MID PENN BANCORP INC
Form 10-Q
August 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission file number 001-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	**25-1666413**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
349 Union Street Millersburg, Pennsylvania	**17061**
(Address of Principal Executive Offices)	**(Zip Code)**

(717) 692-2133

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

As of August 7, 2009, there were 3,479,780 shares of the registrant s common stock outstanding, par value $1.00 per share.

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Unless the context otherwise requires, the terms Mid Penn , we , us , and our refer to Mid Penn Bancorp, Inc. and its consolidated subsidiaries.

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MID PENN BANCORP, INC. **Consolidated Balance Sheets (Unaudited)**

PART I FINANCIAL INFORMATION

ITEM 1 Financial Statements

(Dollars in thousands, except share data)	**June 30, 2009**	**December 31, 2008**
ASSETS		
Cash and due from banks	$ 5,909	$ 7,478
Interest-bearing balances with other financial institutions	1,136	970
Total cash and cash equivalents	7,045	8,448
Interest-bearing time deposits with other financial institutions	39,745	50,076
Available for sale investment securities	39,366	52,739
Loans and leases, net of unearned interest	467,309	434,643
Less: Allowance for loan and lease losses	(6,630)	(5,505)
Net loans and leases	460,679	429,138
Bank premises and equipment, net	12,215	11,377
Restricted investment in bank stocks	4,029	3,618
Foreclosed assets held for sale	850	1,516
Accrued interest receivable	2,747	2,747
Deferred income taxes	2,612	2,150
Goodwill	1,016	1,016
Core deposit and other intangibles, net	385	406
Cash surrender value of life insurance	7,229	7,437
Other assets	1,498	1,632
Total Assets	$ 579,416	$ 572,300
LIABILITIES & STOCKHOLDERS EQUITY		
Deposits:		
Noninterest bearing demand	$ 49,356	$ 48,602
Interest bearing demand	37,058	39,048
Money Market	82,591	75,750
Savings	26,880	25,364
Time	246,689	248,060
Total Deposits	442,574	436,824
Short-term borrowings	35,604	23,977
Long-term debt	45,141	55,223
Accrued interest payable	2,741	2,411
Other liabilities	3,207	2,975
Total Liabilities	529,267	521,410
Stockholders Equity:		
Preferred stock, par value $1,000; authorized 10,000,000 shares; 5% cumulative dividend; 10,000 shares issued and outstanding at June 30, 2009 and December 31, 2008	10,000	10,000
Common stock, par value $1 per share; 10,000,000 shares authorized; 3,479,780 shares issued and outstanding at June 30, 2009 and December 31, 2008	3,480	3,480
Additional paid-in capital	29,831	29,838
Retained earnings	6,655	7,168

Accumulated other comprehensive income	183	404
Total Stockholders Equity	50,149	50,890
Total Liabilities and Stockholders Equity	$ 579,416	$ 572,300

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

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MID PENN BANCORP, INC. **Consolidated Statements of Income (Unaudited)**

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
INTEREST INCOME				
Interest & fees on loans and leases	$ 7,161	$ 6,531	$ 13,804	$ 13,308
Interest on interest-bearing balances	384	696	840	1,369
Interest and dividends on investment securities:				
U.S. Treasury and government agencies	158	206	334	437
State and political subdivision obligations, tax-exempt	287	318	572	663
Other securities	3	35	7	86
Interest on federal funds sold and securities purchased under agreements to resell			1	
Total Interest Income	7,993	7,786	15,558	15,863
INTEREST EXPENSE				
Interest on deposits	2,609	2,794	5,511	5,781
Interest on short-term borrowings	40	163	59	425
Interest on long-term debt	613	682	1,301	1,309
Total Interest Expense	3,262	3,639	6,871	7,515
Net Interest Income	4,731	4,147	8,687	8,348
PROVISION FOR LOAN AND LEASE LOSSES	479	155	1,412	255
Net Interest Income After Provision for Loan and Lease Losses	4,252	3,992	7,275	8,093
NONINTEREST INCOME				
Trust department income	62	68	123	135
Service charges on deposits	386	440	737	848
Earnings from cash surrender value of life insurance	69	65	141	127
Gain on life insurance proceeds			158	
Mortgage banking income	33	42	75	81
Other income	311	291	568	611
Total Noninterest Income	861	906	1,802	1,802
NONINTEREST EXPENSE				
Salaries and employee benefits	2,021	1,785	4,121	3,597
Occupancy expense, net	231	239	436	528
Equipment expense	306	203	544	426
Pennsylvania Bank Shares tax expense	100	92	201	184
FDIC Assessment	395	21	523	33
Legal and Professional fees	215	156	354	296
Director fees and benefits expense	66	90	143	168
Marketing and advertising expense	266	103	460	182
Computer expense	120	111	223	249
Stationery and supplies expense	51	55	79	127
Loss on sale / write-down of foreclosed assets	4		36	32
Other expenses	566	623	1,089	1,103
Total Noninterest Expense	4,341	3,478	8,209	6,925
INCOME BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAXES	772	1,420	868	2,970

Provision for (benefit from) income taxes		59		360		(58)		737
NET INCOME		713		1,060		926		2,233
Preferred stock dividends and discount accretion		129				257		
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$	584	$	1,060	$	669	$	2,233
PER COMMON SHARE DATA:								
Basic Earnings Per Common Share	$	0.17	$	0.30	$	0.19	$	0.64
Diluted Earnings Per Common Share	$	0.17	$	0.30	$	0.19	$	0.64
Cash Dividends Declared	$	0.16	$	0.20	$	0.36	$	0.40

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

MID PENN BANCORP, INC. **Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in thousands)	Six Months Ended June 30, 2009	2008
Operating Activities:		
Net Income	$ 926	$ 2,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,412	255
Depreciation	455	411
Amortization of core deposit intangible	21	32
Net amortization of securities premiums	36	21
Earnings on cash surrender value of life insurance	(141)	(334)
Gain from life insurance proceeds	(158)	
Loss on sale / write-down of foreclosed assets	36	32
Deferred income tax benefit	(194)	(199)
Decrease in accrued interest receivable		177
Decrease in other assets	127	156
Increase in accrued interest payable	330	1,013
Increase in other liabilities	248	664
Net Cash Provided by Operating Activities	3,098	4,461
Investing Activities:		
Net (increase) decrease in interest-bearing time deposits	10,331	(10,912)
Proceeds from the maturity of investment securities	12,849	14,523
Purchases of investment securities		(10,660)
Purchase of restricted investment in bank stock	(411)	(49)
Net increase in loans and leases	(33,091)	(24,053)
Purchases of bank premises and equipment	(1,293)	(562)
Proceeds from sale of foreclosed assets	768	52
Proceeds from cash surrender value of life insurance	507	
Net Cash Used in Investing Activities	(10,340)	(31,661)
Financing Activities:		
Net increase in demand deposits and savings accounts	7,121	5,417
Net increase (decrease) in time deposits	(1,371)	24,316
Net increase (decrease) in short-term borrowings	11,627	(1,540)
Preferred stock dividend paid	(203)	
Common stock dividend paid	(1,253)	(1,395)
Long-term debt repayment	(10,082)	(15,073)
Purchase of treasury stock		(252)
Proceeds from long-term debt		15,795
Net Cash Provided by Financing Activities	5,839	27,268
Net increase (decrease) in cash and cash equivalents	(1,403)	68
Cash and cash equivalents, beginning of period	8,448	10,625
Cash and cash equivalents, end of period	$ 7,045	$ 10,693
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 6,541	$ 6,502
Income taxes paid		870

