

MID PENN BANCORP INC  
Form 10-Q  
May 15, 2015

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, 2015

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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(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 15, 2015, the registrant had 4,222,693 shares of common stock outstanding.

MID PENN BANCORP, INC.

FORM 10-Q

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

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

## PART 1 – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$ 12,716	\$ 8,869
Interest-bearing balances with other financial institutions	1,101	1,013
Federal funds sold	378	-
Total cash and cash equivalents	14,195	9,882
Interest-bearing time deposits with other financial institutions	5,669	5,772
Available for sale investment securities	142,680	141,634
Loans and leases, net of unearned interest	695,153	571,533
Less: Allowance for loan and lease losses	(6,566)	(6,716)
Net loans and leases	688,587	564,817
Bank premises and equipment, net	14,096	12,225
Restricted investment in bank stocks	3,517	3,181
Foreclosed assets held for sale	722	565
Accrued interest receivable	3,394	3,058
Deferred income taxes	2,363	2,125
Goodwill	3,613	1,016
Core deposit and other intangibles, net	752	187
Cash surrender value of life insurance	12,304	8,575
Other assets	3,257	2,620
Total Assets	\$ 895,149	\$ 755,657
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing demand	\$ 94,427	\$ 60,613
Interest bearing demand	230,204	222,712
Money Market	217,674	197,418
Savings	57,519	32,394
Time	159,222	124,785
Total Deposits	759,046	637,922
Short-term borrowings	621	578
Long-term debt	56,480	52,961
Accrued interest payable	498	349
Other liabilities	5,421	4,717
Total Liabilities	822,066	696,527
Shareholders' Equity:		
Series B Preferred stock, par value \$1.00; liquidation value \$1,000; authorized 5,000 shares; 7% non-cumulative dividend; 5,000 shares issued and outstanding at March 31, 2015 and		

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at December 31, 2014; total redemption value \$5,100,000	5,000	5,000
Series C Preferred stock, par value \$1.00; liquidation value \$1,000; authorized 1,750 shares; 1% non-cumulative dividend; 1,750 shares issued and outstanding at March 31, 2015 and 0 shares issued and outstanding at December 31, 2014; total redemption value \$1,750,000	1,750	-
Common stock, par value \$1.00; authorized 10,000,000 shares; 4,222,693 shares issued and outstanding at March 31, 2015 and 3,497,829 at December 31, 2014	4,223	3,498
Additional paid-in capital	40,493	29,902
Retained earnings	19,743	19,217
Accumulated other comprehensive income	1,874	1,513
Total Shareholders' Equity	73,083	59,130
Total Liabilities and Shareholders' Equity	\$ 895,149	\$ 755,657

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, 2015	2014
<b>INTEREST INCOME</b>		
Interest & fees on loans and leases	\$ 7,154	\$ 6,540
Interest on interest-bearing balances	11	10
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	331	277
State and political subdivision obligations, tax-exempt	531	519
Other securities	131	34
Total Interest Income	8,158	7,380
<b>INTEREST EXPENSE</b>		
Interest on deposits	914	978
Interest on short-term borrowings	11	14
Interest on long-term debt	195	116
Total Interest Expense	1,120	1,108
Net Interest Income	7,038	6,272
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>		
Net Interest Income After Provision for Loan and Lease Losses	6,738	5,725
<b>NONINTEREST INCOME</b>		
Income from fiduciary activities	127	158
Service charges on deposits	150	127
Net gain on sales of investment securities	177	150
Earnings from cash surrender value of life insurance	56	51
Mortgage banking income	67	38
ATM debit card interchange income	155	126
Merchant services income	50	67
Net gain on sales of SBA loans	-	51
Other income	167	126
Total Noninterest Income	949	894
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	3,195	2,548
Occupancy expense, net	454	382
Equipment expense	313	301
Pennsylvania Bank Shares tax expense	115	99
FDIC Assessment	139	132
Legal and professional fees	143	97
Director fees and benefits expense	83	79
Marketing and advertising expense	88	48
Software licensing	319	237
Telephone expense	123	96
Loss on sale/write-down of foreclosed assets	32	87
Intangible amortization	9	7



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Loan collection costs	80	71
Merger and acquisition expense	909	-
Other expenses	638	554
Total Noninterest Expense	6,640	4,738
INCOME BEFORE PROVISION FOR INCOME TAXES	1,047	1,881
Provision for income taxes	84	370
NET INCOME	963	1,511
Series B preferred stock dividends	87	87
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 876	\$ 1,424
PER COMMON SHARE DATA:		
Basic Earnings Per Common Share	\$ 0.23	\$ 0.41
Cash Dividends	\$ 0.10	\$ 0.05

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

MID PENN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)	Three Months Ended March 31,	
	2015	2014
Net income	\$ 963	\$ 1,511
Other comprehensive income:		
Unrealized gains arising during the period on available for sale securities, net of income taxes of \$244 and \$599, respectively	475	1,162
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of (\$60) and (\$51), respectively (1) (3)	(117)	(99)
Change in defined benefit plans, net of income taxes of \$1 and \$1, respectively (2) (3)	3	2
Total other comprehensive income	361	1,065
Total comprehensive income	\$ 1,324	\$ 2,576

(1) 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

(2) 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

(3) Income tax amounts are included in the provision for income taxes in the Consolidated Statements of Income

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, 2015 AND 2014

(Dollars in thousands)

	Preferred	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
	Stock	Stock	Capital	Earnings	Income	
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
Balance, January 1, 2014	\$ 5,000	\$ 3,494	\$ 29,853	\$ 15,441	\$ (872)	\$ 52,916
Net income	-	-	-	1,511	-	1,511
Total other comprehensive income, net of taxes	-	-	-	-	1,065	1,065
Employee Stock Purchase Plan (985 shares)	-	1	13	-	-	14
Common stock dividends	-	-	-	(174)	-	(174)
Series B preferred stock dividends	-	-	-	(87)	-	(87)
Balance, March 31, 2014	\$ 5,000	\$ 3,495	\$ 29,866	\$ 16,691	\$ 193	\$ 55,245

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, 2015	2014
Operating Activities:		
Net Income	\$ 963	\$ 1,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	300	547
Depreciation	314	313
Amortization of intangibles	13	4
Net amortization of security premiums	384	43
Gain on sales of investment securities	(177)	(150)
Earnings on cash surrender value of life insurance	(56)	(51)
SBA loans originated for sale	-	(468)
Proceeds from sales of SBA loans originated for sale	-	519
Gain on sale of loans	-	(51)
Loss on sale / write-down of foreclosed assets	32	87
Restricted stock compensation expense	8	-
Deferred income tax benefit	(76)	(28)
Decrease (increase) in accrued interest receivable	52	(200)
Increase in other assets	(47)	(152)
Increase in accrued interest payable	117	93
Decrease in other liabilities	(40)	(282)
Net Cash Provided By Operating Activities	1,787	1,735
Investing Activities:		
Net decrease in interest-bearing time deposits with other financial institutions	103	2,190

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Proceeds from the maturity of investment securities	2,594	3,375
Proceeds from the sale of investment securities	16,091	7,199
Purchases of investment securities	(8,065)	(7,462)
Net cash received from acquisition	8,118	-
Redemptions (purchases) of restricted investment in bank stock	173	(177)
Net increase in loans and leases	(13,579)	(3,982)
Purchases of bank premises and equipment	(393)	(499)
Proceeds from sale of foreclosed assets	27	64
Net Cash Provided By Investing Activities	5,069	708
Financing Activities:		
Net decrease in deposits	(2,114)	(1,455)
Net increase in short-term borrowings	43	4,711
Series B preferred stock dividend paid	(87)	(87)
Common stock dividend paid	(350)	(174)
Employee Stock Purchase Plan	16	14
Long-term debt repayment	(51)	(45)
Net Cash (Used In) Provided By Financing Activities	(2,543)	2,964
Net increase in cash and cash equivalents	4,313	5,407
Cash and cash equivalents, beginning of year	9,882	8,623
Cash and cash equivalents, end of year	\$ 14,195	\$ 14,030

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

Supplemental Disclosures of Cash Flow Information:

Interest paid	\$ 971	\$ 1,015
Income taxes paid	\$ 100	\$ -

Supplemental Noncash Disclosures:

Loan transfers to foreclosed assets held for sale	\$ 216	\$ 264
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Assets, Liabilities, and Equity in Connection with Merger:  
(Dollars in thousands)

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





MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. and its wholly-owned subsidiaries, Mid Penn Bank (“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.

