

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

MID PENN BANCORP INC
Form 10-Q
November 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

Commission file number 001-13677

Mid Penn Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
Incorporation or Organization)

25-1666413
(IRS Employer ID No.)

349 Union Street, Millersburg, PA
(Address of principal executive offices)

17061
(Zip Code)

(717) 692-2133
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Large accelerated Filer Accelerated Filer
 Non-accelerated Filer

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

Yes No

Indicate the number of shares outstanding of each of the classes of common stock, as of the latest practical date.

3,346,860 shares of Common Stock, \$1.00 par value per share, were outstanding as of November 3, 2006.

PART I
MID PENN BANCORP, INC.
FINANCIAL INFORMATION

ITEM 1: Financial Statements:

MID PENN BANCORP, INC.

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in thousands)

| | Sept. 30, 2006 | Dec. 31, 2005 |
|--|----------------------|--------------------|
| | ----- (Unaudited) | ----- (Audited) |
| ASSETS: | | |
| Cash and due from banks | \$ 7,258 | \$ 6,350 |
| Interest-bearing balances | 44,615 | 54,549 |
| Available-for-sale securities | 56,961 | 50,878 |
| Federal funds sold | 0 | 0 |
| Loans and leases | 331,992 | 311,837 |
| Less, | | |
| Allowance for loan and lease losses | 4,044 | 3,704 |
| | ----- | ----- |
| Net loans and leases | 327,948 | 308,133 |
| | ----- | ----- |
| Bank premises and equip't, net | 6,125 | 6,334 |
| Foreclosed assets held for sale | 568 | 458 |
| Accrued interest receivable | 2,464 | 2,269 |
| Cash surrender value of life insurance | 6,564 | 6,402 |
| Deferred income taxes | 1,385 | 1,392 |
| Other assets | 1,899 | 1,345 |
| | ----- | ----- |
| Total Assets | 455,787 | 438,110 |
| | ===== | ===== |
| LIABILITIES & STOCKHOLDERS' EQUITY: | | |
| Deposits: | | |
| Demand | 42,431 | 41,719 |
| NOW | 32,010 | 31,686 |
| Money Market | 57,240 | 61,421 |
| Savings | 23,540 | 26,825 |
| Time | 174,008 | 163,623 |
| | ----- | ----- |
| Total deposits | 329,229 | 325,274 |
| | ----- | ----- |
| Short-term borrowings | 18,146 | 12,342 |
| Accrued interest payable | 2,455 | 1,535 |
| Other liabilities | 2,831 | 2,260 |
| Long-term debt | 64,745 | 59,838 |
| | ----- | ----- |
| Total Liabilities | 417,406 | 401,249 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, par value \$1 per share; authorized 10,000,000 shares; issued 3,367,119 and 3,207,912 shares at Sept. 30, 2006 and December 31, 2005, resp | 3,367 | 3,208 |
| Additional paid-in capital | 27,452 | 23,472 |
| Retained earnings | 7,878 | 10,486 |
| Accumulated other comprehensive inc(loss) | 246 | 231 |
| Treasury Stock at cost (20,173 and 19,056 shs., resp.) | (562) | (536) |
| | ----- | ----- |
| Total Stockholders' Equity | 38,381 | 36,861 |
| | ----- | ----- |

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

| | | |
|----------------------------|---------|---------|
| Total Liabilities & Equity | 455,787 | 438,110 |
| | ===== | ===== |

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

2

MID PENN BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited; dollars in thousands)