Supplemental Noncash Disclosures:		
Transfers to foreclosed assets held for sale	$ 138	$ 50

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 consolidated financial statements for 2009 and 2008 include the accounts of Mid Penn Bancorp, Inc. (Mid Penn), its subsidiaries Mid Penn Bank (the Bank), Mid Penn Insurance Services, LLC, and Mid Penn Investment Corporation (collectively the Corporation). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). We believe the information presented is not misleading and the disclosures are adequate. For comparative purposes, the June 30, 2008 balances have been reclassified to conform to the 2009 presentation. Such reclassifications had no impact on net income. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2008, and with Mid Penn s Forms 8-K, that were filed during 2009 with the SEC.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2009, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through August 7, 2009, the date these consolidated financial statements were issued.

2. Short-term Borrowings

Short-term borrowings as of June 30, 2009 and December 31, 2008 consisted of:

(Dollars in thousands)	**June 30, 2009**	**December 31, 2008**
Federal funds purchased	$ 31,208	$ 17,920
Securities sold under repurchase agreements	3,852	5,041
Treasury, tax and loan notes	544	1,016
	$ 35,604	$ 23,977

Federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by the Bank are placed in the Treasury note option account.

3. Long-term Debt

During the three months and six months ended June 30, 2009, the Bank entered into no additional long-term borrowings with the Federal Home Loan Bank of Pittsburgh. During the three months ended June 30, 2009, the Bank paid down long-term debt by $5 million. The Bank has paid down long-term debt by $10 million during the six months ended June 30, 2009.

4. Defined Benefit Plans

Mid Penn has an unfunded noncontributory defined benefit retirement plan for directors. The plan provides defined benefits based on years of service. In addition, Mid Penn sponsors a defined benefit health care plan that provides post-retirement medical benefits and life insurance to full-time employees. These health care and life insurance plans are noncontributory. A December 31 measurement date for our plans is used.

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MID PENN BANCORP, INC. **Notes to Consolidated Financial Statements**

The components of net periodic benefit costs from these benefit plans are as follows:

(Dollars in thousands)	Three Months Ended June 30,			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$ 5	$ 12	$ 4	$ 6
Interest cost	14	9	8	15
Amortization of transition obligation		4		
Amortization of prior service cost	5			5
Amortization of net gain		(1)	(3)	
Net periodic benefit cost	$ 24	$ 24	$ 9	$ 26

(Dollars in thousands)	Six Months Ended June 30,			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$ 10	$ 24	$ 8	$ 12
Interest cost	28	18	16	30
Amortization of transition obligation		8		
Amortization of prior service cost	10			10
Amortization of net gain		(2)	(6)	
Net periodic benefit cost	$ 48	$ 48	$ 18	$ 52

5. Earnings per Common Share

Earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each of the periods presented giving retroactive effect to stock dividends and stock splits. The following data show the amounts used in computing basic and diluted earnings per common share. As shown in the table that follows, diluted earnings per common 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)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net Income	$ 713	$ 1,060	$ 926	$ 2,233
Less: Dividends on preferred stock	(125)		(250)	
Accretion of preferred stock discount	(4)		(7)	
Net income available to common stockholders	$ 584	$ 1,060	$ 669	$ 2,233
Weighted average common shares outstanding	3,479,780	3,484,073	3,479,780	3,486,449
Basic earnings per common share	$ 0.17	$ 0.30	$ 0.19	$ 0.64

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income available to common stockholders	$ 584	$ 1,060	$ 669	$ 2,233
Weighted average number of common shares outstanding	3,479,780	3,484,073	3,479,780	3,486,449
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	3,479,780	3,484,073	3,479,780	3,486,449
Diluted earnings per common share	$ 0.17	$ 0.30	$ 0.19	$ 0.64

6. Comprehensive Income (Loss)

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Changes in certain assets and liabilities such as unrealized gains (losses) on securities available for sale and the liability associated with defined benefit plans, are reported as a separate component of the stockholders equity section of the balance sheet. Such items, along with net income, are components of comprehensive income (loss). The components of other comprehensive income (loss), and the related tax effects, are as follows:

(Dollars in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Change in unrealized holding losses on available for sale securities	$ (612)	$ (713)	$ (489)	$ (358)
Less reclassification adjustment for gains realized in income				
Net unrealized losses	(612)	(713)	(489)	(358)
Change in defined benefit plans	3		155	
Other comprehensive loss	(609)	(713)	(334)	(358)
Income tax benefit	207	242	113	122
Net of tax amount	$ (402)	$ (471)	$ (221)	$ (236)

7. Guarantees

In the normal course of business, Mid Penn makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying consolidated financial statements. The commitments include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Mid Penn evaluates each customer s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management s credit evaluation of the customer. Standby letters of credit and financial guarantees written are conditional commitments to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Mid Penn had $10,333,000 and $10,517,000 of standby letters of credit outstanding as of June 30, 2009 and December 31, 2008, respectively. The Corporation does not anticipate any losses because of these transactions. The current amount of the liability as of June 30, 2009 for payment under standby letters of credit issued was not material.

8. Split Dollar Life Insurance Postretirement Benefits

Effective January 1, 2008, Mid Penn Bank adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement, and the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board Opinion No. 12, as appropriate. In adopting EITF 06-4, Mid Penn recorded a cumulative effect adjustment to the balance of retained earnings of $277,000 as of January 1, 2008.

9. Fair Value Measurement

Effective January 1, 2008, Mid Penn adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) for financial assets and financial liabilities and on January 1, 2009, adopted the provision for non-financial assets and non-financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FASB Statement 157, Fair Value Measurements , defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

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MID PENN BANCORP, INC. **Notes to Consolidated Financial Statements**

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for the Corporation for interim and annual reporting periods ending June 30, 2009 and after.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own belief about the assumptions market participants would use in pricing the asset or liability based upon the best information available in the circumstances. SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Inputs - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Inputs - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of Mid Penn s financial assets and financial liabilities carried at fair value effective January 1, 2008.

