

MID PENN BANCORP INC  
Form 10-Q  
May 15, 2013

UNITED STATES

SECURITIES AN Consolidated Balance Sheets (Unaudited)D EXCHANGE COMMI MID PENN BANCORP,  
INC.SSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from            to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania  
(State or Other Jurisdiction of

Incorporation or Organization)

25-1666413  
(I.R.S. Employer

Identification Number)

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349 Union Street

Millersburg, Pennsylvania 17061  
(Address of Principal Executive Offices) (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, 2013, the registrant had 3,491,030 shares of common stock outstanding.

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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.

## 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, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 15,640	\$ 11,200
Interest-bearing balances with other financial institutions	1,204	1,273
Federal funds sold	24,641	3,000
Total cash and cash equivalents	41,485	15,473
Interest-bearing time deposits with other financial institutions	16,808	23,563
Available for sale investment securities	145,506	154,295
Loans and leases, net of unearned interest	495,196	484,220
Less: Allowance for loan and lease losses	(5,870)	(5,509)
Net loans and leases	489,326	478,711
Bank premises and equipment, net	13,157	13,123
Restricted investment in bank stocks	2,197	2,503
Foreclosed assets held for sale	772	843
Accrued interest receivable	2,846	2,893
Deferred income taxes	2,117	1,789
Goodwill	1,016	1,016
Core deposit and other intangibles, net	278	288
Cash surrender value of life insurance	8,201	8,143
Other assets	2,721	2,560
Total Assets	\$ 726,430	\$ 705,200
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing demand	\$ 61,564	\$ 57,977
Interest bearing demand	186,986	164,837
Money Market	205,222	210,588

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Savings	29,694	28,406
Time	156,719	163,653
Total Deposits	640,185	625,461
Long-term debt	21,777	22,510
Accrued interest payable	736	620
Other liabilities	11,213	4,389
Total Liabilities	673,911	652,980
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, 2013 and 4,880 shares issued and outstanding at December 31, 2012	5,000	4,880
Common stock, par value \$1.00; authorized 10,000,000 shares; 3,491,030 shares issued and outstanding at March 31, 2013 and 3,489,684 shares issued and outstanding at December 31, 2012	3,491	3,490
Additional paid-in capital	29,816	29,816
Retained earnings	12,321	11,741
Accumulated other comprehensive income	1,891	2,293
Total Shareholders' Equity	52,519	52,220
Total Liabilities and Shareholders' Equity	\$ 726,430	\$ 705,200

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, 2013	2012
<b>INTEREST INCOME</b>		
Interest & fees on loans and leases	\$ 6,261	\$ 6,791
Interest on interest-bearing balances	47	65
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	100	436
State and political subdivision obligations, tax-exempt	483	409
Other securities	6	5
Interest on federal funds sold and securities purchased under agreements to resell	5	4
Total Interest Income	6,902	7,710
<b>INTEREST EXPENSE</b>		
Interest on deposits	1,205	1,789
Interest on long-term debt	238	244
Total Interest Expense	1,443	2,033
Net Interest Income	5,459	5,677
<b>PROVISION FOR LOAN AND LEASE LOSSES</b>		
Net Interest Income After Provision for Loan and Lease Losses	4,964	5,377
<b>NONINTEREST INCOME</b>		
Income from fiduciary activities	139	112
Service charges on deposits	134	129
Net gain on sales of investment securities	-	16
Earnings from cash surrender value of life insurance	58	62
Mortgage banking income	110	122
ATM debit card interchange income	119	120
Other income	290	177
Total Noninterest Income	850	738
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	2,857	2,596
Occupancy expense, net	310	278
Equipment expense	316	294
Pennsylvania Bank Shares tax expense	128	131
FDIC Assessment	202	301
Legal and professional fees	154	107
Director fees and benefits expense	80	47
Marketing and advertising expense	43	69
Computer expense	181	162
Telephone expense	98	107
(Gain) loss on sale/write-down of foreclosed assets	(19)	8
Intangible amortization	7	16
Loan collection costs	70	109



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Other expenses	610	513
Total Noninterest Expense	5,037	4,738
INCOME BEFORE PROVISION FOR INCOME TAXES	777	1,377
Provision for income taxes	92	243
NET INCOME	685	1,134
Series A preferred stock dividends and discount accretion	14	128
Series B preferred stock dividends	47	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 624	\$ 1,006
PER COMMON SHARE DATA:		
Basic Earnings Per Common Share	\$ 0.18	\$ 0.29
Diluted Earnings Per Common Share	0.18	0.29
Cash Dividends	-	0.05