| | Three Months Ended Sept. 30, | | Nine Months Ended Sept. 30, | |
|-------------------------------------|---------------------------------|----------|--------------------------------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| | ----- | ----- | ----- | ----- |
| INTEREST INCOME: | | | | |
| Interest & fees on loans | \$ 5,898 | \$ 4,913 | \$ 17,194 | \$ |
| Int.-bearing balances | 566 | 554 | 1,608 | |
| Treas. & Agency securities | 288 | 216 | 757 | |
| Municipal securities | 290 | 264 | 917 | |
| Other securities | 45 | 23 | 141 | |
| Fed funds sold and repos | 17 | 12 | 29 | |
| | ----- | ----- | ----- | ----- |
| Total Int. Income | 7,104 | 5,982 | 20,646 | |
| | ----- | ----- | ----- | ----- |
| INTEREST EXPENSE: | | | | |
| Deposits | 2,280 | 1,722 | 6,296 | |
| Short-term borrowings | 185 | 47 | 490 | |
| Long-term borrowings | 825 | 723 | 2,382 | |
| | ----- | ----- | ----- | ----- |
| Total Int. Expense | 3,290 | 2,492 | 9,168 | |
| | ----- | ----- | ----- | ----- |
| Net Int. Income | 3,814 | 3,490 | 11,478 | |
| PROVISION FOR LOAN LOSSES | | | | |
| | 75 | 280 | 435 | |
| | ----- | ----- | ----- | ----- |
| Net Int. Inc. after Prov | 3,739 | 3,210 | 11,043 | |
| | ----- | ----- | ----- | ----- |
| NON-INTEREST INCOME: | | | | |
| Trust dept | 63 | 63 | 194 | |
| Service chgs. on deposits | 340 | 353 | 1,018 | |
| Investment securities | | | | |
| Gains(losses), net | 33 | 0 | 33 | |
| Income on life insurance | 54 | 61 | 162 | |
| Income on sale of other real estate | 0 | 0 | 131 | |
| Other | 245 | 359 | 742 | |
| | ----- | ----- | ----- | ----- |
| Total Non-Interest Income | 735 | 836 | 2,280 | |
| | ----- | ----- | ----- | ----- |
| NON-INTEREST EXPENSE: | | | | |
| Salaries and benefits | 1,557 | 1,395 | 4,704 | |
| Occupancy, net | 159 | 143 | 470 | |
| Equipment | 200 | 186 | 617 | |
| PA Bank Shares tax | 72 | 68 | 214 | |
| ATM/Debit card expenses | 23 | 44 | 88 | |
| Professional fees | 104 | 61 | 313 | |
| Director fees and benefits | 55 | 77 | 175 | |
| Advertising Expense | 51 | 79 | 170 | |
| Computer software licensing | 58 | 49 | 159 | |

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

| | | | | |
|---|-----------|-----------|-----------|-------|
| Stationery and supplies | 54 | 40 | 151 | |
| Early withdrawal fee on int-bearing bals | 0 | 0 | 191 | |
| Other | 452 | 385 | 1,321 | |
| | ----- | ----- | ----- | ----- |
| Tot. Non-int. Exp | 2,785 | 2,527 | 8,573 | |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 1,689 | 1,519 | 4,750 | |
| INCOME TAX EXPENSE | 447 | 387 | 1,236 | |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 1,242 | \$ 1,132 | \$ 3,514 | \$ |
| | ===== | ===== | ===== | ===== |
| NET INCOME PER SHARE | \$ 0.37 | \$ 0.34 | \$ 1.05 | \$ |
| | ===== | ===== | ===== | ===== |
| DIVIDENDS PER SHARE | \$ 0.20 | \$ 0.20 | \$ 0.60 | \$ |
| | ===== | ===== | ===== | ===== |
| Weighted Average No. of Shares Outstanding | 3,347,585 | 3,348,299 | 3,347,902 | 3,3 |

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

3

MID PENN BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited; Dollars in thousands)

| | For the Nine Months Ended Sept. 30, | |
|---|--|----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Operating Activities: | | |
| Net Income | \$ 3,514 | \$ 3,151 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 435 | 450 |
| Depreciation | 470 | 411 |
| Incr. in cash-surr. value of life insurance | (162) | (167) |
| Investment securities gains, net | (33) | (1) |
| Amortization | 28 | 27 |
| Loss (gain) on sale/disposal of bank premises and equipment | (9) | 2 |
| Loss (gain) on the sale of foreclosed assets | (131) | (56) |
| Deferred income taxes | 7 | (101) |
| Change in accrued interest receivable | (195) | (269) |
| Change in other assets | (589) | 29 |
| Change in accrued interest payable | 920 | 698 |
| Change in other liabilities | 571 | 737 |
| | ----- | ----- |
| Net cash provided by operating activities | 4,826 | 4,911 |
| | ----- | ----- |
| Investing Activities: | | |
| Net (incr)decr in int-bearing balances | 9,934 | 2,074 |
| Incr. in federal funds sold | 0 | 0 |
| Proceeds from sale of securities | 1,923 | 535 |

