MID PENN BANCORP INC
Form 10-Q
May 12, 2016

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, 2016

OR

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

For the transition period from to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	25-1666413

(State or Other Jurisdiction of	(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 1.866.642.7736

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 12, 2016, the registrant had 4,227,981 shares of common stock outstanding.

MID PENN BANCORP, INC.

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

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

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

(Dollars in thousands, except share data)	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 9,707	$ 12,329
Interest-bearing balances with other financial institutions	1,490	955
Federal funds sold	2,125	-
Total cash and cash equivalents	13,322	13,284
Interest-bearing time deposits with other financial institutions	2,332	4,317
Investment securities available for sale	161,910	135,721
Loans and leases, net of unearned interest	746,452	739,191
Less: Allowance for loan and lease losses	(6,439)	(6,168)
Net loans and leases	740,013	733,023
Bank premises and equipment, net	13,728	13,993
Cash surrender value of life insurance	12,586	12,516
Restricted investment in bank stocks	2,871	4,266
Foreclosed assets held for sale	794	1,185
Accrued interest receivable	3,919	3,813
Deferred income taxes	1,466	1,821
Goodwill	3,918	3,918
Core deposit and other intangibles, net	627	665
Other assets	3,408	3,116
Total Assets	$ 960,894	$ 931,638
LIABILITIES & SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand	$ 107,369	$ 103,721
Interest bearing demand	275,011	247,356
Money Market	224,656	208,386
Savings	59,147	56,731
Time	166,398	160,849
Total Deposits	832,581	777,043
Short-term borrowings	-	31,596
Long-term debt	40,250	40,305
Subordinated debt	7,407	7,414
Accrued interest payable	586	390
Other liabilities	8,848	4,822
Total Liabilities	889,672	861,570
Shareholders' Equity:		
Common stock, par value $1.00; authorized 10,000,000 shares;		

4,227,981 and 4,226,717 shares issued and outstanding at		
March 31, 2016 and at December 31, 2015, respectively	4,228	4,227
Additional paid-in capital	40,585	40,559
Retained earnings	24,345	23,470
Accumulated other comprehensive income	2,064	1,812
Total Shareholders’ Equity	71,222	70,068
Total Liabilities and Shareholders' Equity	$ 960,894	$ 931,638

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

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

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2016	2015
INTEREST INCOME		
Interest & fees on loans and leases	$ 8,807	$ 7,154
Interest on interest-bearing balances	7	11
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	322	331
State and political subdivision obligations, tax-exempt	464	531
Other securities	94	131
Interest on federal funds sold and securities purchased under agreements to resell	3	-
Total Interest Income	9,697	8,158
INTEREST EXPENSE		
Interest on deposits	1,039	914
Interest on short-term borrowings	13	11
Interest on long-term debt	230	195
Total Interest Expense	1,282	1,120
Net Interest Income	8,415	7,038
PROVISION FOR LOAN AND LEASE LOSSES	340	300
Net Interest Income After Provision for Loan and Lease Losses	8,075	6,738
NONINTEREST INCOME		
Income from fiduciary activities	106	127
Service charges on deposits	155	150
Net gain on sales of investment securities	-	177
Earnings from cash surrender value of life insurance	70	56
Mortgage banking income	186	67
ATM debit card interchange income	200	155
Merchant services income	67	50
Net gain on sales of SBA loans	190	-
Other income	258	167
Total Noninterest Income	1,232	949
NONINTEREST EXPENSE		
Salaries and employee benefits	3,723	3,195
Occupancy expense, net	547	454
Equipment expense	435	313
Pennsylvania Bank Shares tax expense	203	115
FDIC Assessment	153	139
Legal and professional fees	202	143
Director fees and benefits expense	89	83
Marketing and advertising expense	84	88
Software licensing	331	319
Telephone expense	142	123
Loss on sale/write-down of foreclosed assets	104	32
Intangible amortization	37	9