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Net income	\$ 685	\$ 1,134
Other comprehensive (loss) income:		
Unrealized (losses) gains arising during the period on available for sale securities, net of income taxes of \$(209) and \$47, respectively	(405)	92
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of \$0 and \$(5), respectively (1) (3)	-	(11)
Change in defined benefit plans, net of income taxes of \$2 and \$(11), respectively (2) (3)	3	(22)
Total other comprehensive (loss) income	(402)	59
Total comprehensive income	\$ 283	\$ 1,193

- (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.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(Dollars in thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2012	\$ 4,880	\$ 3,490	\$ 29,816	\$ 11,741	\$ 2,293	\$ 52,220
Net income	-	-	-	685	-	685
Total other comprehensive loss, net of taxes	-	-	-	-	(402)	(402)
Employee Stock Purchase Plan	-	1	14	-	-	15
Series B Preferred stock issuance	120	-	-	-	-	120
Series B Preferred stock dividends	-	-	-	(47)	-	(47)
Amortization of warrant cost	-	-	(14)	-	-	(14)
Warrant repurchase	-	-	-	(58)	-	(58)
Balance, March 31, 2013	\$ 5,000	\$ 3,491	\$ 29,816	\$ 12,321	\$ 1,891	\$ 52,519
Balance, December 31, 2011	\$ 10,000	\$ 3,484	\$ 29,830	\$ 8,222	\$ 1,916	\$ 53,452
Net income	-	-	-	1,134	-	1,134
Total other comprehensive income, net of taxes	-	-	-	-	59	59
Common stock dividends	-	-	-	(174)	-	(174)
Employee Stock Purchase Plan	-	2	12	-	-	14
Series A Preferred stock dividends	-	-	-	(125)	-	(125)
Amortization of warrant cost	-	-	(3)	-	-	(3)
Balance, March 31, 2012	\$ 10,000	\$ 3,486	\$ 29,839	\$ 9,057	\$ 1,975	\$ 54,357

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

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

(Dollars in thousands)	Three Months Ended	
	2013	2012
Operating Activities:		
Net Income	\$ 685	\$ 1,134
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and lease losses	495	300
Depreciation	247	268
Amortization of intangibles	10	10
Net amortization (accretion) of security premiums (discounts)	1,044	(2,633)
Gain on sales of investment securities	-	(16)
Earnings on cash surrender value of life insurance	(58)	(62)
Gain on disposal of property, plant, and equipment	(3)	-
(Gain) loss on sale / write-down of foreclosed assets	(19)	8
Deferred income tax (benefit) expense	(700)	466
Decrease in accrued interest receivable	47	56
Decrease (increase) in other assets	409	(27)
Increase (decrease) in accrued interest payable	116	(62)
Increase (decrease) in other liabilities	6,824	(1,070)
Net Cash Provided By (Used in) Operating Activities	9,097	(1,628)
Investing Activities:		
Net decrease in interest-bearing balances	6,755	1,585
Proceeds from the maturity of investment securities	15,126	6,742
Proceeds from the sale of investment securities	-	8,604
Purchases of investment securities	(7,995)	(8,813)
Redemptions of restricted investment in bank stock	306	155
Net increase in loans and leases	(11,401)	(6,594)
Purchases of bank premises and equipment	(278)	(417)
Proceeds from sale of foreclosed assets	381	180
Net Cash Provided By Investing Activities	2,894	1,442
Financing Activities:		
Net increase in demand deposits and savings accounts	21,658	16,377
Net decrease in time deposits	(6,934)	(13,861)
Series A preferred stock dividend paid	-	(125)
Series B preferred stock dividend paid	(47)	-
Common stock dividend paid	-	(174)
Series B preferred stock issuance	120	-
Employee Stock Purchase Plan	15	14
Warrant repurchase	(58)	-
Long-term debt repayment	(733)	(47)
Net Cash Provided By Financing Activities	14,021	2,184
Net increase in cash and cash equivalents	26,012	1,998
Cash and cash equivalents, beginning of year	15,473	17,841
Cash and cash equivalents, end of year	\$ 41,485	\$ 19,839

Supplemental Disclosures of Cash Flow Information:

Interest paid	\$ 1,327	\$ 2,095
Income taxes paid	\$ -	\$ 600

Supplemental Noncash Disclosures:

Loan transfers to foreclosed assets held for sale	\$ 291	\$ 146
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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”). We believe the information presented is not misleading and the disclosures are adequate. For comparative purposes, the March 31, 2012 and December 31, 2012 balances have been reclassified to conform to the 2013 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, 2012.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2013, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

(2) Investment Securities

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

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through the Corporation’s results of 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. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

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

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

At March 31, 2013 and December 31, 2012, 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, 2013				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 16,379	\$ 1,274	\$ -	\$ 17,653
Mortgage-backed U.S. government agencies	58,302	360	376	58,286
State and political subdivision obligations	67,354	2,178	352	69,180
Equity securities	400	-	13	387
	\$ 142,435	\$ 3,812	\$ 741	\$ 145,506

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 16,394	\$ 1,346	\$ -	\$ 17,740
Mortgage-backed U.S. government agencies	66,783	393	490	66,686
State and political subdivision obligations	67,033	2,542	96	69,479
Equity securities	400	-	10	390
	\$ 150,610	\$ 4,281	\$ 596	\$ 154,295

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.