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

| | | |
|---|----------|----------|
| Proceeds from the maturity of secs | 4,112 | 3,587 |
| Purchases of investment securities | (12,063) | (8,765) |
| Net increase in loans | (20,434) | (25,985) |
| Purchases of bank premises & equip't | (261) | (2,012) |
| Proceeds from sale of foreclosed assets | 205 | 561 |
| Proceeds from sale of bank premises & equip't | 9 | 40 |
| Capitalized additions - ORE | 0 | 0 |
| Purchase/assumption -- Vartan Nat'l accounts | 0 | 0 |
| | ----- | ----- |
| Net cash provided by(used in) investing activities | (16,575) | (29,965) |
| | ----- | ----- |
| Financing Activities: | | |
| Net incr.(decr) in demand and savings | (6,430) | 10,937 |
| Net incr.(decr) in time deposits | 10,385 | 7,440 |
| Net decrease in federal funds sold | 0 | 0 |
| Net incr.(decr) in short-term borrowings | 5,804 | 1,012 |
| Long-term debt repayments | (5,093) | (89) |
| Increase in long-term borrowings | 10,000 | 10,000 |
| Cash dividend paid | (1,983) | (1,914) |
| Purchase of treasury stock | (26) | 0 |
| | ----- | ----- |
| Net cash provided by(used in) financing activities | 12,657 | 27,386 |
| | ----- | ----- |
| Net incr(decr) in cash & due from banks | 908 | 2,332 |
| Cash & due from banks, beg of period | 6,350 | 6,679 |
| | ----- | ----- |
| Cash & due from banks, end of period | 7,258 | 9,011 |
| | ===== | ===== |
| Supplemental Disclosures of Cash Flow Information: | | |
| Interest paid | 8,248 | 6,181 |
| Income taxes paid | 1,390 | 1,161 |
| Supplemental Noncash Disclosures: | | |
| Loan charge-offs, net of recoveries | 95 | 95 |
| Transfers to other real estate | 184 | 74 |

4

Mid Penn Bancorp, Inc.
Notes to Consolidated Financial Statements

1. The consolidated interim financial statements with the exception of the consolidated balance sheet dated December 31, 2005, are unaudited and have been prepared according to the rules and regulations of the Securities and Exchange Commission with respect to Form 10-Q. The financial information reflects all adjustments (consisting only of normal recurring adjustments) which are, in our opinion, necessary for a fair statement of results for the periods covered. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted according to these rules and regulations. We believe, however, that the disclosures are adequate so that the information is not misleading. You should read these interim financial statements along with the financial statements including the notes included in the Corporation's most recent Form 10-K.

2. Interim statements are subject to possible adjustments in connection with the annual audit of the Corporation's accounts for the full fiscal year. In our opinion, all necessary adjustments have been included so that the interim financial statements are not misleading.

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

3. The results of operations for the interim periods presented are not necessarily an indicator of the results expected for the full year.

4. Management considers the allowance for loan and lease losses to be adequate at this time.

5. Short-term borrowings as of Sept. 30, 2006, and December 31, 2005, consisted of:

(Dollars in thousands)

| | 9/30/06 | 12/31/05 | |
|-----------------------------|----------|----------|--|
| | ----- | ----- | |
| Federal funds purchased | \$9,800 | \$ 5,000 | |
| Repurchase agreements | 7,574 | 6,899 | |
| Treasury, tax and loan note | 772 | 443 | |
| Due to broker | 0 | 0 | |
| | ----- | ----- | |
| | \$18,146 | \$12,342 | |
| | ===== | ===== | |

Federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury, tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by Mid Penn Bank ("MPB") are placed in the Treasury note option account. The due to broker balance represents previous day balances transferred from deposit accounts under a sweep account agreement.

