Merger* for additional information.

## **Solicitation of Proxies**

Phoenix will bear the entire cost of soliciting proxies from you. In addition to solicitation of proxies by mail, Phoenix will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Phoenix common stock and secure their voting instructions. Phoenix will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, Phoenix may use several of its regular employees, who will not be specially compensated, to solicit proxies from Phoenix shareholders, either personally or by telephone, facsimile, letter or other electronic means.

Mid Penn and Phoenix will share equally the expenses incurred in connection with the copying, printing and distribution of this joint proxy statement/prospectus.

## **Phoenix Affiliate Letter**

As of the record date, directors of Phoenix and their affiliates had the right to vote 126,817 shares of Phoenix common stock, or 44.9% of the outstanding Phoenix common stock entitled to be voted at the Phoenix special meeting. In accordance with the terms of the merger agreement, each of the directors of Phoenix has executed an Affiliate Letter in favor of Mid Penn pursuant to which he or she has agreed to vote all shares of Phoenix common stock owned by him or her in favor of approval and adoption of the merger agreement and the transactions contemplated thereby.

## **Attending the Meeting**

All holders of Phoenix common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the Phoenix special meeting. Shareholders of record can vote in person at the Phoenix special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Phoenix special meeting. If you plan to attend the Phoenix special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without both proper proof of share ownership and proper photo identification.

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**PHOENIX SPECIAL MEETING PROPOSAL NO. 1**

**APPROVAL AND ADOPTION OF THE MERGER AGREEMENT**

Phoenix is asking its shareholders to approve and adopt the merger agreement. For a detailed discussion of the merger, including the terms and conditions of the merger agreement, see *The Merger*, beginning on page 44. As discussed in detail in the sections entitled *The Merger Phoenix's Reasons for the Merger*, and *Recommendation of Phoenix's Board of Directors*, beginning on pages 47 and 48, respectively, after careful consideration, the Phoenix board of directors determined that the terms of the merger agreement and the transactions contemplated by it are in the best interests of Phoenix's shareholders and the Phoenix board of directors unanimously approved the merger agreement. ***Accordingly, the Phoenix board of directors unanimously recommends that Phoenix shareholders vote FOR the approval and adoption of the merger agreement.***

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**PHOENIX SPECIAL MEETING PROPOSAL NO. 2**

**AUTHORIZATION TO VOTE ON ADJOURNMENT OR POSTPONEMENT**

**General**

If, at the Phoenix special meeting, the number of shares of Phoenix common stock, present in person or by proxy, is insufficient to constitute a quorum or the number of shares of Phoenix common stock voting in favor is insufficient to approve and adopt the merger agreement, Phoenix management intends to move to adjourn or postpone the Phoenix special meeting in order to enable the Phoenix board of directors more time to solicit additional proxies. In that event, Phoenix will ask its shareholders to vote only upon the adjournment or postponement proposal and not the proposal relating to the approval and adoption of the merger agreement.

In this proposal, Phoenix is asking you to grant discretionary authority to the holder of any proxy solicited by the Phoenix board of directors so that such holder can vote in favor of the proposal to adjourn or postpone the Phoenix special meeting to solicit additional proxies. If the shareholders of Phoenix approve the adjournment or postponement proposal, Phoenix could adjourn or postpone the Phoenix special meeting, and any adjourned or postponed session of the Phoenix special meeting, and use the additional time to solicit additional proxies, including the solicitation of proxies from shareholders who have previously voted.

Generally, if the Phoenix special meeting is adjourned or postponed, no notice of the adjourned or postponed meeting is required to be given to shareholders, other than an announcement at the Phoenix special meeting of the place, date and time to which the meeting is adjourned or postponed.

**Vote Required**

Pursuant to Phoenix's bylaws, the adjournment or postponement proposal requires the affirmative vote of a majority of all votes cast, in person and by proxy, at the Phoenix special meeting. Abstentions and broker non-votes will not affect the vote on the adjournment proposal.

**Recommendation of the Phoenix Board of Directors**

The Phoenix board of directors recommends a vote **FOR** the proposal to authorize the board of directors to adjourn or postpone the Phoenix special meeting of shareholders to allow time for the further solicitation of proxies to approve and adopt the merger agreement.

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**INFORMATION ABOUT PHOENIX BANCORP, INC.**

***Business***

*Phoenix Bancorp, Inc.*

Phoenix Bancorp, Inc. is a Pennsylvania business corporation with its principal executive offices at Rockwood Center, 1504 Route 61 South, Pottsville, Pennsylvania 17901. Phoenix was incorporated in 1987 and is registered as a bank holding company under the federal Bank Holding Company Act. Phoenix's telephone number is (570) 544-4787, and its website address is [www.theminersbank.com](http://www.theminersbank.com). Phoenix is not required to file reports with the Securities and Exchange Commission.

Phoenix's principal activity consists of owning and supervising its subsidiary, Miners Bank. Phoenix's net income is mainly derived from the business of Miners Bank.

*Miners Bank*

Miners Bank was originally incorporated in 1935 as Minersville Safe Deposit and Trust Company. The bank was reorganized into a bank holding company structure in 1987. The bank changed its name to Miners Bank in 2008.

Miners Bank currently operates four full-service offices, as well as a corporate office, in Schuylkill and Luzerne Counties, Pennsylvania.

Miners Bank engages in a full-service commercial banking business, including accepting time and demand deposits, making secured and unsecured commercial and consumer loans, financing commercial transactions and making construction and mortgage loans. Miners Bank has automated teller machines (ATMs) at all of its full-service offices.

Miners Bank had 35 full-time employees and 8 part-time employees as of June 30, 2014. Management considers relations with its employees to be good. Miners Bank is not a party to any collective bargaining agreement.

At June 30, 2014, Phoenix had total consolidated assets of approximately \$141.5 million, total net loans of \$114.6 million, total deposits of \$119.6 million and shareholders' equity of \$16.6 million.

*Competition*

Miners Bank's core service area consists primarily of Schuylkill and Luzerne Counties, Pennsylvania. Within this service area, the banking business is highly competitive. Miners Bank competes with local banks, as well as numerous regionally based commercial banks, most of which have assets, capital and lending limits far larger than those of Miners Bank. Miners Bank also competes with savings banks, savings and loan associations, money market funds, insurance companies, stock brokerage firms, regulated small loan companies, and credit unions. The industry competes primarily in the area of interest rates, products offered, customer service and convenience.

Many of Miners Bank's competitors enjoy several advantages over it, including larger asset and capital bases, the ability to finance wide-ranging advertising campaigns and to allocate their investment assets to areas of highest yield and demand.

*Properties*

The following summarizes Phoenix's and Miners Bank's properties, owned or leased, as of June 30, 2014.

Corporate Office, Rockwood Center, 1504 Rt. 61 South, Pottsville PA 17901 - Leased



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Tremont Branch, 29 East Main Street, Tremont, PA 17981 - Owned

Minersville Branch, Route 901, Pottsville/Minersville Highway, Minersville, PA 17954 - Owned

Frackville Branch, 504 South Lehigh Avenue, Frackville, PA 17931 - Leased

Hazleton Branch, 641 State Route 93, Conyngham, PA, 18219 Leased

Gordon ATM (Former Branch) 300 Hobart Street, Gordon, PA 17936 Owned

***Legal Proceedings***

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which Phoenix, or any of its subsidiaries, is a party or of which any of their respective property is subject.

***Information about Phoenix Designees to Mid Penn Bancorp, Inc. Board of Directors***

The following provides information, as of December 31, 2013, about Vincent J. Land, Robert J. Moisey, and Noble C. Quandel, Jr., each of whom is a current director of Phoenix and Miners Bank and each of whom is anticipated to be appointed to the Board of Directors of Mid Penn Bancorp, Inc. and Mid Penn Bank upon consummation of the merger. The information presented includes information each director has given us about his age, all positions he holds, and his principal occupation for the past five years. The following also includes certain individual qualifications and skills that contribute to the board's effectiveness as a whole. We believe that all of our directors have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business insight and an ability to exercise sound judgment, as well as a commitment to service. Neither individual is a director of any other publicly-held company.

***Vincent J. Land, Colonel U.S. Army (Retired), 81*** Mr. Land has served as a director of Phoenix and Miners Bank since 1989 and is currently the chairman of the boards of directors of Phoenix and Miners Bank. Mr. Land is a retired U.S. Army Colonel. Mr. Land is considered independent of Phoenix as determined in accordance with the independence standards of the NASDAQ stock market.

***Robert J. Moisey, 65*** Mr. Moisey has served as a director of Phoenix since 2012 and Miners Bank since 2011. Mr. Moisey is President of Laurels Senior Living. Mr. Moisey is considered independent of Phoenix as determined in accordance with the independence standards of the NASDAQ stock market.

***Noble C. Quandel, Jr., 67*** Mr. Quandel has served as a director of Phoenix and Miners Bank since 2005 and is currently the vice-chairman of the boards of directors of Phoenix and Miners Bank. Mr. Quandel is the President and CEO of Quandel Enterprises, Inc. Mr. Quandel is considered independent of Phoenix as determined in accordance with the independence standards of the NASDAQ stock market.

***Security Ownership of Certain Beneficial Holders of Phoenix***

Beneficial ownership of Phoenix common stock was determined by referring to Securities and Exchange Commission Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or

indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares:

Voting power, which includes power to vote or to direct the voting of the stock;

Investment power, which includes the power to dispose or direct the disposition of the stock; or

The right to acquire beneficial ownership within 60 days after June 30, 2014.

**Table of Contents***Beneficial Ownership of Principal Holders*

The following table shows, to the best of Phoenix's knowledge, those persons or entities, who owned of record or beneficially, on June 30, 2014, more than 5% of Phoenix's outstanding common stock.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Class
Noble C. Quandt, Jr. <sup>(1)</sup>	42,789.84	15.20%
230 South 15 <sup>th</sup> Street		
Pottsville, PA 17901		
Vincent J. Land, Colonel U.S. Army (Retired) <sup>(2)</sup>	31,631.27	11.24%
106 Evergreen Drive		
Pottsville, PA 17901		
Dolores P. Land <sup>(3)</sup>	23,880.00	8.48%
106 Evergreen Drive		
Pottsville, PA 17901		

(1) Includes shares owned by Noble C. Quandt, Jr. and Julia T. Quandt, his wife.

(2) Shares are held individually. Mr. Land disclaims any beneficial ownership in 23,880.00 shares owned by his wife, Dolores P. Land.

(3) Shares are held individually. Mrs. Land disclaims any beneficial ownership in 31,631.27 shares owned by her husband, Vincent J. Land.

*Beneficial Ownership of Executive Officers and Directors*

The following table sets forth, as of June 30, 2014, and from information supplied by the respective persons, the amount and the percentage of Phoenix common stock beneficially owned by each director, nominee, and executive officer and all officers and directors of Phoenix as a group.

Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership	Percent of Class
Ronald T. Derenzo <sup>(1)</sup>	10,010.00	3.56%

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George H. Groves	10,826.76	3.85%
William L. Jones, III <sup>(2)</sup>	3,000.00	1.07%
Dolores P. Land <sup>(3)</sup>	23,880.00	8.48%
Vincent J. Land <sup>(4)</sup>	31,631.27	11.24%
Robert J. Moisey <sup>(5)</sup>	4,216.19	1.50%
Noble C. Quandel, Jr. <sup>(6)</sup>	42,789.84	15.20%
All officers, directors and nominees as a group (8 persons)	126,354.06	44.88%

- (1) Includes shares held by Ronald T. Derenzo and Rosemary C. Derenzo, his wife.
- (2) Includes shares owned by William L. Jones, III and Eileen C. Jones, his wife.
- (3) Shares are held individually. Mrs. Land disclaims any beneficial ownership in 31,631.27 shares owned by her husband, Vincent J. Land.
- (4) Shares are held individually. Mr. Land disclaims any beneficial ownership in 23,880.00 shares owned by his wife, Dolores P. Land.
- (5) Includes shares owned by Robert J. Moisey and Janice G. Moisey, his wife.
- (6) Includes shares owned by Noble C. Quandel, Jr. and Julia T. Quandel, his wife.

**Table of Contents*****Director Summary Compensation Table***

The table below summarizes the compensation paid during the fiscal year ended December 31, 2013 by Phoenix to Vincent J. Land, current director and Chairman of Phoenix, Robert Moisey, current director of Phoenix, and Noble C. Quandel, Jr., current director and Vice-Chairman of Phoenix. Messrs. Land, Moisey, and Quandel are expected to be appointed to the boards of directors of Mid Penn Bancorp, Inc. and Mid Penn Bank upon consummation of the merger.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Awards (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)		All Other Compensation (\$)	Total (\$)
Vincent J. Land	\$ 40,000							\$ 40,000
Robert J. Moisey	\$ 17,400 <sup>(1)</sup>							\$ 17,400
Noble C. Quandel, Jr.	\$ 17,000 <sup>(2)</sup>							\$ 17,000

(1) Includes \$15,000 annual retainer and \$2,400 in committee meeting fees.

(2) Includes \$15,000 annual retainer and \$2,000 in committee meeting fees.

During 2013, the Board of Directors of Phoenix held 12 meetings. Directors are paid a \$15,000 per year retainer. Vincent J. Land, as chairman of the board, is paid a \$40,000 per year retainer. Further, members of Phoenix's Audit Committee and Miners Bank's Loan Committee are paid \$200 for each meeting attended.

***Transactions with Certain Related Persons***

Some of Phoenix's directors and executive officers, members of their immediate families and the companies with which they are associated were Phoenix customers and had banking transactions with Phoenix in the ordinary course of business during 2013 and 2012. All loans and commitments to lend were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers. In Phoenix's management's opinion, the loans and commitments did not involve more than a normal risk of collectability or present other unfavorable features.

***Management's Discussion and Analysis of Financial Condition and Results of Operations of Phoenix******Management's Discussion and Analysis of Financial Condition and Results of Operations of Phoenix June 30, 2014***

The following discussion and analysis summarizes Phoenix's results of operations and highlights material changes for the six months ended June 30, 2014 and June 30, 2013 and its financial condition as of June 30, 2014. This discussion is intended to provide additional information which may not be readily apparent from the consolidated selected financial data included in this report. Reference should be made to the selected financial data presented for a complete

understanding of the following discussion and analysis.

This discussion and analysis should be read in conjunction with the consolidated unaudited financial statements and related footnotes for the six months ended June 30, 2014 beginning on page F-115 of this joint proxy statement/prospectus. Other than described herein, management does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity or capital resources.

This discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as Phoenix's plans, objectives, expectations and intentions. Therefore, this analysis should be read in conjunction with the *Cautionary Statement Regarding Forward-Looking Statements* on page 43.

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**Table of Contents***Critical Accounting Policies*

Phoenix's consolidated financial statements are prepared based on the application of certain accounting policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or are subject to variations which may significantly affect Phoenix's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas can have a material impact on future financial condition and results of operations.

Phoenix has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, valuation of securities, and accounting for income taxes.

Phoenix performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects an estimate of the losses inherent in the loan portfolio at any point in time. While these estimates are based on substantiated methods for determining allowance requirements, actual outcomes may differ significantly from estimated results, especially when determining allowances for business and commercial real estate loans. These loans are normally larger and more complex, and their collection rates are harder to predict. Consumer loans are individually smaller and perform in a more homogenous manner, making loss estimates more predictable.

Phoenix records its available for sale securities at fair value. Fair value of these securities is determined based on methodologies in accordance with generally accepted accounting principles. Fair values are volatile and may be influenced by a number of factors, including market conditions, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values used are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the marketplace as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other than temporary impairment condition exists. Available for sale securities are analyzed quarterly for possible other than temporary impairment. The analysis considers (i) whether Phoenix has the intent to sell the securities prior to recovery and/or maturity and (ii) whether it is more likely than not that Phoenix will have to sell the securities prior to recovery and/or maturity. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on Phoenix's results of operations and financial condition.

*Overview*

Phoenix is a Pennsylvania corporation headquartered in Minersville, Pennsylvania and is the holding company for Miners Bank, which is a Pennsylvania chartered full-service community bank headquartered in Pottsville, Pennsylvania. Miners Bank provides a full range of commercial and consumer banking services to individuals, businesses and municipalities in Schuylkill and Luzerne counties.