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”). Mid Penn believes the information presented is not misleading and the disclosures are adequate. For comparative purposes, the March 31, 2014 and December 31, 2014 balances have been reclassified to conform to the 2014 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, 2014.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2015, 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) Merger

On March 1, 2015, Mid Penn consummated the merger with Phoenix Bancorp, Inc. (“Phoenix”), a Pennsylvania corporation. Under the terms of a merger agreement between the parties, 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 Mid Penn Bank, a Pennsylvania-state chartered bank and wholly-owned subsidiary of Mid Penn.

As part of this transaction, Phoenix shareholders received either 3.167 shares of Mid Penn’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 Mid Penn’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 Mid Penn’s closing stock price of \$15.60 on February 27, 2015, 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 Mid Penn'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 qualify as Tier 1 Capital and have 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 \$2,597,000 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 2015 is estimated to be \$88,000, \$96,000, \$86,000, \$75,000, and \$65,000 per year, respectively, and \$168,000 in total for years after 2019.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

The allocation of the purchase price is as follows:

(Dollars in thousands)

Purchase price assigned to Phoenix common shares exchanged for 723,851 Mid Penn common shares	\$ 11,292
Purchase price assigned to Phoenix common shares exchanged for cash	2,949
Total purchase price	14,241
Phoenix net assets acquired:	
Tangible Common Equity	12,292
Estimated adjustments to reflect assets acquired and liabilities assumed at fair value:	
Total fair value adjustments	(982)
Associated deferred income taxes	334
Fair value adjustment to net assets acquired, net of tax	(648)
Total Phoenix net assets acquired	11,644
Goodwill resulting from the merger	\$ 2,597

While Mid Penn believes that the accounting for the merger is complete, ASC 805 allows for adjustments to goodwill for a period of up to one year after the merger date for information that becomes available that reflects circumstances at the merger date. The following table summarizes the estimated fair value of the assets acquired and liabilities and equity assumed.

(Dollars in thousands)

Total purchase price	\$ 14,241
Net assets acquired:	
Cash and cash equivalents	11,067
Investment securities	11,331
Restricted stock	509
Loans	110,707
Bank owned life insurance	3,673
Premises and equipment	1,792
Accrued interest receivable	388
Core deposit and other intangibles	578
Other assets	933
Deposits	(123,238)
FHLB borrowings	(3,570)
Accrued interest payable	(32)
Other liabilities	(744)
Preferred stock	(1,750)

	11,644
Goodwill	\$ 2,597

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of \$113,090,000. 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	\$ 113,090
Market rate adjustment	222
Credit fair value adjustment on pools of homogeneous loans	(1,462)
Credit fair value adjustment on impaired loans	(1,143)
Fair value of purchased loans at March 1, 2015	\$ 110,707

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the started 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

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

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)	(663)
Expected cash flows at acquisition	2,885
Interest component of expected cash flows (accretable discount)	(480)
Fair value of acquired loans	\$ 2,405

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 \$909,000 of merger related costs incurred in the first three months of 2015; the results for the first three months of 2014 were adjusted to include these charges. 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.

(Dollars in thousands)	March 31, 2015	March 31, 2014
Net interest income after loan loss provision	\$ 7,374	\$ 7,050
Noninterest income	1,014	1,129
Noninterest expense	6,815	7,548
Net income available to common shareholders	1,276	543
Net income per common share	0.30	0.13

The amount of total revenue, consisting of interest income plus noninterest income, as well as the net income specifically related to Phoenix for the period beginning March 1, 2015, included in the consolidated statements of income of Mid Penn for the three months ended March 31, 2015, was \$495,000 and \$50,000, respectively.

(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 the Corporation's consolidated statements of income.

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.

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.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

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.

At March 31, 2015 and December 31, 2014, 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
March 31, 2015				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,337	\$ 1,026	\$ 16	\$ 27,347
Mortgage-backed U.S. government agencies	36,938	250	140	37,048
State and political subdivision obligations	74,162	2,077	242	75,997
Equity securities	2,239	70	21	2,288
	\$ 139,676	\$ 3,423	\$ 419	\$ 142,680

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,343	\$ 752	\$ 29	\$ 27,066
Mortgage-backed U.S. government agencies	33,763	190	177	33,776
State and political subdivision obligations	77,482	2,007	318	79,171
Equity securities	1,584	60	23	1,621
	\$ 139,172	\$ 3,009	\$ 547	\$ 141,634

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.

Investment securities having a fair value of \$127,164,000 at March 31, 2015 and \$134,740,000 at December 31, 2014, were pledged to secure public deposits and other borrowings.

Mid Penn realized gross gains of \$177,000 and \$150,000 on sales of securities available for sale during the three months ended March 31, 2015 and March 31, 2014. Mid Penn realized gross losses on the sale of securities available

for sale of \$0 during the three months ended March 31, 2015 and March 31, 2014.

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, 2015 and December 31, 2014.

(Dollars in thousands)		Less Than 12 Months		12 Months or More		Total	
March 31, 2015	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:							
U.S. Treasury and U.S. government agencies	4	\$ 4,397	\$ 16	\$ -	\$ -	\$ 4,397	\$ 16
Mortgage-backed U.S. government agencies	17	9,881	66	2,968	74	12,849	140
State and political subdivision obligations	25	8,463	48	4,592	194	13,055	242
Equity securities	2	-	-	596	21	596	21
Total temporarily impaired available for sale securities	48	\$ 22,741	\$ 130	\$ 8,156	\$ 289	\$ 30,897	\$ 419



## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands) December 31, 2014	Number of Securities	Less Than 12 Months Fair Value	12 Months Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available for sale securities:							
U.S. Treasury and U.S. government agencies	5	\$ 6,059	\$ 29	\$ -	\$ -	\$ 6,059	\$ 29
Mortgage-backed U.S. government agencies	20	9,511	62	4,416	115	13,927	177
State and political subdivision obligations	37	4,444	33	13,947	285	18,391	318
Equity securities	2	-	-	583	23	583	23
Total temporarily impaired available for sale securities	64	\$ 20,014	\$ 124	\$ 18,946	\$ 423	\$ 38,960	\$ 547

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, the Corporation 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.

The majority of the investment portfolio is comprised of mortgage-backed U.S. government agencies and state and political subdivision obligations with school districts and municipal authorities throughout the U.S. For the investment securities with an unrealized loss, Mid Penn has concluded, based on its analysis, that the unrealized losses in the investments are primarily caused by the movement of interest rates, and the contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment.

At March 31, 2015, 46 debt securities and 2 equity security with unrealized losses totaling \$419,000 depreciated 1.36% from their amortized cost basis. At March 31, 2015, unrealized losses for twelve months or longer totaled \$289,000 of which the majority was attributed to state and political subdivision obligations with \$194,000 in unrealized losses. At December 31, 2014, 62 debt securities and 2 equity security with unrealized losses totaling \$547,000 depreciated 1.40% from their amortized cost basis. At December 31, 2014, unrealized losses for twelve months or longer totaled \$423,000 of which the majority was attributed to mortgage,-backed U.S. government agencies and state and political subdivision obligations with \$115,000 and \$285,000 in unrealized losses, respectively.

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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.

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

(Dollars in thousands)	March 31, 2015	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 1,488	\$ 1,516
Due after 1 year but within 5 years	14,470	15,068
Due after 5 years but within 10 years	48,039	49,435
Due after 10 years	36,502	37,325
	100,499	103,344
Mortgage-backed securities	36,938	37,048
Equity securities	2,239	2,288
	\$ 139,676	\$ 142,680

MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(4) 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 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

MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

value concerns within the portfolio. Leasing has been a declining percentage of the Mid Penn's portfolio since 2006, representing 0.15% of the portfolio at March 31, 2015.

#### 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 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.

Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a higher security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market continues to be weak and property values deteriorate.

#### Allowance for Loan and Lease Losses

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 ("allowance") 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

MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

balance sheet. The allowance 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, 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 allowance 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.

