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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Mid Penn Bancorp, Inc. (NASDAQ:MPB)

RORY G. RITRIEVI has served as President and CEO of Mid Penn Bank and parent company Mid Penn Bancorp, Inc. since 2009, and has more than 30 years of experience in the financial services industry. Prior to his current position, Mr. Ritrievi served as Market President and Chief Lending Officer of Commerce Bank/Harrisburg N.A. An active member of his community, Mr. Ritrievi is a past member of the board of the Pennsylvania Association of Community Bankers and served as Chairman of its legislative committee. He also serves on Bishop McDevitt High School's strategic planning committee and on Widener School of Law's advisory group for business law. Throughout his career, Mr. Ritrievi has been designated with several honors including Widener University School of Law's Distinguished Young Alumni, Central Penn Business Journal's Forty Under 40, and the Leukemia and Lymphoma Society's Man of the Year. Mr. Ritrievi holds a Juris Doctor from Widener University School of Law and a bachelor's degree in economics from the University of Pittsburgh.

SECTOR — BANKING

TWST: Can you provide a brief overview of the bank and tell me what you believe it does well?

Mr. Ritrievi: Mid Penn Bank is a 148-year-old Central Pennsylvania-based community bank corporation. We have all the traditional financial products and services that we deliver to businesses, municipalities and consumers throughout our footprint, which consists of six counties: Luzerne, Northumberland, Dauphin, Cumberland, Lancaster and Schuylkill counties. We have been building relationships in Central P.A. for the last 148 years, and we are still doing that today.

TWST: You went through a merger last year. Can you talk about that briefly and talk about whether the integration is completed?

Mr. Ritrievi: In 2014, we announced our intended purchase of Phoenix Bancorp, Inc., which was the holding company of a four-branch bank named Miners Bank, headquartered in Schuylkill County. It was around $135 million in assets when we consummated the transaction in March of 2015. We brought all of their customers onto our core systems a couple of months later. We had no issues with the integration; there were no customer disruptions, and everything went seamlessly and smoothly for all customers and for employees.

TWST: In fiscal year 2015, you had a net income of approximately $6.5 million, which was a 14.5% increase from the year prior. Can you roughly break that down by line of business and talk about whether you are adding or contracting any of the business lines at the moment?

Mr. Ritrievi: We don't break our income down by product or business lines, but what I will tell you is that on the net interest side, our traditional loan and deposit gathering activities and the net interest margin we generate as a result of that activity has amounted to 85% of our income. The remaining 15% of our income is generated on the non-interest income side in fee-based services and products. On both sides, we generate income through the development of business, consumer and municipal customers. Our loan portfolio is about 82% commercial, which includes commercial real estate and business loans, and 18% consumer products such as home equity loans, automobile loans and residential mortgages. On the deposit side, the numbers are a little bit different in that 51% are consumer while 49% are business.

TWST: Regarding the fee-based business, can you break that down? What fees you are collecting from what services?

Mr. Ritrievi: We don't charge nuisance fees such as service charges or minimum amount fees on our checking accounts, nor do we generate large amounts of non-sufficient funds fees. The bulk of our fee income comes from the sale of residential mortgages on the secondary market. In any given month, 80% of what we originate we sell on the secondary market, and 20% of it we put in the portfolio. When we sell into the secondary market, that generates a fee. Additional fee sources are trust and wealth management, credit cards, merchant services and the sale of SBA loans for which we are a preferred lender.

TWST: The loan mix you described, do you see that changing at all, say, in the next 24 months? Are you going to consciously shift in some direction or another?

Mr. Ritrievi: I have been with the bank for about 7.5 years, and what we inherited when I first got here was a portfolio that primarily consisted of commercial real estate loans and a smaller amount of consumer loans and business loans. Over the last 7.5 years we have transitioned the focus more into commercial and industrial business loans — including SBA loans — and consumer loans. That does not mean we don't make commercial real estate loans, we do. It's just that the primary focus is more on business and consumer loans.

We did add a new wrinkle this year when we began making agricultural loans. We had intended to enter the agricultural loan business for a few years, but we were trying to find the right people. We brought on our first few agricultural employees earlier this year and began originating agricultural loans. We had a good deal of success in the eight months since we brought them on, and I expect that success to continue over the next 24 months and beyond as we continue to build out that group.

TWST: Can you provide an example of a metric that you believe you have improved in the last year?

Mr. Ritrievi: The asset quality index is always the most important to me. You can make as many loans as you want to, but if you are not making good loans, it is ultimately going to cost too much for you to stay in business. Seven years ago, our asset quality index was over 5%. This year our objective was to get it under 1.75%, and right now we are there.

That success has come from a lot of hard work with a very commonsensical approach to underwriting, documentation, servicing and managing all of the credits in our portfolio. A good asset quality index and good asset quality performance doesn't happen by accident. It occurs through a lot of professionals who are very smart and hardworking in terms of building those loan relationships that are so important to us.

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TWST: Why did you make that decision to go into agricultural loans, and has it required you to go in and sort of take market share from somebody else that was already doing that?