Phoenix had total consolidated assets of \$141,504,000, loans of \$114,641,000, deposits of \$119,557,000, and shareholders' equity of \$16,554,000 at June 30, 2014. Net income available to common shareholders for the six months

ended June 30, 2014 was \$214,000, or \$0.75 per share, as compared to net income available to common shareholders of \$218,000, or \$0.80 per share, for the six months ended June 30, 2013. The annualized



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return on average assets was 0.31% for the six months ended June 30, 2014 as compared with 0.33% for the comparable period in 2013. The annualized return on average equity was 2.63% for the first six months of 2014 as compared with 2.74% for the same period in 2013.

*Results of Operations for the Six Months Ended June 30, 2014 as Compared with June 30, 2013**Net Interest Income and Net Interest Margin*

The following table presents Phoenix's average balances, interest rates, interest income and expense, interest rate spread and net interest margin for the six months ended June 30, 2014 and 2013.

**Average Balances and Average Interest Rates****(Dollars in thousands)**

	For the Six Months Ended June 30,					
	2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>Assets</b>						
Interest earning assets:						
Fed Funds/Due from Banks	\$ 2,120	\$ 6	0.55%	\$ 1,965	\$ 6	0.58%
Total Securities	13,464	149	2.21%	13,006	105	1.61%
Total Loans	113,301	2,759	4.82%	110,147	2,848	5.09%
Total earning assets	128,885	2,914	4.47%	125,118	2,959	4.66%
Non-interest earning assets	9,523			8,029		
Total assets	\$ 138,408			\$ 133,147		
<b>Liabilities and shareholders' equity</b>						
Interest-bearing liabilities:						
Deposit accounts:						
Interest Bearing Core Deposits	\$ 59,367	\$ 60	0.20%	\$ 58,518	\$ 74	0.26%
Time deposits	28,781	130	0.91%	29,335	171	1.18%
Total deposits	88,148	190	0.44%	87,853	245	0.56%
Borrowings	5,908	39	1.94%	3,518	36	2.40%
Total interest bearing liabilities	94,056	229	0.53%	91,371	281	0.63%
Demand deposits	27,471			25,210		
Other liabilities	596			616		
Shareholders' equity	16,285			15,950		
Total liabilities and shareholders' equity	\$ 138,408			\$ 133,147		
Net interest income		\$ 2,685			\$ 2,678	

Net interest spread	<b>3.94%</b>	<b>4.03%</b>
Net interest margin	<b>4.17%</b>	<b>4.28%</b>

*For yield computation purposes, non-accruing loans are included in average loan balances and any income recognized on these loans is included in interest income.*

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*Securities held as available-for-sale are carried at amortized cost for purposes of calculating average yield.*

*Interest Income*

For the six months ended June 30, 2014, total interest income decreased by \$45,000, or (1.51)%, to \$2,914,000 from \$2,959,000 for the six months ended June 30, 2013. The decrease was due to a decline in the yield of total earning assets to 4.47% for the six months ended June 30, 2014 from 4.66% for the six months ended June 30, 2013. In particular, the decline in the loan yield to 4.82% at June 30, 2014 from 5.09% at June 30, 2013 had the greatest impact in reducing the yield generated from total earning assets. The yield on the investment portfolio increased to 2.21% for the six months ended June 30, 2014 from 1.61% for the six months ended June 30, 2013. The decline in the total earning asset yield was somewhat offset by a 3.01% increase in the volume of total average earning assets attributable to loan growth of 2.86% .

Total interest expense decreased \$52,000, or 18.5%, to \$229,000 for the six months ended June 30, 2014 from \$281,000 for the six months ended June 30, 2013. This was attributable to a 10 basis point decrease in total cost of funds, which decreased to 0.53% for the six months ended June 30, 2014 from 0.63% for the same period in 2013. The decline in the cost of deposits to 0.44% at June 30, 2014 from 0.56% at June 30, 2013 had the greatest impact in reducing the cost of interest bearing liabilities.

Net interest income increased \$7,000, to \$2,685,000 for the six months ended June 30, 2014 from \$2,678,000 for the six months ended June 30, 2013. Phoenix's net interest spread decreased to 3.94% for the six months ended June 30, 2014 from 4.03% for the six months ended June 30, 2013, while its net interest margin decreased to 4.09% for the six months ended June 30, 2014 from 4.20% for the six months ended June 30, 2013. The decline in the yield of interest earning assets compressed both the net interest spread and net interest margin at June 30, 2014 as compared with June 30, 2013.

Net interest income can also be analyzed in terms of the impact of changing interest rates and changing volumes, which is reflected in the following table for the periods indicated.

**Rate/Volume Analysis of Net Interest Income**

**for the Six Months Ended September 30,**

<b>(In thousands)</b>	<b>2014 vs. 2013</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net Change</b>
	<b>Increase/(Decrease)</b>		
Fed Funds/Due from Banks	\$	\$	\$
Total Securities	<b>10</b>	<b>34</b>	<b>44</b>
Total Loans	<b>(31)</b>	<b>(58)</b>	<b>(89)</b>
<b>Net Change in Interest Income</b>	<b>(21)</b>	<b>(24)</b>	<b>(45)</b>
<b>Interest-Bearing Liabilities:</b>			
Interest Bearing Core Deposits	<b>2</b>	<b>(16)</b>	<b>(14)</b>
Time deposits	<b>47</b>	<b>(88)</b>	<b>(41)</b>

Total deposits	<b>49</b>	<b>(104)</b>	<b>(55)</b>
Borrowings	<b>16</b>	<b>(13)</b>	<b>3</b>
Total interest bearing liabilities	<b>65</b>	<b>(117)</b>	<b>(52)</b>
<b>CHANGE IN NET INTEREST INCOME</b>	<b>\$ (86)</b>	<b>\$ 93</b>	<b>\$ 7</b>

*Provision for Loan Losses*

The provision for loan losses represents management's determination of the amount necessary to be charged to operations in order to maintain the allowance for loan losses at a level that represents management's best estimate of the known and inherent losses in the existing loan portfolio. Credit exposures deemed uncollectible

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are charged against the allowance for loan losses. Recoveries of previously charged-off loans are credited to the allowance for loan losses. Management performs periodic evaluations of the allowance for loan losses with consideration given to historical, internal and external factors. In evaluating the adequacy of the allowance for loan losses, management considers historical loss experience, delinquency trends and charge-off activity, status of past due and non-performing loans, growth within the portfolio, the amount and types of loans comprising the loan portfolio, adverse situations that may affect a borrower's ability to pay, the estimated value of underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are caused to undergo interpretation and possible revision as events occur or as more information becomes available. Loans are also reviewed for impairment based on discounted cash flows using the loans' initial effective interest rates or the fair value of the collateral for certain collateral dependent loans as provided under the accounting standard relating to *Accounting by Creditors for Impairment of a Loan*. After an evaluation of these factors, Phoenix recorded a provision of \$68,000 for the six months ended June 30, 2014 as compared with \$70,000 recorded for the six months ended June 30, 2013. The allowance for loan losses was \$1,256,000 or 1.08% of total loans outstanding at June 30, 2014 as compared to \$1,136,000, or 1.03% of total loans at June 30, 2013.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses, if necessary, in order to maintain the adequacy of the allowance. Management believes the allowance for loan losses at June 30, 2014 is maintained at a level that is adequate to absorb probable and potential losses inherent in the loan portfolio. At the same time, management continues to allocate dedicated resources to continue to manage at-risk credits.

*Other Operating Income*

The following table sets forth changes in other operating income for the six months ended June 30, 2014 and 2013.

**Other Operating Income**

**(Dollars in thousands)**

	<b>Six Months Ended June 30,</b>			<b>2013</b>
	<b>2014</b>	<b>Increase/(Decrease)</b>		
	<b>Amount</b>	<b>%</b>		
Service charges and fees on deposits	<b>\$ 240</b>	<b>\$ 3</b>	<b>1.2%</b>	<b>\$ 237</b>
Other Income	<b>124</b>	<b>66</b>	<b>113.8%</b>	<b>58</b>
Gain on sale of mortgage loans	<b>45</b>	<b>(10)</b>	<b>(18.2)%</b>	<b>55</b>
Gain on sale of investment securities			<b>0%</b>	
	<b>\$ 409</b>	<b>\$ 59</b>	<b>16.9%</b>	<b>\$ 350</b>

Other operating income represents 13.2% of total revenues (comprised of net interest income and other operating income) for the six months ended June 30, 2014 as compared with 11.6% for the same period in 2013. Total other operating income increased 16.9% in the first six months of 2014 as compared with the first six months of 2013 due in part to recording a \$57,000 gain from the sale of a facility during the first quarter of 2014.



**Table of Contents***Other Operating Expense*

The following table presents the components of other operating expense for the first six months of 2014 and 2013.

**Other Operating Expense**

(Dollars in thousands)

	<b>Six Months Ended June 30,</b>			<b>2013</b>
	<b>2014</b>	<b>Increase/(Decrease)</b>		
		<b>Amount</b>	<b>%</b>	
Salaries and employee benefits	<b>\$ 1,447</b>	<b>\$ (36)</b>	<b>(2.4)%</b>	\$ 1,483
Occupancy expense	<b>448</b>	<b>61</b>	<b>15.8%</b>	387
Assessments and non-income taxes	<b>133</b>	<b>15</b>	<b>12.7%</b>	118
Amortization of intangibles		<b>(23)</b>	<b>(100.0)%</b>	23
Director fees	<b>47</b>	<b>(4)</b>	<b>(7.8)%</b>	51
Professional fees	<b>179</b>	<b>60</b>	<b>50.4%</b>	119
Data Processing	<b>302</b>	<b>62</b>	<b>25.8%</b>	240
Office Supplies	<b>58</b>	<b>20</b>	<b>52.6%</b>	38
Postage and courier	<b>20</b>	<b>2</b>	<b>11.0%</b>	18
Telephone	<b>41</b>	<b>13</b>	<b>46.4%</b>	28
Other expenses	<b>83</b>	<b>(73)</b>	<b>(46.8)%</b>	156
	<b>\$ 2,758</b>	<b>\$ 96</b>	<b>3.6%</b>	\$ 2,662

Other operating expenses increased 3.6% year over year. This increase is attributable to increased expenses in occupancy, professional services, and data processing, offset by a decrease in other expenses. The increase in occupancy was related to the opening of the Conyngham Office and the relocation of the operations group. The increase in professional fees is for the most part due to the outsourcing of certain corporate functions, a portion of which is offset in salaries and employee benefits expenses. The increase in data processing expenses is in part due to onetime expenses related to the relocation of the operations group and the ongoing costs of opening the Conyngham Office. The decrease in other expenses was due to reduced OREO expenses in 2014 as well as increased reversal of loan origination costs.

*Provision for Federal Income Taxes*

Federal income tax expenses decreased \$21,000 or 34.7% year over year, from \$62,000 over the first six months in 2013 to \$41,000 over the first six months in 2014. This decrease is attributable to the overall decline in net income before taxes as well as increased non-taxable revenue.

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*Financial Condition as of June 30, 2014 and June 30, 2013*

*Securities*

The following table sets forth the composition of the investment securities portfolio as of June 30, 2014 and June 30, 2013:

**Investment Securities**

<b>(In thousands)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Available for Sale Securities (at fair value):		
U.S. Treasury securities and obligations of other U.S. government agencies and organizations	\$ 4,011	\$ 5,077
Obligations of states and political subdivisions	3,795	3,246
Corporate debt securities	506	508
Agency mortgage-backed securities	4,741	3,030
Equity securities	982	885
<b>Total</b>	<b>\$ 14,035</b>	<b>\$ 12,746</b>

No securities are considered other-than-temporarily impaired based on management's evaluation of the individual securities, including the extent and length of any unrealized losses, and Phoenix's ability to hold the security until maturity or until the fair value recovers, and management's opinion that it will not have to sell the securities prior to recovery of value. Phoenix invests in securities for the cash flow and yields they produce and not to profit from trading. Phoenix holds no trading securities in its portfolio as of June 30, 2014.

*Restricted Investments in Bank Stocks*

Restricted stock, which represents required investments in the common stock of correspondent banks is carried at cost and as of June 30, 2014 and 2013, consists of the common stock of the Federal Home Loan Bank of Pittsburgh ( FHLB ) and Atlantic Community Bankers Bank ( ACBB ).

Management believes no impairment charge is necessary related to the restricted stock as of June 30, 2014 and 2013.

*Loans*

The loan portfolio comprises the major component of Phoenix's earning assets and is the highest yielding asset category. Total loans, net of unearned income increased \$5,282,000, or 4.8%, to \$115,897,000 at June 30, 2014 from \$110,615,000 at June 30, 2013. All of Phoenix's loans are to domestic borrowers.

*Credit Risk and Loan Quality*

The following table presents non-performing loans and assets as of June 30, 2014 and June 30, 2013:



**Non-Performing Assets**

<b>(In thousands)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Accruing loans past due 90 days	\$	\$
Non-accrual loans	551	635
<b>Total non-performing loans</b>	<b>551</b>	<b>635</b>
Foreclosed real estate	519	206
<b>Total non-performing assets</b>	<b>\$ 1,070</b>	<b>\$ 841</b>
Non-performing loans to total loans	0.47%	0.57%
Non-performing assets to total assets	0.76%	0.63%
Allowance to non-performing loans	227.95%	178.90%

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The non-performing asset ratios presented in the table reflect a modest decline in the credit quality of the loan portfolio. Through the first six months of 2014, Phoenix experienced a decrease of \$84,000 in total non-performing loans due to a decrease in non-accrual loans. There was a \$313,000 increase in other real estate owned, which caused an overall increase of \$229,000 in total non-performing assets.

The other real estate owned as of June 30, 2014 consists of one commercial property.

Miners Bank's lending policy is executed through the assignment of tiered loan limit authorities to individual officers of Miners Bank and the Board of Directors. Although Phoenix's management believes that it maintains sound credit policies, certain loans may deteriorate for a variety of reasons. Phoenix's policy is to place all loans in a non-accrual status upon becoming 90 days delinquent in their payments, unless the loan is well secured and there is documented, reasonable expectation of the collection of the delinquent amount. Management is not aware of any potential loan problems that have not been disclosed in this report.

*Allowance for Loan Losses*

As a result of management's ongoing assessment as to the adequacy of the allowance for loan losses in consideration of the risks and trends associated with the loan portfolio, a provision of \$68,000 was made to the allowance for loan losses for the six months ended June 30, 2014 as compared with \$70,000 for the six months ended June 30, 2013. Management determined that the total of the allocated and unallocated allowance for loan losses was adequate to absorb any losses inherent in the portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for loan losses may be necessary, and the results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that material increases will not be necessary should the quality of the loans deteriorate as a result of factors previously discussed.

**Analysis of the Allowance for Loan Losses**

<b>(In thousands)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Beginning Balance	\$ 1,227	\$ 1,227
Provision for loan losses	68	70
Charge-offs:		
Commercial		(146)
Mortgage		
Consumer	(39)	(16)
Total charge-offs	(39)	(162)
Recoveries:		
Commercial		
Mortgage		
Consumer		1
Total recoveries		1

Net (charge-offs)/recoveries	<b>(39)</b>	<b>(161)</b>
Ending balance	<b>\$ 1,256</b>	<b>\$ 1,136</b>
Net (charge-offs)/recoveries to average loans (annualized)	<b>(0.07)%</b>	<b>(0.29)%</b>
Allowance for loan losses to total loans	<b>1.08%</b>	<b>1.03%</b>

The increase in the allowance for loan losses as a percentage of total loans as of June 30, 2014 as compared with June 30, 2013 is primarily due to the growth of the commercial loan portfolio, which have higher probable

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loss factors than mortgage or consumer loans. Although management is proactive in identifying and dealing with credit issues that it can control, it anticipates that going forward, additional provisions to its allowance for loan losses may be warranted as a result of economic factors it cannot control.

*Deposits*

Deposits are the major source of Phoenix's funds for lending and investing purposes. Total deposits at June 30, 2014 were \$119,557,000, an increase of \$7,044,000, or 6.3%, from total deposits of \$112,513,000 at December 31, 2013. The deposit growth was seen in most deposit categories and is in part attributable to the \$3,905,000 growth at the new office in Conyngham. Non-interest bearing deposits increased \$2,220,000, or 8.6%, to \$27,922,000 at June 30, 2014 from \$25,702,000 at December 31, 2013. Savings and interest bearing demand deposits increased \$2,384,000, or 4.1%, to \$60,897,000 at June 30, 2014 from \$58,513,000 at December 31, 2013. Time deposits increased \$2,440,000, or 8.6% at June 30, 2014 since the 2013 year end. Phoenix's cost of interest bearing deposits increased modestly to 0.46% at June 30, 2014 from 0.44% at December 31, 2013 but declined from 0.52% at June 30, 2013.