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 substandard 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 an impaired 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 an impaired 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 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 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



MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

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 impaired. 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.

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 a temporary reduction in interest rate 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 and State 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.

#### Acquired Loans

Loans that Mid Penn acquires in connection with acquisitions are recorded at fair value with no carryover of the related allowance for loan losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount includes estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows will require Mid Penn to evaluate the need for an additional allowance for credit losses. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable discount which Mid Penn will then reclassify as accretable discount that will be recognized into interest income over the remaining life of the loan.

Acquired loans that met the criteria for impaired or nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent if Mid Penn expects to fully collect the new carrying value (i.e. fair value) of the loans. As such, Mid Penn may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. In addition, charge-offs on such loans would be first applied to the nonaccretable difference portion of the fair value adjustment.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30, but for which a discount is attributable at least in part to credit quality, are also accounted for in accordance with this guidance. As a result, related discounts are recognized subsequently through accretion based on the contractual cash flows of the acquired loans.

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, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)		Special			
March 31, 2015	Pass	Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 156,220	\$ 2,684	\$ 1,350	\$ -	\$ 160,254
Commercial real estate	322,756	6,955	10,936	-	340,647
Commercial real estate - construction	60,149	237	-	-	60,386
Lease financing	1,016	-	-	-	1,016
Residential mortgage	95,731	359	1,443	-	97,533
Home equity	31,372	344	394	-	32,110
Consumer	3,207	-	-	-	3,207
	\$ 670,451	\$ 10,579	\$ 14,123	\$ -	\$ 695,153

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(Dollars in thousands) December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 117,166	\$ 654	\$ 1,190	\$ -	\$ 119,010
Commercial real estate	280,817	4,859	11,681	-	297,357
Commercial real estate - construction	55,834	242	-	-	56,076
Lease financing	1,121	-	-	-	1,121
Residential mortgage	64,900	252	1,290	-	66,442
Home equity	28,167	138	201	-	28,506
Consumer	3,021	-	-	-	3,021
	\$ 551,026	\$ 6,145	\$ 14,362	\$ -	\$ 571,533

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

Impaired loans by loan portfolio class as of March 31, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	March 31, 2015			December 31, 2014		
	Recorded	Unpaid Principal Investmen	Related Allowance	Recorded	Unpaid Principal Investmen	Related Allowance
With no related allowance recorded:						
Commercial and industrial:						
Commercial and industrial	\$ 30	\$ 64	\$ -	\$ 395	\$ 430	\$ -
Acquired with credit deterioration*	272	272	-	-	-	-
Commercial real estate:						
Commercial real estate	1,895	4,453	-	1,971	4,481	-
Acquired with credit deterioration*	1,675	1,675	-	-	-	-
Residential mortgage:						
Residential mortgage	935	1,011	-	1,146	1,286	-
Acquired with credit deterioration*	425	425	-	-	-	-
Home equity:						
Home equity	40	56	-	29	88	-
Acquired with credit deterioration*	21	21	-	-	-	-
With an allowance recorded:						
Commercial and industrial	\$ 580	\$ 591	\$ 223	\$ 223	\$ 231	\$ 137
Commercial real estate	5,163	5,380	1,103	6,954	7,255	1,382
Residential mortgage	31	32	23	-	-	-
Home equity	206	208	139	211	213	115
Total:						
Commercial and industrial	\$ 882	\$ 927	\$ 223	\$ 618	\$ 661	\$ 137
Commercial real estate	8,733	11,508	1,103	8,925	11,736	1,382
Residential mortgage	1,391	1,468	23	1,146	1,286	-
Home equity	267	285	139	240	301	115

\* Loans acquired with credit deterioration are presented net of credit fair value adjustment.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

Average recorded investment of impaired loans and related interest income recognized for the three months ended March 31, 2015 and March 31, 2014 are summarized as follows:

(Dollars in thousands)	March 31, 2015		March 31, 2014	
	Average Recorded Investmen	Interest Recognized	Average Recorded Investmen	Interest Recognized
With no related allowance recorded:				
Commercial and industrial:				
Commercial and industrial	\$ 31	\$ -	\$ 190	\$ -
Acquired with credit deterioration	55	-	-	-
Commercial real estate:				
Commercial real estate	1,933	-	2,697	-
Acquired with credit deterioration	335	-	-	-
Residential mortgage:				
Residential mortgage	932	-	263	-
Acquired with credit deterioration	85	-	-	-
Home equity:				
Home equity	32	-	27	-
Acquired with credit deterioration	4	-	-	-
With an allowance recorded:				
Commercial and industrial	\$ 583	\$ -	\$ 74	\$ -
Commercial real estate	5,177	-	7,059	-
Residential mortgage	16	-	-	-
Home equity	208	-	47	-
Total:				
Commercial and industrial	\$ 669	\$ -	\$ 264	\$ -
Commercial real estate	7,445	-	9,756	-
Residential mortgage	1,033	-	263	-
Home equity	244	-	74	-

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MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

Non-accrual loans by loan portfolio class as of March 31, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Commercial and industrial	\$ 449	\$ 267
Commercial real estate	5,452	7,249
Residential mortgage	1,249	1,152
Home equity	267	239
	\$ 7,417	\$ 8,907

The performance and credit quality of the loan portfolio is also monitored by the 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, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)

	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
March 31, 2015							
Commercial and industrial:							
Commercial and industrial	\$ 246	\$ -	\$ 92	\$ 338	\$ 159,644	\$ 159,982	\$ -
Acquired with credit deterioration	-	-	-	-	272	272	-
Commercial real estate:							
Commercial real estate	301	288	5,168	5,757	333,215	338,972	-
Acquired with credit deterioration	-	316	50	366	1,309	1,675	50
Commercial real estate - construction:							
Commercial real estate - construction	-	-	-	-	60,386	60,386	-
Lease financing:							
Lease financing	-	-	-	-	1,016	1,016	-
Residential mortgage:							
Residential mortgage	552	78	896	1,526	95,582	97,108	-
Acquired with credit deterioration	64	-	244	308	117	425	-
Home equity:							
Home equity	50	-	166	216	31,873	32,089	-
Acquired with credit deterioration	-	-	21	21	-	21	-
Consumer:							
Consumer	-	-	-	-	3,207	3,207	-
Total	\$ 1,213	\$ 682	\$ 6,637	\$ 8,532	\$ 686,621	\$ 695,153	\$ 50

(Dollars in thousands)

	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
December 31, 2014							
Commercial and industrial	\$ 172	\$ 290	\$ 87	\$ 549	\$ 118,461	\$ 119,010	\$ -
Commercial real estate	403	197	6,585	7,185	290,172	297,357	-
Commercial real estate - construction	-	-	-	-	56,076	56,076	-
Lease financing	-	-	-	-	1,121	1,121	-
Residential mortgage	328	82	1,117	1,527	64,915	66,442	-
Home equity	93	63	157	313	28,193	28,506	-
Consumer	6	-	-	6	3,015	3,021	-
Total	\$ 1,002	\$ 632	\$ 7,946	\$ 9,580	\$ 561,953	\$ 571,533	\$ -



## 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, 2015	Commercial							Consumer	Unallocated	Total
	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity				
Allowance for loan and lease losses:										
Beginning balance	\$ 1,393	\$ 3,925	\$ 33	\$ 2	\$ 450	\$ 653	\$ 35	\$ 225	\$ 6,716	
Charge-offs	-	(450)	-	-	(1)	(29)	(5)	-	(485)	
Recoveries	-	2	-	-	-	29	4	-	35	
Provisions	246	149	2	(1)	95	(134)	3	(60)	300	
Ending balance	\$ 1,639	\$ 3,626	\$ 35	\$ 1	\$ 544	\$ 519	\$ 37	\$ 165	\$ 6,566	

Ending balance:

individually evaluated for impairment	\$ 223	\$ 1,103	\$ -	\$ -	\$ 23	\$ 139	\$ -	\$ -	\$ 1,488
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Ending balance:

collectively evaluated for impairment	\$ 1,416	\$ 2,523	\$ 35	\$ 1	\$ 521	\$ 380	\$ 37	\$ 165	\$ 5,078
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Ending balance:

acquired with credit deterioration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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Loans

receivables:

