

MID PENN BANCORP INC  
Form 10-Q  
May 15, 2012  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2012**

**OR**

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

**For the transition period from            to**

**Commission file number 1-13677**

**MID PENN BANCORP, INC.**

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

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**Pennsylvania**  
(State or Other Jurisdiction of

**25-1666413**  
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

**349 Union Street**

**Millersburg, Pennsylvania**  
(Address of Principal Executive Offices)

**17061**  
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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 large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of May 15, 2012, the registrant had 3,485,839 shares of common stock outstanding.

**Table of Contents**

**Index**

<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>2</b>
<u>Item 1 Financial Statements</u>	2
<u>Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011 (Unaudited)</u>	2
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2012 and March 31, 2011 (Unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2012 and March 31, 2011 (Unaudited)</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2012 and March 31, 2011 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and March 31, 2011 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>Item 4 Controls and Procedures</u>	37
<b><u>PART II OTHER INFORMATION</u></b>	<b>37</b>
<u>Item 1 Legal Proceedings</u>	37
<u>Item 1A Risk Factors</u>	37
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3 Defaults upon Senior Securities</u>	37
<u>Item 4 Mine Safety Disclosures</u>	37
<u>Item 5 Other Information</u>	37
<u>Item 6 Exhibits</u>	38
<u>Signatures</u>	39
<i>Unless the context otherwise requires, the terms "Mid Penn", "we", "us", and "our" refer to Mid Penn Bancorp, Inc. and its consolidated subsidiaries.</i>	

**Table of Contents****MID PENN BANCORP, INC.  
PART I FINANCIAL INFORMATION****Consolidated Balance Sheets (Unaudited)****ITEM 1 Financial Statements**

(Dollars in thousands, except share data)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$ 9,102	\$ 9,847
Interest-bearing balances with other financial institutions	1,048	1,555
Federal funds sold	9,689	6,439
<b>Total cash and cash equivalents</b>	<b>19,839</b>	<b>17,841</b>
Interest-bearing time deposits with other financial institutions	25,892	27,477
Available for sale investment securities	155,282	159,043
Loans and leases, net of unearned interest	488,670	482,717
Less: Allowance for loan and lease losses	(6,577)	(6,772)
<b>Net loans and leases</b>	<b>482,093</b>	<b>475,945</b>
Bank premises and equipment, net	13,473	13,324
Restricted investment in bank stocks	2,965	3,120
Foreclosed assets held for sale	889	931
Accrued interest receivable	3,011	3,067
Deferred income taxes	1,909	2,439
Goodwill	1,016	1,016
Core deposit and other intangibles, net	264	274
Cash surrender value of life insurance	7,958	7,896
Other assets	3,034	3,010
<b>Total Assets</b>	<b>\$ 717,625</b>	<b>\$ 715,383</b>
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest bearing demand	\$ 54,301	\$ 73,261
Interest bearing demand	94,502	59,403
Money Market	271,146	271,521
Savings	28,591	27,978
Time	188,031	201,892
<b>Total Deposits</b>	<b>636,571</b>	<b>634,055</b>
Long-term debt	22,654	22,701
Accrued interest payable	1,002	1,064
Other liabilities	3,041	4,111
<b>Total Liabilities</b>	<b>663,268</b>	<b>661,931</b>
Shareholders Equity:		
Preferred stock, par value \$1,000; authorized 10,000,000 shares; 5% cumulative dividend; 10,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	10,000	10,000
Common stock, par value \$1 per share; 10,000,000 shares authorized; 3,485,839 shares issued and outstanding at March 31, 2012 and 3,484,509 shares issued and outstanding at December 31, 2011	3,486	3,484
Additional paid-in capital	29,839	29,830
Retained earnings	9,057	8,222

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Accumulated other comprehensive income	1,975	1,916
Total Shareholders' Equity	54,357	53,452
Total Liabilities and Shareholders' Equity	\$ 717,625	\$ 715,383

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

**Table of Contents****MID PENN BANCORP, INC.****Consolidated Statements of Operations (Unaudited)**

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
<b>INTEREST INCOME</b>		
Interest & fees on loans and leases	\$ 6,791	\$ 6,735
Interest on interest-bearing time deposits with financial institutions	65	162
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	436	222
State and political subdivision obligations, tax-exempt	409	323
Other securities	5	3
Interest on federal funds sold and securities purchased under agreements to resell	4	8
<b>Total Interest Income</b>	<b>7,710</b>	<b>7,453</b>
<b>INTEREST EXPENSE</b>		
Interest on deposits	1,789	2,195
Interest on short-term borrowings		2
Interest on long-term debt	244	273
<b>Total Interest Expense</b>	<b>2,033</b>	<b>2,470</b>
<b>Net Interest Income</b>	<b>5,677</b>	<b>4,983</b>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>300</b>	<b>200</b>
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	<b>5,377</b>	<b>4,783</b>
<b>NONINTEREST INCOME</b>		
Income from fiduciary activities	112	95
Service charges on deposits	129	183
Net gain on sales of investment securities	16	
Earnings from cash surrender value of life insurance	62	65
Mortgage banking income	122	123
Other income	297	292
<b>Total Noninterest Income</b>	<b>738</b>	<b>758</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	2,596	2,201
Occupancy expense, net	278	308
Equipment expense	294	344
Pennsylvania Bank Shares tax expense	131	121
FDIC Assessment	301	314
Legal and professional fees	107	87
Director fees and benefits expense	47	73
Marketing and advertising expense	69	63
Computer expense	162	166
Telephone expense	107	94
Loss (gain) on sale/write-down of foreclosed assets	8	(28)
Intangible amortization	16	16
Loan collection costs	109	41
Other expenses	513	500
<b>Total Noninterest Expense</b>	<b>4,738</b>	<b>4,300</b>

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INCOME BEFORE PROVISION FOR INCOME TAXES	1,377	1,241
Provision for income taxes	243	241
NET INCOME	1,134	1,000
Preferred stock dividends and discount accretion	128	128
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 1,006	\$ 872
PER COMMON SHARE DATA:		
Basic Earnings Per Common Share	\$ 0.29	\$ 0.25
Diluted Earnings Per Common Share	\$ 0.29	\$ 0.25
Cash Dividends	\$ 0.05	\$ 0.05

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Net income	\$ 1,134	\$ 1,000
Other comprehensive income:		
Unrealized gains arising during the period on available for sale securities, net of income taxes of \$47 and \$102, respectively	92	197
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of (\$5) and \$0, respectively	(11)	
Change in defined benefit plans, net of income taxes of (\$11) and \$1, respectively	(22)	1
Total other comprehensive income	59	198
Total comprehensive income	\$ 1,193	\$ 1,198

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



**Table of Contents**

MID PENN BANCORP, INC.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

(Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance, December 31, 2011</b>	\$ 10,000	\$ 3,484	\$ 29,830	\$ 8,222	\$ 1,916	\$ 53,452
Net income				1,134		1,134
Total other comprehensive income, net of taxes					59	59
Cash dividends				(174)		(174)
Employee Stock Purchase Plan		2	12			14
Preferred dividends				(125)		(125)
Amortization of warrant cost			(3)			(3)
<b>Balance, March 31, 2012</b>	\$ 10,000	\$ 3,486	\$ 29,839	\$ 9,057	\$ 1,975	\$ 54,357
<b>Balance, December 31, 2010</b>	\$ 10,000	\$ 3,480	\$ 29,810	\$ 4,875	\$ 36	\$ 48,201
Net income				1,000		1,000
Total other comprehensive income, net of taxes					198	198
Cash dividends				(174)		(174)
Employee Stock Purchase Plan		1	7			8
Preferred dividends				(125)		(125)
Amortization of warrant cost			(3)			(3)
<b>Balance, March 31, 2011</b>	\$ 10,000	\$ 3,481	\$ 29,814	\$ 5,576	\$ 234	\$ 49,105