*Borrowings*

Phoenix has an unsecured line of credit for \$3,000,000 with Atlantic Community Bankers Bank, Camp Hill, Pennsylvania. Phoenix borrowed \$1,150,000 under this line at June 30, 2014 and \$0 December 31, 2013.

Phoenix has a secured line of credit at the Federal Home Loan Bank of Pittsburgh of approximately \$46,784,000 at June 30, 2014. This line is secured by a blanket pledge against certain components of Phoenix's loan portfolio, in accordance with FHLB policy. There were no short term borrowings outstanding on June 30, 2014 and \$4,987,000 outstanding with a cost of .024% at December 31, 2013. Phoenix had \$3,500,000 of long term borrowings outstanding with an average cost of 2.00% at both June 30, 2014 and December 31, 2013.

The following table presents long term borrowings as of June 30, 2014 and December 31, 2013:

Structure	Settlement Date	Maturity Date	Amount	Rate
FHLB Fixed Rate	10/8/2013	10/7/2016	<b>\$ 1,500,000</b>	<b>1.08%</b>
FHLB Fixed Rate	11/9/2010	11/9/2015	<b>\$ 1,000,000</b>	<b>2.37%</b>
FHLB Fixed Rate	11/9/2010	11/9/2017	<b>1,000,000</b>	<b>3.03%</b>
Total			<b>\$ 3,500,000</b>	<b>2.00%</b>

*Shareholders' Equity and Capital Adequacy*

At June 30, 2014, shareholders' equity for Phoenix totaled \$16,554,000, an increase of \$358,000 over shareholders' equity of \$16,196,000 at December 31, 2013. The increase was due to net income of \$227,000 and an increase in the net unrealized gains on securities available for sale, which net of tax, reduced equity by \$220,000, less dividend payments to common shareholders and the Department of Treasury.

The Small Business Lending Fund (the "SBLF") is a \$30 billion fund that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than \$10 billion. The intent is for community banks and small businesses to work together to create jobs and promote economic growth in local communities across

the nation. On July 19, 2011, Phoenix entered into a Securities Purchase Agreement (the Agreement) with the Secretary of the Treasury (the Treasury) as a result of its election to participate in the Treasury's SBLF. The Agreement contains the terms and conditions on which Phoenix issued preferred stock to Treasury, which Treasury purchased using SBLF funds.

Accordingly, the Board of Directors authorized 4,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, \$1,000 par value, of which 3,500 shares were issued to Treasury. Dividends are payable quarterly in arrears

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on the first day of each calendar quarter of each year. The dividend rate will be no more than 5% for the first two years and the rate falls to one percent if small business lending increases by ten percent or more. Institutions that increase their lending by less than ten percent pay rates between two percent and four percent. If an institution's lending does not increase in the first two years, however, the rate increases to seven percent, and after 4.5 years total, the rate for all institutions increases to nine percent (if the institution has not already repaid the SBLF funding). A majority of the proceeds were immediately transferred by Phoenix to Miners Bank as equity capital contributions and qualify for inclusion in the Tier I capital of Miners Bank.

Phoenix is subject to certain periodic reporting requirements, covenants and restrictions which include certain related party transactions, maintenance of minimum capital requirements mandated by its primary regulators, mergers and consolidations of Phoenix and / or its subsidiaries, and restrictions on dividends and share repurchases as defined in the Agreement.

During 2013, Phoenix redeemed 875 shares, or 22% of the preferred stock issued through the SBLF. In July 2014, Phoenix also redeemed an additional 875 shares of the preferred stock issued through the SBLF, leaving a balance of 1,750 shares outstanding. During 2013, Phoenix paid dividends aggregating \$29,000 to the Treasury representing an average rate of 1.00%.

Phoenix meets the eligibility criteria of a small bank holding company in accordance with the FRB's Small Bank Holding Company Policy Statement. Accordingly, Phoenix is exempt from regulatory requirements administered by the federal banking agencies. However, Miners Bank is subject to various regulatory capital adequacy requirements administered by the FRB. The table that follows presents Miners Bank's capital ratios as determined and reported to its regulator. Tier 1 capital includes common stock, surplus, and retained earnings less disallowed goodwill and other intangible assets. Total capital consists of tier 1 capital and the allowance for loan losses. Miners Bank exceeds both the regulatory minimums and the requirements necessary for designation as a well-capitalized institution.

<b>Capital Ratios (of Bank)</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>Regulatory Minimum</b>	<b>Well Capitalized Requirement</b>
Tier 1 capital (to average assets)	<b>10.4%</b>	10.9%	4.0%	5.0%
Tier 1 capital (to risk-weighted assets)	<b>13.1%</b>	14.2%	4.0%	6.0%
Total risk-based capital (to risk-weighted assets)	<b>14.3%</b>	15.4%	8.0%	10.0%

*Off-Balance Sheet Arrangements*

Phoenix is 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 to a lesser extent, letters of credit. At June 30, 2014, Phoenix had unfunded outstanding commitments to extend credit of \$10,444,000 and outstanding letters of credit of \$573,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. Refer to Note 13 of the 2013 Consolidated Financial Statements for a discussion of the nature, business purpose and importance of Phoenix's off-balance sheet arrangements.

*Liquidity*

Liquidity refers to Phoenix's ability to generate adequate amounts of cash to meet financial obligations to its customers in order to fund loans, to respond to deposit outflows and to cover operating expenses. Maintaining a level of liquid funds through asset/liability management seeks to ensure that these needs are met at a reasonable cost. Liquidity is essential to compensate for fluctuations in the balance sheet and provide funds for growth and normal operating expenditures. Sources of liquidity are provided on a continuous basis through scheduled and unscheduled principal reductions and interest payments on outstanding loans and investment securities. Liquidity needs may also be met by converting assets into cash or obtaining sources of additional funding, whether through deposit growth, securities sold under agreements to repurchase or borrowings under lines of credit with correspondent banks.

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Liquidity from the asset category is provided through cash, amounts due from banks, interest-bearing deposits with banks and federal funds sold, which totaled \$4,061,000 at June 30, 2014, which was \$932,000 lower than the \$4,993,000 that was outstanding at December 31, 2013. While liquidity sources generated from assets include scheduled payments and prepayments of principal and interest from securities and loans in Phoenix's portfolios, longer term liquidity needs may be met by selling securities available-for-sale, selling loans or raising additional capital. At June 30, 2014, unpledged available-for-sale securities with a carrying value of \$2,048,000 were readily available for sale for liquidity purposes as compared with \$3,049,000 at December 31, 2013. The decrease in unpledged available for sale securities was attributable to a decrease in the amount of investment securities that needed to be pledged for public fund deposits.

On the liability side, the primary source of funds available to meet liquidity needs is to attract deposits at competitive rates. Phoenix's core deposits, which exclude certificates of deposit over \$100,000, were \$112,308,000 at June 30, 2014 as compared to \$105,215,000 at December 31, 2012. Core deposits have historically provided a source of relatively stable and low cost liquidity. Short-term and long-term borrowings utilizing the federal funds line and credit facility established with a correspondent financial institution and the FHLB are also considered to be reliable sources for funding. As of June 30, 2014, Phoenix had access to one formal borrowing line with its correspondent banks totaling \$3,000,000, as well as remaining borrowing capacity of \$43,284,000 at June 30, 2014 at the FHLB.

There are a number of factors that may impact Phoenix's liquidity position. Changes in interest rates, local economic conditions and the competitive marketplace can influence prepayments on investment securities, loan fundings and payments, and deposit flows. Management is of the opinion that its liquidity position at June 30, 2014 is adequate to respond to fluctuations on and off the balance sheet since it manages liquidity on a daily basis and expects to have sufficient funds to meet all of its funding requirements.

Except as discussed above, there are no known demands, trends, commitments, events or uncertainties that may result in, or that are reasonably likely to result in Phoenix's inability to meet anticipated or unexpected needs.

*Management's Discussion and Analysis of Financial Condition and Results of Operations of Phoenix December 31, 2013*

The following discussion and analysis summarizes Phoenix's results of operations and highlights material changes for the year ended December 31, 2013 and its financial condition as of December 31, 2012. This discussion is intended to provide additional information which may not be readily apparent from the consolidated selected financial data included in this report. Reference should be made to the selected financial data presented for a complete understanding of the following discussion and analysis.

This discussion and analysis should be read in conjunction with the consolidated audited financial statements and related footnotes for the twelve months ended December 31, 2013 beginning on page F-82 of this joint proxy statement/prospectus. Other than described herein, management does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity or capital resources.

This discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as Phoenix's plans, objectives, expectations and intentions. Therefore, this analysis should be read in conjunction with the *Cautionary Statement Regarding Forward-Looking Statements* on page 43.





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**Table of Contents***Results of Operations**Summary of Financial Results*

For the year ended December 31, 2013, Phoenix recorded an after-tax net profit available to common shareholders of \$524,000, or \$1.93 per share, which was a decline of approximately \$151,000 as compared to the \$675,000 after-tax net profit, or \$2.80 per share recorded for the same period in 2012. The decrease in the net income available to common shareholders was the result of decreases in the gain on the sale of investment securities and an increase in the provision for credit losses. Net interest income increased by approximately \$177,000 as a result of growth in interest earning assets as well as declining costs in interest-bearing liabilities. Non-interest income decreased approximately \$498,000 due mainly to a lower level of gains taken on the sale of investment securities, offset in part by the increased revenue from the gain on the sale of mortgage loans. Non-interest expenses decreased approximately \$55,000 due to decreases in other expenses related to the unwinding of a leverage transaction in 2012 and a decrease in professional fees, offset in part by increases in salaries and benefits and occupancy expenses. The provision for loan losses decreased \$35,000 which was attributable to improvement in the portfolio during 2013. See the Provision for Loan Losses section below for the discussion on Phoenix's allowance for loan losses. Income tax expense decreased \$74,000 due to the general decrease in net income before taxes. For key performance ratios for the years ended December 31, 2013 and 2012, see the Selected Historical Financial Data section of this registration statement.

*Net Interest Income*

Net interest income increased \$177,000, or 3.4%, to \$5,406,000 in 2013 from \$5,229,000 in 2012 due to the growth in earning assets and the decline in the cost of interest-bearing liabilities, offset by the decreases in interest rates on earning assets. Net interest income is generated from Phoenix's lending and investment activities, and is the most significant component of earnings. Net interest income is the difference between interest and rate-related fee income on earning assets (primarily loans and investment securities) and the interest paid on the deposits and borrowings supporting them. Phoenix principally utilizes deposits to fund loans and investments. In order to fund operations in future periods the organization may utilize short-term and long-term borrowings, including borrowings from the Federal Home Loan Bank and federal funds lines with correspondent banks, based on the prevailing economic conditions, deposit availability and pricing, interest rates and other factors at such time.

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The following table provides a comparative average balance sheet and net interest income analysis for the year ended December 31, 2013, as compared to the same period in 2012. All dollar amounts are in thousands.

	For the Twelve Months Ended December 31,					
	2013			2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>Assets</b>						
Interest earning assets:						
Fed Funds/Due from Banks	\$ 2,224	\$ 12	0.52%	\$ 6,467	\$ 17	0.25%
Total Securities	12,924	235	1.82%	16,942	424	2.50%
Total Loans	111,980	5,694	5.09%	101,291	5,596	5.52%
Total earning assets	127,128	5,941	4.67%	124,700	6,037	4.84%
Non-interest earning assets	7,268			8,303		
Total assets	\$ 134,396			\$ 133,003		
<b>Liabilities and shareholders' equity</b>						
Interest-bearing liabilities:						
Deposit accounts:						
Interest Bearing Core Deposits	\$ 59,952	\$ 136	0.23%	\$ 54,832	\$ 204	0.37%
Time deposits	28,646	326	1.14%	34,802	533	1.53%
Total deposits	88,598	462	0.52%	89,634	737	0.82%
Borrowings	3,627	73	2.01%	3,091	71	2.29%
Total interest bearing liabilities	92,225	535	0.58%	92,725	808	0.87%
Demand deposits	25,641			24,573		
Other liabilities	546			691		
Shareholders' equity	15,984			15,014		
Total liabilities and shareholders' equity	\$ 134,396			\$ 133,003		
Net interest income		\$ 5,406			\$ 5,229	
Net interest spread			4.09%			3.97%
Net interest margin			4.25%			4.19%

The following table summarizes the changes in interest income and expense due to changes in average balances (volume) and changes in rate:

**2013 vs. 2012  
Increase/(Decrease)**

<b>(In thousands)</b>	<b>Volume</b>	<b>Rate</b>	<b>Net Change</b>
Fed Funds/Due from Banks	\$ (4)	\$ (1)	\$ (5)
Total Securities	(202)	13	(189)
Total Loans	584	(486)	98
<b>Net Change in Interest Income</b>	<b>378</b>	<b>(474)</b>	<b>(96)</b>
<b>Interest-Bearing Liabilities:</b>			
Interest Bearing Core Deposits	28	(97)	(69)
Time deposits	(123)	(83)	(206)
Total deposits	(95)	(180)	(275)
Borrowings	5	(3)	2
Total interest bearing liabilities	(90)	(183)	(273)
<b>CHANGE IN NET INTEREST INCOME</b>	<b>\$ 468</b>	<b>\$ (291)</b>	<b>\$ 177</b>

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Interest income decreased \$96,000, or (1.6)%, even though the average balance of interest earning-assets grew \$2,428,000, or 1.9% as compared to 2012. The average interest rate on interest-earning assets decreased by 17 basis points driving an overall rate related decrease to interest income of \$474,000.

Average yields on loans decreased by 43 basis points, or 8.0%, to 5.09% in 2013 from 5.52% in 2012. The decrease is reflective of the reduced interest rate environment over the past year and local competition.

Interest expense decreased \$273,000, or (33.8)%, due to a decrease in the average interest rate paid on liabilities of 29 basis points, changes in the deposit mix as well as a \$500,000 decline in average balance of interest bearing liabilities.

During 2014, Phoenix expects a decrease in its overall level of net interest income as a result of loan repayments and prepayments as well as security calls and maturities in this the reduced interest rate environment.

*Provision for Loan Losses and Allowance for Loan Losses*

The allowance for loan losses is established through provisions for loan losses charged against income as losses are estimated to have occurred. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance is based on two basic principles of accounting: (i) FASB ASC Topic 310, *Receivables*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC Topic 450, *Contingencies*, which requires that losses be accrued when the loan has become impaired. A loan is considered impaired when, based on current information and events, it is probable that Phoenix will be unable to collect the scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. Impairment is measured as the difference between a loan's carried value on the balance sheet and its fair market value. Based on the nature of the loan, its fair value reflects one of the following three measures: (i) the fair market value of collateral; (ii) the present value of the expected future cash flows; or (iii) the loan's value as observable in the secondary market. Factors considered by management in determining impairment include the payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The provision for loan losses included in the statements of operations serves to maintain the allowance at a level management considers adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to pay, the estimated value on any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention under Phoenix's internal criteria for classification. For such loans that are also classified as impaired, an allowance is established when the fair value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans that have been segmented into groups with similar characteristics and is based on historical loss experience adjusted for qualitative factors.

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The following table presents the activity in Phoenix's allowance for loan losses:

	Twelve Months Ended December 31,	
	2013	2012
	(dollar amounts in thousands)	
<b>Balance at beginning of year</b>	\$ 1,227	\$ 1,145
<b>Charge-offs</b>	(220)	(172)
<b>Recoveries</b>	2	1
<b>Net charge-offs</b>	(218)	(171)
<b>Provision</b>	218	253
<b>Balance at end of year</b>	\$ 1,227	\$ 1,227
<b>ASSET QUALITY RATIOS</b>		
<b>Allowance for loan losses to loans</b>	1.09%	1.12%
<b>Net charge-offs to average loans outstanding</b>	(0.19)%	(0.17)%
<b>Non-performing loans to total loans</b>	1.03%	0.45%
<b>Allowance for loan losses to non-performing assets</b>	105.78%	224.31%

The provision for loan losses for the year ended December 31, 2013 equaled \$218,000, a decrease of \$35,000, or 13.8%, from 2012. The decrease in the provision for loan losses relates to quality of the loan portfolio.

*Non-Interest Income*

Non-interest income was \$898,000 and \$1,396,000 for the years ended December 31, 2013 and 2012, respectively. The \$498,000 decrease was attributable to the decline in the gains on sale of investment securities which decreased \$622,000, partially offset by an \$118,000 increase in gains on the sale of mortgage loans.