Mr. Ritrievi: The better question might be, how didn't we enter it at some point over the previous 147 years? If you look at the counties that we serve, the ones that I mentioned earlier, agricultural commerce is a very big part of all of those counties. The decision to enter into the agricultural lending business was long overdue, because it is something in which many borrowers and depositors in our areas are actively involved. We will generate our outstandings and get our deposits from the calling efforts of our Agricultural Lenders throughout our footprint. Some of that production will come from existing banks and providers in the market.

TWST: You mentioned wanting to increase SBA loans. How do you as a business mitigate against that risk a little bit? Do you just ensure that you are very diversified as a bank?

Mr. Ritrievi: We take a commonsense approach to all of our lending. By definition, when you start making loans, regardless of whatever industry or segment you are making loans into, you are taking on risk. We take a commonsense approach to managing those risks.

We feel that the SBA products are ones that are very beneficial to a significant segment of our borrowers. We owe it to the borrowers to be able to provide the SBA products in order to fully service their needs. There are risks associated with that kind of lending just like any other type of lending, but we feel that we have got the knowledge and the people in place to underwrite and document the SBA loans appropriately.

TWST: What metrics are most important to you?

Mr. Ritrievi: We go into every year with a focus on several metrics including loan growth, deposit growth, net interest margin, our asset quality index, and finally, the efficiency ratio. If we successfully build full relationships that include loans and deposits at the right margins and the right quality, while controlling our expenses and enhancing fee-based services, then everything else should be just fine.

TWST: Are you where you want to be in terms of your digitization efforts as a bank?

Mr. Ritrievi: Yes, I think we are. I have been around long enough to remember the 1996 Paperwork Reduction Act that President Clinton put in place, and I remember then that everything was paper and that we all had to find a way to try to digitize our business. Over the last 7.5 years as we kind of recreated this bank, part of that was taking as much advantage of technology as we could. I don't see a lot of paper, and so I think that we have done as good a job as I could have expected in digitizing all of the various aspects of our business.

TWST: In the next year, what are your strategic objectives?

Mr. Ritrievi: They are not going to change much. What distinguishes us from all of our other community banking competitors and the too-big-to-fail competitors is that we are really good at building relationships. Our strategic objectives for the next year or two years would be to continue to build the best community banking organization in Central Pennsylvania by refining all of our delivery channels to get all of our customers exactly what they need to cover our entire footprint.

We also want to continue to evaluate where we want to go next and keep the emphasis on building those high-quality relationships. None of that is rocket science. The core of what we do is build solid profitable relationships, and we want to do it more in all the markets that we are already in and want to evaluate which markets we should go into next.

TWST: To accomplish what you just described, do you see that you in the next 12 months need to make any significant management or operational changes, and if so, what would they be?

Mr. Ritrievi: We have a great team. To start, we have a fantastic board of directors consisting of people who really understand the banking business. The board completely understands what we are trying to accomplish strategically, and that's a real advantage for us. We have a great executive management team. The office of the CEO including myself and our Chief Lending Officer, Chief Risk Officer, Chief Financial Officer, Chief Retail Officer and Director of Trust and

Wealth Management, I believe are the best at what they do in this area. I am very comfortable that this group can manage something significantly bigger and broader than what we are now.

Beyond that executive team, the rest of the senior management team, whether it is the person that we have managing our human resources, the person we have managing information technology, the person that we have managing our deposit operations, the person we have managing our loan operations, or the person we have managing compliance, are all best-in-class employees who I feel very comfortable can handle much more than what they are doing now. From a management team standpoint, this bank is poised to be able to grow and handle a lot more.

TWST: Longer term, how do you see the bank growing? Do you see it growing organically or to some degree through acquisition or merger and, if organically, can you describe how you see that growth happening?

Mr. Ritrievi: We want to be the best bank in Central Pennsylvania, and Central Pennsylvania would be defined as pretty much every area of Pennsylvania except the major metropolitan areas. Not that we have anything against major metropolitan areas, but we just feel that our version of community banking may be more appreciated by those areas outside of major metropolitan areas. We currently exist in those six counties that I referenced earlier. Our intention is to grow organically within those six counties, and that is our primary strategy. To do that, we need to continue to hire and develop team members who perfectly understand what the core of what we are trying to do, which is build high-quality relationships.

We have plenty of organic growth opportunities in all of those six counties, helped along a little bit by some of the market disruption that has occurred over the past three years with community banks selling to bigger banks out of the area. But then, supplemental to that organic growth strategy, is our quest to find other bank organizations like Phoenix Bancorp that need some help and that share our viewpoint on what we are trying to deliver to our customers. We keep our eyes and ears open for merger and acquisition opportunities, but that is not the primary way that we want to build the bank. Our primary strategy is organic growth supplemented by smart M&A.

TWST: What do you want the potential investor in Mid Penn Bancorp to know today?

Mr. Ritrievi: If I could talk to all the potential investors out there, I would tell them that everything that we do at Mid Penn Bank is done with the desire to provide the best-in-class return to our shareholders. We have made significant progress to that end over the last 7.5 years, but we feel that we are far from finished. We are going to continue to take a commonsense approach to preserving and growing the value of all of our shareholders' investment, but potential investors should know that our approach and everything that we do, including all the decisions that we make, are to increase the value of their investment.

TWST: Is there anything else you wanted to add that we haven't covered?

Mr. Ritrievi: I think you have asked some very good questions, and I don't believe there is anything else I'd like to add.

TWST: Thank you. (KJL)

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