The following table illustrates the financial instruments measured at fair value on a recurring basis segregated by hierarchy fair value levels:

		Fair value measurements at June 30, 2009 using:		
(Dollars in thousands)	**Total carrying value at June 30, 2009**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Securities available for sale	$ 39,366		$ 39,366	

		Fair value measurements at December 31, 2008 using:		
(Dollars in thousands)	**Total carrying value at December 31, 2008**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Securities available for sale	$ 52,739		$ 52,739	

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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MID PENN BANCORP, INC. **Notes to Consolidated Financial Statements**

The following table illustrates the financial instruments measured at fair value on a nonrecurring basis segregated by hierarchy fair value levels:

		Fair value measurements at June 30, 2009 using:		
(Dollars in thousands)	Total carrying value at June 30, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	$ 7,979			$ 7,979
Foreclosed Assets	850			850
Repossessed Assets	53			53

		Fair value measurements at December 31, 2008 using:		
(Dollars in thousands)	Total carrying value at December 31, 2008	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	$ 5,492			$ 5,492
Foreclosed Assets	1,516			1,516
Repossessed Assets				

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments , to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for the Corporation for interim and annual reporting periods ending June 30, 2009 and after.

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

Cash and Cash Equivalents:

The carrying value of cash and cash equivalents is considered to be a reasonable estimate of fair value.

Interest-bearing Balances with other Financial Institutions:

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

Securities Available for Sale:

Securities classified as available for sale are generally reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from an independent pricing service. These valuation services estimate fair value using pricing models and other accepted valuation methodologies, such as quotes for similar securities and observable yield curves and spreads.

Impaired Loans:

Certain loans are evaluated for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan , including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). The value of the collateral is determined through appraisals performed by independent licensed appraisers. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Mid Penn considers the appraisals used in its impairment analysis to be Level 3 inputs. Impaired loans are reviewed and evaluated as needed for additional impairment, and reserves are adjusted accordingly.

Loans:

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, carrying values approximated fair value. Substantially all commercial loans and real estate mortgages are variable rate loans. The fair value of other loans (i.e. consumer loans and fixed-rate real estate mortgages) are estimated by calculating the present value of the cash flow difference between the current rate and the market rate, for the average maturity, discounted quarterly at the market rate.

Foreclosed Assets:

Assets included in foreclosed assets held for sale are carried at the lower of cost or fair value and accordingly is presented as measured on a non-recurring basis. Values are estimated using Level 3 inputs, based on appraisals that consider the sales prices of property in the proximate vicinity.

Accrued Interest Receivable and Payable:

The carrying amount of accrued interest receivable and payable approximates their fair values.

Restricted Investment in Bank Stocks:

The carrying amount of required and restricted invesment in correspondent bank stock approximates fair value, and considers the limited marketability of such securities.

Deposits:

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

Short-term Borrowings:

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

Long-term Debt:

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

Commitments to Extend Credit and Letters of Credit:

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements.

The following table summarizes the carrying value and fair value of financial instruments at June 30, 2009 and December 31, 2008.

(Dollars in thousands)	**June 30, 2009**		**December 31, 2008**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 7,045	$ 7,045	$ 8,448	$ 8,448
Interest-bearing balances with other financial institutions	39,745	39,745	50,076	50,076
Securities available for sale	39,366	39,366	52,739	52,739
Net loans	460,679	478,736	429,138	456,323
Restricted investment in bank stocks	4,029	4,029	3,618	3,618
Accrued interest receivable	2,747	2,747	2,747	2,747
Financial liabilities:				
Deposits	$ 442,574	$ 451,326	$ 436,824	$ 447,482
Short-term borrowings	35,604	35,604	23,977	23,977
Long-term debt	45,141	47,648	55,223	58,721
Accrued interest payable	2,741	2,741	2,411	2,411
Off-balance sheet financial instruments:				
Commitments to extend credit	$	$	$	$

Financial standby letters of credit

10. Preferred Stock

On December 19, 2008, MPB 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 the Corporation under the Treasury s Capital Purchase Program (the CPP).

Under the CPP, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, $1,000 liquidation preference, and (2) Warrants to purchase up to 73,099 shares of the Corporation s common stock at an exercise price of $20.52 per share. The $10,000,000 in new capital is treated as Tier 1 Capital.

The Series A Preferred Stock pays cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. Pursuant to the American Recovery and Reinvestment Act of 2009, the Secretary of the Treasury shall permit, subject to consultation with the appropriate Federal banking agency, the Corporation to redeem the Series A Preferred Stock. The Corporation may do so without regard to the source of the funds to be used to redeem the Series A Preferred Stock or any minimum waiting period. If the Corporation elects to redeem the Series A Preferred Stock prior to February 15, 2012, and receives approval from the Treasury and the Board of Governors of the Federal Reserve System, it must redeem at least $2,500,000 of the Series A Preferred Stock. Upon redemption of the Series A Preferred Stock, the Secretary of the Treasury shall liquidate the warrants associated with the Corporation s participation in the CPP at the current market price. Upon the appropriate approval, the Corporation may redeem the Series A Preferred Stock at the original purchase price plus accrued but unpaid dividends, if any. The related Warrants expire in ten years and are immediately exercisable upon their issuance.

To participate in the program, the Corporation is required to meet certain standards, including; (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risk that threatens the value of the Corporation; (2) requiring a clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibiting the Corporation from making any golden parachute payment to a senior executive based on applicable Internal Revenue Code provisions; and (4) agreeing not to deduct, for tax purposes, executive compensation in excess of $500,000 for each senior executive.

Based on the Program term sheet provided by the Treasury, the following would be the effects on holders of common stock from the issuance of Senior Preferred stock to the Treasury under the Program:

Restrictions on Dividends

For as long as any Senior Preferred shares are outstanding, no dividends could be declared or paid on common shares, nor could the Corporation repurchase or redeem any common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred shares had been fully paid. In addition, the consent of the Treasury would be required for any increase in the per share dividends on common shares until the third anniversary of the date of the Senior Preferred investment unless prior to such third anniversary, the Senior Preferred shares were redeemed in whole or the Treasury had transferred all of the Senior Preferred shares to third parties.

Repurchases

The Treasury s consent would be required for any share repurchases (other than (1) repurchases of the Senior Preferred shares and (2) repurchases of common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred shares had been redeemed in whole or the Treasury had transferred all of the Senior Preferred shares to third parties. In addition, there could be no share repurchases of common shares if prohibited as described under Restrictions on Dividends above.

Voting Rights

The Senior Preferred shares would be non-voting, other than class voting rights on (1) any authorization or issuance of shares ranking senior to the Senior Preferred shares, (2) any amendment to the rights of senior Preferred, or (3) any merger, exchange or similar transaction which would adversely affect the rights of the Senior Preferred. If dividends on the Senior Preferred shares were not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred shareholder(s) would have the right to elect two directors. The right to elect directors would end when full dividends had been paid for four consecutive dividend periods.