Included in equity securities is an investment in Access Capital Strategies, an equity fund that invests in low to moderate income financing projects. This initial investment was purchased in 2004 to help fulfill the Bank's regulatory requirement of the Community Reinvestment Act and an additional investment was purchased in 2011. At March 31, 2013 and December 31, 2012, the investment is reported at fair value.

Investment securities having a fair value of \$93,077,000 at March 31, 2013 and \$96,124,000 at December 31, 2012, were pledged to secure public deposits and other borrowings.



Mid Penn realized gross gains of \$0 and \$16,000 on sales of securities available for sale during the three month periods ended March 31, 2013 and 2012. Mid Penn realized gross losses of \$0 during the three month periods ended March 31, 2013 and 2012 on the sale of securities available for sale.

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

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012.

(Dollars in thousands) March 31, 2013	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed U.S. government agencies	\$ 18,847	\$ 230	\$ 10,785	\$ 146	\$ 29,632	\$ 376
State and political subdivision obligations	16,624	324	1,238	28	17,862	352
Equity securities	-	-	400	13	400	13
Total temporarily impaired available for sale securities	\$ 35,471	\$ 554	\$ 12,423	\$ 187	\$ 47,894	\$ 741

(Dollars in thousands) December 31, 2012	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed U.S. government agencies	\$ 30,345	\$ 270	\$ 15,839	\$ 220	\$ 46,184	\$ 490
State and political subdivision obligations	9,389	66	1,231	30	10,620	96
Equity securities	-	-	390	10	390	10
Total temporarily impaired available for sale securities	\$ 39,734	\$ 336	\$ 17,460	\$ 260	\$ 57,194	\$ 596

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.

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At March 31, 2013, 78 debt securities with unrealized losses depreciated 1.97% from their amortized cost basis. At December 31, 2012, 73 debt securities with unrealized losses depreciated 1.03% from their amortized cost basis. These securities are issued by either the U.S. Government or other governmental agencies. The unrealized losses were determined principally by reference to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the U.S. Government or its agencies issued the securities, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. Based on the above conditions management has determined that no declines are deemed to be other-than-temporary.

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

(Dollars in thousands)	March 31, 2013	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ -	\$ -
Due after 1 year but within 5 years	21,553	23,145
Due after 5 years but within 10 years	25,715	26,673
Due after 10 years	36,465	37,015
	83,733	86,833
Mortgage-backed securities	58,302	58,286
Equity securities	400	387
	\$ 142,435	\$ 145,506

Mortgage-backed securities at March 31, 2013, had an average life of 2.2 years.

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

(3) Loans and Allowance for Loan and Lease Losses

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

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

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

Commercial and industrial

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

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

an important aspect of the Bank's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

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

#### Commercial real estate and commercial real estate - construction

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

#### Lease financing

Mid Penn originates leases for select commercial and state and municipal government lessees. The nature of the leased asset is often subject to rapid depreciation in salvage value over a relatively short time frame or may be of an industry specific nature, making appraisal or liquidation of 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 0.25% of the portfolio at March 31, 2013.

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.

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

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

uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

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

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

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

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



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

As noted above, Mid Penn assesses a specific allocation for commercial loans prior to 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 determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing

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real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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

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

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

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

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.

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

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, 2013 and December 31, 2012 are as follows:

(Dollars in thousands)	March 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial		\$ 80,475	\$ 1,221	\$ 1,783	\$ -	\$ 83,479
Commercial real estate		262,338	4,672	18,863	-	285,873
Commercial real estate - construction		34,813	411	54	-	35,278
Lease financing		1,256	-	-	-	1,256
Residential mortgage		59,210	25	124	-	59,359
Home equity		22,233	183	384	-	22,800
Consumer		6,867	284	-	-	7,151
		\$ 467,192	\$ 6,796	\$ 21,208	\$ -	\$ 495,196

(Dollars in thousands)	December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial		\$ 74,763	\$ 1,651	\$ 1,469	\$ -	\$ 77,883
Commercial real estate		260,941	5,375	18,551	-	284,867
Commercial real estate - construction		32,767	410	54	-	33,231
Lease financing		1,305	-	-	-	1,305
Residential mortgage		57,455	-	-	-	57,455
Home equity		22,336	188	396	-	22,920
Consumer		6,267	292	-	-	6,559
		\$ 455,834	\$ 7,916	\$ 20,470	\$ -	\$ 484,220