*Non-Interest Expense*

Non-interest expense was \$5,388,000 and \$5,443,000 for the years ended December 31, 2013 and 2012, respectively. The \$55,000 decrease was mostly attributable to decreases in other expenses, professional fees offset in part by increases costs for salaries and benefits, occupancy, and data processing expenses. There was a non-recurring expense of \$95,000 in 2012 related to the unwinding of a leverage strategy, the benefits were recorded in other income.

Phoenix management utilizes the operating efficiency ratio as a key productivity measure. This ratio demonstrates the operating efficiency of an organization by comparing net non-interest expenses to the sum of net interest income and non-interest income. For the year ended December 31, 2013, Phoenix achieved an operating efficiency ratio of 85.52%, compared to 82.20% for the same period in 2012. Phoenix's operating efficiency ratio remains above its peer group banks due to salaries and employee benefits costs as well as the number of branches which generates higher non-interest expense.

*Income Tax Expense*

Income tax expense was \$145,000 and \$219,000 for the years ended December 31, 2013 and 2012, respectively. The statutory tax rate for the year ended December 31, 2013 was 34%. Income tax expense decreased due to the decrease in net income before federal taxes.

*Financial Condition*

Total assets increased by \$5,425,000, or 4.1% at December 31, 2013 compared to December 31, 2012.

**Table of Contents***Loans Net of Unearned Income*

Phoenix's loan balance, net of unearned income grew by \$2,850,000 during 2013. This growth was represented mainly in the real estate mortgage loans, reflecting a continuing commitment to the credit needs of our local market. See the table below for a detail of the loan balances, net of unearned income at December 31, 2013 and the changes from December 31, 2012.

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
	(dollar amounts in thousands)			
<b>Commercial</b>	<b>\$ 80,053</b>	<b>\$ 71,924</b>	<b>\$ 8,129</b>	<b>11.30%</b>
<b>Residential real estate</b>	<b>25,684</b>	<b>29,383</b>	<b>(3,699)</b>	<b>-12.59%</b>
<b>Consumer</b>	<b>6,506</b>	<b>8,086</b>	<b>(1,580)</b>	<b>-19.54%</b>
<b>Total Loans</b>	<b>112,243</b>	<b>109,393</b>	<b>2,850</b>	<b>2.61%</b>
<b>Less: Allowance for loan losses</b>	<b>1,227</b>	<b>1,227</b>	<b>0</b>	<b>0.00%</b>
<b>Total loans, net</b>	<b>\$ 111,016</b>	<b>\$ 108,166</b>	<b>\$ 2,850</b>	<b>2.63%</b>

Phoenix Bancorp Inc.'s loan balance, net of unearned income grew by \$2,850,000 during 2013. This growth was represented mainly by commercial loans to small businesses, reflecting a continuing commitment to the credit needs of small businesses in our designated markets. See the table above for a detail of the loan balances, net of unearned income at December 31, 2013 and the changes from December 31, 2012.

As of December 31, 2013, Phoenix Bancorp's loan portfolio did not show a material concentration of credit. Loans secured by commercial real estate as a percentage of Tier One Capital is well within regulatory guidelines. In addition the loan portfolio does not include concentrations of credit risk in residential real estate loans with high loan-to-value ratios. There are no significant concentrations of credit in commercial loans stratified by industry classification. Participation loans sold without recourse to unaffiliated banks grew \$2.1 million in 2013 while Participation loans purchased grew \$3.1 million. Phoenix Bancorp expects the loan portfolio to continue to grow as it focuses on serving the credit needs of its market areas, while exercising prudent underwriting standards considering the economic uncertainties that are expected to continue.

Phoenix's written loan policy require specified underwriting, documentation and credit analysis standards to be met before a loan request is approved. Ultimate responsibility for the Credit Policy rests with the Board of Directors served by the Board Loan Committee. The committee is comprised of six members of the Board of Directors as well as members of senior management. Loan Policy changes and/or additions are considered and approved by this committee. This committee oversees the loan approval process and monitors whether proper loan standards are maintained.

Phoenix's commercial real loans are generally secured by assets of the borrower: land, buildings, machinery and equipment, inventory and receivables, as well as by guarantees of the principals. Miners Bank's underwriting policy considers the following criteria: cash flow analysis, business and personal balance sheet analysis, loan to value using real estate appraisals that includes a credit analyst's review of the appropriateness of the real estate appraiser's assumptions and analysis, project budgets, character analysis of the borrower, viability of the borrowers loan purpose as it related to general economic conditions. Other considerations for loan approval include: environmental surveys



and reports, third party approvals such as zoning permits, general and subcontractor bonding, personal or corporate guarantees. Loan approvals are authorized under individual loan authority, lender loan committee, board loan committee or the entire Board of Directors depending on the size and complexity of the loan request. All loans approvals must be reviewed and signed by two of the following: Chief Executive Officer, Chief Lending Officer or Chief Risk Officer.

Phoenix Bancorp adheres to regulatory and statutory requirements pertinent to commercial real estate lending. Particular emphasis is placed upon The Financial Institutions Reform, Recovery and Enforcement Act

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(FIRREA) which mandates requirements for appraisals to support real estate transactions. FIRREA also provides loan-to-value limits which Phoenix uses and tracks. The aggregate amount of all loans in excess of the Supervisory loan-to-value limits should not exceed 100% of total tier 1 capital. Phoenix is well below this level at 50.4%.

Commercial term mortgages are approved to purchase or refinance improved owner and non-owner occupied one-to-four and multi unit residential and non residential properties. Miners Bank's underwriting policy requires that minimum debt coverage are met and borrower cash equity meets established LTV guidelines.

Phoenix's residential real estate loans (mortgages) are secured by owner-occupied one-to-four family residential properties and are underwritten so that they can be sold in the secondary market, whether or not the Bank intends to sell the loan. The underwriting criteria for this type of loan includes: the determination of the borrower's character and willingness to repay the loan, analysis of the borrower's income and ability to make the monthly payment along with other monthly payments and obligations, the borrower's credit history, personal asset and liability analysis to ensure liquid funds are available for the down payment, closing costs, reserves, etc., real estate appraisal are reviewed to ensure LTV policy guidelines. The primary risk of residential real estate loans is the borrower's ability to repay the loan through long-term consistent employment.

Home equity loans and lines of credit are secured by owner-occupied or non-owner-occupied one-to-four family residential properties. Phoenix Bancorp's underwriting policy is similar to the residential real estate loan policy. Loan to value ratios are reviewed and meet loan policy guidelines. The primary risk of home equity loans and lines of credit is the borrower's ability to repay the loan through long-term consistent employment.

Phoenix's consumer loan underwriting policy considers the borrower's needs and the estimated useful life of the collateral. Cash down payments for consumer purchases vary depending on the type and value of the collateral and desired loan maturity. Loan advances generally do not exceed 90% of the purchase price plus any tax, title or license fee. Consumer credit underwriting policy is based on the applicant's creditworthiness as determined by assessing the borrower's character, employment stability, repayment capacity and collateral value. The primary risk of consumer loans is the borrower's ability to repay the loan and other monthly obligations through long-term consistent employment.

The table below sets forth, for the periods indicated, information with respect to Phoenix's nonaccrual loans, restructured loans, total nonperforming loans (nonaccrual loans plus restructured loans) and total nonperforming assets. The accounting estimates for loan losses are subject to changing economic conditions.

	December 31, 2013	December 31, 2012
	(dollar amounts in thousands)	
Accruing loans past due 90 days	\$	\$ 12
Non-accrual loans	1,160	483
<b>Total non-performing loans</b>	<b>1,160</b>	<b>495</b>
Foreclosed real estate		52
<b>Total non-performing assets</b>	<b>\$ 1,160</b>	<b>\$ 547</b>

Nonperforming loans to total loans	<b>1.03%</b>	<b>0.45%</b>
Allowance for loan losses to total loans	<b>1.09%</b>	<b>1.12%</b>

At December 31, 2013, the nonperforming loans consisted of \$1,078,000 in commercial loans, and \$82,000 of consumer loans. Commercial loans of \$415,000 and consumer loans of \$80,000 were included in nonperforming loans at December 31, 2012. Phoenix's Loan Committee and management has performed a detailed review of the nonperforming loans and of their related collateral and believe the allowance for loan losses remains adequate for the level of risk inherent in the loan portfolio. Overall, asset quality, as measured in terms of nonperforming assets to total assets, coverage ratios and nonperforming assets to stockholders' equity, remains adequate.

**Table of Contents***Investments in Securities*

During 2013, available for sale securities increased by \$247,000 or 0.23%. The securities available for sale portfolio is comprised of U.S. Government Sponsored Agencies, Mortgaged-Backed Securities, Collateralized Mortgage Obligations, municipal bonds, corporate securities and equity securities. The securities held at December 31, 2013 had an average tax-effected yield of 2.04% with an average life to maturity of approximately four years.

*Premises and Equipment, Net*

During 2013, premises and equipment increased \$207,000, or 7.7%, from \$2,681,000 at December 31, 2012 to \$2,888,000 at December 31, 2013. A majority of the increase was due to leasehold improvements and equipment for the Conyngham branch.

*Cash and Cash Equivalents*

Cash and cash equivalents increased \$1,261,000, or 50.8%, due to a large volume of items sent for presentment to FRB on December 31, 2013. When analyzed in terms of average balances, cash and cash equivalents decreased \$4,410,000, or 59.2%, in 2013. See the *Management's Discussion and Analysis of Financial Condition and Results of Operation of Phoenix Liquidity* below for further discussion on cash activity.

*Deposits*

Total deposits at December 31, 2013 were \$112,513,000, an increase of \$788,000 from total deposits of \$111,725,000 at December 31, 2012. The table below displays the increased and decreases in deposits by type at December 31, 2013 as compared to December 31, 2012.

	December 31, 2013		December 31, 2012		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
(dollar amounts in thousands)						
<b>Non-interest bearing transaction accounts</b>	\$ 25,702	22.84%	\$ 23,712	21.23%	\$ 1,990	8.39%
<b>Interest checking accounts, MMDA</b>	36,148	32.13%	34,591	30.96%	1,557	4.50%
<b>Savings accounts</b>	22,365	19.88%	23,252	20.81%	(887)	(3.81)%
<b>Time deposits of \$100,000 or greater</b>	7,298	6.49%	8,795	7.87%	(1,497)	(17.02)%
<b>Time deposits, other</b>	21,000	18.66%	21,375	19.13%	(375)	(1.75)%
<b>Total</b>	<b>\$ 112,513</b>		<b>\$ 111,725</b>		<b>\$ 788</b>	

The balance of deposits increased across all categories reported by Phoenix with the exception of time deposits under \$100,000. The reduction of time deposits under \$100,000 is the result of deposit pricing for CD's with a maturity of one year or less, as MMDA rates are either comparable to or higher than short term CD rates.

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The average balances and weighted average rates paid on deposits for 2013 and 2012 are presented in the table below.

	December 31, 2013		December 31, 2012		Increase (Decrease) in Average Balance	
	Average Balance	Average Rate	Average Balance	Average Rate	\$	%
(dollars in thousands)						
<b>Non-interest bearing transaction accounts</b>	<b>\$ 25,641</b>	<b>0.00%</b>	<b>\$ 24,573</b>	<b>0.00%</b>	<b>\$ 1,068</b>	<b>4.35%</b>
<b>Interest checking accounts</b>	<b>3,118</b>	<b>0.26%</b>	<b>2,277</b>	<b>0.43%</b>	<b>841</b>	<b>36.93%</b>
<b>Money market accounts</b>	<b>33,383</b>	<b>0.32%</b>	<b>28,510</b>	<b>0.54%</b>	<b>4,873</b>	<b>17.09%</b>
<b>Savings accounts</b>	<b>23,450</b>	<b>0.09%</b>	<b>24,045</b>	<b>0.17%</b>	<b>(595)</b>	<b>(2.47)%</b>
<b>Time deposits</b>	<b>28,646</b>	<b>1.14%</b>	<b>34,802</b>	<b>1.53%</b>	<b>(6,156)</b>	<b>(17.69)%</b>
<b>Total</b>	<b>\$ 114,238</b>		<b>\$ 114,207</b>		<b>\$ 31</b>	

*Stockholders' Equity and Capital Adequacy*

The stockholders' equity increased \$798,000, or 5.18%, from \$15,398,000 at December 31, 2012 to \$16,196,000 at December 31, 2013. The increase can be attributed to the Hazleton stock issuance of \$1,078,000, net income of \$553,000, offset in part by dividend payments and the repayment of \$875,000 of preferred stock to the Small Business Lending Fund, US Department of Treasury.

Miners Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings. Phoenix is committed to driving shareholder value so that future earnings will be available for dividend distributions to shareholders.

Refer to Note 14 Shareholders Equity in the December 31, 2013 Notes to consolidated Financial Statements for a discussion of capital adequacy at Phoenix.

*Interest Rate Sensitivity*

Phoenix actively manages its interest rate sensitivity position. Interest rate sensitivity is the matching or mismatching of the re-pricing structure of the interest-bearing assets and liabilities. Phoenix's primary objectives of interest rate risk management are to neutralize adverse impacts to net interest income arising from interest rate movements, maintain the economic value of equity and to attain sustainable growth in net interest income. The Asset Liability Committee (ALCO) is primarily responsible for developing and implementing asset liability management strategies in accordance with the Board of Directors approved Asset and Liability Policy and Procedures. The ALCO generally meets on a quarterly basis and is comprised of members of Phoenix's senior management team and Board of Directors.

Phoenix manages interest rate sensitivity by changing the volume, mix, pricing and repricing characteristics of its assets and liabilities. Phoenix has not entered into derivative contracts such as interest rate swaps, caps, and floors.

At December 31, 2013, Phoenix reported an investment portfolio of approximately \$13,677,000 and a loan portfolio of approximately \$112,243,000.

The investment portfolio was comprised of \$3,716,000 of municipal obligations, \$508,000 of corporate notes, \$4,597,000 of government sponsored agency securities, \$3,811,000 of government agency mortgage backed securities, and \$1,045,000 of equity securities. The investment portfolio is principally used to: (a) satisfy collateral requirements of certain public deposits accepted by Phoenix and (b) provide a source of funding for liquidity needs.

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The interest rate characteristics and maturity structure compositions of the loan portfolio at December 31, 2013 are set forth in the tables below.

	<b>Percentage of Portfolio</b>
<b>Interest Rate Characteristic</b>	
Fixed rate loans	37.93%
Variable-rate prime-indexed loans	57.99%
Variable-rate LIBOR indexed loans	4.08%
<b>Total</b>	<b>100.00%</b>
<b>Maturity Structure</b>	
One month or less	0.75%
Two to six months	5.37%
Six to twelve months	2.80%
One to five years	17.89%
Five to ten years	14.91%
Greater than ten years	58.29%
<b>Total</b>	<b>100.00%</b>

Certificates of Deposit comprise approximately \$28,298,000 of deposit liabilities. The maturity structure of the time deposit portfolio as of December 31, 2013 is summarized below.

	<b>Dollars (thousands)</b>	<b>Percentage</b>
<b>Certificates of Deposit Maturity Structure</b>		
Six months or less	\$ 7,466	26.39%
Over six months through twelve months	3,799	13.42%
Over one year through six years	16,170	57.14%
Over six years	863	3.05%
<b>Total</b>	<b>\$ 28,298</b>	<b>100.00%</b>

Phoenix uses several tools to assess and measure its interest rate risk including interest rate simulation analysis that is prepared on a quarterly basis.

*Net Interest Income at Risk* Phoenix assesses the percentage change in net interest income assuming interest rate shocks of +/-100, +/-200, +300 and +400 basis points. This analysis captures the timing of the pricing of rate sensitive assets and rate sensitive liabilities as well as the degree of change ( beta ) in the interest rates of particular asset and liability products that occurs as interest rates move upward or downward.

*Economic Value of Equity at Risk.* Phoenix assesses the present value of cash inflows of cash, investments and loans, netted against the present value of cash outflows from deposits and other interest bearing liabilities, all discounted from their repricing dates to a measurement date. This measure is expressed as the percentage change in the present value of such cash flows when interest rates are shocked at +/-100, +/-200, +300 and +400 basis points.

Each analysis is largely dependent on many assumptions and variables with past behaviors that may not prove to be effective predictors of future outcomes. These assumptions are reviewed on at least a quarterly basis.

Under the Asset and Liability Management Policy and Procedures, the interest rate simulation reports specific measures:

The percentage change in net interest income for one year assuming interest rate shocks of at +/-100, +/-200, +300 and +400 basis points.



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The percentage change in economic value of equity at risk assuming interest rate shocks of at +/-100, +/-200, +300 and +400 basis points.