5

6. During the first quarter of 2006, MPB entered into a \$5 million, five-year, long-term borrowing with the FHLB at a fixed rate of 5.13% and a \$5 million, three-year, long-term borrowing with the FHLB at a fixed rate of 5.18%. There were no additional borrowings made during the second or third quarters.

7. MPB has a noncontributory defined benefit pension plan for directors. The plan provides defined benefits based on years of service. MPB also has other postretirement benefit plans covering full-time employees. These health care and life insurance plans are noncontributory. MPB uses a December 31 measurement date for its plans.

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

Components of Net Periodic Benefit Cost

Nine months ended September 30:

(Dollars in thousands)

| | Pension Benefits | | Other Benefits | |
|---------------------------------------|------------------|-------|----------------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| | ---- | ---- | ---- | ---- |
| Service cost | \$ 30 | \$ 21 | \$ 15 | \$ 33 |
| Interest cost | \$ 21 | \$ 30 | \$ 27 | \$ 27 |
| Expected return on plan assets | \$ -- | \$ -- | \$ -- | \$ -- |
| Amortization of transition obligation | \$ 12 | \$ -- | \$ -- | \$ 12 |
| Amortization of prior service cost | \$ -- | \$ 21 | \$ -- | \$ -- |
| Amortization of net (gain) loss | \$ (3) | \$ -- | \$ -- | \$ -- |
| | ---- | ---- | ---- | ---- |
| Net periodic pension/benefit cost | \$ 60 | \$ 72 | \$ 42 | \$ 72 |
| | ---- | ---- | ---- | ---- |

8. Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each of the periods presented, giving

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

retroactive effect to stock dividends. The Corporation's basic and diluted earnings per share are the same since there are no dilutive shares of securities outstanding.

9. The purpose of reporting comprehensive income (loss) is to report a measure of all changes in the Corporation's equity resulting from economic events other than transactions with stockholders in their capacity as stockholders. For the Corporation, "comprehensive

6

income (loss)" includes traditional income statement amounts as well as unrealized gains and losses on certain investments in debt and equity securities (i.e. available- for-sale securities). Because unrealized gains and losses are part of comprehensive income (loss), comprehensive income (loss) may vary substantially between reporting periods due to fluctuations in the market prices of securities held.

(Dollars in thousands)

| | Three Months | | Nine Months | |
|-------------------------------------|-----------------|----------|-----------------|----------|
| | Ended Sept. 30: | | Ended Sept. 30: | |
| | 2006 | 2005 | 2006 | 2005 |
| | ----- | ----- | ----- | ----- |
| Net Income | \$ 1,242 | \$ 1,132 | \$ 3,514 | \$ 3,151 |
| | ----- | ----- | ----- | ----- |
| Other comprehensive income(loss): | | | | |
| Unrealized holding gains (losses) | | | | |
| on securities arising during the | | | | |
| period | 690 | (134) | 56 | (265) |
| Less: reclassification | | | | |
| adjs for losses(gains) included | | | | |
| in net income | (33) | 0 | (33) | (1) |
| | ----- | ----- | ----- | ----- |
| Other comprehensive income(loss) | | | | |
| before income tax (provision) | | | | |
| benefit | 657 | (134) | 23 | (266) |
| Income tax (provision) benefit | | | | |
| related to other comp.income (loss) | (223) | 34 | (8) | 67 |
| | ----- | ----- | ----- | ----- |
| Other comprehensive inc(loss) | 434 | (100) | 15 | (199) |
| | ----- | ----- | ----- | ----- |
| Comprehensive Income | 1,676 | 1,032 | 3,529 | 2,952 |
| | ===== | ===== | ===== | ===== |

10. On July 31, 2006, MPB entered into a Purchase and Assumption Agreement with Omega Bank ("Omega") pursuant to which the Bank will purchase the assets and assume the liabilities related to the Steelton and Middletown branches of Omega. Consummation of the transaction is subject to certain customary terms and conditions, including but not limited to receipt of various regulatory approvals. The transaction is expected to close during the fourth quarter of 2006.