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
<b>Operating Activities:</b>		
Net Income	\$ 1,134	\$ 1,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan and lease losses	300	200
Depreciation	268	324
Amortization of intangibles	10	18
Net (accretion) amortization of securities (discounts) premiums	(2,633)	1,140
Gain on sales of investment securities	(16)	
Earnings on cash surrender value of life insurance	(62)	(65)
Loss (gain) on sale / write-down of foreclosed assets	8	(28)
Deferred income tax expense (benefit)	466	(90)
Decrease in accrued interest receivable	56	61
(Increase) decrease in other assets	(27)	1,476
(Decrease) increase in accrued interest payable	(62)	229
(Decrease) increase in other liabilities	(1,070)	2,695
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(1,628)</b>	<b>6,960</b>
<b>Investing Activities:</b>		
Net decrease (increase) in interest-bearing balances	1,585	(6,185)
Proceeds from the maturity of investment securities	6,742	4,844
Proceeds from the sale of investment securities	8,604	
Purchases of investment securities	(8,813)	(30,672)
Redemptions of restricted investment in bank stock	155	190
Net increase in loans and leases	(6,594)	(5,513)
Purchases of bank premises and equipment	(417)	(315)
Proceeds from sale of foreclosed assets	180	230
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>1,442</b>	<b>(37,421)</b>
<b>Financing Activities:</b>		
Net increase in demand deposits and savings accounts	16,377	45,045
Net decrease in time deposits	(13,861)	(130)
Net decrease in short-term borrowings		(863)
Preferred stock dividend paid	(125)	(125)
Common stock dividend paid	(174)	(174)
Employee Stock Purchase Plan	14	8
Long-term debt repayment	(47)	(5,045)
<b>Net Cash Provided by Financing Activities</b>	<b>2,184</b>	<b>38,716</b>
Net increase in cash and cash equivalents	1,998	8,255
Cash and cash equivalents, beginning of period	17,841	12,901
Cash and cash equivalents, end of period	\$ 19,839	\$ 21,156
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid	\$ 2,095	\$ 2,241
Income taxes paid	600	
<b>Supplemental Noncash Disclosures:</b>		

Loan transfers to foreclosed assets held for sale	\$	146	\$	249
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*The accompanying notes are an integral part of these consolidated financial statements.*

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)****1. Basis of Presentation**

The consolidated financial statements for 2012 and 2011 include the accounts of Mid Penn Bancorp, Inc. ( Mid Penn ), and its subsidiaries Mid Penn Bank (the Bank ) 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 March 31, 2011 and December 31, 2011 balances have been reclassified to conform to the 2012 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 consolidated financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2011.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2012, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

**2. 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 liquidity needs, 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 Mid Penn s results of operations.

Accounting Standards Codification ( ASC ) Topic 320, *Investments - Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess 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 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 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, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

At March 31, 2012 and December 31, 2011, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2012</b>				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,083	\$ 1,466	\$	\$ 27,549
Mortgage-backed U.S. government agencies	75,917	568	361	76,124
State and political subdivision obligations	49,663	1,770	216	51,217
Equity securities	400		8	392
	\$ 152,063	\$ 3,804	\$ 585	\$ 155,282

(Dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>December 31, 2011</b>				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,116	\$ 1,501	\$	\$ 27,617
Mortgage-backed U.S. government agencies	82,777	491	600	82,668
State and political subdivision obligations	46,654	1,836	124	48,366
Equity securities	400		8	392
	\$ 155,947	\$ 3,828	\$ 732	\$ 159,043

Estimated fair values of debt securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Mid Penn's sole equity security is an investment in Access Capital Strategies, an equity fund that invests in low to moderate income financing projects. This investment was purchased in 2004 and additional shares were purchased in 2011 to help fulfill the Bank's regulatory requirement of the Community Reinvestment Act and at March 31, 2012 and December 31, 2011, is reported at fair value.

Investment securities having a fair value of \$78,191,000 at March 31, 2012, and \$85,591,000 at December 31, 2011, were pledged to secure public deposits and other borrowings.

Mid Penn realized gross gains of \$16,000 and \$0 in gross losses on sales of securities available for sale during the first quarter of 2012. Mid Penn did not realize any gross gains or losses on sales of securities available for sale during the first quarter of 2011.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

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 March 31, 2012 and December 31, 2011.

(Dollars in thousands) March 31, 2012	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale securities:</b>						
Mortgage-backed U.S. government agencies	\$ 40,994	\$ 358	\$ 140	\$ 3	\$ 41,134	\$ 361
State and political subdivision obligations	7,418	161	1,194	55	8,612	216
Equity securities			392	8	392	8
<b>Total temporarily impaired available for sale securities</b>	<b>\$ 48,412</b>	<b>\$ 519</b>	<b>\$ 1,726</b>	<b>\$ 66</b>	<b>\$ 50,138</b>	<b>\$ 585</b>

(Dollars in thousands) December 31, 2011	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale securities:</b>						
Mortgage-backed U.S. government agencies	\$ 46,497	\$ 593	\$ 370	\$ 7	\$ 46,867	\$ 600
State and political subdivision obligations	4,371	49	1,169	75	5,540	124
Equity securities			392	8	392	8
<b>Total temporarily impaired available for sale securities</b>	<b>\$ 50,868</b>	<b>\$ 642</b>	<b>\$ 1,931</b>	<b>\$ 90</b>	<b>\$ 52,799</b>	<b>\$ 732</b>

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 the length of time and the extent to which the fair value has been less than cost, and the financial condition and near term prospects of the issuer. In addition, for debt securities, Mid Penn considers (a) whether management has the intent to sell the security, (b) it is more likely than not that management will be required to sell the security prior to its anticipated recovery, and (c) whether management expects to recover the entire amortized cost basis. For equity securities, management considers the intent and ability to hold securities until recovery of unrealized losses.

At March 31, 2012, Mid Penn had 52 debt securities from separate issuers with unrealized losses. These securities have depreciated 1.16% from their amortized cost basis. At December 31, 2011, 45 debt securities with unrealized losses had depreciated 1.37% from the 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. Based on the above conditions management has determined that no declines are deemed to be other-than-temporary.

The table below is the maturity distribution of investment securities at amortized cost and fair value:

(Dollars in thousands)	March 31, 2012	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 2,327	\$ 2,342
Due after 1 year but within 5 years	24,381	25,438
Due after 5 years but within 10 years	19,586	20,828
Due after 10 years	29,452	30,158

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	75,746	78,766
Mortgage-backed securities	75,917	76,124
Equity securities	400	392
	\$ 152,063	\$ 155,282

Mortgage-backed securities at March 31, 2012 had an average life of 2.0 years. Prepayment speed assumptions in this category have accelerated since December 31, 2011.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)****3. *Loans and Allowance for Loan and Lease Losses***

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. These amounts are generally being amortized over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, commercial real estate-construction and lease financing. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

For all classes of loans, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days or more past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan and lease losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

*Commercial and industrial*

Mid Penn originates commercial and industrial loans. Most of the Bank's commercial and industrial loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory, and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present, and future cash flows is also an important aspect of the Bank's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

Commercial and industrial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself, which, in turn, is likely to be dependent upon the general economic environment. Mid Penn's commercial and industrial loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business.