Ending balance	\$ 160,254	\$ 340,647	\$ 60,386	\$ 1,016	\$ 97,533	\$ 32,110	\$ 3,207	\$ -	\$ 695,153
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Ending balance:

individually evaluated for impairment	\$ 610	\$ 7,058	\$ -	\$ -	\$ 966	\$ 246	\$ -	\$ -	\$ 8,880
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Ending balance:

collectively evaluated for impairment	\$ 159,372	\$ 331,914	\$ 60,386	\$ 1,016	\$ 96,142	\$ 31,843	\$ 3,207	\$ -	\$ 683,880
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Ending balance: acquired with credit	\$ 272	\$ 1,675	\$ -	\$ -	\$ 425	\$ 21	\$ -	\$ -	\$ 2,393
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deterioration

(Dollars in thousands)

As of, and for the period ended, March 31, 2014	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage equity	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Beginning balance	\$ 1,187	\$ 4,006	\$ 9	\$ -	\$ 581	\$ 441	\$ 72	\$ 21	\$ 6,317
Charge-offs	(40)	(368)	-	-	(59)	-	(16)	-	(483)
Recoveries	3	-	-	-	-	-	39	-	42
Provisions	40	348	4	1	19	(12)	(27)	174	547
Ending balance	\$ 1,190	\$ 3,986	\$ 13	\$ 1	\$ 541	\$ 429	\$ 68	\$ 195	\$ 6,423

Ending balance: individually evaluated for impairment	\$ 66	\$ 1,792	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ -	\$ 1,866
Ending balance: collectively evaluated for impairment	\$ 1,124	\$ 2,194	\$ 13	\$ 1	\$ 541	\$ 421	\$ 68	\$ 195	\$ 4,557

## Loans

receivables:									
Ending balance	\$ 106,033	\$ 296,103	\$ 46,849	\$ 1,496	\$ 68,321	\$ 26,464	\$ 4,473	\$ -	\$ 549,739
Ending balance: individually evaluated for impairment	\$ 269	\$ 10,014	\$ -	\$ -	\$ 260	\$ 71	\$ -	\$ -	\$ 10,614
Ending balance: collectively evaluated for impairment	\$ 105,764	\$ 286,089	\$ 46,849	\$ 1,496	\$ 68,061	\$ 26,393	\$ 4,473	\$ -	\$ 539,125

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MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands)

December 31, 2014	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Ending balance	\$ 1,393	\$ 3,925	\$ 33	\$ 2	\$ 450	\$ 653	\$ 35	\$ 225	\$ 6,716
Ending balance: individually evaluated for impairment	\$ 137	\$ 1,382	\$ -	\$ -	\$ -	\$ 115	\$ -	\$ -	\$ 1,634
Ending balance: collectively evaluated for impairment	\$ 1,256	\$ 2,543	\$ 33	\$ 2	\$ 450	\$ 538	\$ 35	\$ 225	\$ 5,082
Loans receivables:									
Ending balance	\$ 119,010	\$ 297,357	\$ 56,076	\$ 1,121	\$ 66,442	\$ 28,506	\$ 3,021	\$ -	\$ 571,533
Ending balance: individually evaluated for impairment	\$ 618	\$ 8,925	\$ -	\$ -	\$ 1,146	240	\$ -	\$ -	\$ 10,929
Ending balance: collectively evaluated for impairment	\$ 118,392	\$ 288,432	\$ 56,076	\$ 1,121	\$ 65,296	\$ 28,266	\$ 3,021	\$ -	\$ 560,604

The recorded investments in troubled debt restructured loans at March 31, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
March 31, 2015			
Commercial and industrial	\$ 40	\$ 35	\$ 20
Commercial real estate	9,518	7,628	6,357

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Residential mortgage	733	727	601
	\$ 10,291	\$ 8,390	\$ 6,978

(Dollars in thousands)	Pre-Modification	Post-Modification	
	Outstanding	Outstanding	
	Recorded	Recorded	Recorded
December 31, 2014	Investment	Investment	Investment
Commercial and industrial	\$ 40	\$ 35	\$ 23
Commercial real estate	11,189	9,443	8,005
Residential mortgage	903	897	713
Home equity	50	7	5
	\$ 12,182	\$ 10,382	\$ 8,746

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.

Mid Penn's troubled debt restructured loans at March 31, 2015 totaled \$6,978,000, of which six loans totaling \$1,994,000 represented accruing impaired loans in compliance with the terms of the modification. Of the \$1,994,000, three are accruing impaired residential mortgages to unrelated borrowers totaling \$69,000 and the other three are accruing impaired commercial real estate loans spread among two relationships totaling \$1,925,000. The remaining \$4,984,000, representing 11 loans among seven relationships, are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. One large relationship accounts for \$3,123,000 of the \$4,984,000 nonaccrual impaired troubled debt restructured loan total.

At December 31, 2014, Mid Penn's troubled debt restructured loans totaled \$8,746,000, of which six loans totaling \$2,035,000, represented accruing impaired loans in compliance with the terms of the modification. Of the \$2,035,000, three are accruing impaired residential mortgages to unrelated borrowers totaling \$71,000 and the other three are accruing impaired commercial real estate loans spread among two relationships totaling \$1,964,000. The remaining \$6,711,000, representing 14 loans among nine relationships, are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. Two large relationships account for \$4,680,000 of the \$6,711,000 nonaccrual impaired troubled debt restructured loan total.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

As a result of the evaluations at March 31, 2015 and March 31, 2014, a specific allocation and, subsequently, charge-offs have been taken as appropriate. As of March 31, 2015 and March 31, 2014, charge-offs associated with troubled debt restructured loans while under 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. As of March 31, 2015, one forbearance agreement was negotiated during 2008, 10 forbearance agreements were negotiated during 2009, three forbearance agreements were negotiated in 2013, and three forbearance agreements were negotiated during 2014.

There were no new loans modified during the three months ended March 31, 2015 and 2014 that resulted in troubled debt restructurings. There were two troubled debt restructured loans to unrelated borrowers that defaulted within twelve months of restructure totaling \$3,412,000 for the three months ended March 31, 2015, while there were none for the three month ended March 31, 2014.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at March 31, 2015 and December 31, 2014 totaled \$277,000 and \$485,000, respectively.

The following table provides activity for the accretable yield of purchased impaired loans for the quarter ended March 31, 2015:

(Dollars in thousands)

Accretable yield, January 1, 2015	\$ -
Acquisition of impaired loans	480
Accretable yield amortized to interest income	(12)
Reclassification from nonaccretable difference (1)	-
Accretable yield, March 31, 2015	\$ 468

(1) Reclassification from non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying portfolio.

(5) Fair Value Measurement

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.

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. An asset's or liability's placement in the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement or disclosure. 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;



MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

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, 2015. The following tables illustrate the assets measured at fair value on a recurring basis segregated by hierarchy fair value levels.

(Dollars in thousands)	Total carrying value at March 31, 2015	Fair value measurements at March 31, 2015 using:		
		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	\$ 27,347	\$ -	\$ 27,347	\$ -
Mortgage-backed U.S. government agencies	37,048	-	37,048	-
State and political subdivision obligations	75,997	-	75,997	-
Equity securities	2,288	1,218	1,070	-
	\$ 142,680	\$ 1,218	\$ 141,462	\$ -

(Dollars in thousands)	Total carrying value at	Fair value measurements at December 31, 2014 using:		
		Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs



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	December 31, 2014	(Level 1)	(Level 2)	(Level 3)
Assets:				
U.S. Treasury and U.S. government agencies	\$ 27,066	\$ -	\$ 27,066	\$ -
Mortgage-backed U.S. government agencies	33,776	-	33,776	-
State and political subdivision obligations	79,171	-	79,171	-
Equity securities	1,621	561	1,060	-
	\$ 141,634	\$ 561	\$ 141,073	\$ -

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).

The following tables illustrate the assets measured at fair value on a nonrecurring basis segregated by hierarchy fair value levels.