The following table summarizes the interest rate simulation test results as of December 31, 2013.

	Policy	Shock Up	Shock Down
<b>Net Interest Income at risk (one year)</b>			
<b>Interest rate shock at 100 basis points</b>	<b>&lt;=5%</b>	<b>-0.96%</b>	<b>-0.16%</b>
<b>Interest rate shock at 200 basis points</b>	<b>&lt;=10%</b>	<b>-1.89%</b>	<b>-1.87%</b>
<b>Interest rate shock at 300 basis points</b>	<b>&lt;=15%</b>	<b>-2.87%</b>	
<b>Interest rate shock at 400 basis points</b>	<b>&lt;=15%</b>	<b>-4.14%</b>	

	Policy	Shock Up	Metric Shock Down
<b>Economic Value of Equity at risk</b>			
<b>Interest rate shock at 100 basis points</b>	<b>&lt;=20%</b>	<b>-1.03%</b>	<b>-8.54%</b>
<b>Interest rate shock at 200 basis points</b>	<b>&lt;=25%</b>	<b>-3.64%</b>	<b>-16.6%</b>
<b>Interest rate shock at 300 basis points</b>	<b>&lt;=25%</b>	<b>-7.04%</b>	
<b>Interest rate shock at 400 basis points</b>	<b>&lt;=25%</b>	<b>-10.6%</b>	

At both December 31, 2013 and December 31 2012, net interest income and economic value of equity at risk were within policy guidelines.

The interest rate simulation test results indicate levels of future interest rate risk were within the acceptable parameters per the policies established by ALCO except where noted. Management continues to evaluate strategies in conjunction with Phoenix's ALCO to effectively manage the interest rate position. Such strategies could include altering the mix of loan and deposits by product or utilizing risk management instruments such as caps and floors.

*Liquidity*

Phoenix manages its liquidity position on a daily basis as part of the daily settlement function and continually as part of the formal asset liability management process. Phoenix's liquidity is maintained by managing several variables including, but not limited to:

Pricing and dollar amount of core deposit products;

Pricing and dollar amount of in-market deposits;

Growth of the loan portfolio (including the sale of loans on a participation basis);

Purchase and sale of federal funds ;

Purchase of out of market and brokered deposits;

Purchase and sale of investment securities ; and

Use of borrowing capacity at FHLB

Management also maintains a detailed liquidity contingency plan designed to respond to an overall decline in the condition of the banking industry or a problem specific to Phoenix On a quarterly basis, the ALCO reviews a comprehensive liquidity analysis along with any changes to the liquidity contingency plan.

Phoenix's Consolidated Statements of Cash Flows provide additional information on its sources and uses of funds. From a funding standpoint, we have been able to rely on a base of strong in-market deposit growth.

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Phoenix generated \$871,000 in cash from operating activities in 2013 versus \$1,139,000 generated in 2012. Investing activities resulted in a net cash outflow of \$4,823,000 primarily due to the purchase of investment securities and loan growth. There was a net increase in loans of \$3,353,000 and purchases of securities of \$4,401,000. This outflow was partially offset by proceeds of sales of securities and maturities of securities of \$4,090,000. Financing activities resulted in a net inflow of \$5,213,000 and was attributable to borrowing activities and the proceeds from the issuance of common stock.

At December 31, 2013, liquid assets (defined as cash and cash equivalents, loans held for sale and securities available for sale) totaled \$18,084,000 or approximately 13.1% of total assets. This compares to \$16,576,000 or approximately 12.5% of total assets at December 31, 2012.

Phoenix maintains secondary sources of liquidity which can be drawn upon if needed. These sources of liquidity include borrowing capacity at the FHLB and a secured line of credit at an unaffiliated bank. At December 31, 2013, Phoenix had a maximum borrowing capacity at the FHLB of \$47,105,000.

Phoenix utilizes a limited amount of wholesale funding, for the most part to extend interest bearing liabilities. Wholesale funding is defined as brokered deposits (primarily certificates of deposit and certain brokered money market and demand deposit funds) and borrowed funds from the FHLB.

The following table summarizes wholesale funding outstanding at December 31, 2013

Structure	Settlement Date	Maturity Date	Amount Outstanding	Rate	Remaining Premium
Brokered CD - Fixed Rate	12/23/2010	12/23/2020	\$ 575	2.85%	\$ 11
Brokered CD - Fixed Rate	11/30/2011	11/30/2023	875	2.70%	9
Brokered CD - Fixed Rate	11/20/2013	11/20/2015	1,525	0.50%	4
Brokered CD - Fixed Rate	12/27/2013	12/27/2016	2,000	0.80%	8
<b>Total Brokered CDs</b>			<b>\$ 4,975</b>	<b>1.28%</b>	<b>\$ 32</b>
MMDA	12/7/2011	N/A	\$ 5,001	0.30%	
FHLB Fixed Rate- Short Term	12/31/2013	1/14/2014	\$ 4,987	0.24%	
FHLB Fixed Rate	10/8/2013	10/7/2016	\$ 1,500	1.08%	
FHLB Fixed Rate	11/9/2010	11/9/2015	\$ 1,000	2.37%	
FHLB Fixed Rate	11/9/2010	11/9/2017	\$ 1,000	3.03%	
<b>Total FHLB Advances</b>			<b>\$ 8,487</b>	<b>0.97%</b>	
<b>Total Wholesale Funding</b>			<b>\$ 18,463</b>	<b>0.87%</b>	<b>\$ 32</b>

Phoenix's audited consolidated financial statements do not reflect various off-balance sheet commitments that are made in the normal course of business, which may involve some liquidity risk. Off-balance sheet arrangements are discussed in Note 13 to the audited financial statements.

Phoenix's management is of the opinion that its liquidity position at December 31, 2013 is adequate to respond to fluctuations on and off balance sheet. In addition, management knows of no trends, demands, commitments, events or

uncertainties that may result in, or that are reasonably likely to result in Phoenix's inability to meet anticipated or unexpected liquidity needs.

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**COMPARISON OF SHAREHOLDERS RIGHTS**

The rights of Phoenix shareholders are governed by Pennsylvania law, including the Pennsylvania Business Corporation Law, which we refer to as the PBCL, and Phoenix's articles of incorporation and bylaws. The rights of Mid Penn shareholders are governed by Pennsylvania law, including the PBCL, and Mid Penn's articles of incorporation and bylaws.

Upon consummation of the merger, Phoenix shareholders will become Mid Penn shareholders. Consequently, after the merger, the rights of such shareholders will be governed by the articles of incorporation and bylaws of Mid Penn and Pennsylvania law.

A comparison of the rights of Phoenix and Mid Penn shareholders follows. This summary is not intended to be a complete statement of all of such differences or a complete description of the specific provisions referred to therein, and is qualified in its entirety by reference to Pennsylvania law and the respective articles of incorporation and bylaws of Phoenix and Mid Penn.

***Authorized Capital***

*Mid Penn.* Mid Penn is authorized to issue 10,000,000 shares of common stock, par value \$1.00 per share, 10,000,000 shares of preferred stock, par value of \$1.00 per share, and 5,000 shares of 7% Non-Cumulative, Non-Voting, Non-Convertible Perpetual Preferred Stock, Series B, par value \$1.00, which we refer to as the Mid Penn Series B preferred stock.

*Phoenix.* Phoenix is authorized to issue 10,000,000 shares of common stock, par value \$1.00 per share, 40,000 shares of preferred stock, par value \$100.00 per share, and 3,500 shares of Phoenix SBLF preferred stock, \$100.00 par value per share.

***Outstanding Preferred Stock***

*Mid Penn.* Dividends on the Mid Penn Series B preferred stock are payable if, when, and as declared by the Mid Penn board of directors, at a rate of 7.00% per year on the liquidation preference of \$1,000 per share. Dividends on the Mid Penn Series B preferred stock are non-cumulative. Shares of the Mid Penn Series B preferred stock are not convertible or exchangeable into shares of the Mid Penn common stock or any other security of Mid Penn.

The Mid Penn Series B preferred stock only may be redeemed by Mid Penn, upon approval of the FRB, and a redemption price equal to \$1,020.00 per share of the Mid Penn Series B preferred stock plus an amount equal to declared but unpaid dividends, if any, to the date fixed for redemption. The holders of the Mid Penn Series B preferred stock do not have voting rights except as required by PBCL.

*Phoenix.* Each share of Phoenix SBLF preferred stock has a liquidation value of \$1,000 per share, and was issued to an initial selling securityholder in a transaction exempt from the registration requirements of the Securities Act. The issued and outstanding shares of Phoenix SBLF preferred stock are validly issued, fully paid and nonassessable. Other than the Phoenix SBLF preferred stock, no other shares of Phoenix's preferred stock were issued and outstanding as of the date of this prospectus.

**Dividends Payable on Shares of Phoenix SBLF preferred stock.** Holders of shares of Phoenix SBLF preferred stock are entitled to receive, if, as and when declared by the Phoenix board of directors out of assets legally available for payment, non-cumulative quarterly cash dividends on the Phoenix SBLF preferred stock, payable in arrears on

January 1, April 1, July 1 and October 1 of each year.

The dividend rate that Phoenix pays on the Phoenix SBLF preferred stock for a given quarterly dividend period is based on the extent to which the qualified small business lending ( QSBL ) of Miners Bank increases during a quarter over a baseline QSBL level. Under the SBLF, QSBL is defined to include

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the following types of loans: (a) commercial and industrial loans; (b) owner-occupied nonfarm, nonresidential real estate loans; (c) loans to finance agricultural production and other loans to farmers; and (d) loans secured by farmland. Excluded from these types of loans, however, and therefore excluded from the calculation of QSBL, are (i) any loan or group of loans to the same borrower and its affiliates with an original principal or commitment amount greater than \$10 million; (ii) loans to borrowers who have (or whose ultimate parent company has) more than \$50 million in revenues during the most recent fiscal year ended as of the date of loan origination; (iii) the portion of any loans guaranteed by the U.S. Small Business Administration, any other U.S. Government agency or a U.S. Government-sponsored enterprise; and (iv) the portion of any loans for which the risk is assumed by a third party (e.g., the portion of loans that have been participated).

The dividend rate for the second through tenth quarterly dividend periods will be adjusted quarterly to reflect the amount of change in Miners Bank's QSBL over the baseline amount established in connection with the issuance of the Phoenix SBLF preferred stock and will range from one percent to five percent based on the following schedule:

After 10 years, if the shares of Phoenix SBLF preferred stock are not redeemed, the dividend rate will increase to the highest possible dividend rate as permitted by Phoenix's regulators. During the quarter ended June 30, 2014, the dividend rate on the Phoenix SBLF preferred stock was 1.000% and will remain fixed at 1.000% through January 5, 2016, when it will increase to 9.00%.

**Priority of Dividends: Consequences of Missed Dividends.** With respect to the payment of dividends, the Phoenix SBLF preferred stock will rank senior to the Phoenix common stock and all other equity securities designated as ranking junior to the Phoenix SBLF preferred stock ( "junior stock" ), and will rank at least equally with all other equity securities designated as ranking on a parity with the Phoenix SBLF preferred stock ( "parity stock" ).

If Phoenix misses any of its quarterly dividend payment obligations on the Phoenix SBLF preferred stock, then Phoenix would be required to provide written notice to the holders of the Phoenix SBLF preferred stock stating the rationale of its board of directors' decision for not declaring the dividend, and Phoenix would be prohibited, for that quarter and for the next three quarters thereafter, from repurchasing and from declaring or paying any dividends on any other outstanding parity stock or on any outstanding junior stock, subject to certain limited exceptions. After the fourth missed dividend payment, whether or not consecutive, if Phoenix was not at such time subject to a regulatory determination that it was prohibited from declaring and paying dividends, then the Phoenix board of directors would be required to certify, in writing, that Phoenix used its best efforts to declare and pay such dividends in a manner consistent with safe and sound banking practices and the Phoenix board of director's fiduciary obligations.

If Phoenix misses five quarterly dividend payment obligations, whether or not consecutive, the holders of the Phoenix SBLF preferred stock would have the right to select a representative to serve as an observer on the Phoenix board of directors. If Phoenix misses six quarterly dividend payment obligations and the aggregate liquidation preference of the outstanding shares of Phoenix SBLF preferred stock is greater than or equal to \$25,000,000 then the holders would have the right, voting as a single class, to elect two directors to fill newly-created directorships on the Phoenix board of directors. For additional information, please see *Comparison of Shareholders Rights Outstanding Preferred Stock Phoenix Voting Rights* below.

**Other Restrictions on Dividends and Repurchases.** Under the terms of the Phoenix SBLF preferred stock, Phoenix may only declare and pay a dividend on the Phoenix common stock or other junior stock, or repurchase shares of any such class or series of stock, if, after payment of such dividend or such repurchase, the dollar amount of Phoenix's Tier 1 Capital would be at least 90% of the Signing Date Tier 1 Capital Amount set forth in the certificate of designation relating to the Phoenix SBLF preferred stock, excluding any subsequent net charge-offs and any redemption of the Phoenix SBLF preferred stock (the "Tier 1 Dividend Threshold" ). The Signing Date Tier 1 Capital

Amount was \$9,688,000. The Tier 1 Dividend Threshold is subject to reduction, beginning on the second anniversary of issuance and ending on the tenth anniversary of issuance, by ten percent for each one percent increase in QSBL over the baseline level.



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Phoenix is subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The FRB is authorized to determine, under certain circumstances relating to the financial condition of a bank holding company, such as us, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment of that dividend.

In addition, Phoenix is subject to the laws of the Commonwealth of Pennsylvania, the Banking Code, the Federal Deposit Insurance Act ( FDIA ) and the regulation of the PDB and of the FRB. Under the Banking Code and the FDIA, a bank may not pay any dividends if, after paying such dividends, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

**Redemption of Phoenix SBLF preferred stock.** Subject to approval by Phoenix's federal banking regulators, the Phoenix SBLF preferred stock may be redeemed at Phoenix's option at any time. The per share redemption price for shares of Phoenix SBLF preferred stock shall be equal to the sum of the liquidation amount per share (\$1,000) and the per-share amount of any unpaid dividends for the current quarterly dividend period. Phoenix may decide to redeem all of the outstanding Phoenix SBLF preferred stock or a portion of the outstanding Phoenix SBLF preferred stock equal to not less than 25% of the initial aggregate liquidation value of the Phoenix SBLF preferred stock. If fewer than all of the outstanding shares of Phoenix SBLF preferred stock are to be redeemed, the shares to be redeemed will be selected either pro rata from the holders of record of shares of Phoenix SBLF preferred stock in proportion to the number of shares held by those holders or in such other manner as the Phoenix board of directors or a committee thereof may determine to be fair and equitable.

The Phoenix SBLF preferred stock is not subject to any mandatory redemption, sinking fund or similar provisions. Holders of the Phoenix SBLF preferred stock will have no right to require redemption or repurchase of any shares of Phoenix SBLF preferred stock.

**Conversion.** The holders of Phoenix SBLF preferred stock shall have no right to exchange or convert such shares into any other securities.

**Voting Rights.** In general, the holders of the Phoenix SBLF preferred stock shall not have any voting rights except as set forth in the certificate of designation establishing the terms of the Phoenix SBLF preferred stock or as otherwise required by law.

If Phoenix has not declared and paid in full dividends for an aggregate of five quarters, whether or not consecutive, the holders of a majority of the outstanding shares of Phoenix SBLF preferred stock, voting as a single class, may appoint a representative to serve as an observer on the Phoenix board of directors. Such right would continue until Phoenix had made full dividend payments for four consecutive quarters thereafter. If Phoenix has not declared and paid in full dividends for an aggregate of six quarters, and the aggregate liquidation preference of the outstanding shares of Phoenix SBLF preferred stock is greater than or equal to \$25,000,000, the authorized number of directors on the Phoenix board of directors shall automatically increase by two and the holders of the Phoenix SBLF preferred stock, voting as a single class, shall have the right to elect two directors to fill such newly created directorships. Such directors would be elected at each of the Phoenix annual meetings held until Phoenix had made full dividend payments for four consecutive quarters.