*Commercial real estate and commercial real estate - construction*

Commercial real estate and commercial real estate construction loans generally present a higher level of risk than loans secured by one to four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. In addition, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

*Lease financing*

Mid Penn originates leases for select commercial and state and municipal government lessees. The nature of the leased asset is often subject to rapid depreciation in salvage value over a relatively short time frame or may be of an industry specific nature, making appraisal or liquidation of



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the asset difficult. These factors have led the Bank to severely curtail the origination of new leases to state or municipal government agencies where default risk is extremely limited and to only the most credit-worthy commercial customers. These commercial customers are primarily leasing fleet vehicles for use in their primary line of business, mitigating some of the asset value concerns within the portfolio. Leasing has been a declining percentage of the Mid Penn's portfolio, currently representing 0.35% of outstanding loans.

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**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)***Residential mortgage*

Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan to value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85% loan to value level. Residential mortgage loans generally do not include prepayment penalties.

In underwriting residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by Mid Penn are appraised by independent fee appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a due on sale clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Bank underwrites residential mortgage loans to the standards established by the secondary mortgage market, i.e., Fannie Mae, Ginnie Mae, Freddie Mac, or Pennsylvania Housing Finance Agency standards, with the intention of selling the majority of residential mortgages originated into the secondary market. In the event that the facts and circumstances surrounding a residential mortgage application do not meet all underwriting conditions of the secondary mortgage market, the Bank will evaluate the failed conditions and evaluate the potential risk of holding the residential mortgage in the Bank's portfolio rather than rejecting the loan request. In the event that the loan is held in the Bank's portfolio, the interest rate on the residential mortgage would be increased to compensate for the added portfolio risk.

*Consumer, including home equity*

Mid Penn offers a variety of secured consumer loans, including home equity, automobile, and deposit secured loans. In addition, the Bank offers other secured and unsecured consumer loans. Most consumer loans are originated in Mid Penn's primary market and surrounding areas.

The largest component of Mid Penn's consumer loan portfolio consists of fixed rate home equity loans and variable rate home equity lines of credit. Substantially all home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank will lend amounts, which, together with all prior liens, typically may be up to 85% of the appraised value of the property securing the loan. Home equity term loans may have maximum terms up to 20 years while home equity lines of credit generally have maximum terms of five years.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The allowance for credit losses consists of the allowance for loan and lease losses and the reserve for unfunded lending commitments. The allowance for loan and lease losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for loan and lease losses is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan and lease losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the

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allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on Mid Penn's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in the experience of the lending staff and loan review systems, growth or changes in the mix of loans originated, and shifting industry or portfolio concentrations.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Mid Penn considers a commercial loan (consisting of commercial and industrial, commercial real estate, commercial real estate-construction, and lease financing loan classes) to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow (DCF) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

In addition, Mid Penn's rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial loans secured by real estate rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans (including home equity loans and other consumer loans) are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for commercial loans prior to reducing the carrying value or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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In some instances Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

Mid Penn does not currently, or plan in the future to, use automated valuation methodologies as a method of valuing real estate collateral.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Mid Penn does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve interest rates being granted below current market rates for the credit risk of the loan or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Any loans not classified as noted above are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The classes of the loan portfolio, summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within Mid Penn's internal risk rating system as of March 31, 2012 and December 31, 2011 are as follows:

(Dollars in thousands)

March 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 69,932	\$ 3,029	\$ 4,520	\$	\$ 77,481
Commercial real estate	274,445	10,151	12,777		297,373
Commercial real estate - construction	29,752	437	115		30,304

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Lease financing	1,724			1,724
Residential mortgage	49,761		17	49,778
Home equity	23,227	210	678	24,115
Consumer	7,005	305	585	7,895
	\$ 455,846	\$ 14,132	\$ 18,692	\$ 488,670

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands)

December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 68,775	\$ 3,528	\$ 4,627	\$	\$ 76,930
Commercial real estate	271,551	6,530	14,815		292,896
Commercial real estate - construction	29,706	445	584		30,735
Lease financing	1,724				1,724
Residential mortgage	48,270				48,270
Home equity	23,248	218	683		24,149
Consumer	7,705	308			8,013
	\$ 450,979	\$ 11,029	\$ 20,709	\$	\$ 482,717

Impaired loans by loan portfolio class as of March 31, 2012 and December 31, 2011 are summarized as follows:

(Dollars in thousands)

	March 31, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b><u>With no related allowance recorded:</u></b>						
Commercial and industrial	\$ 93	\$ 855	\$	\$ 463	\$ 1,382	\$
Commercial real estate	5,694	9,304		4,473	6,543	
Commercial real estate - construction	115	118		584	592	
Home equity	246	383		251	386	
Consumer						
<b><u>With an allowance recorded:</u></b>						
Commercial and industrial	\$ 1,281	\$ 1,417	\$ 320	\$ 656	\$ 792	\$ 451
Commercial real estate	2,776	2,951	975	4,425	6,163	1,380
Residential mortgage	17	17	2			
Home equity	89	92	15	74	77	15
Consumer	585	585	445			
<b><u>Total:</u></b>						
Commercial and industrial	\$ 1,374	\$ 2,272	\$ 320	\$ 1,119	\$ 2,174	\$ 451
Commercial real estate	8,470	12,255	975	8,898	12,706	1,380
Commercial real estate - construction	115	118		584	592	
Residential mortgage	17	17	2			
Home equity	335	475	15	325	463	15
Consumer	585	585	445			



**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

Average recorded investment of impaired loans and related interest income recognized at March 31, 2012 and March 31, 2011 are summarized as follows:

(Dollars in thousands)	March 31, 2012		March 31, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>With no related allowance recorded:</u></b>				
Commercial and industrial	\$ 99	\$	\$ 853	\$
Commercial real estate	5,755		7,713	1
Commercial real estate - construction	129		1,331	
Residential mortgage			84	1
Home equity	249		282	
<b><u>With an allowance recorded:</u></b>				
Commercial and industrial	\$ 1,189	\$	\$ 1,372	\$
Commercial real estate	2,797		4,790	
Residential mortgage	17		10	
Home equity	89		24	
Consumer	585			
<b><u>Total:</u></b>				
Commercial and industrial	\$ 1,288	\$	\$ 2,225	\$
Commercial real estate	8,552		12,503	1
Commercial real estate - construction	129		1,331	
Residential mortgage	17		94	1
Home equity	338		306	
Consumer	585			

Non-accrual loans by loan portfolio class as of March 31, 2012 and December 31, 2011 are summarized as follows:

(Dollars in thousands)	March 31, 2012	December 31, 2011
Commercial	\$ 2,441	\$ 1,117
Commercial real estate	7,403	8,899
Commercial real estate - construction	115	584
Residential mortgage	705	703
Home equity	507	496
Consumer	585	1
	\$ 11,756	\$ 11,800

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of March 31, 2012 and December 31, 2011 are summarized as follows:

(Dollars in thousands)

March 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial	\$ 636	\$ 631	\$ 522	\$ 1,789	\$ 75,692	\$ 77,481	\$
Commercial real estate	3,303	495	7,103	10,901	286,472	297,373	
Commercial real estate - construction			115	115	30,189	30,304	
Lease financing					1,724	1,724	
Residential mortgage	186	7	697	890	48,888	49,778	
Home equity	76	16	428	520	23,595	24,115	
Consumer	586			586	7,309	7,895	
Total	\$ 4,787	\$ 1,149	\$ 8,865	\$ 14,801	\$ 473,869	\$ 488,670	\$

(Dollars in thousands)