7

Mid Penn Bancorp, Inc.
Millersburg, Pennsylvania

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

ITEM 2: Management's Discussion of Consolidated Financial Condition

Management's Discussion of Consolidated Financial Condition as of September 30, 2006, compared to year-end 2005 and the Results of Operations for the third quarter and the first nine months of 2006 compared to the same periods in 2005.

CONSOLIDATED FINANCIAL CONDITION

Total assets as of Sept. 30, 2006, were \$455,787,000, compared to \$438,110,000 as of December 31, 2005. Asset growth has been led by growth in the MPB's loan portfolio.

During the first nine months of 2006, net loans outstanding increased by \$19,815,000 from year end. The majority of this 6.4% increase was due to strong demand for commercial real estate loans, particularly in the Capital Region (Harrisburg Area), as well as the addition of two seasoned loan officers during the year.

Total deposits increased by \$3,955,000 during the first nine months of 2006. This growth came primarily from the issuance of \$10 million in brokered certificates of deposit with a weighted-average maturity of 4.3 years. MPB experienced a run-off of special-rate MMDA balances that were attracted in 2005 in association with the opening of the Allentown Boulevard Office in Harrisburg.

Maturing interest-bearing balances were invested in both higher yielding loans and available-for-sale securities, as rising rates offered opportunities in the investment arena. Net long-term borrowings increased by approximately \$5 million in an effort to lock in low interest rates. All components of long-term debt are advances from the FHLB.

As of September 30, 2006, MPB's capital ratios are well in excess of the minimum and well-capitalized guidelines, and the Corporation's capital ratios are in excess of the Bank's capital ratios. The changes in Mid Penn Bancorp's additional paid in capital account resulted from the 5% stock dividend paid to shareholders in February of 2006. In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp common stock. Through September 30, 2006, 1,117 shares have been repurchased at an average price of \$23.61 per share.

MPB has entered into a Purchase and Assumption agreement with Omega to purchase the assets and assume the liabilities related to the Steelton and Middletown branches of Omega. Assets and liabilities totaled approximately \$30 million at the time of agreement. The transaction is expected to close during the fourth quarter of 2006. The Corporation has adequate capital to absorb these additional branches.

8

RESULTS OF OPERATIONS

Net income for the first nine months of 2006 was \$3,514,000, compared with \$3,151,000 earned in the same period of 2005. Net income per share for the same period of 2006 and 2005 was \$1.05 and \$.94, respectively. Net income as a percentage of average stockholders' equity, also known as return on equity, (ROE), was 12.5% on an annualized basis for the nine months ended September 30 and 11.8% for the same period of 2005.

Net income for the third quarter of 2006 was \$1,242,000, compared with \$1,132,000 earned in the same quarter of 2005. Net income per share for the

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

third quarter of 2006 and 2005 was \$.37 and \$.34, respectively. Net income was aided by a larger base of earning assets in 2006.

Net interest income of \$3,814,000 for the quarter ended September 30, 2006, continues to show strength, increasing by more than 9% compared to the \$3,490,000 earned in the same quarter of 2005. The increase in short-term interest rates through mid-year, coupled with significant asset growth, resulted in the substantial increase in net interest income.

During the third quarter of 2006, MPB analyzed interest rate risk using the Profitstar Asset-Liability Management Model. Using the computerized model, Management reviews interest rate risk on a periodic basis. This analysis includes an earnings scenario whereby interest rates are increased by 200 basis points (2 percentage points) and another whereby they are decreased by 200 basis points. At September 30, 2006, these scenarios were within the policy limits of +/- 15% in net interest income for the next twelve months; however, actual results could vary significantly from the calculations prepared by management.

Based on Management's analysis of the loan portfolio, MPB recorded a \$75,000 provision for possible loan and lease losses during the third quarter of 2006, compared to a provision of \$280,000 made during the third quarter of 2005. The smaller provision in the third quarter of 2006 reflects both a decrease in non-performing loans as well as a decrease in loan demand during the quarter, compared to the same period of 2005. On a quarterly basis, senior management reviews potentially unsound loans taking into consideration judgments regarding risk of loss, economic conditions, trends and other factors in determining a reasonable provision for the period. A portion of the allowance for loan and lease losses is based on applying historical loss ratios to the existing loan portfolio.