Loan collection costs	39	80
Merger and acquisition expense	-	762
Other expenses	893	785
Total Noninterest Expense	6,982	6,640
INCOME BEFORE PROVISION FOR INCOME TAXES	2,325	1,047
Provision for income taxes	520	84
NET INCOME	1,805	963
Series B preferred stock dividends	-	87
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,805	$ 876
PER COMMON SHARE DATA:		
Basic Earnings Per Common Share	$ 0.43	$ 0.23
Cash Dividends	$ 0.22	$ 0.10

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

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

(Dollars in thousands)	Three Months Ended March 31, 2016	2015
Net income	$ 1,805	$ 963
Other comprehensive income:		
Unrealized gains arising during the period on available for sale securities, net of income taxes of $189 and $244, respectively	366	475
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of $0 and ($60), respectively (a)	-	(117)
Change in defined benefit plans, net of income taxes of ($56) and $1, respectively (b)	(114)	3
Total other comprehensive income	252	361
Total comprehensive income	$ 2,057	$ 1,324

(a) Amounts are included in net gain on sales of investment securities on the Consolidated Statements of Income as a separate element within total noninterest income

(b) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income as a separate element within total noninterest expense

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

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MID PENN BANCORP, INC. Consolidated Statements of Changes in Shareholders’ Equity (Unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2016	$ -	$ 4,227	$ 40,559	$ 23,470	$ 1,812	$ 70,068
Net income	-	-	-	1,805	-	1,805
Total other comprehensive income, net of taxes	-	-	-	-	252	252
Employee Stock Purchase Plan (1,264 shares)	-	1	18	-	-	19
Common stock dividends	-	-	-	(930)	-	(930)
Restricted stock compensation expense	-	-	8	-	-	8
Balance, March 31, 2016	$ -	$ 4,228	$ 40,585	$ 24,345	$ 2,064	$ 71,222
Balance, January 1, 2015	$ 5,000	$ 3,498	$ 29,902	$ 19,217	$ 1,513	$ 59,130
Net income	-	-	-	963	-	963
Total other comprehensive income, net of taxes	-	-	-	-	361	361
Employee Stock Purchase Plan (1,013 shares)	-	1	15	-	-	16
Common stock dividends	-	-	-	(350)	-	(350)
Series B preferred stock dividends	-	-	-	(87)	-	(87)
SBLF preferred stock in connection with Phoenix acquisition	1,750	-	-	-	-	1,750
Common stock issued to Phoenix shareholders	-	724	10,568	-	-	11,292
Restricted stock compensation expense	-	-	8	-	-	8
Balance, March 31, 2015	$ 6,750	$ 4,223	$ 40,493	$ 19,743	$ 1,874	$ 73,083

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

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

(Dollars in thousands)	Three Months Ended March 31, 2016	2015
Operating Activities:		
Net Income	$ 1,805	$ 963
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	340	300
Depreciation	419	314
Amortization of intangibles	37	13
Net amortization of security premiums	665	384
Gain on sales of investment securities	-	(177)
Earnings on cash surrender value of life insurance	(70)	(56)
SBA loans originated for sale	(2,500)	-
Proceeds from sales of SBA loans originated for sale	2,690	-
Gain on sale of loans	(190)	-
Loss on sale / write-down of foreclosed assets	104	32
Restricted stock compensation expense	8	8
Deferred income tax expense (benefit)	53	(76)
(Increase) decrease in accrued interest receivable	(106)	52
Increase in other assets	(290)	(47)
Increase in accrued interest payable	196	117
Increase (decrease) in other liabilities	4,026	(40)
Net Cash Provided By Operating Activities	7,187	1,787
Investing Activities:		
Net decrease in interest-bearing time deposits with other financial institutions	1,985	103
Proceeds from the maturity of investment securities	3,045	2,594
Proceeds from the sale of investment securities	-	16,091
Purchases of investment securities	(29,345)	(8,065)
Net cash received from acquisition	-	8,118
Redemptions of restricted investment in bank stock	1,395	173
Net increase in loans and leases	(7,359)	(13,579)
Purchases of bank premises and equipment	(154)	(393)
Proceeds from sale of foreclosed assets	315	27
Net Cash (Used In) Provided By Investing Activities	(30,118)	5,069
Financing Activities:		
Net increase (decrease) in deposits	55,538	(2,114)
Net (decrease) increase in short-term borrowings	(31,596)	43
Series B preferred stock dividend paid	-	(87)
Common stock dividend paid	(930)	(350)
Employee Stock Purchase Plan	19	16
Long-term debt repayment	(62)	(51)
Net Cash Provided By (Used In) Financing Activities	22,969	(2,543)
Net increase in cash and cash equivalents	38	4,313
Cash and cash equivalents, beginning of year	13,284	9,882