(Dollars in thousands)	Total carrying value at March 31, 2015	Fair value measurements at March 31, 2015 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	\$ 5,265	\$ -	\$ -	\$ 5,265
Foreclosed Assets Held for Sale	393	-	-	393
Mortgage Servicing Rights	182	-	-	182

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands)	Fair value measurements at December 31, 2014 using:			
	Total carrying value at December 31, 2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	\$ 6,664	\$ -	\$ -	\$ 6,664
Foreclosed Assets Held for Sale	142	-	-	142
Mortgage Servicing Rights	187	-	-	187

The following tables present 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 as of March 31, 2015 and December 31, 2014.

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
March 31, 2015					
Impaired Loans	\$ 5,265	Appraisal of collateral (1)	Appraisal adjustments (2)	10% - 95%	32%
Foreclosed Assets Held for Sale	393	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	15% - 40%	27%
Mortgage Servicing Rights	182	Multiple of annual service fee	Estimated prepayment speed based on rate and term	240% - 400%	352%

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
December 31, 2014					
Impaired Loans	\$ 6,664	Appraisal of collateral (1)	Appraisal adjustments (2)	10% - 95%	32%
Foreclosed Assets Held for Sale	142	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	15% - 40%	27%

Mortgage Servicing Rights	187	Multiple of annual service fee	Estimated prepayment speed based on rate and term	210% - 400%	353%
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- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various level 3 inputs which are not observable.
- (2) Appraisals may be adjusted downward 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. Higher downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received, or age of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

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

Cash and Cash Equivalents:

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

Interest-bearing Balances with other Financial Institutions:

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

Securities Available for Sale:

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

MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices.

Impaired Loans:

Mid Penn's rating system assumes any loans classified as substandard and 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 substandard 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.

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:

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

Short-term Borrowings:

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

Long-term Debt:

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



## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

## Commitments to Extend Credit and Letters of Credit:

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

The following table summarizes the carrying value and fair value of financial instruments at March 31, 2015 and December 31, 2014.

(Dollars in thousands)	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 14,195	\$ 14,195	\$ 9,882	\$ 9,882
Interest-bearing time balances with other financial institutions	5,669	5,669	5,772	5,772
Investment securities	142,680	142,680	141,634	141,634
Net loans and leases	688,587	696,138	564,817	572,487
Restricted investment in bank stocks	3,517	3,517	3,181	3,181
Accrued interest receivable	3,394	3,394	3,058	3,058
Mortgage servicing rights	182	182	187	187
<b>Financial liabilities:</b>				
Deposits	\$ 759,046	\$ 760,676	\$ 637,922	\$ 639,226
Short-term borrowings	621	621	578	578
Long-term debt	56,480	56,093	52,961	52,514
Accrued interest payable	498	498	349	349
<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, 2015 and December 31, 2014. Carrying values approximate fair values for cash and cash equivalents, interest-bearing time balances with other financial institutions, restricted investment in bank stocks, mortgage servicing rights, accrued interest receivable and payable, and short-term borrowings. Other than cash and cash equivalents, which are considered Level 1 Inputs and mortgage servicing rights, which are Level 3 inputs, these instruments are Level 2 Inputs. These tables exclude 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)
March 31, 2015					
Financial instruments - assets					
Net loans and leases	\$ 688,587	\$ 696,138	\$ -	\$ -	\$ 696,138
Financial instruments - liabilities					
Deposits	\$ 759,046	\$ 760,676	\$ -	\$ 760,676	\$ -
Long-term debt	56,480	56,093	-	56,093	-



## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

(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)
December 31, 2014					
Financial instruments - assets					
Net loans and leases	\$ 564,817	\$ 572,487	\$ -	\$ -	\$ 572,487
Financial instruments - liabilities					
Deposits	\$ 637,922	\$ 639,226	\$ -	\$ 639,226	\$ -
Long-term debt	52,961	52,514	-	52,514	-

## (6) 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 \$9,963,000 and \$9,837,000 standby letters of credit outstanding as of March 31, 2015 and December 31, 2014, respectively. Mid Penn does not anticipate any losses because of these transactions. The current amount of the liability as of March 31, 2015 for payment under standby letters of credit issued was not material.

## (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 the 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	
	2015	2014	2015	2014
Service cost	\$ 8	\$ 8	\$ 3	\$ 3
Interest cost	11	13	8	9
Amortization of prior service cost	4	3	-	-
Net periodic benefit cost	\$ 23	\$ 24	\$ 11	\$ 12

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

## (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 Plans Liabilities	Accumulated Other Comprehensive Income
Balance - March 31, 2015	\$ 1,984	\$ (110)	\$ 1,874
Balance - December 31, 2014	\$ 1,626	\$ (113)	\$ 1,513

## (9) Common Stock

On June 25, 2014, the 2014 Restricted Stock Plan was registered, which awards shall not exceed, in the aggregate 100,000 shares of common stock. The Plan was established for employees and directors of Mid Penn and the Bank, selected by the Compensation Committee of the Board of Directors, to advance the best interest of Mid Penn and its shareholders. The Plan provides those persons who have a responsibility for its growth with additional incentives by allowing them to acquire an ownership interest in Mid Penn and thereby encouraging them to contribute to the success of the company. As of March 31, 2015, 3,500 shares have been granted under the plan, which resulted in \$8,000 of compensation expense.

## (10) Preferred Stock

Small Business Lending Fund

On March 1, 2015, Mid Penn assumed all of the issued and outstanding shares of Phoenix with respect to 1,750 shares of Phoenix's preferred stock issued to the Treasury in connection with the Small Business Lending Fund and issued 1,750 shares of Mid Penn's SBLF Preferred Shares having a \$1,000 liquidation preference per share, to the Treasury. The SBLF Preferred Shares qualify as Tier 1 Capital and have terms and conditions identical to those shares of preferred stock issued by Phoenix to the Treasury. Mid Penn will pay noncumulative dividends payable quarterly on January 1, April 1, July 1, and October 1 of each year. The current dividend rate is 1.00% per annum for payment dates up to and including January 1, 2016. Following this date, the dividend rate will increase to 9% per annum thereafter.

The SBLF Preferred Shares may be redeemed at any time at the option of Mid Penn, subject to the approval of the appropriate federal banking agency. All redemptions must be made at a per share redemption price equal to 100% of the liquidation preference, plus accrued and unpaid dividends as of the date of the redemption ("Redemption Date") for the quarter that includes the Redemption Date, and a pro rata portion of any lending incentive fee. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then outstanding shares, if less than 25% of the number of originally issued shares.

#### Stock Issued Under Private Placement Offering

On September 26, 2012, Mid Penn filed with the Pennsylvania Department of State a Statement with Respect to Shares which, effective upon filing, designated a series of preferred stock as "7% Non-Cumulative Non-Voting Non-Convertible Perpetual Preferred Stock, Series B" ("Series B Preferred Stock"), and set forth the voting and other powers, designations, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions of the Series B Preferred Stock.

Mid Penn sold shares of its Series B Preferred Stock, in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(a)(2) thereof.

Between September 26, 2012 and December 31, 2012, Mid Penn sold 4,880 shares of its Series B Preferred Stock for total gross proceeds of \$4,880,000, which have been offset by issuance costs of \$50,000. On January 3, 2013, 120 additional shares were sold resulting in total gross proceeds of \$5,000,000 for the Series B Preferred Stock offering.

## MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

The following table summarizes the Series B Preferred Stock shares sold and the gross proceeds received through the private placement offering as of March 31, 2015:

(Dollars in thousands)

Period	Shares	Gross
		Proceeds
September 26, 2012 - September 30, 2012	345	\$ 345,000
October 1, 2012 - December 31, 2012	4,535	4,535,000
January 1, 2013 - December 31, 2013	120	120,000
January 1, 2014 - December 31, 2014	-	-
January 1, 2015 - March 31, 2015	-	-
Total	5,000	\$ 5,000,000

The annual dividend rate for the Series B Preferred Stock is 7% per annum of the liquidation preference of the Series B Preferred Stock or \$70.00 per annum for each share of Series B Preferred Stock. The Board of Directors must approve each dividend payment from legally available funds. Dividends are payable to holders of record of the Series B Preferred Stock as they appear on our books on the record dates fixed by our Board of Directors. Dividends on any of Series B Preferred Stock are non-cumulative. If and when dividends are declared, they will be paid on February 15, May 15, August 15, and November 15 of each year. If a dividend payment date is not a business day, the dividend will be paid on the immediately preceding business day but no additional dividend payment will be prorated from the date of purchase to the first dividend payment date over a quarterly dividend period of 90 days.