December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial	\$ 141	\$ 663	\$ 1,052	\$ 1,856	\$ 75,074	\$ 76,930	\$
Commercial real estate	1,037	909	6,204	8,150	284,746	292,896	
Commercial real estate - construction	6		584	590	30,145	30,735	
Lease financing					1,724	1,724	
Residential mortgage	410	11	691	1,112	47,158	48,270	
Home equity	111		428	539	23,610	24,149	
Consumer	15	3	1	19	7,994	8,013	
Total	\$ 1,720	\$ 1,586	\$ 8,960	\$ 12,266	\$ 470,451	\$ 482,717	\$

**Table of Contents**

MID PENN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize the allowance for loan and lease losses and recorded investments in loans receivable:

(Dollars in thousands)

As of, and for the period ended, March 31, 2012	Commercial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
<b>Allowance for loan and lease losses:</b>									
Beginning Balance	\$ 2,274	\$ 3,544	\$ 23	\$ 2	\$ 362	\$ 337	\$ 87	\$ 143	\$ 6,772
Charge-offs	(204)	(306)			(10)		(2)		(522)
Recoveries	4	3	2			8	10		27
Provisions	(319)	121	2		102	(22)	429	(13)	300
Ending balance	\$ 1,755	\$ 3,362	\$ 27	\$ 2	\$ 454	\$ 323	\$ 524	\$ 130	\$ 6,577
Ending balance: individually evaluated for impairment	\$ 320	\$ 975	\$	\$	\$ 2	\$ 15	\$ 445	\$	\$ 1,757
Ending balance: collectively evaluated for impairment	\$ 1,435	\$ 2,387	\$ 27	\$ 2	\$ 452	\$ 308	\$ 79	\$ 130	\$ 4,820
<b>Loans receivables:</b>									
Ending balance	\$ 77,481	\$ 297,373	\$ 30,304	\$ 1,724	\$ 49,778	\$ 24,115	\$ 7,895	\$	\$ 488,670
Ending balance: individually evaluated for impairment	\$ 1,374	\$ 8,470	\$ 115	\$	\$ 17	\$ 335	\$ 585	\$	\$ 10,896
Ending balance: collectively evaluated for impairment	\$ 76,107	\$ 288,903	\$ 30,189	\$ 1,724	\$ 49,761	\$ 23,780	\$ 7,310	\$	\$ 477,774

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands) As of, and for the period ended, March 31, 2011	Commercial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
<b>Allowance for loan and lease losses:</b>									
Beginning Balance	\$ 2,447	\$ 3,616	\$ 159	\$ 1	\$ 219	\$ 363	\$ 61	\$ 195	\$ 7,061
Charge-offs		(40)			(32)		(51)		(123)
Recoveries	9	9		5	1	3	7		34
Provisions	(14)	248	22	(5)	122	(46)	32	(159)	200
Ending balance	\$ 2,442	\$ 3,833	\$ 181	\$ 1	\$ 310	\$ 320	\$ 49	\$ 36	\$ 7,172
Ending balance: individually evaluated for impairment	\$ 752	\$ 1,194	\$	\$	\$ 10	\$ 21	\$	\$	\$ 1,977
Ending balance: collectively evaluated for impairment	\$ 1,690	\$ 2,639	\$ 181	\$ 1	\$ 300	\$ 299	\$ 49	\$ 36	\$ 5,195
<b>Loans receivables:</b>									
Ending balance	\$ 71,917	\$ 302,938	\$ 23,382	\$ 2,252	\$ 42,976	\$ 21,508	\$ 7,937	\$	\$ 472,910
Ending balance: individually evaluated for impairment	\$ 1,733	\$ 10,379	\$ 925	\$ 170	\$ 79	\$ 132	\$	\$	\$ 13,418
Ending balance: collectively evaluated for impairment	\$ 70,184	\$ 292,559	\$ 22,457	\$ 2,082	\$ 42,897	\$ 21,376	\$ 7,937	\$	\$ 459,492

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(Dollars in thousands) As of December 31, 2011	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
<b>Allowance for loan and lease losses:</b>									
Ending balance	\$ 2,274	\$ 3,544	\$ 23	\$ 2	\$ 362	\$ 337	\$ 87	\$ 143	\$ 6,772
Ending balance: individually evaluated for impairment	\$ 451	\$ 1,380	\$	\$	\$	\$ 15	\$	\$	\$ 1,846
Ending balance: collectively evaluated for impairment	\$ 1,823	\$ 2,164	\$ 23	\$ 2	\$ 362	\$ 322	\$ 87	\$ 143	\$ 4,926
<b>Loans receivables:</b>									
Ending balance	\$ 76,930	\$ 292,896	\$ 30,735	\$ 1,724	\$ 48,270	\$ 24,149	\$ 8,013	\$	\$ 482,717
Ending balance: individually evaluated for impairment	\$ 1,119	\$ 8,898	\$ 584	\$	\$	\$ 325	\$	\$	\$ 10,926
Ending balance: collectively evaluated for impairment	\$ 75,811	\$ 283,998	\$ 30,151	\$ 1,724	\$ 48,270	\$ 23,824	\$ 8,013	\$	\$ 471,791

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

The recorded investments in troubled debt restructured loans at March 31, 2012 and December 31, 2011 are as follows:

(Dollars in thousands)	Pre-Modification	Post-Modification	
	Outstanding	Outstanding	Recorded
March 31, 2012	Recorded	Recorded	Investment
	Investment	Investment	Investment
Commercial and industrial	\$ 40	\$ 35	\$ 32
Commercial real estate	8,315	4,568	3,896
Residential mortgage	558	482	462
Home equity	29	28	13
	\$ 8,942	\$ 5,113	\$ 4,403

(Dollars in thousands)	Pre-Modification	Post-Modification	
	Outstanding	Outstanding	Recorded
December 31, 2011	Recorded	Recorded	Investment
	Investment	Investment	Investment
Commercial and industrial	\$ 40	\$ 35	\$ 32
Commercial real estate	8,315	4,568	3,955
Residential mortgage	698	691	599
Home equity	29	28	16
	\$ 9,082	\$ 5,322	\$ 4,602

Mid Penn's troubled debt restructured loans at March 31, 2012 totaled \$4,403,000, of which seven loans, totaling \$436,000, are accruing residential mortgages in compliance with the terms of the modification. The remaining 15 loans totaling \$3,967,000 are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. At December 31, 2011, troubled debt restructured loans totaled \$4,602,000, of which nine loans, totaling \$571,000, are accruing residential mortgages in compliance with the terms of the modification. The remaining 15 loans totaling \$4,031,000 are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. As a result of the evaluations at March 31, 2012 and December 31, 2011, a specific allocation and, subsequently, charge offs have been taken as appropriate. As of March 31, 2012 and December 31, 2011, charge offs associated with troubled debt restructured loans while under a forbearance agreement totaled \$0 and there were no defaulted troubled debt restructured loans as all troubled debt restructured loans were current with respect to their associated forbearance agreements. Five of the current forbearance agreements were negotiated during 2009, while the remaining 17 were negotiated during 2010.

Mid Penn entered into forbearance agreements on all loans currently classified as troubled debt restructures and all of these agreements have resulted in additional principal repayment. The terms of these forbearance agreements vary whereby principal payments have been decreased, interest rates have been reduced and/or the loan will be repaid as collateral is sold.

As a result of adopting the amendments in ASU No. 2011-02, Mid Penn reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. Mid Penn identified no loans for which the allowance for loan losses had previously been measured under a general allowance for credit losses methodology that are now considered troubled debt restructurings in accordance with ASU No. 2011-02.