11. Investment Securities

Securities to be held for indefinite periods, but not intended to be held to maturity, are classified as available for sale and carried at fair value. Securities held for indefinite periods include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through the Corporation s results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarify the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for the Corporation for interim and annual reporting periods ending June 30, 2009 and after.

At June 30, 2009 and December 31, 2008, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)

June 30, 2009	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	$ 10,811	$ 200	$ 1	$ 11,010
Mortgage-backed U.S. government agencies	3,124	100	1	3,223
State and political subdivision obligations	24,831	525	465	24,891
Equity securities	250		8	242
	$ 39,016	$ 825	$ 475	$ 39,366

(Dollars in thousands)

December 31, 2008	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	$ 22,347	$ 739	$	$ 23,086
Mortgage-backed U.S. government agencies	4,154	25	6	4,173
State and political subdivision obligations	25,151	566	473	25,244
Equity securities	250		14	236
	$ 51,902	$ 1,330	$ 493	$ 52,739

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MID PENN BANCORP, INC. **Notes to Consolidated Financial Statements**

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008.

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
June 30, 2009	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Treasury and U.S. government agencies	$ 2,047	$ 1	$	$	$ 2,047	$ 1
Mortgage-backed U.S. government agencies	40	1			40	1
State and political subdivision obligations	6,184	325	3,190	140	9,374	465
Equity securities			242	8	242	8
Total temporarily impaired available-for-sale securities	$ 8,271	$ 327	$ 3,432	$ 148	$ 11,703	$ 475

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
December 31, 2008	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Treasury and U.S. government agencies	$	$	$	$	$	$
Mortgage-backed U.S. government agencies	1,400	6			1,400	6
State and political subdivision obligations	5,520	293	2,098	180	7,618	473
Equity securities			236	14	236	14
Total temporarily impaired available-for-sale securities	$ 6,920	$ 299	$ 2,334	$ 194	$ 9,254	$ 493

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

At June 30, 2009, Mid Penn had 22 debt securities with unrealized losses. These securities have depreciated 3.82% from their amortized cost basis. At December 31, 2008, the 21 debt securities with unrealized losses had depreciated 5.05% from their amortized cost basis. These securities are issued by either the U.S. Government or other governmental agencies. These unrealized losses were determined principally by reference to current interest rates for similar types of securities. In analyzing an issuer s financial condition, management considers whether the U.S. Government or its agencies issued the securities, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

12. Recent Accounting Pronouncements

International Financial Reporting Standards

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, the Corporation may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Corporation is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

FASB Statement No. 165

In June 2009, the FASB issued SFAS No. 165, Subsequent Events . This statement introduces the concept of financial statements being available to be issued . It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. This statement is effective for the Corporation for interim and annual reporting periods ending June 30, 2009 and after.

FASB Statement No. 166

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 . This statement prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , (SFAS 140), by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Corporation has not determined the effect that the adoption of SFAS 166 will have on our financial position or results of operations.

FASB Statement No. 168

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 . SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Corporation does not expect the adoption of this standard to have an impact on our financial position or results of operations.

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MID PENN BANCORP, INC. **Management s Discussion and Analysis**

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is Management s Discussion of Consolidated Financial Condition as of June 30, 2009, compared to year-end 2008 and the Results of Operations for the first three and six months of 2009 compared to the same periods in 2008.

This discussion should be read in conjunction with the financial tables, statistics, and the audited financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2008, Mid Penn s Quarterly Report on Form 10-Q for the three month period ended March 31, 2009, and with Mid Penn s Forms 8-K, that were filed during 2009 with the SEC. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year.

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words expect , anticipates , intend , plan , believe , estimate , and similar expressions are intended to identify such forward-looking statements.

The Corporation s actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

- The effects of future economic conditions on Mid Penn and its customers;
- Governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;
- The risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in Mid Penn s market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- Technological changes;
- Acquisitions and integration of acquired businesses;

The failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities;

Acts of war or terrorism;

Volatilities in the securities markets;

Deteriorating economic conditions; and

The inability of borrowers to repay loans.

Mid Penn undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in the Annual Report and other documents that we periodically file with the SEC, including Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2008.

Critical Accounting Estimates

Mid Penn s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America 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 we 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 we 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 our operations.

Management of the Corporation considers the accounting judgments relating to the allowance for loan and lease losses and the evaluation of the Corporation s investment securities for other-than-temporary 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 potentially 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.

Results of Operations

Overview

Net income available to common stockholders was $584,000 or $0.17 per common share for the quarter ended June 30, 2009, as compared to net income available to common stockholders of $1,060,000 or $0.30 per common share for the quarter ended June 30, 2008. During the six months ended June 30, 2009, net income available to common stockholders was $669,000 or $0.19 per common share versus $2,233,000 or $0.64 per common share versus the same period in 2008. Net income available to common stockholders was adversely impacted by a special FDIC assessment, higher levels of provision for loan and lease losses, and other increased noninterest expenses as more fully explained below.

The net interest margin compression experienced throughout 2008 has begun to abate somewhat in 2009 with net interest income increasing to $4,731,000 in the three months ended June 30, 2009 from $4,147,000 during the same period in 2008. The six months ended June 30, 2009 reflect an increasing level of net interest income as well, growing to $8,687,000 versus $8,348,000 during the same period in 2008. These increases have been spurred by a moderating cost of funds and increasing levels of average earning assets.

The provision for loan and lease losses in the second quarter of 2009 was $479,000, as compared to $155,000 in the second quarter of 2008. During the six months ended June 30, 2009, the provision for loan and lease losses was $1,412,000 compared to $255,000 for the six months ended June 30, 2008. The increased provision reflects strong loan growth, weak economic conditions, and additional problem loans.

Increasing noninterest expenses in the three and six months ended June 30, 2009, versus the same periods in 2008, also negatively affected earnings. The three primary areas of increased expenses during these periods were Salaries and Benefits, FDIC Assessment, and Marketing and Advertising expense.

Net income as a percent of average assets (return on average assets or ROA) and stockholders equity (return on average equity or ROE) were as follows on an annualized basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Return on average assets	0.50%	0.80%	0.33%	0.83%
Return on average equity	5.65%	10.47%	3.51%	11.10%

Total assets increased to $579,416,000 at June 30, 2009, from $572,300,000 on December 31, 2008. This asset increase was the result of strong loan demand during the first half of 2009 with gross loans of $467,309,000 at June 30, 2009 compared to $434,643,000 at year-end, an increase of approximately $33 million. This growth in loans and leases was partially funded by maturities or calls of interest-bearing time deposits with other financial institutions and investment securities.