Mid Penn may redeem shares of its Series B Preferred Stock at its option, in whole or in part, at any time subject to prior approval of the Federal Reserve Board, if then required, at a redemption price of \$1,020 per share of Series B Preferred Stock plus an amount equal to any declared but unpaid dividends and in accordance with the terms and conditions set forth in a Certificate of Designations for the Series B Preferred Stock as filed with the Pennsylvania Department of State.

#### (11) Earnings per Common Share

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each of the years presented. The following data show the amounts used in computing basic and diluted earnings per share.

The computations of basic earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2015	2014
Net Income	\$ 963	\$ 1,511
Less: Dividends on Series B preferred stock	87	87
Net income available to common shareholders	\$ 876	\$ 1,424
Weighted average common shares outstanding	3,747,167	3,494,408
Basic earnings per common share	\$ 0.23	\$ 0.41

Mid Penn did not have dilutive securities outstanding as of March 31, 2015 and 2014.

## (12) Recent Accounting Pronouncements

ASU 2014-09: The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) Update 2014-09, Revenue from Contracts with Customers (Topic 606).

The amendments in this Update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

MID PENN BANCORP, INC. Notes to Consolidated Financial Statements (Unaudited)

The ASU is effective for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the this alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited. In April 2015, the FASB proposed a one-year delay of the effective date of the revenue recognition standard. The deferral would require public entities to apply the new revenue standard for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Public entities would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016.

ASU 2014-17: The FASB issued ASU Update 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force).

The ASU amends Topic 805 so that a reporting entity that is a business or nonprofit activity (an “acquiree”) has the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. The option is available for each individual change-in-control event. Control has the same meaning as a “controlling financial interest” under Topic 810, such that pushdown accounting may be applied if an acquirer obtains control through a simple majority of the outstanding voting shares of the acquiree (e.g., 51%). Similarly, a Variable Interest Entity is considered an “acquiree” of its primary beneficiary and may also elect pushdown accounting.

If the acquiree elects to apply pushdown accounting, it must do so as of the acquisition date of the change-in-control event. Further, any subsidiary of the acquiree may elect to apply pushdown accounting to its separate financial statements, regardless of whether the acquiree elects to apply pushdown accounting. Upon election, the acquiree would adjust its standalone financial statements to reflect the acquirer’s new basis in the acquired entity’s assets and liabilities, and would provide relevant disclosures under Topic 805 to enable users to evaluate the effect of pushdown accounting. The ASU became effective upon issuance on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

Mid Penn is currently evaluating the effects these Updates will have on its consolidated financial statements.





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## 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, 2015, compared to year-end 2014, and the Results of Operations for the three months ended March 31, 2015, compared to the same period in 2014. The comparability of the financial condition and results of operations as of and for the three month periods ended March 31, 2015 and 2014, in general, have been impacted by the acquisition of Phoenix. The recorded amounts of assets purchased and liabilities assumed in the Phoenix acquisition may be adjusted for up to one year subsequent to the acquisition. Such adjustments, if any, are not expected to be significant.

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, 2014. 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 future economic conditions on Mid Penn and its customers;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- future actions or inactions of the United States government, including a failure to increase the government debt limit or a prolonged shutdown of the federal government;
- possible impacts of the capital and liquidity requirements imposed by Basel III standards and other regulatory pronouncements, regulations and rules;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, 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, which may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- loss of certain key officers;
- results of the regulator examination and supervision process;
- 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;
- our ability to maintain compliance with the exchange rules of the NASDAQ Stock Market, Inc.;
- our ability to maintain the value and image of our brand and protect our intellectual property rights;
- disruptions due to flooding, severe weather, or other natural disasters or Acts of God;
- volatilities in the securities markets; and
- slow 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 Mid Penn periodically files with the SEC, including Mid Penn's Annual Report on Form 10-K for the year ended December 31, 2014.

#### Critical Accounting Estimates

Mid Penn's consolidated financial statements are prepared in accordance with 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 Mid Penn used are based on historical experiences and other

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factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and estimates that Mid Penn has 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 the Corporation's investment securities for other-than-temporary impairment, and the valuation of assets acquired and liabilities assumed 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.

Valuations for the investment portfolio are determined using quoted market prices, where available. If quoted market prices are not available, investment valuation is based on pricing models, quotes for similar investment securities, and observable yield curves and spreads. In addition to valuation, management must assess whether there are any declines in value below the carrying value of the investments that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of the loss in the consolidated statement of income.

Valuations of assets acquired and liabilities assumed in business combinations are measured at fair value as of the acquisition date. In many cases, determining the fair value of the assets acquired and liabilities assumed requires Mid Penn to estimate cash flows expected to result from these assets and liabilities and to discount these cash flows at appropriate rates of interest, which require the utilization of significant estimates and judgment in accounting for the acquisition.

## Results of Operations

### Overview

Net income available to common shareholders was \$876,000, \$0.23 basic earnings per common share, for the quarter ended March 31, 2015, as compared to net income available to common shareholders of \$1,424,000, or \$0.41 basic

earnings per common share, for the quarter ended March 31, 2014, a 43.9% decrease. Net income available to common shareholders for the three months ended March 31, 2015 was impacted by \$909,000 of merger and acquisition expenses incurred in conjunction with the acquisition of Phoenix Bancorp, Inc. (“Phoenix”) on March 1, 2015. Excluding these charges, and the corresponding tax impact, net income available to common shareholders for the three months ended March 31, 2015 would have been \$1,503,000, an increase of 5.5% over the three months ended March 31, 2014.

Net interest income increased \$766,000, or 12.2%, to \$7,038,000 for the quarter ended March 31, 2015 from \$6,272,000 during the quarter ended March 31, 2014.

The provision for loan and lease losses in the first quarter of 2015 was \$300,000, compared to \$547,000 in the first quarter of 2014.

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,	
	2015	2014
Return on average assets	0.49%	0.86%
Return on average equity	6.17%	11.22%

The increase in Mid Penn’s total assets during the first quarter of 2015 was impacted by the inclusion of assets and liabilities from Miners on the balance sheet. The loan growth came as a result of business development efforts by a more experienced loan team contributing \$34,707,000 in net new loan growth and Miners adding an additional \$110,707,000. Mid Penn’s investment portfolio increased \$21,271,000 from March 31, 2014 to March 31, 2015, primarily to provide pledgeable securities in support of deposit gathering efforts in the public funds sector. On the liabilities side, Miners contributed \$123,238,000 in total deposits to Mid Penn’s \$152,371,000 in deposit growth from March 31, 2014 to March 31, 2015. Short-term borrowings decreased \$27,923,000 from \$28,544,000 at March 31, 2014 to \$621,000 at March 31, 2015, while long-term debt increased \$33,380,000 from \$23,100,000 at March 31, 2014 to \$56,480,000 at March 31, 2015. This increase is due to the addition of \$30,000,000 in FHLB Advance borrowings and \$3,570,000 in FHLB advances assumed from Miners. The long-term debt was added as a prudent and planned asset liability management strategy to take advantage of low long-term borrowing rates and to fund loan growth.

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Net Interest Income/Funding Sources

Net interest income, Mid Penn's primary source of revenue, is the amount by which interest income on loans and investments exceeds interest incurred on deposits and borrowings. The amount of net interest income is affected by changes in interest rates and changes in the volume and mix of interest-sensitive assets and liabilities. Net interest income and corresponding yields are presented in the analysis below on a taxable-equivalent basis. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is adjusted by an amount equivalent to the federal income taxes which would have been paid if the income received on these assets was taxable at the statutory rate of 34%.

For the three months ended March 31, 2015, Mid Penn's taxable-equivalent net interest margin decreased to 3.97%, from 4.00%, for the three months ended March 31, 2014. The decline was due to the decrease in the average loan yield from 4.95% for the three months ended March 31, 2014 to 4.81% for the same period in 2015, as well as the increase in the average balance of earning assets over the same periods.

Although the effective interest rate impact on earning assets and funding sources can be reasonably estimated at current interest rate levels, the options selected by customers, and the future mix of the loan, investment, and deposit products in the Bank's portfolios, may significantly change the estimates used in the simulation models. In addition, our net interest income may be impacted by further interest rate actions of the Federal Reserve Bank.