**4. Fair Value Measurements**

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Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes information on identifying circumstances when a transaction may not be considered orderly.

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

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

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

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. Fair value measurement and disclosure guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs** - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Inputs** - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Inputs** - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

There were no transfers of assets between fair value Level 1 and Level 2 for the three months ended March 31, 2012. The following table illustrates the assets measured at fair value on a recurring basis segregated by hierarchy fair value levels:

(Dollars in thousands)	Fair value measurements at March 31, 2012 using:			
	Total carrying value at March 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
U.S. Treasury and U.S. government agencies	\$ 27,549	\$	\$ 27,549	\$
Mortgage-backed U.S. government agencies	76,124		76,124	
State and political subdivision obligations	51,217		51,217	
Equity securities	392	392		
	\$ 155,282	\$ 392	\$ 154,890	\$

(Dollars in thousands)	Fair value measurements at December 31, 2011 using:			
	Total carrying value at December 31, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
U.S. Treasury and U.S. government agencies	\$ 27,617	\$	\$ 27,617	\$



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Mortgage-backed U.S. government agencies	82,668		82,668
State and political subdivision obligations	48,366		48,366
Equity securities	392	392	
	\$ 159,043	\$ 392	\$ 158,651

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).

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

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

Fair value measurements at March 31, 2012 using:

(Dollars in thousands)

Assets:	Total carrying value at March 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired Loans	\$ 5,195	\$	\$	\$ 5,195
Foreclosed Assets Held for Sale	230			230

Fair value measurements at December 31, 2011 using:

(Dollars in thousands)

Assets:	Total carrying value at December 31, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired Loans	\$ 5,621	\$	\$	\$ 5,621
Foreclosed Assets Held for Sale	240			240

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Mid Penn has utilized Level 3 inputs to determine the fair value:

(Dollars in thousands)

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range
March 31, 2012				
Impaired Loans	\$ 5,195	Appraisal of collateral (1)	Appraisal adjustments (2)	10% - 30%
Foreclosed Assets Held for Sale	230	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	10% - 30%

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

ASC Topic 825, *Financial Instruments*, requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements.

The following methodologies and assumptions were used to estimate the fair value of Mid Penn's assets and liabilities:

**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:**

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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:

The fair value of securities classified as available for sale is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices.

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**Table of Contents**

**MID PENN BANCORP, INC.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Impaired Loans:**

Mid Penn's rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation.

In some instances Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary. Mid Penn considers the estimates used in its impairment analysis to be Level 3 inputs.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

Mid Penn does not currently, or plan to in the future, use automated valuation methodologies as a method of valuing real estate collateral.

**Loans:**

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, carrying values approximated fair value. The fair value of other loans 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 Held for Sale:**

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

**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 investment in correspondent bank stock approximates fair value, and considers the limited marketability of such securities.

**Mortgage Servicing Rights:**

The fair value of servicing rights is based on the present value of estimated future cash flows on pools of mortgages by rate and maturity date.

**Deposits:**

The fair value for demand deposits (e.g., interest and noninterest checking, savings, and money market deposit accounts) is 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

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average maturity for the pool and comparing the pool with interest rates currently being offered on a similar maturity.

### 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.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

The following table summarizes the carrying value and fair value of assets and liabilities at March 31, 2012 and December 31, 2011.

(Dollars in thousands)	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 19,839	\$ 19,839	\$ 17,841	\$ 17,841
Interest-bearing balances with other financial institutions	25,892	25,892	27,477	27,477
Investment securities	155,282	155,282	159,043	159,043
Net loans and leases	482,093	501,150	475,945	498,029
Restricted investment in bank stocks	2,965	2,965	3,120	3,120
Accrued interest receivable	3,011	3,011	3,067	3,067
Mortgage servicing rights	180	137	173	123
<b>Financial liabilities:</b>				
Deposits	\$ 636,571	\$ 641,971	\$ 634,055	\$ 644,474
Long-term debt	22,654	24,434	22,701	24,609
Accrued interest payable	1,002	1,002	1,064	1,064
<b>Off-balance sheet financial instruments:</b>				
Commitments to extend credit		\$	\$	\$
Financial standby letters of credit				

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of Mid Penn's financial instruments as of March 31, 2012. This table excludes financial instruments for which the carrying amount approximates fair value.

(Dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2012</b>					
<b>Financial instruments - assets</b>					
Net loans and leases	\$ 482,093	\$ 501,150	\$	\$	\$ 501,150
Mortgage servicing rights	180	137		137	
<b>Financial instruments - liabilities</b>					
Deposits	636,571	641,971		641,971	
Long-term debt	22,654	24,434		24,434	

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)****5. 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 \$7,432,000 and \$7,320,000 of standby letters of credit outstanding as of March 31, 2012 and December 31, 2011, respectively. Mid Penn does not anticipate any losses because of these transactions. The current amount of the liability as of March 31, 2012 for payment under standby letters of credit issued was not material.

**6. Long-term Debt**

During the three months ended March 31, 2012, the Bank entered into no additional long-term borrowings with the Federal Home Loan Bank of Pittsburgh. During the same time period, no long-term borrowings with the Federal Home Loan Bank of Pittsburgh matured.

**7. 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 qualifying full-time employees. These health care and life insurance plans are noncontributory. A December 31 measurement date for our plans is used.

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

(Dollars in thousands)	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	\$ 6	\$ 6	\$ 5	\$ 5
Interest cost	12	13	9	11
Amortization of prior service cost	5	5		
Amortization of net gain				
Net periodic benefit cost	\$ 23	\$ 24	\$ 14	\$ 16

**8. Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income, net of taxes are as follows:

(Dollars in thousands)	Unrealized Gain on Securities	Defined Benefit Plan Liability	Accumulated Other Comprehensive Income
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Balance - March 31, 2012	\$ 2,125	\$ (150)	\$ 1,975
Balance - December 31, 2011	\$ 2,044	\$ (128)	\$ 1,916



**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)****9. Preferred Stock**

On December 19, 2008, Mid Penn entered into and closed a Letter Agreement with the United States Department of the Treasury (the Treasury) pursuant to which the Treasury invested \$10,000,000 in Mid Penn under the Treasury's Capital Purchase Program (the CPP).

Under the 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 Mid Penn'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 is required to permit, subject to consultation with the appropriate Federal banking agency, Mid Penn to redeem the Series A Preferred Stock. Mid Penn 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 Mid Penn 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 must liquidate the warrants associated with Mid Penn's participation in the CPP at the current market price. Upon the appropriate approval, Mid Penn 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, Mid Penn is required to meet certain standards, including: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risk that threaten the value of Mid Penn; (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 Mid Penn from making any golden parachute payment to specified senior executives; 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 are 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 can be declared or paid on common shares, nor can Mid Penn repurchase or redeem any common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred shares have been fully paid. In addition, the consent of the Treasury is 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 have been redeemed in whole or the Treasury has transferred all of the Senior Preferred shares to third parties.

*Repurchases*

The Treasury's consent is 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 have been redeemed in whole or the Treasury has transferred all of the Senior Preferred shares to third parties. In addition, there can be no share repurchases of common shares if prohibited as described under *Restrictions on Dividends* above.

*Voting Rights*

The Senior Preferred shares are 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 are not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred shareholder(s) have the right to elect two directors. The right to elect directors would end when full dividends have been paid for four consecutive dividend periods.