The funding side of Mid Penn has undergone a dramatic transformation since December 31, 2008. Deposit growth was strong during the first six months of 2009. Total deposits were $442,574,000 at June 30, 2009, compared to $436,824,000 at December 31, 2008, an increase of approximately $6 million. This increase in deposits was boosted by a flight to safety as investors retreat from the stock market and invest funds in insured accounts. Hidden in these numbers is the transformation in deposit makeup Mid Penn has experienced. During the first six months of 2009, $10,000,000 of brokered deposits have matured and been replaced with local, core deposits. In addition, $10,000,000 of long-term FHLB debt has matured and been shifted into overnight borrowings at very advantageous rates. These strategies have improved cost of funds and energized the net interest margin. Mid Penn continues on an aggressive campaign of replacing maturing brokered deposits and long-term debt with traditional, relationship-based, core funding sources.

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%. The following table includes average balances, rates, interest income and expense, interest rate spread, and net interest margin:

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MID PENN BANCORP, INC. **Management s Discussion and Analysis**

Average Balances, Effective Interest Differential and Interest Yields

Interest rates and interest differential - taxable equivalent basis

(Dollars in thousands)	For the Six Months Ended June 30, 2009			For the Six Months Ended June 30, 2008		
	Balance	Interest	Rate (%)	Balance	Interest	Rate (%)
ASSETS:						
Interest Earning Assets						
Interest Earning Balances	$ 43,393	$ 840	3.90%	$ 54,804	$ 1,369	5.02%
Investment Securities:						
Taxable	21,349	340	3.21%	19,876	443	4.48%
Tax-Exempt	25,108	866	6.96%	27,281	1,004	7.40%
Total Investment Securities	46,457			47,157		
Federal Funds Sold	517	1	0.39%			
Loans and Leases, Net:						
Taxable	436,908	13,494	6.23%	394,291	13,102	6.68%
Tax-Exempt	13,321	469	7.10%	9,377	312	6.69%
Total Loans and Leases, Net	450,229			403,668		
Restricted Investment in Bank Stocks	3,827	1	0.05%	3,657	80	4.40%
Total Earning Assets	544,423	16,011	5.93%	509,286	16,310	6.44%
Cash and Due from Banks	6,410			7,745		
Other Assets	22,577			21,326		
Total Assets	$ 573,410			$ 538,357		
LIABILITIES & STOCKHOLDERS EQUITY:						
Interest Bearing Liabilities						
Interest Bearing Deposits:						
NOW	$ 36,514	17	0.09%	$ 36,551	62	0.34%
Money Market	76,665	621	1.63%	69,251	713	2.07%
Savings	26,256	10	0.08%	25,607	33	0.26%
Time	253,509	4,863	3.87%	230,773	4,973	4.33%
Short-term Borrowings	21,949	59	0.54%	29,144	425	2.93%
Long-term Debt	50,430	1,301	5.20%	52,843	1,309	4.98%
Total Interest Bearing Liabilities	465,323	6,871	2.98%	444,169	7,515	3.40%
Demand Deposits	49,266			47,274		
Other Liabilities	5,548			6,456		
Stockholders Equity	53,273			40,458		
Total Liabilities and Stockholders Equity	$ 573,410			$ 538,357		
Net Interest Income		$ 9,140			$ 8,795	
Net Yield on Interest Earning Assets:						

Total Yield on Earning Assets	5.93%	6.44%
Rate on Supporting Liabilities	2.98%	3.40%
Average Interest Spread	2.95%	3.04%
Net Interest Margin	3.39%	3.47%

For the six months ended June 30, 2009, Mid Penn s taxable-equivalent net interest margin declined to 3.39% from 3.47% during the six months ended June 30, 2008, driven primarily by a reduction in market interest rates and the tightening spread between the yield on earning assets and the cost of supporting liabilities. Net interest income, on a taxable-equivalent basis, in the first six months of 2009 increased to $9,140,000 from $8,795,000 in the first six months of 2008, helped by the strong growth in average earning assets, which increased 6.90% from June 30, 2008 to June 30, 2009. For the six months ended June 30, 2009, net interest margin has increased 26 basis points to 3.39% from the reported 3.13% for the three months ended March 31, 2009. This increase has been the result of an improving yield on earning assets and a reduction in the cost of supporting liabilities. For the period ended June 30, 2009, the yield on earning assets and cost on supporting liabilities were 5.93% and 2.98% respectively. These same measures were 5.83% and 3.16% for the three months ended March 31, 2009.

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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 the Bank s portfolios, may significantly change the estimates used in the simulation models. In addition, our net interest income may be impacted by further interest rate actions of the Federal Reserve Bank.

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. 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 we serve.

During the first half of 2009, Mid Penn continued to experience a challenging operating environment. Given the economic pressures that impact some borrowers, the Corporation has increased the allowance for loan and lease losses in accordance with Mid Penn s assessment process, which took into consideration the decrease in collateral values from December 31, 2008 to June 30, 2009. The provision for loan and lease losses was $479,000 for the three months ended June 30, 2009, as compared to $155,000 for the three months ended June 30, 2008. During the six months ended June 30, 2009, the provision for loan and lease losses was $1,412,000, as compared to $255,000 for the six months ended June 30, 2008. 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 $45,000, or 5.0% during the second quarter of 2009 versus the second quarter of 2008. During the six months ended June 30, 2009, noninterest income remained unchanged versus the same period in 2008. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	**Three Months Ended June 30,**			
	2009	**2008**	**$ Variance**	**% Variance**
Service charges on deposits	$ 386	$ 440	$ (54)	(12.3)%

(Dollars in Thousands)	**Six Months Ended June 30,**			
	2009	**2008**	**$ Variance**	**% Variance**
Service charges on deposits	$ 737	$ 848	$ (111)	(13.1)%
Gain on life insurance proceeds	158		158	N/A

Service charges on deposits, primarily fees from non-sufficient funds, showed decreases during both periods. During this period of economic downturn, customers seem to have become more conscientious about their account balances and avoiding unnecessary charges related to non-sufficient funds.