Provision for Loan Losses

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at a level adequate to absorb management's estimate of probable losses in the loan and lease portfolio. Mid Penn's provision for loan and lease losses is based upon management's monthly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans and leases, analyze delinquencies, ascertain loan and lease growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets Mid Penn serves.

Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which takes into consideration the risk characteristics of the loan and lease portfolio, the growth in the loan and lease portfolio during the first three months of 2015, and shifting collateral values from December 31, 2014 to March 31, 2015.

Following its model for loan and lease loss allowance adequacy, management recorded a \$300,000 provision for the three months ended March 31, 2015, as compared to a provision of \$547,000 for the three months ended March 31, 2014. The allowance for loan and lease losses as a percentage of total loans was 0.94% at March 31, 2015, compared to 1.18% at December 31, 2014. This improvement was mainly due to the addition of the Miners loan portfolio without a corresponding allowance for loan and lease losses in conformity with purchase accounting treatment. 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 increased \$55,000, or 6.2%, during the first quarter of 2015 versus the same period in 2014. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	Three Months Ended March 31,			
	2015	2014	Variance	% Variance
			\$	
Income from fiduciary activities	\$ 127	\$ 158	\$ (31)	-19.6%
Service charges on deposits	150	127	23	18.1%
Net gain on sales of investment securities	177	150	27	18.0%
Mortgage banking income	67	38	29	76.3%
ATM debit card interchange income	155	126	29	23.0%
Merchant services income	50	67	(17)	-25.4%
Net gain on sales of loans	-	51	(51)	-100.0%
Other income	167	126	41	32.5%

Income from fiduciary activities decreased during the three months ended March 31, 2015 versus the same period in 2014 due to a change in the commission structure. During the three months ended March 31, 2015, Mid Penn saw increased service charges on deposits due to the addition of revenue from the Miners franchise. During the first quarter of 2015, Mid Penn took advantage of opportunities within its investment portfolio to better align the portfolio for a rising interest rate environment thereby increasing realized gains on sales of investments. Mortgage banking income increased in the three months ended March 31, 2015 over March 31, 2014. Mortgage activity in the first quarter of 2014 was depressed throughout our market area due to harsh winter weather conditions. ATM debit card interchange income increased during the first quarter of 2015 versus the comparable period in 2014 due to enhanced activity year over year. Merchant services income decreased for the three months

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ended March 31, 2015 versus the same period in 2014. This variance is the result of increased competition in that business line. Mid Penn recorded no net gain on sales of Small Business Association (“SBA”) loans during the current quarter. Other income increased in the three months ended March 31, 2015 versus the same period in 2014 due to increased letter of credit fee income and the reimbursement of unclaimed funds from the flexible spending and dental reimbursement Plans from the 2013-2014 plan year, as well as the addition of Miners other noninterest income in March of 2015.

## Noninterest Expenses

Noninterest expenses decreased \$1,902,000, or 40.1%, during the first quarter of 2015, versus the same period in 2014. The changes were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended March 31,			
	2015	2014	\$ Variance	% Variance
Salaries and employee benefits	\$ 3,195	\$ 2,548	\$ 647	25.4%
Occupancy expense, net	454	382	72	18.8%
Pennsylvania Bank Shares tax expense	115	99	16	16.2%
Legal and professional fees	143	97	46	47.4%
Marketing and advertising expense	88	48	40	83.3%
Software licensing	319	237	82	34.6%
Telephone expense	123	96	27	28.1%
Loss on sale/write-down of foreclosed assets	32	87	(55)	-63.2%
Merger and acquisition expense	909	-	909	N/A
Other expenses	638	554	84	15.2%

Salaries and employee benefits increased during the three months ended March 31, 2015 versus the same period in 2014. The increase during the first quarter of 2015 was driven by the addition of the Miners employees to Mid Penn’s employee pool, an increase in staffing levels due to Mid Penn’s entry into the Lancaster County market, and an increase in lending personnel and support staff to augment the expanding reach of Mid Penn. Occupancy, PA bank shares tax, marketing and advertising, computer, telephone, and other expenses all saw increases related to the inclusion of the Miners normal operating expenses to Mid Penn’s expense stream during the quarter. Legal and professional fees increased during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 due to the increase in consultant fees incurred with the implementation of Mid Penn’s mobile banking app and new payroll system in current quarter. Loss on sale/write-down of foreclosed assets improved during the three months ended March 31, 2015 versus the same periods in 2014. Activity was confined primarily to the write-down of foreclosed assets as a result of updated appraisals on subject properties within the portfolio and only modest losses on property liquidations during the current quarter. Merger and acquisition expenses of \$909,000 in connection with the acquisition of Phoenix were incurred during the three months ended March 31, 2015. Management believes that the

recognition of expenses in connection with the Phoenix acquisition is substantially complete.

#### Income Taxes

The provision for income taxes was \$84,000 for the three months ended March 31, 2015, as compared to the provision for income taxes of \$370,000 in the same period last year. The effective tax rate for the three months ended March 31, 2015, was 8.1% compared to 19.7% for the three months ended March 31, 2014. This decrease was caused by the \$909,000 in merger expenses incurred during the first quarter of 2015. Of the \$909,000 total, \$829,000 was deemed a deductible expense thereby substantially decreasing Mid Penn's total book tax expense for the three months ended March 31, 2015. Mid Penn also had \$86,000 more in tax exempt income in the three months ended March 31, 2015 versus the three months ended March 31, 2014. 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. Mid Penn currently anticipates that future earnings will be adequate to fully utilize deferred tax assets.

#### Financial Condition

##### Loans

During the first three months of 2015, Mid Penn experienced an increase in loans outstanding of \$123,620,000, or 21.6%, with Miners contributing \$110,707,000 of the increase, mainly in the commercial real estate, commercial and industrial and residential mortgage categories. Overall, commercial real estate and commercial and industrial loans accounted for the majority of Mid Penn's loan growth as noted in the table below.



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(Dollars in thousands)	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Commercial and industrial	\$ 160,254	23.1%	\$ 119,010	20.8%
Commercial real estate	340,647	49.0%	297,357	52.0%
Commercial real estate - construction	60,386	8.7%	56,076	9.8%
Lease financing	1,016	0.1%	1,121	0.2%
Residential mortgage	97,533	14.0%	66,442	11.6%
Home equity	32,110	4.6%	28,506	5.0%
Consumer	3,207	0.5%	3,021	0.6%
	\$ 695,153	100.0%	\$ 571,533	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, 2015, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 4.5% versus the seasonally adjusted national unemployment rate of 5.5%.

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

During the first three months of 2015, Mid Penn had net charge-offs of \$450,000 compared to net charge-offs of \$441,000 during the same period of 2014. Loans charged off during the first three months of 2015 were comprised of three loans to unrelated borrowers. There was one commercial real estate loan for \$450,000, one home equity loan for \$29,000 and one residential real estate loan for \$1,000. The remaining \$5,000 was comprised of deposit account charge-offs. 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, 2015 and 2014 are summarized as follows:

(Dollars in thousands)

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	Three Months Ended March 31,	
	2015	2014
Average total loans outstanding (net of unearned interest)	\$ 615,607	\$ 544,914
Period ending total loans outstanding (net of unearned interest)	695,153	549,739
Balance, beginning of period	6,716	6,317
Loans charged off during period	(485)	(483)
Recoveries of loans previously charged off	35	42
Net chargeoffs	(450)	(441)
Provision for loan and lease losses	300	547
Balance, end of period	\$ 6,566	\$ 6,423
Ratio of net loans charged off to average loans outstanding (annualized)	0.30%	0.33%
Ratio of allowance for loan losses to net loans at end of period	0.94%	1.17%

Other than as described herein, Mid Penn does 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, Mid Penn believes 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 normally 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 solely 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.

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At March 31, 2015, total nonperforming loans amounted to \$9,411,000, or 1.35% of loans and leases net of unearned income, as compared to levels of \$10,942,000, or 1.91%, at December 31, 2014 and \$11,550,000, or 2.10%, at March 31, 2014. The inclusion of Miners loan portfolio aided in decreasing Mid Penn's nonperforming ratios.