**Table of Contents**

MID PENN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

**10. Earnings per Common Share**

Earnings per common share is computed by dividing net income available to common shareholders 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 March 31,	
	2012	2011
Net Income	\$ 1,134	\$ 1,000
Less: Dividends on preferred stock	(125)	(125)
Accretion of preferred stock discount	(3)	(3)
Net income available to common shareholders	\$ 1,006	\$ 872
Weighted average common shares outstanding	3,484,538	3,480,738
Basic earnings per common share	\$ 0.29	\$ 0.25

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
Net income available to common shareholders	\$ 1,006	\$ 872
Weighted average number of common shares outstanding	3,484,538	3,480,738
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	3,484,538	3,480,738
Diluted earnings per common share	\$ 0.29	\$ 0.25

As of March 31, 2012, Mid Penn had 73,099 warrants that were anti-dilutive because the fair value of the common stock was below the \$20.52 exercise price of these warrants.

**11. Recent Accounting Pronouncements**

There were no new accounting pronouncements affecting Mid Penn during the period that were not already incorporated into the disclosures.

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**Table of Contents**

**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 March 31, 2012, compared to year-end 2011, and the Results of Operations for the three months ended March 2012, compared to the same period in 2011.

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, 2011. 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 Mid Penn 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.

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

The effects of economic deterioration on current customers, specifically the effect of the economy on loan customers' ability to repay loans;

Governmental monetary and fiscal policies, as well as legislative and regulatory changes, including the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act;

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;

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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; and

Deteriorating economic conditions.

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 documents that we periodically file with the SEC, including Mid Penn's Annual Report on Form 10-K for the year ended December 31, 2011.

### **Critical Accounting Estimates**

Mid Penn's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and conform to general practices within the banking industry. Application of these principles involves significant judgments and estimates by management that have a material impact on the carrying value of certain assets and liabilities. The judgments and estimates that 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 Mid Penn considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of Mid Penn's investment securities for other-than-temporary impairment, and the assessment of goodwill for impairment to be the accounting areas that require the most subjective and complex judgments.

The allowance for loan and lease losses represents management's estimate of probable incurred credit losses inherent in the loan and lease portfolio. Determining the amount of the allowance for loan and lease losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan and lease portfolio also represents the largest asset type on the consolidated balance sheet. Throughout the remainder of this report, the terms "loan" or "loans" refers to both loans and leases.

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis**

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 operations.

Accounting Standards Codification (ASC) Topic 350, *Intangibles-Goodwill and Other*, requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. Mid Penn did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2011. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur.

**Results of Operations****Overview**

Net income available to common shareholders was \$1,006,000, \$0.29 per common share, for the quarter ended March 31, 2012, as compared to net income available to common shareholders of \$872,000, or \$0.25 per common share, for the quarter ended March 31, 2011; an increase of 15.4% on a quarter-to-quarter basis.

Net interest income increased \$694,000, or 13.9%, to \$5,677,000 for the quarter ended March 31, 2012 from \$4,983,000 during the quarter ended March 31, 2011. This increase has been spurred by a moderating cost of funds and increasing levels of average earning assets.

The provision for loan and lease losses in the first quarter of 2012 was \$300,000, compared to \$200,000 in the first quarter of 2011.

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

	Three Months Ended March 31,	
	2012	2011
Return on average assets	0.64%	0.62%
Return on average equity	8.42%	8.34%

Total assets increased \$2,242,000 to \$717,625,000 at March 31, 2012, from \$715,383,000 at December 31, 2011. This increase is moderate compared to the growth in recent quarters, and was mainly driven by growth in loans, increasing \$5,953,000 from \$482,717,000 at December 31, 2011 to \$488,670,000 at March 31, 2012. Total deposits also increased during the first quarter of 2012, increasing by \$2,516,000 from \$634,055,000 at December 31, 2011 to \$636,571,000 at March 31, 2012; this growth was mainly in core deposits. In order to continue improving net interest margin within the current environment, we have chosen to manage the balance sheet in such a way that loan and deposit growth in 2012 remain closely matched, and because of this strategy, our asset growth rate has moderated in the first quarter.

Deposit growth has slowed, as noted above, during the first three months of 2012. This has allowed us to maintain a closer match between funding sources and funding uses and reduce the balance of overnight funding, which has been advantageous from a net interest margin perspective. Numerous deposit repricing opportunities remain throughout 2012, which will continue to help improve our cost of funds as well as overall net interest margin despite continued downward pressure on asset yields.

**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

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rate of 34%. The following table includes average balances, rates, interest income and expense, interest rate spread, and net interest margin:

**Table of Contents**

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 Three Months Ended March 31, 2012			For the Three Months Ended March 31, 2011		
	Average	Interest	Rate (%)	Average	Interest	Rate (%)
<b>ASSETS:</b>						
Interest Earning Balances	\$ 27,786	\$ 65	0.94%	\$ 59,622	\$ 162	1.10%
<b>Investment Securities:</b>						
Taxable	109,366	441	1.62%	49,814	225	1.83%
Tax-Exempt	48,634	619	5.12%	28,777	488	6.88%
Total Investment Securities	158,000			78,591		
Federal Funds Sold	6,125	4	0.26%	15,587	8	0.21%
Loans and Leases, Net	484,415	6,883	5.71%	467,858	6,830	5.92%
Restricted Investment in Bank Stocks	3,055	1	0.13%	3,750		0.00%
Total Earning Assets	679,381	8,013	4.74%	625,408	7,713	5.00%
Cash and Due from Banks	8,096			6,957		
Other Assets	24,716			25,672		
Total Assets	\$ 712,193			\$ 658,037		
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY:</b>						
<b>Interest Bearing Deposits:</b>						
NOW	\$ 85,281	55	0.26%	\$ 46,519	18	0.16%
Money Market	270,588	629	0.93%	230,547	773	1.36%
Savings	28,736	4	0.06%	26,690	4	0.06%
Time	195,677	1,101	2.26%	213,820	1,400	2.66%
Short-term Borrowings	140		0.00%	882	2	0.92%
Long-term Debt	22,677	244	4.33%	25,304	273	4.38%
Total Interest Bearing Liabilities	603,099	2,033	1.36%	543,762	2,470	1.84%
Demand Deposits	48,972			59,030		
Other Liabilities	5,970			6,635		
Shareholders' Equity	54,152			48,610		
Total Liabilities and Shareholders' Equity	\$ 712,193			\$ 658,037		
Net Interest Income		\$ 5,980		\$ 5,243		
<b>Net Yield on Interest Earning Assets:</b>						
Total Yield on Earning Assets			4.74%			5.00%
Rate on Supporting Liabilities			1.36%			1.84%
Average Interest Spread			3.38%			3.16%
Net Interest Margin			3.54%			3.40%

For the three months ended March 31, 2012, Mid Penn's taxable-equivalent net interest margin increased to 3.54%, from 3.40%, as compared to the three months ended March 31, 2011, driven primarily by a reduction in cost of supporting liabilities. Net interest income, on a



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taxable-equivalent basis, in the first three months of 2012, increased to \$5,980,000 from \$5,243,000 in the first three months of 2011, related to the changing composition of interest bearing liabilities and the growth in average earning assets, which increased 8.6% from March 31, 2011 to March 31, 2012.

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.