With regard to certain other matters, the approval of the Phoenix SBLF preferred stock, given in the form of (a) consent of Treasury if Treasury holds any shares of Phoenix SBLF preferred stock or (b) the holders of a majority

of the outstanding shares of Phoenix SBLF preferred stock, voting as a single class, if Treasury does not hold any shares of Phoenix SBLF preferred stock, is required for effecting or validating (i) any amendment or alteration of the Phoenix articles of incorporation to authorize, create or issue any shares (or any security convertible into any shares) of any equity security ranking senior to the Phoenix SBLF preferred stock with respect to the payment of dividends or distribution of assets in the event of a

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liquidation, dissolution or winding up; (ii) any change to the Phoenix articles of incorporation that would adversely affect the rights, privileges or voting powers of the Phoenix SBLF preferred stock; (iii) any consummation of a binding share exchange or reclassification involving the Phoenix SBLF preferred stock, subject to certain enumerated exceptions; and (iv) any sale of all or substantially all of Phoenix's assets if the Phoenix SBLF preferred stock will not be contemporaneously redeemed.

**Preemptive Rights.** The Phoenix SBLF preferred stock does not have preemptive rights as to any of Phoenix's securities, or any warrants, rights or options to acquire any of Phoenix's securities.

**Liquidation Rights.** In the event that Phoenix voluntarily or involuntarily liquidates, dissolves or winds up its affairs, holders of Phoenix SBLF preferred stock shall be entitled to receive for each share of Phoenix SBLF preferred stock, out of Phoenix's assets or proceeds thereof available for distribution to shareholders, subject to the rights of any creditors, payment in full in an amount equal to the liquidation amount per share, which is \$1,000 per share, and the amount of any accrued and unpaid dividends on each share. Holders of Phoenix SBLF preferred stock would be entitled to receive this amount before any distribution of assets or proceeds to holders of the Phoenix common stock and any other junior stock. If in any distribution described above Phoenix's assets are not sufficient to pay in full the amounts payable with respect to the outstanding shares of Phoenix SBLF preferred stock and any outstanding shares of parity stock, holders of the Phoenix SBLF preferred stock and parity stock would share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

For purposes of the liquidation rights of the Phoenix SBLF preferred stock, neither the sale, conveyance, exchange or transfer of all or substantially all of Phoenix's property and assets, nor the consolidation or merger by Phoenix with or into any other corporation or by another corporation with or into us, such as the merger, will constitute a liquidation, dissolution or winding-up of Phoenix's affairs.

Pursuant to the terms of the merger agreement, there will be an exchange of the then-outstanding shares of Phoenix SBLF preferred stock, for shares of a series of Mid Penn SBLF preferred stock. The terms and provisions of the Mid Penn SBLF preferred stock are expected to have rights preferences, privileges and voting powers, and limitations and restrictions, taken as a whole, that are not materially less favorable to the holders of the Phoenix SBLF preferred stock than the rights, preferences, privileges and voting powers, and limitations and restrictions of the Phoenix SBLF preferred stock, taken as a whole.

***Annual Meeting of Shareholders***

*Mid Penn.* Mid Penn's bylaws provide that an annual meeting will be held on such date, at such time, and at such place, as may be set by the board of directors.

*Phoenix.* Phoenix's bylaws provide that an annual meeting will be held on the second Wednesday in April in each year. The annual meeting shall be held at such geographic location as the board of directors shall determine.

***Special Meeting of Shareholders***

*Mid Penn.* Special meetings of the Mid Penn shareholders can be called by Mid Penn's board of directors, the Chairman of the Board, the President, a majority of the board of directors, or a majority of the members of the executive committee of the board of directors.

*Phoenix.* Special meetings of the Phoenix shareholders can be called by the President, Secretary, or upon written request of the shareholders entitled to cast at least 20% of the votes that all shareholders are entitled to cast at the

meeting. Special meetings will be held at the principal office of Phoenix or at such other geographic location within or without Pennsylvania.

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### ***Cumulative Voting***

*Mid Penn.* Mid Penn's articles of incorporation prohibit cumulative voting in the election of directors.

*Phoenix.* Phoenix's articles of incorporation prohibit cumulative voting in the election of directors.

### ***Shareholder Nomination of Directors***

*Mid Penn.* Mid Penn's bylaws provide that nominations for the election of directors may be made by the board of directors or by any shareholder entitled to vote for the election of directors. Nominations made by the shareholders entitled to vote for the election of directors will be made by notice in writing, delivered or mailed to the Corporate Secretary not less than the earlier of 120 days prior to the anniversary date of the initial proxy materials or of a notice of the meeting by Mid Penn in connection with the immediately preceding annual meeting of shareholder, or the deadline for submitting shareholder proposals for inclusion in a proxy statement and form of proxy as calculated under Rule 14a-8(e), promulgated by the Securities and Exchange Commission under the Exchange Act or any successor provision thereto.

*Phoenix.* Phoenix's bylaws provide that 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 board of directors) must submit such nomination to the Secretary in writing not later than 60 days prior to the date of any meeting of shareholders called for the election of directors.

### ***Number of Directors***

*Mid Penn.* The number of Mid Penn directors will be not less than five, nor more than twenty-five as Mid Penn's board of directors may determine from time-to-time. Mid Penn's board of directors currently has ten directors.

*Phoenix.* The number of Phoenix directors will be one or more members with the number of members in excess of one, to be fixed from time to time by resolution of the board of directors, or by resolution of the shareholders.

### ***Director Qualifications***

*Mid Penn.* Each Mid Penn director must be a Mid Penn shareholder and will own in his/her own right the number of shares (if any) required by law in order to qualify as such director. Mid Penn maintains a mandatory retirement policy. Upon reaching the age of 70, a Mid Penn director will hold office until the following annual meeting of shareholders at which time such director shall retire from the Mid Penn board of directors. In extraordinary circumstances, the Mid Penn board of directors may grant a director, on a case-by-case basis, a waiver from this mandatory retirement policy. In connection with the consummation of the merger, the Mid Penn board of directors will waive this policy with respect to the appointment of Mr. Land to the Mid Penn board of directors until the 2016 annual meeting of shareholders of Mid Penn.

*Phoenix.* Directors need not be shareholders of Phoenix.

### ***Classes of Directors and Election of Directors***

*Mid Penn.* The Mid Penn board of directors is divided into three classes, with each class being elected annually for a three-year term. Class A has four directors, Class B has four directors, and Class C has three directors.

*Phoenix.* The Phoenix board of directors is divided into three classes, as nearly equal in number as possible, with each class being elected annual for a three-year term.

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**Table of Contents*****Filling Vacancies on the Board of Directors***

*Mid Penn.* Mid Penn's bylaws provide that vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by the remaining members of the board, even though less than a quorum. Each person so elected to fill a vacancy in the board of directors will become a member of the same class of directors in which the vacancy existed. Each director so elected will be a director until the class to which he/she was appointed stands for election and until his or her successor is elected and qualified.

*Phoenix.* Phoenix's bylaws provide that vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by election by a majority of the remaining members of the board, even though less than a quorum. Each director so elected will be a director until the class to which he/she was appointed stands for election and until his or her successor is elected and qualified or until his/her death, resignation or removal.

***Special Meetings of the Board of Directors***

*Mid Penn.* Special meetings of Mid Penn's board of directors may be held whenever called by the Chairman of the Board, the President or at the request of three or more members of the board of directors. Notice of the time and place of every special meeting may be either verbal or in writing, and will be given to each member of the board of directors at least twenty-four hours before the time of such meeting excepting the organization meeting following the election of directors.

*Phoenix.* Special meeting of Phoenix's board of directors may be called at any time by the President, the Secretary or a majority of the members of the board of directors, and may be held at any time and geographic location, either within or without Pennsylvania, as the notice of meeting may provide. Notice of each special meeting shall be given to each director at least 48 hours before the time set for the meeting.

***Anti-Takeover Provisions and Other Shareholder Protections***

*Mid Penn.* Under Mid Penn's articles of incorporation, any merger, consolidation, liquidation or dissolution of Mid Penn or any action that would result in the sale or other disposition of all or substantially all of the assets of Mid Penn must be approved by the affirmative vote of the holders of at least 80% of the outstanding shares of common stock, or the holders of at least 66-2/3% of the outstanding shares of common stock provided that the transaction has received prior approval of at least 80% of all members of the board of directors. Additionally, the board of directors may 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. The board 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 Mid Penn's securities. The board of directors may consider whether the offer price is acceptable based on the historical and present operating results or financial condition of the corporation; whether a more favorable price could be obtained for Mid Penn's securities in the future; the social and economic effects of the offer on Mid Penn and any of its subsidiaries, employees, depositors, loan and other customers, creditors, and shareholders; the reputation and business practice of the offeror and its management and affiliates as they would affect the shareholders, employees, depositors and customers of Mid Penn and its subsidiaries and the future value of Mid Penn's stock; the value of the securities which the offeror is offering in exchange for Mid Penn's securities; 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 effect of such conditions upon Mid Penn and any of its subsidiaries and the other elements of the communities in which Mid Penn and its subsidiaries are located; and any antitrust or other legal and regulatory issues that are raised by the offer.

*Phoenix.* Under Phoenix's articles of incorporation, any merger, consolidation, dissolution or sale of all or substantially all of the assets of Phoenix must be approved by the affirmative vote of the holders of at least 70% of the outstanding shares of common stock.



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Additionally, the board of directors may 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. The board 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 Phoenix's securities the board of directors may, but shall not be legally obligated to, consider whether the offer price is acceptable based on the historical and present operating results or financial condition of the corporation; whether a more favorable price could be obtained for securities in the future; the social and economic effects of the offer or transaction on Phoenix and any of its subsidiaries, employees, depositors, loan and other customers, creditors, and shareholders and other elements of the communities in which Phoenix and its subsidiaries operate and are located; the reputation and business practice of the offeror and its management and affiliates as they would affect the shareholders, employees, depositors and customers of Phoenix and its subsidiaries and the future value of Phoenix's stock; the value of the securities which the offeror is offering in exchange for Phoenix's securities; 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 effect of such conditions upon Phoenix and any of its subsidiaries and the other elements of the communities in which Phoenix and its subsidiaries are located; and any antitrust or other legal and regulatory issues that are raised by the offer.

It is the intent and policy of Phoenix and its shareholders that control of Phoenix is an asset that belongs to all shareholders, and that no shareholder should have, either directly or indirectly, beneficial ownership of 40% or more of the outstanding shares. If a person is determined to directly or indirectly own 40% or more of the outstanding shares of Phoenix (the "Substantial Shareholder"), the board of directors may issue in its sole discretion on a pro-rata basis to those shareholder of Phoenix who are not affiliated with the Substantial Shareholder warrants to purchase additional shares of common stock at a purchase price equivalent to 50% of the average transaction price of all purchases and sales of the common stock that occurred during the previous twelve-month period and that are known by the board of directors. The warrants will be issued without any consideration, shall not be assignable and shall expire 6 months from their date of issuance. The board of directors shall have the sole discretion in the determination of the number of shares of common stock of Phoenix that may be purchased pursuant to such warrants. In order to determine beneficial ownership, the board of directors may consider the effect of stock ownership by a person's spouse and minor children; ownership of shares held by a corporation or foundation of which the Substantial Shareholder is an officer or affiliate; the extent of a Substantial Shareholder's ownership of partnership shares; transfers pursuant to divorce; installment purchases; stock warrants; grants and options; control over the voting power of any stock; the status of a Substantial Shareholder as trustee, trust beneficiary or settler of a trust of which part or all of the corpus is shares of the common stock of Phoenix; and stock dividends.

***Indemnification of Directors and Officers***

*Mid Penn.* Under Mid Penn's bylaws, to the fullest extent authorized or permitted by applicable law, Mid Penn shall indemnify any director, officer, employee, or agent of Mid Penn who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, or is or was serving at the request of Mid Penn as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses, amounts paid in settlement, judgments, and fines actually and reasonably incurred by those persons in connection with any action suit or proceeding. No indemnification shall 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. The provision does not affect a director's responsibility or liability under any criminal statute or liability for payment of taxes.

*Phoenix.* Under Phoenix's bylaws, Phoenix shall indemnify any director or officer, and may indemnify any other employee or agent, who was or is a party to, or is threatened to be made a party to or who is called as a witness in

connection with any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative. This includes an action by or in the right of Phoenix, by reason of the

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fact that he or she is or was a director, officer, employee, or agent of Phoenix, or is or was serving at the request of Phoenix as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Phoenix shall indemnify such individuals against expenses, including attorney fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, unless 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.

***Pennsylvania Anti-Takeover Provisions***

Under the PBCL, certain anti-takeover provisions apply to Pennsylvania registered corporations (e.g., publicly traded companies) including those relating to (i) control share acquisitions, (ii) disgorgement of profits by certain controlling persons, (iii) business combination transactions with interested shareholders and (iv) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows registered corporations to opt-out of any of these anti-takeover provisions. Mid Penn is a registered corporation under the PBCL. Phoenix is not a registered corporation and is therefore not subject to these anti-takeover provisions. A general summary of the applicable anti-takeover provisions is set forth below.

*Control Share Acquisitions.* Pennsylvania law limits control share acquisitions relating to the act of acquiring for the first time voting power over voting shares (other than shares owned since January 1, 1988 and any additional shares distributed with respect to such shares) equal to at least 20%, 33-1/3% and 50% of the voting power of the corporation. Once a control share acquisition has occurred, then all shares in excess of the triggering threshold, plus shares purchased at any time with the intention of acquiring such voting power and shares purchased within 180 days of the date the triggering threshold was exceeded, are considered control shares. Control shares cannot vote either until their voting rights have been restored by two separate votes of the shareholders, described below, at a meeting or until they have been transferred to a person who does not thereby also become the holder of control shares.

The holder of control shares may wait until the next annual or special meeting after the acquisition took place to submit the request for the restoration of voting rights to the shareholders, or the acquiring person may accelerate the process by agreeing to underwrite the cost of a special meeting of shareholders for that purpose. In either case, the acquiring person is required to furnish for distribution to the shareholders an information statement containing a detailed disclosure concerning the acquiring person, its intentions with respect to ownership of securities of the corporation and other matters. As an alternative, a person proposing to make a control share acquisition may request prospective approval by the shareholders of the exercise of the voting rights of the shares proposed to be acquired. Two shareholders' votes are required to approve the restoration of voting rights: (i) the approval of an absolute majority of all voting power must be obtained, and all voting shares are entitled to participate in this vote; and (ii) the approval of an absolute majority of all disinterested shareholders must be obtained.

For a period of 24 months after the later of (i) a control share acquisition by an acquiring person who does not properly request consideration of voting rights, or (ii) the denial of such a request or lapse of voting rights, the corporation may redeem all the control shares at the average public market sales price of the shares on the date notice of the call for redemption is given by the corporation.

This limitation under Pennsylvania law regarding control share acquisitions applies to Phoenix, but Mid Penn has opted out of these Pennsylvania law provisions pursuant to its articles of incorporation.

*Disgorgement of Profits by Certain Controlling Persons.* Pennsylvania law regarding disgorgement of profits by certain controlling persons applies in the event that (i) any person or group publicly discloses that the person or group may acquire control of the corporation, or (ii) a person or group acquires (or publicly discloses an intent to acquire)

20% or more of the voting power of the corporation and, in either case, sells shares within

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18 months thereafter. Any profits from sales of equity securities of the corporation received by the person or group during such 18-month period will belong to the corporation if the securities that were sold were acquired during the 18-month period or within 24 months prior thereto.

This limitation under Pennsylvania law regarding disgorgement by certain controlling persons applies to Phoenix, but Mid Penn has opted out of these Pennsylvania law provisions pursuant to its articles of incorporation.

*Business Combination Transactions with Interested Shareholders.* Pennsylvania law prohibits certain business combinations with certain interested shareholders, persons who acquire the direct or indirect beneficial ownership of shares entitled to cast at least 20% of the votes entitled to be cast for the election of directors. A corporation subject to this provision may not effect mergers or certain other business combinations with the interested shareholder for a period of five years, unless:

the business combination or the acquisition of stock by means of which the interested shareholder became an interested shareholder is approved by the corporation's board of directors prior to such stock acquisition;

the business combination is approved by the affirmative vote of the holders of all the outstanding common shares of the corporation; or

the business combination is approved by the affirmative vote of the holders of a majority of all shares entitled to vote, excluding votes of shares held by the interested shareholders, and at the time of such vote, the interested shareholder is the beneficial owner of at least 80% of the voting shares of the corporation. This exception applies only if the value of the consideration to be paid by the interested shareholder in connection with the business combination satisfies certain fair price requirements

After the five-year restricted period, an interested shareholder of the corporation may engage in a business combination with the corporation if (i) the business combination is approved by the affirmative vote of a majority of the shares other than those beneficially owned by the interested shareholder and its affiliates, or (ii) the merger is approved at a shareholders meeting and certain fair price requirements are met.