Cash and cash equivalents, end of year	$ 13,322	$ 14,195

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

(Dollars in thousands)	Three Months Ended March 31, 2016	2015
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 1,086	$ 971
Income taxes paid	$ 200	$ 100
Supplemental Noncash Disclosures:		
Loan transfers to foreclosed assets held for sale	$ 28	$ 216

Assets, Liabilities, and Equity in Connection with Merger:

Assets Acquired:		
Securities	$ -	$ 11,331
Loans	-	110,707
Restricted stock	-	509
Property and equipment	-	1,792
Accrued interest receivable	-	388
Core deposit and other intangible assets	-	578
Bank-owned life insurance	-	3,673
Other assets	-	933
	$ -	$ 129,911
Liabilities Assumed:		
Deposits	$ -	$ 123,238
Accrued interest payable	-	32
Long-term debt	-	3,570
Other liabilities	-	744
	$ -	$ 127,584
Equity Acquired:		
Preferred stock	$ -	$ 1,750

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

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(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries, Mid Penn Bank (the “Bank”), and the Bank’s wholly-owned subsidiary Mid Penn Insurance Services, LLC (collectively, “Mid Penn”). All material intercompany accounts and transactions have been eliminated in consolidation.

Effective March 1, 2016, Mid Penn Insurance Services, LLC, an immaterial subsidiary of Mid Penn, was liquidated due to the lack of consistent profitability and growth.

Certain information and 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”). Mid Penn believes the information presented is not misleading and the disclosures are adequate. For comparative purposes, the March 31, 2015 and December 31, 2015 balances have been reclassified, when, and if necessary, to conform to the 2016 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2016, 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) Mergers and Acquisitions

On March 1, 2015, Phoenix Bancorp, Inc. (“Phoenix”) merged with, and into, Mid Penn, with Mid Penn continuing as the surviving entity. Simultaneously with the consummation of the foregoing merger, Miners Bank (“Miners”), a Pennsylvania-state chartered bank and wholly-owned subsidiary of Phoenix, merged with and into the Bank.

As part of this transaction, Phoenix shareholders received either 3.167 shares of the Company's common stock or $51.60 in cash in exchange for each share of Phoenix common stock. Holders of contingent rights issued by Phoenix received approximately 0.414 shares of the Company's common stock as settlement of such rights. As a result, Mid Penn issued 723,851 shares of common stock with an acquisition date fair value of approximately $11,292,000 based on the closing stock price of Mid Penn's common stock on February 27, 2015 of $15.60 and cash of $2,949,000. Including an insignificant amount of cash paid in lieu of fractional shares, the fair value of total consideration paid was $14,241,000.

Additionally, as part of this transaction, on March 1, 2015, Mid Penn assumed all of the liabilities and obligations of Phoenix with respect to 1,750 shares of Phoenix's preferred stock issued to the United States Treasury ("Treasury") in connection with the Small Business Lending Fund and issued 1,750 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C, having a $1,000 liquidation preference per share (the "SBLF Preferred Shares"), to the Treasury. The SBLF Preferred Shares qualified as Tier 1 capital and had terms and conditions identical to those shares of preferred stock issued by Phoenix to the Treasury.

The assets and liabilities of Miners and Phoenix were recorded on the consolidated balance sheet at their estimated fair value as of March 1, 2015, and their results of operations have been included in the consolidated income statement since such date.