(Dollars in thousands)

	March 31, 2015	December 31, 2014	March 31, 2014
Nonperforming Assets:			
Nonaccrual loans	\$ 7,417	\$ 8,907	\$ 10,744
Accruing troubled debt restructured loans	1,994	2,035	806
Total nonperforming loans	9,411	10,942	11,550
Foreclosed real estate	722	565	1,078
Total non-performing assets	10,133	11,507	12,628
Accruing loans 90 days or more past due	50	-	-
Total risk elements	\$ 10,183	\$ 11,507	\$ 12,628
Nonperforming loans as a % of total loans outstanding	1.35%	1.91%	2.10%
Nonperforming assets as a % of total loans outstanding and other real estate	1.46%	2.01%	2.29%
Ratio of allowance for loan losses to nonperforming loans	69.77%	61.37%	55.61%

In the table above, loans renegotiated with borrowers represent Mid Penn's accruing troubled debt restructured loans. Troubled debt restructured loans that are no longer accruing interest are included in nonaccrual loans.

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.

(Dollars in thousands)

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	March 31, 2015	December 31, 2014
Period ending total loans outstanding (net of unearned interest)	\$ 695,153	\$ 571,533
Allowance for loan and lease losses	6,566	6,716
Total Nonperforming loans	9,411	10,942
Nonperforming and impaired loans with partial charge-offs	2,261	2,441
Ratio of nonperforming loans with partial charge-offs to total loans	0.33%	0.43%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	24.03%	22.31%
Coverage ratio net of nonperforming loans with partial charge-offs	91.83%	79.00%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	0.95%	1.18%

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.

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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.

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.

Mid Penn's rating system assumes any loans classified as substandard and 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 substandard 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 12 months for possible revaluation by an independent third party.

Excluding the loans acquired with credit deterioration of which none were subsequently impaired after being acquired as of March 31, 2015, Mid Penn had several loan relationships, with an aggregate carrying balance of \$8,880,000, deemed impaired. This pool of loans was further broken down into a group of loans with an aggregate carrying balance of \$5,980,000 for which specific allocations totaling \$1,488,000 were included within the loan loss reserve for these loans. The remaining \$2,900,000 of loans required no specific allocation within the loan loss reserve. The \$8,880,000 pool of impaired loan relationships was comprised of \$7,058,000 in commercial real estate relationships, \$966,000 in residential relationships, \$610,000 in commercial and industrial relationships, and \$246,000 in home equity relationships. There were specific allocations of \$1,103,000 against the commercial real estate relationships with \$730,000 of this total to one borrower. There was also \$223,000 against the commercial and industrial relationships, \$139,000 against the home equity relationships, and \$23,000 against residential

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relationships. 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 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.
- 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 \$6,566,000 is adequate as of March 31, 2015.

## Liquidity

Mid Penn'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 interest-bearing time deposits with other financial institutions;
- Payments received on loans and mortgage-backed securities;
- Overnight correspondent bank borrowings on various credit lines; and,
- Borrowing capacity available from the FHLB.

Major sources of cash in the first quarter of 2015 came from the sale of investment securities of \$16,091,000 and the net cash received from acquisitions of \$8,118,000.

Major uses of cash in the first quarter of 2015 were the increase in net loans and leases of \$13,579,000 and the purchases of investment securities of \$8,065,000.

Major sources of cash in the first quarter of 2014 came from the sale of investment securities of \$7,199,000, the maturities of investment securities and interest-bearing time deposits with other financial institutions totaling \$5,565,000, and the increase in short-term borrowings of \$4,711,000.

Major uses of cash in the first quarter of 2014 were the purchases of investment securities of \$7,462,000, the increase in net loans and leases of \$3,982,000, and the decrease in time deposits of \$3,389,000.



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Mid Penn believes its core deposits are stable even in periods of changing interest rates. Liquidity is measured and monitored daily, allowing management to better understand and react to balance sheet trends. 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.

On a quarterly basis, a comprehensive liquidity analysis is reviewed by the Asset Liability Committee and Board of Directors. The analysis provides a summary of the current liquidity measurements, projections, and future liquidity positions given various levels of liquidity stress. Management also maintains a detailed Contingency Funding Plan designed to respond to an overall decline in the financial condition of the banking industry or a problem specific to Mid Penn.

#### 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, 2015 by \$13,953,000, or 23.6%, from December 31, 2014. Capital has been positively impacted in 2015 by positive earnings available to common shareholders of \$876,000 and accumulated other comprehensive income of \$361,000. All of Mid Penn's investment securities are classified as available for sale, making this portion of the balance sheet more sensitive to the changing market value of investments. Also positively impacting capital during the quarter was the issuance of approximately 723,851 shares of common stock to fund the acquisition of Phoenix Bancorp, Inc. This transaction added an additional \$11,292,000 to shareholders' equity. As part of the acquisition, Mid Penn also issued SBLF preferred stock totaling \$1,750,000.

Banks are evaluated for capital adequacy based on the ratio of capital to risk-weighted assets and total assets. The risk-based capital standards require all banks to have Tier 1 capital of at least 4.0% and total capital (including Tier 1 capital) of at least 8.0% of risk-weighted assets. The capital standard based on average assets, also known as the "leverage ratio", requires all, but the most highly-rated banks, to have Tier 1 capital of at least 4.0% of total average assets. At March 31, 2015, Mid Penn met the definition of a "well-capitalized" institution.

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The following table illustrates the Bank's capital ratios, which are not materially different from Mid Penn's ratios. As noted below, the Bank maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of March 31, 2015 and December 31, 2014.

(Dollars in thousands)	Capital Adequacy				To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Actual: Amount	Ratio	Minimum Required: Amount	Capital Ratio	Amount	Ratio
As of March 31, 2015:						
Tier 1 Capital (to Average Assets)	\$ 67,164	8.4%	\$ 31,907	4.0%	\$ 39,883	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	67,164	10.1%	-		-	
Tier 1 Capital (to Risk Weighted Assets)	67,164	10.1%	26,660	4.0%	39,990	6.0%
Total Capital (to Risk Weighted Assets)	73,730	11.1%	53,320	8.0%	66,650	10.0%
As of December 31, 2014:						
Tier 1 Capital (to Average Assets)	\$ 56,647	7.5%	\$ 30,360	4.0%	\$ 37,950	5.0%
Tier 1 Capital (to Risk Weighted Assets)	56,647	10.2%	22,295	4.0%	33,442	6.0%
Total Capital (to Risk Weighted Assets)	63,423	11.4%	44,590	8.0%	55,737	10.0%

#### Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of \$250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

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- A minimum ratio of common tier 1 capital to risk-weighted assets of 4.5%.
- A minimum ratio of tier 1 capital to risk-weighted assets of 6%.
  - A minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule).
- A minimum leverage ratio of 4%.

In addition, the final rules establishes a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule. Mid Penn elected to opt-out.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the tier 1 capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-ups approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250% risk weight.

Under the new rules, mortgage servicing assts (MSAs) and certain deferred tax assets (DTAs) are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain risk weights and credit conversion factors.

#### Small Business Lending Fund Program Participation

On March 1, 2015, Mid Penn assumed all of the issued and outstanding shares of Phoenix with respect to 1,750 shares of Phoenix's preferred stock issued to the Treasury in connection with the Small Business Lending Fund and issued 1,750 shares of Mid Penn's SBLF Preferred Shares, having a \$1,000 liquidation preference per share, to the Treasury. The SBLF Preferred Shares qualify as Tier 1 Capital and have terms and conditions identical to those shares of preferred stock issued by Phoenix to Treasury.

#### ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in market risk since December 31, 2014, as reported in Mid Penn's Form 10-K filed with the SEC on March 20, 2015.

#### 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, 2015, 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, 2015, 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.

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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 or its subsidiaries taken as a whole. There are no proceedings pending other than ordinary routine litigation occurring in the normal course of business. 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, 2014. 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

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 B 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 September 28, 2012.)
- 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 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





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SIGNATURES

Pursuant to the requirements of Section 12 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, 2015

By: /s/ Edward P. Williams  
Edward P. Williams  
Interim Principal Financial Officer

Date: May 15, 2015