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MID PENN BANCORP, INC. **Management s Discussion and Analysis**

Noninterest Expenses

Noninterest expenses increased by $863,000, or 24.8% during the second quarter of 2009, versus the same period in 2008. During the six months ended June 30, 2009, expenses increased $1,284,000, or 18.5% over the same period in 2008. The increases were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended June 30, 2009	2008	$ Variance	% Variance
Salaries and employee benefits	$ 2,021	$ 1,785	$ 236	13.2%
Equipment expense	306	203	103	50.7%
FDIC Assessment	395	21	374	1781.0%
Marketing and advertising expense	266	103	163	158.3%

(Dollars in Thousands)	Six Months Ended June 30, 2009	2008	$ Variance	% Variance
Salaries and employee benefits	$ 4,121	$ 3,597	$ 524	14.6%
FDIC Assessment	523	33	490	1484.8%
Marketing and advertising expense	460	182	278	152.7%

The increases in salaries and employee benefits reflect the full quarter and year-to-date 2009 impact of added team members throughout 2008 to position Mid Penn for handling current needs and future growth. The increase in FDIC Assessment is the result of the agency s efforts to replenish the insurance fund in light of the wave of bank closures brought on by the sub-prime lending and credit crisis. The agency also levied a special assessment on all insured institutions as of June 30, 2009. This special assessment was calculated at five basis points of total assets less Tier 1 capital, and resulted in a charge to earnings of $265,000 for Mid Penn. Marketing and advertising expenses are higher in 2009 as we take advantage of the market disruption caused by the sub-prime lending and credit crisis related mergers to increase core deposits. Two specific campaigns have been launched to achieve this goal. The first, late in the first quarter, was aimed at retaining or replacing with core deposits a large group of time deposits maturing during that period. The second was the sponsorship of the local Fourth of July Fireworks celebration as part of a drive to capture new core deposit accounts. Increased equipment expenses in the second quarter reflect depreciation and equipment acquisition charges from the opening of the new operations center in Halifax. This facility fulfills much needed space enhancements for current and future growth.

Income Taxes

The provision for income taxes was $59,000 for the three months ended June 30, 2009, as compared to a provision for income taxes of $360,000 in the same period last year. The benefit from income taxes was ($58,000) for the six months ended June 30, 2009, as compared to a provision for income taxes of $737,000 for the same period of last year. The tax benefit was related to the reduced net income stemming from the increased provision for loan losses and increased noninterest expenses during the first six months of 2009 versus the same period in 2008. The effective tax rate, for the six months ended June 30, 2009, was (6.7) % compared to 24.8% for the six months ended June 30, 2008. Generally, our 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 FIN 48 and FIN 48-1, no significant income tax uncertainties were identified, therefore, Mid Penn recognized no adjustment for unrealized income tax benefits for the periods ended June 30, 2009 and June 30, 2008. We currently anticipate that future earnings will be adequate to fully utilize deferred tax assets.

Financial Condition

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

During the first six months of 2009, Mid Penn had net charge-offs of $287,000 as compared to net charge-offs of $21,000 during the same period of 2008. 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 the Corporation s evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.

Analysis of the Allowance for Loan and Lease Losses:

(Dollars in thousands)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Average total loans outstanding (net of unearned income)	$ 450,229	$ 403,668
Period ending total loans outstanding (net of unearned income)	$ 467,309	$ 401,110
Balance, beginning of period	$ 5,505	$ 4,790
Loans charged off during period	(349)	(87)
Recoveries of loans previously charged off	62	66
Net chargeoffs	(287)	(21)
Provision for loan and lease losses	1,412	255
Balance, end of period	$ 6,630	$ 5,024
Ratio of net loans charged off to average loans outstanding (annualized)	0.13%	0.01%
Ratio of allowance for loan losses to net loans at end of period	1.42%	1.25%

Other than as described herein, we do 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, we believe 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. The Corporation continues to monitor closely these borrowers financial strength.

At June 30, 2009, total nonperforming loans amounted to $4,192,000, or 0.90% of loans and leases net of unearned income, as compared to levels of $4,164,000, or 0.96%, at December 31, 2008 and $5,272,000, or 1.31%, at June 30, 2008.

Schedule of Nonperforming Assets:

(Dollars in thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Nonperforming Assets:			
Nonaccrual loans	$ 4,145	$ 4,113	$ 5,272
Loans renegotiated with borrowers	47	51	
Total nonperforming loans	4,192	4,164	5,272
Foreclosed real estate	850	1,516	495
Other repossessed property	53		7
Total non-performing assets	5,095	5,680	5,774
Accruing loans 90 days or more past due	1,102	1,860	968
Total risk elements	$ 6,197	$ 7,540	$ 6,742
Nonperforming loans as a % of total loans outstanding	0.90%	0.96%	1.31%
Nonperforming assets as a % of total loans outstanding and other real estate	1.09%	1.30%	1.44%
Ratio of allowance for loan losses to nonperforming loans	158.16%	132.20%	95.30%

Mid Penn considers a loan or lease to be impaired when, based upon current information and events, it is probable that all interest and principal payments due according to the contractual terms of the loan or lease agreement will not be collected. An insignificant delay or shortfall in the amounts of payments would not cause a loan or lease to be considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. 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. As previously discussed in Note 9 of these interim consolidated financial statements, Mid Penn determines the fair value of impaired loans on a case-by-case basis based primarily upon the fair value of the underlying collateral using Level 3 inputs comprised of customized collateral value discounting analyses.

As of June 30, 2009, the Corporation had several loan relationships, with an aggregate carrying balance of $3,057,000, deemed impaired that have been placed in nonaccrual status. Specific allocations totaling $938,000 have been included within the loan loss reserve for these loans. Management believes that the specific reserve is adequate to cover potential future losses related to these relationships. There are several other significant loan relationships considered impaired, with outstanding balances of $7,440,000, on which, interest continues to accrue. Specific allocations within the allowance for loan losses for these loans total $1,580,000.

Mid Penn maintains the allowance for loan losses at a level believed adequate to absorb estimated probable loan losses. Management is responsible for the adequacy of the allowance for loan losses, which is formally reviewed on a monthly basis. The allowance is increased by a provision for loan and lease losses, which is charged to expense, and reduced by charge-offs, net of recoveries. The evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, specific problem credits within the portfolio, adverse situations that may affect the borrower s ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. While current available information is used to make such evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation.

Various regulatory agencies, as an integral part of their examination process, review the Bank s allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination. No adjustment to the allowance for loan losses was necessary as a result of our most recent regulatory examination.

Management believes, based on information currently available, that the current allowance for loan and lease losses of $6,630,000 is adequate to meet potential loan and lease losses.

Liquidity

Mid Penn Bank 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 certificates of deposit in other financial institutions;
- Payments received on loans and mortgage-backed securities; and,
- Overnight correspondent bank borrowings on various credit lines, and borrowing capacity available from the FHLB.

We believe that our core deposits are stable even in periods of changing interest rates like those that we are currently experiencing. Liquidity and funds management are governed by policies and are measured on a monthly basis. These measurements indicate that liquidity generally remains stable and exceeds our 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.

Capital Resources

Mid Penn Bancorp, Inc. is a financial holding company and, as such, chooses to maintain a well-capitalized status in its bank subsidiary. Quantitative measures established by regulation to ensure capital adequacy require Mid Penn to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of total capital (as defined in the regulations) to risk-weighted assets. As of June 30, 2009 and December 31, 2008, Mid Penn met all capital adequacy requirements to which the Bank is subject, and the Bank is considered well-capitalized . However, future changes in regulations could increase capital requirements and may have an adverse effect on capital resources.