Non-interest income amounted to \$735,000 for the third quarter of 2006 compared to \$836,000 earned during the same quarter of 2005. Service charges on deposits amounted to \$340,000, a decline of 3.7%, during the third quarter of 2006 as MPB continues to focus on fee and service charge income. One significant contributor to non-interest income is insufficient fund (NSF) fee income. NSF fee income contributed approximately \$274,000 of income during the third quarter of 2006 and \$294,000 during the same quarter of 2005.

Non-interest expense increased by \$258,000, or 10.2%, during the third quarter of 2006 compared to the same quarter of 2005. The majority of this increase was \$162,000 in additional personnel expense as MPB continues to grow its talent pool. Professional fees, which include recruiting fees, increased accordingly by \$43,000. We also paid approximately \$191,000 in early withdrawal penalties on a block of five-year interest bearing balances redeemed during the first two quarters of 2006. The proceeds from these jumbo certificates of deposit were reinvested at current rates to increase the Bank's interest income going forward. The increased cash flow will more than offset the penalties paid over the remaining lives of the balances.

9

LIQUIDITY

MPB's objective is to maintain adequate liquidity 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 include interest-bearing balances, maturing investment securities, borrowings, payments received on loans, and increases in deposit liabilities.

Funds generated from operations were a significant source of funds for the first nine months of 2006. Another significant source of funds came from the maturity

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

and early redemption of interest bearing balances that were liquidated during the first half of 2006, which generated over \$9.9 million in funds. During the second quarter, MPB issued \$10 million of brokered certificates of deposit with a weighted-average maturity of 4.3 years and a cost of funds of 5.05%. Another source of funds during that quarter was \$10 million of long-term borrowings entered into with the FHLB, \$5 million of which replaced a borrowing that matured during that quarter. These fixed-rate borrowings and brokered certificates were consummated in anticipation of higher rates later in the year.

The major use of funds during the first nine months of 2006 was the net increase in loans of \$20.4 million, particularly in the area of commercial loans secured by real estate. Another major use of cash during the period was the purchase of \$12 million available-for-sale securities due to rising rates offering more attractive investment opportunities.

CREDIT RISK AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Total non-performing assets have decreased to \$3,176,000 representing 0.70% of total assets at Sept. 30, 2006, from \$3,317,000 or 0.76% of total assets at December 31, 2005. Most non-performing assets are supported by collateral value that appears to be adequate at Sept. 30, 2006.

The allowance for loan and lease losses at Sept. 30, 2006, was \$4,044,000 or 1.22% of loans, net of unearned interest, as compared to \$3,704,000 or 1.19% of loans, net of unearned interest, at December 31, 2005.

Based upon the ongoing analysis of MPB's loan portfolio by the loan review department, the latest quarterly analysis of potentially unsound loans and non-performing assets, Management considers the Allowance for Loan and Lease Losses to be adequate to absorb any reasonable, foreseeable loan and lease losses.

NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board recently issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This pronouncement will be effective for MPB in 2007. The effects of this pronouncement are not determinable at this time.

In September 2006, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This standard requires, among other things, that an employer measure the funded status of a benefit plan in its balance sheet along with related disclosures. This pronouncement will be effective for MPB for the year ending December 31, 2006. The effects of this pronouncement are not determinable at this time.