*Rights of Shareholders to Demand Fair Value for Stock Following a Control Transaction.* Pennsylvania law regarding the ability of shareholders to dispose of their stock following a control transaction provides, generally, that a person or group that acquires more than 20% of the voting power to elect directors of the corporation is a controlling person and must give prompt notice to each shareholder of record. The other shareholders are then entitled to demand that the controlling person pay them the fair value of their shares under specified procedures. Fair value may not be less than the highest price paid per share by the controlling person at any time during the 90-day period ending on and including the date on which the controlling person became such, plus any increment representing any value, such as a control premium, that is not reflected in such price.

## **Voting Rights**

### *Amendment of Articles of Incorporation.*

Pennsylvania law provides that shareholders of a registered corporation, such as Mid Penn, are not entitled by statute to propose amendments to the articles of incorporation. By contrast, under Pennsylvania law, an amendment to the

articles of incorporation for an unregistered corporation, such as Phoenix, can only be proposed (1) by adoption by the board of directors of a resolution setting forth the proposed amendment; or (2) unless otherwise provided in the articles, by petition of shareholders entitled to cast at least 10% of the votes that all shareholders are entitled to cast on the proposed amendment. The shareholder petition must set forth the proposed amendment, be directed to the board of directors and filed with the secretary of the corporation.

Except where the approval of the shareholders is unnecessary, the board of directors will then direct that the proposed amendment be submitted to a vote of the shareholders entitled to vote on the proposed amendment. An

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amendment proposed pursuant to paragraph (2) above is required to be submitted to a vote either at the next annual meeting held not earlier than 120 days after the amendment is proposed or at a special meeting of the shareholders called for that purpose by the shareholders.

Under Pennsylvania law, an amendment to the articles of incorporation requires the approval of the board of directors and, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class.

*Mid Penn.* Mid Penn shareholders are not entitled by statute to propose amendments to the articles of incorporation. Mid Penn's articles of incorporation may be amended as provided under Pennsylvania law, with the following exception: any amendment to Articles 7, 8, 9, 10, 11, and 12 require the affirmative vote of holders of at least 80 % of the outstanding shares of common stock, or the holders of 66-2/3% of the Mid Penn common stock, provided that such amendment has received the prior approval of at least 80% of all the members of the board of directors.

*Phoenix.* Phoenix has not opted out of the statutory process by which shareholders of an unregistered corporation may propose amendments to its articles of incorporation, and Phoenix's articles may be amended as provided under Pennsylvania law, with the following exception: any amendment to Articles 7 and 10 of the articles of incorporation requires the affirmative vote of the holders of at least 70% of the outstanding shares of common stock.

*Amendment of Bylaws.*

*Mid Penn.* Mid Penn's bylaws may be amended or repealed, in whole or in part, by the holders of 80% of the outstanding shares of Mid Penn 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.

*Phoenix.* Phoenix's bylaws may be adopted, amended or repealed, in whole or in part, by a majority vote of all votes cast at any regular or special meeting of shareholders. The directors may amend the bylaws by a vote of a majority of the members of the board of directors present and voting, at any regular or special meeting, subject to the power of the shareholders to change such action; provided, that except as provided in Section 1310(a) of the PBCL, the board of directors shall not have the authority to adopt or change a bylaw on any subject that is committed expressly to the shareholders by any provision of the PBCL. Any such action to adopt, amend, or repeal the bylaws may not be taken by a committee of the board of directors.

**Table of Contents****MARKET PRICE AND DIVIDEND INFORMATION*****Mid Penn***

Mid Penn common stock is listed on The Nasdaq Global Market under the symbol MPB. The following table sets forth the high and low sales prices of shares of Mid Penn and Phoenix's common stock and the quarterly cash dividends declared per share for the periods indicated.

	High	Low	Dividend
<b>2011</b>			
First Quarter	\$ 12.33	\$ 7.10	\$ 0.05
Second Quarter	9.75	8.10	0.05
Third Quarter	8.97	7.20	0.05
Fourth Quarter	8.50	6.60	0.05
<b>2012</b>			
First Quarter	11.43	6.09	0.05
Second Quarter	11.50	9.45	0.05
Third Quarter	10.95	8.97	0.05
Fourth Quarter	11.19	9.75	0.10
<b>2013</b>			
First Quarter	11.60	10.15	
Second Quarter	11.34	9.80	0.05
Third Quarter	12.70	10.80	0.05
Fourth Quarter	14.85	11.38	0.15
<b>2014</b>			
First Quarter	14.97	13.25	0.05
Second Quarter	16.00	14.00	0.10
Third Quarter	16.33	15.05	0.10
Fourth Quarter (through November 12, 2014)	15.77	15.06	0.10

On August 26, 2014, the last full trading day before the public announcement of the merger agreement, the closing price of shares of Mid Penn common stock as reported on The Nasdaq Global Market was \$16.00. On November 12, 2014, the last practicable trading day before the date of this joint proxy statement/prospectus, the closing price of shares of Mid Penn common stock as reported on The Nasdaq Global Market was \$15.77.

Both Mid Penn and Mid Penn Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. For more information, see *Information About Mid Penn Bancorp, Inc. Business Supervision and Regulation* beginning on page 99.

Phoenix shareholders are advised to obtain current market quotations for Mid Penn common stock. The market price of Mid Penn common stock will fluctuate between the date of this joint proxy statement/prospectus and the completion of the merger. No assurance can be given concerning the market price of Mid Penn common stock before or after the effective date of the merger.

***Phoenix***



Phoenix common stock is not listed or traded on any exchange but instead is sold in privately negotiated transactions, some of which are quoted on the OTCQB market under the symbol PXBP. Phoenix common stock is traded sporadically and at irregular intervals. To the knowledge of Phoenix management, shares of Phoenix common stock has only been quoted on the OTCQB market since February 28, 2014, and the volume of quoted trades on the OTCQB market have generally been very low compared to the trades reported to or known by Phoenix management in privately negotiated transactions. Consequently, Phoenix management believes that,

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due to the higher volume and greater frequency of trades reported to it in privately negotiated transactions, those prices are more reflective of the actual market price of Phoenix common stock than those prices quoted on the OTCQB market. For example, to the knowledge of Phoenix management, since shares of Phoenix common stock have been quoted on the OTCQB market, sales of only 8,575 shares have been quoted. However, since the beginning of 2011, 51,258 shares of Phoenix common stock have been sold in privately negotiated transactions reported to, or known by, Phoenix management and not quoted on the OTCQB market.

The following table shows, for the indicated periods, the high and low sales prices per share for Phoenix common stock reported in transactions reported to or known by Phoenix management, and dividends declared per share of Phoenix common stock. These prices may not include retail markups, markdowns, or commissions.

	<b>High</b>	<b>Low</b>	<b>Dividend</b>
<b>2014 (through October 30, 2014)</b>	\$ 49.25	\$ 26.00(1)	\$ 0.60
<b>2013</b>	\$ 40.00	\$ 40.00	\$ 0.74
<b>2012</b>	\$ 40.00	\$ 32.50(2)	\$ 0.68

(1) Based on the sale quoted on February 28, 2014 on the OTCQB market.

(2) Adjusted for April 16, 2012 stock split.

The last reported sales of Phoenix's common stock reported to, or known by, Phoenix management prior to the public announcement of the merger was a Phoenix-facilitated sale of 400 shares at \$40.00 per share on June 18, 2014 and a OTCQB quoted trade of 250 shares at \$28.00 per share on August 14, 2014, and the last reported sale of Phoenix's common stock reported to or known by management prior to the printing of this proxy statement/prospectus was a OTCQB quoted trade of 300 shares at \$49.05 per share on August 29, 2014.

Additionally, a substantial source of Phoenix's income from which it can pay dividends is the receipt of dividends from Miners Bank. The availability of dividends from Miners Bank is limited by various statutes and regulations. It also is possible, depending on the financial condition of Miners Bank, and other factors, that the applicable regulatory authorities could assert that payment of dividends or other payments is an unsafe or unsound banking practice. In the event that Miners Bank is unable to pay dividends to Phoenix, Phoenix may not be able to pay dividends on its common stock.

As of the record date, there were 282,206 shares of Phoenix common stock outstanding, which were held by approximately 234 holders of record. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms, and others.

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**LEGAL MATTERS**

The validity of the Mid Penn common stock to be issued in connection with the merger will be passed upon for Mid Penn by Stevens & Lee, P.C. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for Mid Penn by Stevens & Lee, P.C. and for Phoenix by Bybel Rutledge LLP.

**EXPERTS**

The consolidated financial statements of Mid Penn Bancorp, Inc. as of, and the for the year ended, December 31, 2013 have been included herein in reliance upon the report of BDO USA, LLP, independent registered public accounting firm, and upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Mid Penn Bancorp, Inc. as of December 31, 2012, and for each of the years in the two-year period ended December 31, 2012, have been included herein in reliance upon the report of Baker Tilly Virchow Krause, LLP, independent registered public accounting firm, and upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Phoenix Bancorp, Inc. as of December 31, 2013 and 2012, and for each of the years in the two-year period ended December 31, 2013, have been included herein in reliance upon the report of S.R. Snodgrass, P.C., independent registered public accounting firm, and upon the authority of such firm as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

***Mid Penn***

Mid Penn has filed with the SEC a registration statement under the Securities Act that registers the distribution to Phoenix shareholders of the shares of Mid Penn common stock to be issued in connection with the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes the prospectus of Mid Penn in addition to being a proxy statement for Phoenix's shareholders and proxy statement for Mid Penn's shareholders. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Mid Penn and Mid Penn common stock.

You may read and copy this information at the Public Reference Room of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like Mid Penn, who file electronically with the SEC. The address of the site is <http://www.sec.gov>. The reports and other information filed by Mid Penn with the SEC are also available at Mid Penn's website at <http://www.midpennbank.com> under the Investors link and then under the heading Financial Information and Documents. The web addresses of the SEC and Mid Penn are included as inactive textual references only. Information on those web sites is not part of this joint proxy statement/prospectus.

If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Mid Penn common stock, please contact

Investor Relations at (717) 692-7105.

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***Phoenix***

Phoenix does not have a class of securities registered under Section 12 of the Exchange Act, is not subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, and accordingly does not file documents and reports with the SEC. The historical consolidated financial statements of Phoenix have been filed with the SEC by Mid Penn and are included elsewhere in this joint proxy statement/prospectus.

If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Phoenix common stock, please contact Investor Relations at (570) 544-6438.

***Additional Information***

Mid Penn has supplied all information contained or incorporated by reference in this joint proxy statement/prospectus relating to Mid Penn, and Phoenix has supplied all information relating to Phoenix.

Documents incorporated by reference are available from Mid Penn without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this joint proxy statement/prospectus. You can obtain documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from the appropriate company at the following addresses:

**Mid Penn Bancorp, Inc.**

349 Union Street

Millersburg, Pennsylvania 17061

Attention: Investor Relations

Telephone: (717) 692-7105

***Phoenix shareholders requesting documents should do so by December 12, 2014 to receive them before the Phoenix special meeting. Phoenix shareholders will not be charged for any of these documents that they request. If you request any incorporated documents, Mid Penn will mail them to you by first class mail, or another equally prompt means after it receives your request.***

**Neither Mid Penn nor Phoenix has authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this joint proxy statement/prospectus or in any of the materials that have been incorporated in this joint proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/prospectus does not extend to you. The information contained in this joint proxy statement/prospectus speaks only as of the date of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.**

**This joint proxy statement/prospectus contains a description of the representations and warranties that each of Mid Penn and Phoenix made to the other in the merger agreement. Representations and warranties made by Mid Penn and Phoenix are also set forth in contracts and other documents that are attached or filed as exhibits to this joint proxy statement/prospectus or are incorporated by reference into this joint proxy statement/prospectus. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to between the parties in connection with negotiating the terms of the agreement, and may have been included in the agreement for the purpose of allocating risk between the parties rather than to establish matters as facts. These materials**

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are included or incorporated by reference only to provide you with information regarding the terms and conditions of the agreements, and not to provide any other factual information regarding Mid Penn or its business. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the other information provided elsewhere in this joint proxy statement/prospectus or incorporated by reference into this joint proxy statement/prospectus.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Mid Penn Bancorp, Inc.

Millersburg, Pennsylvania

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and subsidiaries, (the Corporation ) as of December 31, 2013 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements 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 the consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 at December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania

March 21, 2014

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Mid Penn Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Mid Penn Bancorp, Inc. and subsidiaries (the Corporation ) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two -year period ended December 31, 2012. The Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the Corporation as of December 31, 2012, and the results of their operations and their cash flows for each of the years in the two -year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania

March 25, 2013

**Table of Contents****MID PENN BANCORP, INC. Consolidated Balance Sheets**

(Dollars in thousands, except per share data)	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 7,407	\$ 11,200
Interest-bearing balances with other financial institutions	1,216	1,273
Federal funds sold		3,000
<b>Total cash and cash equivalents</b>	<b>8,623</b>	<b>15,473</b>
Interest-bearing time deposits with other financial institutions	7,513	23,563
Available for sale investment securities	122,803	154,295
Loans and leases, net of unearned interest	546,462	484,220
Less: Allowance for loan and lease losses	(6,317)	(5,509)
<b>Net loans and leases</b>	<b>540,145</b>	<b>478,711</b>
Bank premises and equipment, net	12,469	13,123
Restricted investment in bank stocks	2,969	2,503
Foreclosed assets held for sale	965	843
Accrued interest receivable	2,704	2,893
Deferred income taxes	3,235	1,789
Goodwill	1,016	1,016
Core deposit and other intangibles, net	249	288
Cash surrender value of life insurance	8,374	8,143
Other assets	2,060	2,560
<b>Total Assets</b>	<b>\$ 713,125</b>	<b>\$ 705,200</b>
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest bearing demand	\$ 48,346	\$ 57,977
Interest bearing demand	201,090	164,837
Money Market	196,736	210,588
Savings	29,585	28,406
Time	132,373	163,653
<b>Total Deposits</b>	<b>608,130</b>	<b>625,461</b>
Short-term borrowings	23,833	
Long-term debt	23,145	22,510
Accrued interest payable	393	620
Other liabilities	4,708	4,389
<b>Total Liabilities</b>	<b>660,209</b>	<b>652,980</b>
Shareholders Equity:		
	5,000	4,880

Series B Preferred stock, par value \$1.00; liquidation value \$1,000; authorized 5,000 shares; 7% non-cumulative dividend; 5,000 shares issued and outstanding at December 31, 2013 and 4,880 shares issued and outstanding at December 31, 2012		
Common stock, par value \$1.00; authorized 10,000,000 shares; 3,494,397 shares issued and outstanding at December 31, 2013 and 3,489,684 at December 31, 2012	3,494	3,490
Additional paid-in capital	29,853	29,816
Retained earnings	15,441	11,741
Accumulated other comprehensive (loss) income	(872)	2,293
Total Shareholders Equity	52,916	52,220
Total Liabilities and Shareholders Equity	\$ 713,125	\$ 705,200

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

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

(Dollars in thousands, except per share data)	Years Ended December 31,		
	2013	2012	2011
<b>INTEREST INCOME</b>			
Interest & fees on loans and leases	\$ 26,305	\$ 27,233	\$ 28,038
Interest on interest-bearing balances	109	236	520
Interest and dividends on investment securities:			
U.S. Treasury and government agencies	591	1,137	1,619
State and political subdivision obligations, tax-exempt	1,921	1,722	1,329
Other securities	46	22	14
Interest on federal funds sold and securities purchased under agreements to resell	11	16	25
<b>Total Interest Income</b>	<b>28,983</b>	<b>30,366</b>	<b>31,545</b>
<b>INTEREST EXPENSE</b>			
Interest on deposits	4,436	6,147	8,509
Interest on short-term borrowings	26	3	4
Interest on long-term debt	595	975	1,009
<b>Total Interest Expense</b>	<b>5,057</b>	<b>7,125</b>	<b>9,522</b>
<b>Net Interest Income</b>	<b>23,926</b>	<b>23,241</b>	<b>22,023</b>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>1,685</b>	<b>1,036</b>	<b>1,205</b>
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	<b>22,241</b>	<b>22,205</b>	<b>20,818</b>
<b>NONINTEREST INCOME</b>			
Income from fiduciary activities	492	575	539
Service charges on deposits	576	565	704
Net gain on sales of investment securities	220	267	
Earnings from cash surrender value of life insurance	231	247	258
Mortgage banking income	348	675	390
ATM debit card interchange income	508	472	452
Merchant services income	330	256	165
Other income	585	626	488
<b>Total Noninterest Income</b>	<b>3,290</b>	<b>3,683</b>	<b>2,996</b>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	10,788	10,518	9,519
Occupancy expense, net	1,128	1,077	1,075
Equipment expense	1,299	1,234	1,292
Pennsylvania Bank Shares tax expense	464	462	449
FDIC Assessment	486	1,034	1,057
Legal and professional fees	705	604	444