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis****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 three months of 2012, Mid Penn continued to experience a challenging economic and operating environment both on a national and local level. Given the economic pressures that impact some borrowers, Mid Penn 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, 2011 to March 31, 2012. The provision for loan and lease losses was \$300,000 for the three months ended March 31, 2012, as compared to \$200,000 for the three months ended March 31, 2011. 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 \$20,000, or 2.6%, during the first quarter of 2012 versus the first quarter of 2011. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	Three Months Ended March 31,			
	2012	2011	\$ Variance	% Variance
Income from fiduciary activities	\$ 112	\$ 95	\$ 17	17.9%
Service charges on deposits	129	183	(54)	-29.5%
Net gain on sales of investment securities	16	16	16	NA

Income from fiduciary activities increased during the three months ended March 31, 2012 versus the same period in 2011. This increase was the result of greater sales of third party mutual funds during the first quarter of 2012. Service charges on deposits, primarily fees from insufficient funds, have decreased during three months ended March 31, 2012. During this period of economic downturn, customers seem to have become more conscientious about their account balances and avoiding unnecessary charges related to insufficient funds. Mid Penn recognized investment security gains in the first quarter of 2012 as a result of efforts to position the portfolio to provide earnings and cash flow in support of anticipated loan growth.

**Noninterest Expenses**

Noninterest expenses increased \$438,000 or 10.2% during the first quarter of 2012, versus the same period in 2011. The changes were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended March 31,			
	2012	2011	\$ Variance	% Variance
Salaries and employee benefits	\$ 2,596	\$ 2,201	\$ 395	17.9%
Equipment expense	294	344	(50)	-14.5%
Loss (gain) on sale/write-down of foreclosed assets	8	(28)	36	128.6%
Loan collection costs	109	41	68	165.9%

Salaries and employee benefits increased during the three months ended March 31, 2012, primarily due to the hiring of experienced team members to bolster compliance functions and to add depth to the sales and support areas of Mid Penn. Equipment expense for the three months ended March 31, 2012 declined by \$50,000 from the same period in 2011, mainly because depreciation expense has been declining as older assets become fully depreciated faster than newly acquired assets have been added. A negative variance during the three months ended March 31, 2012 was the loss (gain) on sale/write-down of foreclosed assets. Real estate values for these distressed properties have declined,

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though their liquidation has been able to proceed in a more orderly manner. The escalation in loan collection costs for the three months ended March 31, 2012 is attributed to the portfolio of problem credits migrating through the collection process.

### **Income Taxes**

The provision for income taxes was \$243,000 for the three months ended March 31, 2012, as compared to the provision for income taxes of \$241,000 in the same period last year. The effective tax rate for the three months ended March 31, 2012, was 17.6% compared to 19.4% for the three months ended March 31, 2011. Generally, our effective tax rate is below the statutory rate due to earnings on tax-exempt loans, investments, and bank-owned life insurance, as well as the impact of tax credits. The realization of deferred tax assets is dependent on future earnings. We currently anticipate that future earnings will be adequate to fully utilize deferred tax assets.

**Table of Contents**

MID PENN BANCORP, INC.

Management's Discussion and Analysis

**Financial Condition****Loans**

During the first three months of 2012, Mid Penn experienced an increase in loans outstanding. Commercial real estate, as well as commercial, industrial, and agricultural balances showed modest increases as requests from creditworthy borrowers has begun to increase. Balances in the other components of the loan portfolio have eroded through contractual payments and the refinancing of real estate secured debt by borrowers with equity in their properties. While loan demand has shown modest improvement, Mid Penn experienced weaker than normal loan demand during the first three months of 2012 despite a desire to sensibly lend to support creditworthy existing and new customers in our marketplace.

(Dollars in thousands)	March 31, 2012		December 31, 2011	
	Amount	%	Amount	%
Commercial real estate, construction and land development	\$ 253,121	51.8%	\$ 249,204	51.6%
Commercial, industrial and agricultural	81,460	16.7%	78,655	16.3%
Real estate - residential	146,202	29.9%	146,847	30.4%
Consumer	7,887	1.6%	8,011	1.7%
	\$ 488,670	100.0%	\$ 482,717	100.0%

Most of Mid Penn's lending activities are with customers located within the trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County, Pennsylvania. This region currently, and historically, has lower unemployment than the U.S. as a whole. This is due in part to a diversified manufacturing and services base and the presence of state government offices which help shield the local area from national trends. At March 31, 2012, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 7.4% versus the seasonally adjusted national unemployment rate of 8.2%.

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

During the first three months of 2012, Mid Penn had net charge-offs of \$495,000 compared to net charge-offs of \$89,000 during the same period of 2011. Loans charged off during the first three months of 2012 were comprised of nine commercial real estate loans totaling \$306,000. Three of these loans totaling \$70,000 were to a single borrower with the remaining loans to unrelated borrowers. In addition, there were charge-offs for three commercial loans to unrelated borrowers totaling \$204,000, two residential real estate loans to unrelated borrowers totaling \$10,000, and two consumer loans to unrelated borrowers totaling \$2,000. In spite of the higher levels of net charge-offs during the first three months of 2012 than in the same period of 2011, the ratio of allowance for loan losses to net loans at end of period declined to 1.35% from 1.52%. This ratio and the level of net charge-offs may not move in concert with one another due to the many factors, outlined further below in this section, that influence the level of allowance for loan and lease losses required on the portfolio at a given time. Mid Penn may need to make future adjustments to the allowance and the provision for loan and lease losses if economic conditions or loan credit quality differs substantially from the assumptions used in making Mid Penn's evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.

Changes in the allowance for loan and lease losses for the three months ended March 31, 2012 and 2011 are summarized as follows:

Analysis of the Allowance for Loan and Lease Losses: (Dollars in thousands)	Three Months Ended	Three Months Ended
	March 31, 2012	March 31, 2011
Average total loans outstanding (net of unearned income)	\$ 484,415	\$ 467,858
Period ending total loans outstanding (net of unearned income)	\$ 488,670	\$ 472,910
Balance, beginning of period	\$ 6,772	\$ 7,061

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Loans charged off during period	(522)	(123)
Recoveries of loans previously charged off	27	34
Net chargeoffs	(495)	(89)
Provision for loan and lease losses	300	200
Balance, end of period	\$ 6,577	\$ 7,172
Ratio of net loans charged off to average loans outstanding (annualized)	0.41%	0.08%
Ratio of allowance for loan losses to net loans at end of period	1.35%	1.52%

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis**

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. Mid Penn continues to monitor closely the financial strength of these borrowers. Mid Penn does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not structure construction loans with interest reserve components. Mid Penn has not in the past performed any commercial real estate or other type loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not extend loans at maturity due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

At March 31, 2012, total nonperforming loans amounted to \$12,192,000, or 2.49% of loans and leases net of unearned income, as compared to levels of \$12,371,000, or 2.56%, at December 31, 2011 and \$15,660,000, or 3.31%, at March 31, 2011.

**Schedule of Nonperforming Assets:**

(Dollars in thousands)

	March 31, 2012	December 31, 2011	March 31, 2011
<b>Nonperforming Assets:</b>			
Nonaccrual loans	\$ 11,756	\$ 11,800	\$ 15,024
Loans renegotiated with borrowers	436	571	636
<b>Total nonperforming loans</b>	<b>12,192</b>	<b>12,371</b>	<b>15,660</b>
Foreclosed real estate	889	931	643
<b>Total non-performing assets</b>	<b>13,081</b>	<b>13,302</b>	<b>16,303</b>
Accruing loans 90 days or more past due			392
<b>Total risk elements</b>	<b>\$ 13,081</b>	<b>\$ 13,302</b>	<b>\$ 16,695</b>
<b>Nonperforming loans as a % of total loans outstanding</b>	<b>2.49%</b>	<b>2.56%</b>	<b>3.31%</b>
<b>Nonperforming assets as a % of total loans outstanding and other real estate</b>	<b>2.67%</b>	<b>2.76%</b>	<b>3.44%</b>
<b>Ratio of allowance for loan losses to nonperforming loans</b>	<b>53.95%</b>	<b>54.74%</b>	<b>45.80%</b>

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis**

Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit. The following table provides additional analysis of partially charged-off loans:

**Schedule of Partially Charged Off Loans:**

(Dollars in thousands)

	March 31, 2012	December 31, 2011
Period ending total loans outstanding (net of unearned income)	\$ 488,670	\$ 482,717
Allowance for loan and lease losses	6,577	6,772
<b>Total Nonperforming loans</b>	<b>12,192</b>	<b>12,371</b>
Nonperforming and impaired loans with partial charge-offs	4,787	4,505
<b>Ratio of nonperforming loans with partial charge-offs to total loans</b>	<b>0.98%</b>	<b>0.93%</b>
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	39.26%	36.42%
<b>Coverage ratio net of nonperforming loans with partial charge-offs</b>	<b>88.82%</b>	<b>86.09%</b>
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	1.36%	1.42%

Mid Penn has not experienced any additional charge-offs on loans for which a partial charge-off had originally been taken.