10

MID PENN BANCORP, INC.

| | Sept. 30, 2006 | Dec. 31, 2005 |
|----------------------------|-------------------|------------------|
| | ----- | ----- |
| Non-Performing Assets: | | |
| Non-accrual loans | 1,747 | 1,773 |
| Past due 90 days or more | 861 | 1,086 |
| Restructured loans | 0 | 0 |
| | ----- | ----- |
| Total non-performing loans | 2,608 | 2,859 |

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

| | | |
|--|-------|-------|
| Other real estate | 568 | 458 |
| | ----- | ----- |
| Total | 3,176 | 3,317 |
| | ===== | ===== |
| Percentage of total loans outstanding | 0.96% | 1.06% |
| Percentage of total assets | 0.70% | 0.76% |
| Analysis of the Allowance for Loan and Lease Losses: | | |
| Balance beginning of period | 3,704 | 3,643 |
| Loans charged off: | | |
| Commercial real estate, construction and land development | 0 | 32 |
| Commercial, industrial and agricultural | 66 | 29 |
| Real estate - residential mortgage | 0 | 0 |
| Consumer | 84 | 138 |
| | ----- | ----- |
| Total loans charged off | 150 | 199 |
| | ----- | ----- |
| Recoveries of loans previously charged off: | | |
| Commercial real estate, construction and land development | 0 | 0 |
| Commercial, industrial and agricultural | 3 | 12 |
| Real estate - residential mortgage | 0 | 0 |
| Consumer | 52 | 23 |
| | ----- | ----- |
| Total recoveries | 55 | 35 |
| | ----- | ----- |
| Net (charge-offs) recoveries | (95) | (164) |
| | ----- | ----- |
| Current period provision for loan losses | 435 | 225 |
| | ----- | ----- |
| Balance end of period | 4,044 | 3,704 |
| | ===== | ===== |

11

Item 3: Quantitative and Qualitative Disclosure about Market Risk

In the normal course of conducting business activities, the Company is exposed to market risk, principally interest risk. Interest risk arises from market driven fluctuations in interest rates that affect cash flows, income, expense and values of financial instruments. The Asset/Liability Committee, using policies and procedures approved by the Board of Directors, is responsible for managing the rate sensitivity position.

No material changes in the market risk strategy occurred during the current period. No material changes have been noted in the Company's equity value at risk. A detailed discussion of market risk is provided in the Form 10-K for the year ended December 31, 2005.

Item 4: Controls and Procedures:

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, Mid Penn Bancorp updated its

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

evaluation, under the supervision and with the participation of the Mid Penn Bancorp's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the corporation's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15e. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Mid Penn Bancorp's disclosure controls and procedures are effective in timely alerting them to material information relating to Mid Penn Bancorp (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

Changes in Internal Controls Over Financial Reporting

There was no change in Mid Penn Bancorp's internal controls or, to its knowledge, in other factors that have materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

12

Mid Penn Bancorp, Inc.

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 Bancorp. There are no proceedings pending other than ordinary routine litigation incident to the business of Mid Penn Bancorp and of Mid Penn Bank. In addition, management does not know of any material proceedings contemplated by governmental authorities against Mid Penn Bancorp or Mid Penn Bank or any of its properties.

Item 1A. Risk Factors - 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 - In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp common stock. Through September 30, 2006, 1,117 shares have been repurchased at an average price of \$23.61 per share.

Item 3. Defaults Upon Senior Securities - Nothing to report

Item 4. Submission of Matters to a Vote of Security Holders - Nothing to Report

Item 5. Other Information - Nothing to report

13

Item 6. Exhibits -

- 3(i) The Registrant's Articles of Incorporation. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
- 3(ii) The Registrant's By-laws. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
- 10.1 Mid Penn Bank's Profit Sharing Retirement Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)

Edgar Filing: MID PENN BANCORP INC - Form 10-Q

- 10.2 Mid Penn Bank's Employee Stock Ownership Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
- 10.3 The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005.)
- 10.4 Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)
- 10.5 Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)
- 10.6 Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)
- 10.7 Purchase and Assumption Agreement by and between Mid Penn Bank and Omega Bank dated as of July 31, 2006.
- 11.0 Statement regarding the computation of Per Share Earnings (Included in body of 10-Q)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Chief Executive Officer's ss.1350 Certification.
- 32.2 Chief Financial Officer's ss.1350 Certification

14

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

/s/ Alan W. Dakey
By: Alan W. Dakey
President & CEO
Date: Nov. 3, 2006

/s/ Kevin W. Laudenslager
By: Kevin W. Laudenslager
Treasurer
Date: Nov. 3, 2006

15