Currently, the FDIC Board has adopted a restoration plan that raised assessment rates for deposit insurance premiums for 2009, and enacted a special emergency assessment that has significantly affect operating results for the Corporation. The assessment is .05% of total Bank Assets, less Tier 1 Capital as of June 30, 2009, and is scheduled to be paid on September 30, 2009. The special assessment for Mid Penn s banking subsidiary was $265,000.

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MID PENN BANCORP, INC. **Management s Discussion and Analysis**

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios in its bank subsidiary as of June 30, 2009, and December 31, 2008, as follows:

(Dollars in thousands)	Actual:		Capital Adequacy Minimum Capital Required:		To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2009:						
Tier 1 Capital (to Average Assets)	$ 48,444	8.5%	$ 22,890	4.0%	$ 28,613	5.0%
Tier 1 Capital (to Risk Weighted Assets)	48,444	10.4%	18,675	4.0%	28,013	6.0%
Total Capital (to Risk Weighted Assets)	54,290	11.6%	37,350	8.0%	46,688	10.0%
As of December 31, 2008:						
Tier 1 Capital (to Average Assets)	$ 39,975	7.2%	$ 22,146	4.0%	$ 27,683	5.0%
Tier 1 Capital (to Risk Weighted Assets)	39,975	9.3%	17,278	4.0%	25,917	6.0%
Total Capital (to Risk Weighted Assets)	45,376	10.5%	34,556	8.0%	43,195	10.0%

Capital Purchase Program Participation

On December 19, 2008, Mid Penn Bancorp, Inc. (the Corporation) entered into and closed a Letter Agreement (including the Securities Purchase Agreement Standard Terms) (the Purchase Agreement) with the United States Department of the Treasury (the Treasury) pursuant to which the Treasury invested $10,000,000 in the Company under the Treasury s Capital Purchase Program (the CPP).

Under the Purchase Agreement, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, $1,000 liquidation preference, and (2) Warrants to purchase up to 73,099 shares of the Corporation s common stock at an exercise price of $20.52 per share.

The preferred shares pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The preferred shares are non-voting, other than class voting rights on certain matters that could adversely affect the preferred shares. If dividends on the preferred shares have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the Corporation s authorized number of directors will automatically be increased by two, and holders of the preferred stock, voting together with holders of any then outstanding parity stock, will have the right to elect those directors at the Corporation s next annual meeting of shareholders or special meeting of shareholders called for that purpose. These preferred share directors would be elected annually and serve until all accrued and unpaid dividends on the preferred shares have been paid.

Pursuant to the American Recovery and Reinvestment Act of 2009, the Secretary of the Treasury shall permit, subject to consultation with the appropriate Federal banking agency, the Corporation to redeem the Series A Preferred Stock. The Corporation may do so without regard to the source of the funds to be used to redeem the Series A Preferred Stock or any minimum waiting period. If the Corporation elects to redeem the Series A Preferred Stock prior to February 15, 2012, and receives approval from the Treasury and the Board of Governors of the Federal Reserve System, it must redeem at least $2,500,000 of the Series A Preferred Stock. Upon redemption of the Series A Preferred Stock, the Secretary of the Treasury shall liquidate the warrants associated with the Corporation s participation in the CPP at the current market price. Any redemption is subject to the consent of the Board of Governors of the Federal Reserve System. Until December 19, 2011, or such earlier time as all preferred shares have been redeemed by the Corporation or transferred by Treasury to third parties that are not affiliated with Treasury, the Corporation may not, without Treasury s consent, increase its dividend rate per share of common stock or, with certain limited exceptions, repurchase its common stock.

The warrants are immediately exercisable and have a 10-year term. The exercise price and number of shares subject to the warrants are both subject to anti-dilution adjustments. Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrants; however, this agreement not to vote the shares does not apply to any person who may acquire such shares. If the Corporation receives aggregate gross proceeds of at least $10,000,000 from one or more qualifying equity offerings of Tier 1-eligible perpetual preferred or common stock on or prior to December 31, 2009, the number of shares of common stock underlying the warrant then held by Treasury will be reduced by one half of the original number of shares underlying the warrants, after taking into account all adjustments.

The preferred shares and the warrants were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The Corporation has filed a shelf registration statement covering the preferred shares, the warrants, and the common stock underlying the warrants. Treasury and other future holders of the preferred shares, the warrants, or the common stock issued pursuant to the warrants also have piggyback and demand registration rights with respect to these securities. None of the preferred shares, the warrants, or the shares issuable upon exercise of the warrants are subject to any contractual restrictions on transfer, except that Treasury may only transfer or exercise an aggregate of one-half of the warrants shares prior to December 31, 2009.

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In the Purchase Agreement, the Corporation agreed that, until such time as the Treasury ceases to own any securities acquired from Mid Penn pursuant to the Purchase Agreement, the Corporation will take all necessary action to ensure that benefit plans with respect to our senior executive officers comply with Section 111(b) of the Emergency Economic Stability Act of 2008 (the EESA) and applicable guidance or regulations issued by the Secretary of the Treasury. The applicable executive compensation requirements apply to the compensation of the Corporation s Chief Executive Officer, Chief Financial Officer, and three other most highly compensated executive officers.

Emergency Economic Stabilization Act of 2008

On December 19, 2008, the United States Department of the Treasury purchased $10 million of Fixed Rate Cumulative Perpetual Preferred Stock, Series A from Mid Penn under the Troubled Asset Relief Program (TARP) Capital Purchase Program. Institutions that receive financial assistance under the TARP Capital Purchase Program must comply with the executive compensation and corporate governance requirements under Section 111 of the Emergency Economic Stabilization Act of 2008, which was amended by the American Recovery and Reinvestment Act of 2009. These requirements, the compliance of which must be annually certified by Mid Penn s Chief Executive Officer and Chief Financial Officer, include:

1. Limits on compensation that exclude incentives for senior executive officers of Mid Penn to take unnecessary and excessive risks that threaten the value of the Corporation during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding;

2. A provision for the recovery by Mid Penn of any bonus, retention award, or incentive compensation paid to a senior executive officer and any of the next 20 most highly-compensated employees of the Corporation based on statements of earnings, revenues, gains, or other criteria that are later found to be materially inaccurate;

3. A prohibition on the Corporation making any golden parachute payment to a senior executive officer or any of the next five most highly-compensated employees of Mid Penn during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding;

4. A prohibition on Mid Penn paying or accruing any bonus, retention award, or incentive compensation to the most highly compensated employee of the Corporation during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding, except that any prohibition shall not apply to the payment of long-term restricted stock by Mid Penn, provided that such long-term restricted stock

    i. Does not fully vest during the period in which any obligation arising from financial assistance provided to the Corporation remains outstanding;

    ii. Has a value in an amount that is not greater than one-third of the total amount of annual compensation of the employee receiving the stock; and

    iii. Is subject to such other terms and conditions as the Secretary of the Treasury may determine is in the public interest;

5. Prohibition on any compensation plan that would encourage manipulation of the reported earnings of Mid Penn to enhance the compensation of any of its employees; and

6. Requirement that Mid Penn s compensation committee remains entirely independent and meets at least semiannually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the Corporation from such plans.