Mid Penn considers a commercial loan or commercial real estate loan to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow ( DCF ) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan or commercial real estate loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

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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.



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**Table of Contents**

**MID PENN BANCORP, INC.**

**Management's Discussion and Analysis**

Mid Penn's rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn's impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

In some instances Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary.

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

Mid Penn does not currently, or plan in the future to, use automated valuation methodologies as a method of valuing real estate collateral.

As of March 31, 2012, Mid Penn had several unrelated loan relationships, with an aggregate carrying balance of \$10,896,000, deemed impaired. This pool of loans is further broken down into a group of loans with an aggregate carrying balance of \$4,747,000 for which specific allocations totaling \$1,757,000 have been included within the loan loss reserve for these loans. The remaining \$6,149,000 of loans requires no specific allocation within the loan loss reserve. The \$10,896,000 pool of impaired loan relationships is comprised of \$8,441,000 in real estate secured commercial relationships and \$2,455,000 in business relationships. There are specific allocations against the real estate secured pool totaling \$929,000, spread among sixteen relationships; one large relationship accounts for \$445,000 of the total pool attributed to this segment. The group of impaired business relationships with specific allocations is made up of seven unaffiliated relationships primarily engaged in various forms of manufacturing and a specific allocation of \$828,000 has been set aside against these credits. Six unrelated manufacturing relationships account for \$256,000 of the specific allocations due to the negative effects of the economy on their businesses and the subsequent collateral devaluation. One additional large commercial participation loan in this pool has shown exceptional collateral devaluation and is responsible for a specific allocation of \$572,000 of the total pool attributable to this segment. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships.

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risk on a monthly basis so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Board of Directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses an integral part of the examination process.

In establishing the allowance, management evaluates on a quantitative basis individual classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. In addition, an allowance for the remainder of the loan and lease portfolio is determined based on historical loss experience within certain components of the portfolio. These allocations may be modified if current conditions indicate that loan and lease losses may differ from historical experience.

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that

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may not have yet manifested themselves in historical loss experience. These factors include:

Changes in local, regional, and national economic and business conditions affecting the collectability of the portfolio, the values of underlying collateral, and the condition of various market segments.

Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans.

Changes in the experience, ability, and depth of lending management and other relevant staff as well as the quality of the institution's loan review system.

## **Table of Contents**

**MID PENN BANCORP, INC.**

**Management's Discussion and Analysis**

Changes in the nature and volume of the portfolio and the terms of loans generally offered.

The existence and effect of any concentrations of credit and changes in the level of such concentrations. While the allowance for loan and lease losses is maintained at a level believed to be adequate by management for covering estimated losses in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

Management believes, based on information currently available, that the allowance for loan and lease losses of \$6,577,000 is adequate as of March 31, 2012.

### **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. 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**

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

Shareholders' equity increased during the three months ended March 31, 2012 by \$905,000 or 1.7%, from December 31, 2011. Capital has been positively impacted in 2012 by positive earnings of \$1,006,000, which offset the common dividend payment of \$174,000.

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Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios in its bank subsidiary as of March 31, 2012, and December 31, 2011, as follows:

(Dollars in thousands)

	Capital Adequacy					
	Actual:		Minimum Capital Required:		To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of March 31, 2012:</b>						
Tier 1 Capital (to Average Assets)	\$ 51,087	7.2%	\$ 28,293	4.0%	\$ 35,367	5.0%
Tier 1 Capital (to Risk Weighted Assets)	51,087	10.4%	19,611	4.0%	29,417	6.0%
Total Capital (to Risk Weighted Assets)	57,206	11.7%	39,222	8.0%	49,028	10.0%
<b>As of December 31, 2011:</b>						
Tier 1 Capital (to Average Assets)	\$ 50,265	7.1%	\$ 28,326	4.0%	\$ 35,408	5.0%
Tier 1 Capital (to Risk Weighted Assets)	50,265	10.4%	19,367	4.0%	29,051	6.0%
Total Capital (to Risk Weighted Assets)	56,327	11.6%	38,735	8.0%	48,419	10.0%

**Table of Contents**

**MID PENN BANCORP, INC.**

**Management's Discussion and Analysis**

**Capital Purchase Program Participation**

On December 19, 2008, Mid Penn entered into an 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 Mid Penn 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 Mid Penn'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, Treasury will have the right to appoint two members of Mid Penn's Board of Directors to serve until all accrued and unpaid dividends on the preferred shares have been paid.

Mid Penn is generally permitted, subject to consultation with the appropriate Federal banking agency, to redeem the Series A Preferred Stock without regard to the source of the funds to be used to redeem the Series A Preferred Stock or any minimum waiting period. If Mid Penn 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 is required to liquidate the warrants associated with Mid Penn'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 Mid Penn or transferred by Treasury to third parties that are not affiliated with Treasury, Mid Penn may not, without Treasury's consent, increase its dividend rate per share of common stock above the per share quarterly amount in effect immediately prior to October 14, 2008 (\$0.20 per share) 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.

**Table of Contents**

**MID PENN BANCORP, INC.**

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no material change in market risk since December 31, 2011, as reported in Mid Penn's Form 10-K filed with the SEC on March 26, 2012.

**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 Mid Penn 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 March 31, 2012, Mid Penn's management, with the participation of the Principal Executive Officer and Principal Financial and Accounting Officer, concluded that the disclosure controls and procedures were effective as of such date.

**Changes in Internal Controls**

During the three months ended March 31, 2012, there were no changes in Mid Penn's internal control over financial reporting, that have materially affected, or are reasonable likely to materially affect, Mid Penn's internal control over financial reporting.

**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 Mid Penn or any of its properties.

**ITEM 1A RISK FACTORS**

Management has reviewed the risk factors that were previously disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011. There are no material changes from the risk factors as previously disclosed in the Form 10-K.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4 MINE SAFETY DISCLOSURES**

Not Applicable

**ITEM 5 OTHER INFORMATION**

None



**Table of Contents**

**MID PENN BANCORP, INC.**

**ITEM 6 EXHIBITS**

Exhibit 3(i) The Registrant's amended Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to Registrant's Quarterly Report on Form 10-Q filed 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 By-laws (Incorporated by reference to Exhibit 3(ii) to Registrant's Current Report on form 8-K filed with the Securities and Exchange Commission on August 30, 2010.)

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 11 Statement re: 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.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase



Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase

**Table of Contents**

**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: May 15, 2012

By /s/ Kevin W. Laudenslager  
Kevin W. Laudenslager  
Treasurer  
(Principal Financial and Principal Accounting  
Officer)

Date: May 15, 2012