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Director fees and benefits expense	319	335	304
Marketing and advertising expense	253	378	354
Software licensing	947	648	697
Telephone expense	436	411	377
(Gain) loss on sale/write-down of foreclosed assets	(302)	96	(20)
Intangible amortization	29	45	65
Loan collection costs	214	369	299
Other expenses	2,625	2,482	2,136
<b>Total Noninterest Expense</b>	<b>19,391</b>	<b>19,693</b>	<b>18,048</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>6,140</b>	<b>6,195</b>	<b>5,766</b>
Provision for income taxes	1,201	1,244	1,223
<b>NET INCOME</b>	<b>4,939</b>	<b>4,951</b>	<b>4,543</b>
Series A preferred stock dividends and discount accretion	14	514	514
Series B preferred stock dividends	309		
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 4,616</b>	<b>\$ 4,437</b>	<b>\$ 4,029</b>
<b>PER COMMON SHARE DATA:</b>			
Basic Earnings Per Common Share	\$ 1.32	\$ 1.27	\$ 1.16
Diluted Earnings Per Common Share	1.32	1.27	1.16
Cash Dividends	0.25	0.25	0.20

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

**Table of Contents****MID PENN BANCORP, INC. Consolidated Statements of Comprehensive Income**

(Dollars in thousands)	December 31,		
	2013	2012	2011
Net income	\$ 4,939	\$ 4,951	\$ 4,543
Other comprehensive (loss) income:			
Unrealized (losses) gains arising during the period on available for sale securities, net of income taxes of (\$1,563), \$291, and \$962, respectively	(3,033)	565	1,867
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of (\$75), (\$91), and \$0, respectively (1) (3)	(145)	(176)	
Change in defined benefit plans, net of income taxes of \$7, (\$6), and \$6, respectively (2) (3)	13	(12)	13
Total other comprehensive (loss) income	(3,165)	377	1,880
Total comprehensive income	\$ 1,774	\$ 5,328	\$ 6,423

- (1) Amounts are included in net gain on sales of investment securities on the Consolidated Statements of Income as a separate component within total noninterest income
- (2) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income as a separate element within total noninterest expense
- (3) Income tax amounts are included in the provision for income taxes in the Consolidated Statements of Income
- The accompanying notes are an integral part of these consolidated financial statements.*

Table of Contents**MID PENN BANCORP, INC. Consolidated Statements of Changes in Shareholders Equity**

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders Equity
<b>Balance, January 1, 2011</b>	\$ 10,000	\$ 3,480	\$ 29,810	\$ 4,875	\$ 36	\$ 48,201
Net income				4,543		4,543
Total other comprehensive income, net of taxes					1,880	1,880
Common stock dividends				(696)		(696)
Employee Stock Purchase Plan (4,729 shares)		4	34			38
Series A Preferred stock dividends				(500)		(500)
Amortization of warrant cost			(14)			(14)
<b>Balance, December 31, 2011</b>	10,000	3,484	29,830	8,222	1,916	53,452
Net income				4,951		4,951
Total other comprehensive income, net of taxes					377	377
Common stock dividends				(872)		(872)
Employee Stock Purchase Plan (5,175 shares)		6	50			56
Series A Preferred stock redemption	(10,000)					(10,000)
Series A Preferred stock dividends				(560)		(560)
Series B Preferred stock issuance, net of costs	4,880		(50)			4,830
Amortization of warrant cost			(14)			(14)
<b>Balance, December 31, 2012</b>	4,880	3,490	29,816	11,741	2,293	52,220
Net income				4,939		4,939
Total other comprehensive loss, net of taxes					(3,165)	(3,165)
Common stock dividends				(872)		(872)
Employee Stock Purchase Plan (4,713 shares)		4	51			55
Series B Preferred stock issuance	120					120
Series B Preferred stock dividends				(309)		(309)
Amortization of warrant cost			(14)			(14)
Warrant repurchase				(58)		(58)



<b>Balance, December 31, 2013</b>	\$ 5,000	\$ 3,494	\$ 29,853	\$ 15,441	\$ (872)	\$ 52,916
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*The accompanying notes are an integral part of these consolidated financial statements.*

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**Table of Contents****MID PENN BANCORP, INC. Consolidated Statements of Cash Flows**

(Dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
<b>Operating Activities:</b>			
Net Income	\$ 4,939	\$ 4,951	\$ 4,543
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	1,685	1,036	1,205
Depreciation	1,250	1,153	1,230
Amortization (accretion) of intangibles	39	(14)	77
Net amortization (accretion) of security premiums (discounts)	2,557	1,809	(767)
Gain on sales of investment securities	(220)	(267)	
Earnings on cash surrender value of life insurance	(231)	(247)	(258)
(Gain) loss on disposal of property, plant, and equipment	(8)	1	46
(Gain) loss on sale / write-down of foreclosed assets	(302)	96	(20)
Deferred income tax expense (benefit)	192	450	(526)
Decrease (increase) in accrued interest receivable	189	174	(435)
Decrease in other assets	500	424	3,006
Decrease in accrued interest payable	(227)	(444)	(47)
Increase in other liabilities	319	278	392
<b>Net Cash Provided By Operating Activities</b>	<b>10,682</b>	<b>9,400</b>	<b>8,446</b>
<b>Investing Activities:</b>			
Net decrease in interest-bearing time deposits with other financial institutions	16,050	3,914	27,564
Proceeds from the maturity of investment securities	37,101	39,453	26,413
Proceeds from the sale of investment securities	15,118	17,895	
Purchases of investment securities	(27,881)	(53,553)	(111,157)
(Purchases) redemptions of restricted investment in bank stock	(466)	617	708
Net increase in loans and leases	(65,896)	(6,389)	(17,774)
Purchases of bank premises and equipment	(588)	(995)	(1,415)
Proceeds from sale of bank premises and equipment		42	
Proceeds from sale of foreclosed assets	2,957	2,579	983
<b>Net Cash (Used In) Provided By Investing Activities</b>	<b>(23,605)</b>	<b>3,563</b>	<b>(74,678)</b>
<b>Financing Activities:</b>			
Net increase in demand deposits and savings accounts	13,949	29,645	90,955
Net decrease in time deposits	(31,280)	(38,239)	(11,882)
Net increase (decrease) in short-term borrowings	23,833		(1,561)
Series A preferred stock dividends paid		(560)	(500)
Series A preferred stock redemption		(10,000)	
Series B preferred stock issuance, net of costs	120	4,830	
Series B preferred stock dividends paid	(309)		

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Common stock dividends paid	(872)	(872)	(696)
Employee Stock Purchase Plan	55	56	38
Warrant Repurchase	(58)		
Long-term debt repayment	(14,365)	(191)	(5,182)
Proceeds from long-term debt borrowings	15,000		
Net Cash Provided By (Used In) Financing Activities	6,073	(15,331)	71,172
Net (decrease) increase in cash and cash equivalents	(6,850)	(2,368)	4,940
Cash and cash equivalents, beginning of year	15,473	17,841	12,901
Cash and cash equivalents, end of year	\$ 8,623	\$ 15,473	\$ 17,841
Supplemental Disclosures of Cash Flow Information:			
Interest paid	\$ 5,284	\$ 7,569	\$ 9,569
Income taxes paid	\$ 775	\$ 1,700	\$ 940
Supplemental Noncash Disclosures:			
Loan transfers to foreclosed assets held for sale	\$ 2,777	\$ 2,587	\$ 1,298

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

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**MID PENN BANCORP, INC. Notes to Consolidated Financial Statements**

**(1) Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. and its wholly-owned subsidiary Mid Penn Bank ( Bank ), and the Bank's wholly-owned subsidiary Mid Penn Insurance Services, LLC (collectively, Mid Penn ). All material intercompany accounts and transactions have been eliminated in consolidation.

Each of Mid Penn's lines of business are part of the same reporting segment, community banking, whose operating results are regularly reviewed and managed by a centralized executive management group. As a result, Mid Penn has only one reportable segment for financial reporting purposes.

For comparative purposes, the December 31, 2012 and December 31, 2011 balances have been reclassified to conform to the 2013 presentation. Such reclassifications had no impact on net income.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2013, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

**(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 fourteen offices located in Dauphin County, the southern portion of Northumberland County, the western portion of Schuylkill County and the eastern portion of Cumberland County.

Mid Penn Insurance Services, LLC, a wholly-owned subsidiary of the Bank, provides a wide array of personal and commercial insurance products. Income from Mid Penn Insurance Services, LLC is not material to Mid Penn.

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

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

**(a) Use of Estimates**

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, the valuation of deferred tax assets, the assessment of other-than-temporary impairment of investment securities, and core deposit in tangible and goodwill valuation.

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**MID PENN BANCORP, INC. Notes to Consolidated Financial Statements**

**(b) Cash and Cash Equivalents**

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

**(c) Investment Securities**

Available for sale securities include debt and equity securities. Debt and equity 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 shareholders' equity. Realized gains and losses on sales of investment securities are computed on the basis of specific identification of the cost of each security. Net gains on sales of investment securities were \$220,000 in 2013, \$267,000 in 2012, and \$0 in 2011. Mid Penn had no held to maturity securities in 2013 and 2012.

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

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

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

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

*Commercial and industrial*

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

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**Table of Contents****MID PENN BANCORP, INC. Notes to Consolidated Financial Statements**

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

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

*Commercial real estate and commercial real estate construction*

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

*Lease financing*

Mid Penn originates leases for select commercial and state and municipal government lessees. The nature of the leased asset is often subject to rapid depreciation in salvage value over a relatively short time frame or may be of an industry specific nature, making appraisal or liquidation of the asset difficult. These factors have led the Bank to severely curtail the origination of new leases to state or municipal government agencies where default risk is extremely limited and to only the most credit-worthy commercial customers. These commercial customers are primarily leasing fleet vehicles for use in their primary line of business, mitigating some of the asset value concerns within the portfolio. Leasing has been a declining percentage of the Mid Penn's portfolio since 2006, representing 0.25% of the portfolio at December 31, 2013.

*Residential mortgage*

Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan to value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85%



loan to value level. Residential mortgage loans generally do not include prepayment penalties.

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**Table of Contents****MID PENN BANCORP, INC. Notes to Consolidated Financial Statements**

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

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

*Consumer, including home equity*

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

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

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

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

*Allowance for Loan and Lease Losses*

The allowance for credit losses consists of the allowance for loan and lease losses and the reserve for unfunded lending commitments. The allowance for loan and lease losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a

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**Table of Contents****MID PENN BANCORP, INC. Notes to Consolidated Financial Statements**

reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet and was \$90,000 at December 31, 2013 and 2012. The allowance for loan and lease losses is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan and lease losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in the experience of the lending staff and loan review systems, growth or changes in the mix of loans originated, and shifting industry or portfolio concentrations.

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

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

In addition, Mid Penn's rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired

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loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial loans secured by real estate rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans (including home equity loans and other consumer loans) are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

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

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates

that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

Mid Penn does not currently, or plan in the future to, use automated valuation methodologies as a method of valuing real estate collateral.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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

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



(e) **Bank Premises and Equipment**

Land is carried at cost. Buildings, furniture, fixtures, equipment, land improvements, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Building assets are depreciated using an estimated useful life of five to fifty years. Furniture, fixtures, and equipment are depreciated using

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an estimated useful life of three to ten years. Land improvements are depreciated over an estimated useful life of ten to twenty years. Leasehold improvements are depreciated using an estimated useful life that is the lesser of the remaining life of the lease or ten to thirty years. Maintenance and normal repairs are charged to expense when incurred, while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations.

**(f) Restricted Investment in Federal Home Loan Bank Stock**

The Bank owns restricted stock investments in the Federal Home Loan Bank ( FHLB ). Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula. The stock is carried at cost. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock; however, the dividend was reinstated in February 2012. Total dividends received in 2013 and 2012 totaled \$20,000 and \$5,000, respectively. During 2012 and 2013, the FHLB of Pittsburgh performed limited excess capital stock repurchases each calendar quarter. Any future capital stock repurchases will be made on a quarterly basis if conditions warrant such repurchases.

Management evaluates the restricted stock for impairment on an annual basis. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2013 and 2012.

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

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

**(h) Mortgage Servicing Rights**

Mortgage servicing rights are recognized as assets upon the sale of a mortgage loan. A portion of the cost of the loan is allocated to the servicing right based upon relative fair value. The fair value of servicing rights is based on the

present value of estimated future cash flows of mortgages sold stratified by rate and maturity date. Assumptions that are incorporated in the valuation of servicing rights include assumptions about prepayment speeds on mortgages and the cost to service loans. Servicing rights are reported in other intangibles and are amortized over the estimated period of future servicing income to be received on the underlying mortgage loans. The carrying amount of mortgage servicing rights was \$223,000 and \$233,000 at December 31, 2013 and 2012, respectively. Amortization expense is netted

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against loan servicing fee income and is reflected in the Consolidated Statements of Income in mortgage banking income. Servicing rights are evaluated for impairment based upon estimated fair value as compared to unamortized book value.

**(i) Investment in Limited Partnership**

Mid Penn invested as a limited partner in a partnership in September 2008 that provides low-income housing in Enola, Pennsylvania. The carrying value of Mid Penn's investment in the limited partnership was \$452,000 at December 31, 2013 using the straight-line method. Mid Penn's maximum exposure to loss is limited to the carrying value of its investment at year-end. The partnership anticipates receiving \$46,000 annually in low-income housing tax credits.

**(j) 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. Mid Penn recognizes interest and/or penalties related to income tax matters in income tax expense.

**(k) 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 reflect benefit.

**(l) 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. Accounting Standards Codification (ASC) Topic 350, *Intangibles, Goodwill and Other* requires a two-step process for testing the impairment of goodwill on at least an annual basis. Mid Penn did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2013. In addition, Mid Penn did not identify any impairment in 2012 or 2011.

**(m) Bank Owned Life Insurance**

Mid Penn is the owner and beneficiary of bank owned life insurance (BOLI) policies on current and former directors. The earnings from the BOLI policies are an asset that can be liquidated, if necessary, with associated tax costs. However, Mid Penn intends to hold these policies and, accordingly, Mid Penn has not provided deferred income

taxes on the earnings from the increase in cash surrender value.

GAAP requires Split-Dollar Life Insurance Arrangements to have a liability recognized related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement, and a liability for the future death benefit.

(n) **Marketing and Advertising Costs**

Marketing and advertising costs are expensed as incurred.

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

**(p) Other Benefit Plan**

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

**(q) 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.

**(r) Earnings Per Share**

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each of the years presented. The following data show the amounts used in computing basic and diluted earnings per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted average common shares available from the exercise of all dilutive stock warrants issued to the U.S. Treasury under the provisions of the Capital Purchase Program, based on the average share price of Mid Penn's common stock during the period.

The computations of basic earnings per common share follow:

(Dollars in thousands, except per share data)	2013	2012	2011
Net Income	\$ 4,939	\$ 4,951	\$ 4,543
Less: Dividends on Series A preferred stock		(500)	(500)
Accretion of Series A preferred stock discount	(14)	(14)	(14)
Dividends on Series B preferred stock	(309)		
Net income available to common shareholders	\$ 4,616	\$ 4,437	\$ 4,029
Weighted average common shares outstanding	3,491,653	3,486,543	3,481,414
Basic earnings per common share	\$ 1.32	\$ 1.27	\$ 1.16

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	2013	2012	2011
Net income available to common stockholders	\$ 4,616	\$ 4,437	\$ 4,029
Weighted average number of common shares outstanding	3,491,653	3,486,543	3,481,414
Dilutive effect of potential common stock arising from stock warrants:			
Exercise of outstanding stock warrants issued to U.S. Treasury under the Capital Repurchase Program			
Adjusted weighted-average common shares outstanding	3,491,653	3,486,543	3,481,414
Diluted earnings per common share	\$ 1.32	\$ 1.27	\$ 1.16

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Mid Penn repurchased all warrants in 2013; therefore, there were none remaining as of December 31, 2013. Mid Penn had 73,099 warrants that were anti-dilutive because the fair value of the common stock was below the \$20.52 exercise price of these warrants as of December 31, 2012 and 2011.

**(4) Accumulated Other Comprehensive (Loss) Income**

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

(Dollars in thousands)	Unrealized Gain on Securities	Defined Benefit Plan Liability
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