In addition to these requirements, Mid Penn must have in place a company-wide policy regarding excessive or luxury expenditures and must permit a separate shareholder vote to approve the compensation of executives as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

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MID PENN BANCORP, INC.

ITEM 3 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.

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 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 the Corporation s profitability.

No material changes in the market risk strategy occurred during the current period and no material changes have been noted in the Corporation s equity value at risk. A detailed discussion of market risk is provided in the Form 10-K for the year ended December 31, 2008. Mid Penn enjoys a closely balanced position that does not place it at undue risk under any interest rate scenario. Deposit dollars in transaction accounts are discretionarily priced so management maintains significant pricing flexibility.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Mid Penn maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of June 30, 2009, the Corporation s Principal Executive Officer and Principal Financial and Accounting Officer concluded that the disclosure controls and procedures were adequate.

Changes in Internal Controls

During the six months ended June 30, 2009, there were no changes in Mid Penn s internal controls over financial reporting, that have materially affected, or are reasonable likely to materially affect, these controls.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

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

ITEM 1A RISK FACTORS

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

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MID PENN BANCORP, INC.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders held on April 28, 2009, a vote was held for the election of three Class B directors to serve for a three-year term. The results of the election were as follows:

	Votes For	Votes Withheld
Jere M. Coxon	2,895,084	21,266
Rory G. Ritrievi	2,890,805	25,545
Edwin D. Schlegel	2,893,155	23,195

Two additional shareholder items were presented for approval. Item two was a proposal to approve and adopt an amendment to Article 7 of the Articles of Incorporation to exclude from the supermajority shareholder vote requirements of Article 7 in a merger in which the Corporation is the surviving entity if the merger has received the prior approval of at least eighty percent (80%) of the members of the Board of Directors. Item three was a proposal to approve the following non-binding proposal: Resolved, that the shareholders hereby approve the Executive Compensation, as described in the Compensation Discussion and Analysis and the Tabular Disclosure (together with the accompanying narrative disclosure), regarding named executive officers in this proxy statement. The voting on items two and three were as follows:

	Votes For	Votes Against	Votes Abstain	Broker Non-Vote
Item Two	1,998,919	280,099	11,778	625,544
Item Three	2,779,900	61,271	75,179	N/A

The Board of Directors is now comprised of three classes of directors, each serving a three-year term. With the election of the Class B directors noted above, the current board composition is as follows:

	Class	Expiration of Current Term
Matthew G. DeSoto	A	2011
Robert C. Grubic	A	2011
Gregory M. Kerwin	A	2011
Jere M. Coxon	B	2012
Rory G. Ritrievi	B	2012
Edwin D. Schlegel	B	2012
A. James Durica	C	2010
Theodore W. Mowery	C	2010
Donald E. Sauve	C	2010
William A. Specht, III	C	2010

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS

Exhibit 3(i) The Registrant s Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to Registrant s Quarterly Report on form 10-Q filed with the Securities and Exchange Commission on May 11, 2009.)

Exhibit 3(ii) Statement with Respect to Shares for Series A Preferred Stock. (Incorporated by reference to Exhibit 3.1 to Registrant s Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 22, 2008.)

Exhibit 3(iii) The Registrant s Amended and Restated By-laws (Incorporated by reference to Exhibit 3(iii) to Registrant s Quarterly Report on form 10-Q filed with the Securities and Exchange Commission on May 11, 2009.)

Exhibit 4 Warrants for Purchase of Shares of Common Stock. (Incorporated by reference to Exhibit 4.1 to Registrant s Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 22, 2008).

Exhibit 10.1 Mid Penn Bank s Profit Sharing Retirement Plan. (Incorporated by reference to Exhibit 10.1 to Registrant s Annual Report on form 10-K filed with the Securities and Exchange Commission on March 10, 2008.)

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MID PENN BANCORP, INC.

Exhibit 10.2 Mid Penn Bank s Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.2 to Registrant s Annual Report on form 10-K filed with the Securities and Exchange Commission on March 10, 2008.)

Exhibit 10.3 The Registrant s Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Exhibit 99.1 to Registrant s Registration Statement on Form S-3, filed with the Securities and Exchange Commission on October 12, 2005.)

Exhibit 10.4 Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer. (Incorporated by reference to Exhibit 10.5 to Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005.)

Exhibit 10.5 Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust. (Incorporated by reference to Exhibit 10.6 to Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005.)

Exhibit 10.6 Severance Agreement dated as of November 26, 2008 between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 1, 2008.)

Exhibit 10.7 Letter Agreement, dated as of December 19, 2008, Between Mid Penn Bancorp, Inc. and the United States Department of the Treasury, which includes the Securities Purchase Agreement Standard Terms attached thereto, with respect to the issuance and sale of the Series A Preferred Stock and the Warrants. (Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on form 8-K as filed with the Securities and Exchange Commission on December 22, 2008.)

Exhibit 10.8 Key Executive Management Change of Control between Mid Penn Bancorp, Inc. and Kevin W. Laudenslager dated as of April 1, 2008. (Incorporated by reference to Exhibit 99.1 to Registrant s Current Report on form 8-K filed with the Securities and Exchange Commission on April 4, 2008.)

Exhibit 10.9 Revised Directors Retirement Plan (Incorporated by reference to Exhibit 10.9 to Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 8, 2008.)

Exhibit 10.10 Employment Agreement of Rory G. Ritrievi dated as of February 25, 2009 (Incorporated by reference to Exhibit 99.2 to Registrant s Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 2, 2009.)

Exhibit 10.11 Form of Capital Purchase Plan Executive Compensation Restriction Agreement (Incorporated by reference to Exhibit 99.3 to Registrant s Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 2, 2009.)

Exhibit 11 Statement regarding the computation of Per Share Earnings. (Incorporated by reference to Part I Item 1 of this Quarterly Report on Form 10-Q.)

Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) as added by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) as added by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002.

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MID PENN BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Mid Penn Bancorp, Inc.

(Registrant)

By /s/ Rory G. Ritrievi
Rory G. Ritrievi

President and CEO

(Principal Executive Officer)

Date: August 7, 2009

By /s/ Kevin W. Laudenslager
Kevin W. Laudenslager

Treasurer

(Principal Financial and Accounting Officer)

Date: August 7, 2009