Included in the purchase price was goodwill and a core deposit intangible of $2,902,000 and $578,000, respectively. The core deposit intangible will be amortized over a ten-year period using a sum of the year's digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. Core deposit intangible amortization expense projected for the succeeding five years beginning 2016 is estimated to be $96,000, $86,000, $75,000, $65,000, and $54,000 per year, respectively, and $114,000 in total for years after 2020.

The allocation of the purchase price is as follows:

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	$ 11,044
Investment securities	11,331
Loans	110,363
Goodwill	2,902
Core deposit and other intangibles	578
Other assets	7,489
Total assets acquired	143,707
Liabilities assumed:	
Deposits	123,238
FHLB borrowings	3,570
Other liabilities	908
Total liabilities assumed	127,716
Equity acquired:	
Preferred stock	1,750
Total equity acquired and liabilities assumed	129,466
Consideration paid	$ 14,241
Cash paid	$ 2,949
Fair value of common stock issued, including replacement equity awards	11,292

The following table summarizes the fair value of the assets acquired, and liabilities and equity assumed by Mid Penn through the Phoenix merger.

(Dollars in thousands)	
Total purchase price	$ 14,241
Net assets acquired:	
Cash and cash equivalents	11,044
Investment securities	11,331
Restricted stock	509
Loans	110,363
Bank owned life insurance	3,673
Premises and equipment	1,792

Deferred income taxes		503
Accrued interest receivable		388
Core deposit and other intangibles		578
Other assets		624
Deposits		(123,238)
FHLB borrowings		(3,570)
Accrued interest payable		(32)
Other liabilities		(876)
Preferred stock		(1,750)
		11,339
Goodwill	$	2,902

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $112,816,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

(Dollars in thousands)	
Gross amortized cost basis at March 1, 2015	$ 112,816
Market rate adjustment	270
Credit fair value adjustment on pools of homogeneous loans	(1,461)
Credit fair value adjustment on impaired loans	(1,262)
Fair value of purchased loans at March 1, 2015	$ 110,363

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the stated rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from the loan inception to the acquisition date. The credit adjustment on impaired loans is derived in accordance with ASC 310-30-30 and represents the portion of the loan balance that has been deemed uncollectible based on our expectations of future cash flows for each respective loan.

The information about the acquired Phoenix impaired loan portfolio as of March 1, 2015 is as follows:

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$ 3,548
Contractual cash flows not expected to be collected (nonaccretable discount)	(804)
Expected cash flows at acquisition	2,744
Interest component of expected cash flows (accretable discount)	(458)
Fair value of acquired loans	$ 2,286

The following table presents pro forma information as if the merger between Mid Penn and Phoenix had been completed on January 1, 2014. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn merged with Phoenix at the beginning of 2014. Supplemental pro forma earnings for 2015 were adjusted to exclude $762,000 of merger related costs incurred for the three months ended March 31, 2015. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, or other factors. The pro forma data is intended for informational purposes and is not indicative of the future results of operations.

(Dollars in thousands)	March 31, 2015
Net interest income after loan loss provision	$ 7,374
Noninterest income	1,014
Noninterest expense	6,815
Net income available to common shareholders	1,276
Net income per common share	0.30

(3) 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 amortized cost 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 amortized cost 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 consolidated statements of income.

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.

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.

In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intent and ability to hold the securities until recovery of unrealized losses. Because Mid Penn does not intend to sell these investments and it is not likely it will be required to sell these investments before a recovery of fair value, which may be maturity, Mid Penn does not consider the securities with unrealized losses to be other-than-temporarily impaired as losses relate to changes in interest rates and not erosion of credit quality.

Mid Penn had no securities considered other than temporarily impaired as of March 31, 2016 or December 31, 2015, and did not record any securities impairment charges in the respective periods ended on these dates.

The amortized cost, fair value, and unrealized gains and losses on investment securities at March 31, 2016 and December 31, 2015 are as follows:

(Dollars in thousands)

March 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Treasury and U.S. government agencies	$ 26,309	$ 1,076	$ 38	$ 27,347
Mortgage-backed U.S. government agencies	49,762	134	185	49,711
State and political subdivision obligations	79,647	2,162		