Impaired loans by loan portfolio class as of March 31, 2013 and December 31, 2012 are summarized as follows:

(Dollars in thousands)	March 31, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal	Related Allowance

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	Balance			Balance		
With no related allowance recorded:						
Commercial and industrial	\$ 187	\$ 689	\$ -	\$ 192	\$ 870	\$ -
Commercial real estate	6,398	9,832	-	6,570	10,773	-
Home equity	122	260	-	124	261	-
Consumer	-	-	-	-	578	-
With an allowance recorded:						
Commercial and industrial	\$ 206	\$ 333	\$ 83	\$ 223	\$ 351	\$ 111
Commercial real estate	4,230	4,412	1,580	2,514	2,672	1,200
Commercial real estate - construction	54	54	28	54	54	54
Residential mortgage	60	60	5	-	-	-
Home equity	66	71	17	67	71	18
Total:						
Commercial and industrial	\$ 393	\$ 1,022	\$ 83	\$ 415	\$ 1,221	\$ 111
Commercial real estate	10,628	14,244	1,580	9,084	13,445	1,200
Commercial real estate - construction	54	54	28	54	54	54
Residential mortgage	60	60	5	-	-	-
Home equity	188	331	17	191	332	18
Consumer	-	-	-	-	578	-

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Average recorded investment of impaired loans and related interest income recognized for the three months ended March 31, 2013 and March 31, 2012 are summarized as follows:

(Dollars in thousands)	March 31, 2013		March 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	\$ 196	\$ -	\$ 99	\$ -
Commercial real estate	6,450	17	5,755	-
Commercial real estate - construction	-	-	129	-
Home equity	123	-	249	-
With an allowance recorded:				
Commercial and industrial	\$ 206	\$ -	\$ 1,189	\$ -
Commercial real estate	4,246	-	2,797	-
Commercial real estate - construction	54	-	-	-
Residential mortgage	86	-	17	-
Home equity	67	-	89	-
Consumer	-	-	585	-
Total:				
Commercial and industrial	\$ 402	\$ -	\$ 1,288	\$ -
Commercial real estate	10,696	17	8,552	-
Commercial real estate - construction	54	-	129	-
Residential mortgage	86	-	17	-
Home equity	190	-	338	-
Consumer	-	-	585	-

Non-accrual loans by loan portfolio class as of March 31, 2013 and December 31, 2012 are summarized as follows:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Commercial and industrial	\$ 241	\$ 264
Commercial real estate	10,780	10,785

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Commercial real estate - construction	54	54
Residential mortgage	538	537
Home equity	189	191
	\$ 11,802	\$ 11,831

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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, 2013 and December 31, 2012 are summarized as follows:

(Dollars in thousands)	March 31,			Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days				
Commercial and industrial	\$ 463	\$ -	\$ 211	\$ 674	\$ 82,805	\$ 83,479	\$ -
Commercial real estate	3,115	3,379	8,735	15,229	270,644	285,873	-
Commercial real estate - construction	-	-	54	54	35,224	35,278	-
Lease financing	38	-	-	38	1,218	1,256	-
Residential mortgage	1,291	96	473	1,860	57,499	59,359	-
Home equity	121	-	147	268	22,532	22,800	-
Consumer	16	-	-	16	7,135	7,151	-
Total	\$ 5,044	\$ 3,475	\$ 9,620	\$ 18,139	\$ 477,057	\$ 495,196	\$ -

(Dollars in thousands)	December 31,			Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days				
Commercial and industrial	\$ 123	\$ 361	\$ 234	\$ 718	\$ 77,165	\$ 77,883	\$ -
Commercial real estate	1,785	5,618	8,248	15,651	269,216	284,867	-
Commercial real estate - construction	-	-	54	54	33,177	33,231	-
Lease financing	1	-	-	1	1,304	1,305	-
Residential mortgage	495	35	531	1,061	56,394	57,455	-
Home equity	96	-	147	243	22,677	22,920	-
Consumer	1	2	-	3	6,556	6,559	-
Total	\$ 2,501	\$ 6,016	\$ 9,214	\$ 17,731	\$ 466,489	\$ 484,220	\$ -



## 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, 2013	Commercial and industrial	Commercial real estate	Commercial - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Beginning balance	\$ 1,298	\$ 3,112	\$ 64	\$ 1	\$ 581	\$ 343	\$ 101	\$ 9	\$ 5,509
Charge-offs	(21)	(25)	-	-	(104)	-	(5)	-	(155)
Recoveries	7	3	-	-	-	3	8	-	21
Provisions	(3)	453	(25)	-	126	3	1	(60)	495
Ending balance	\$ 1,281	\$ 3,543	\$ 39	\$ 1	\$ 603	\$ 349	\$ 105	\$ (51)	\$ 5,870
Ending balance: individually evaluated for impairment	\$ 83	\$ 1,580	\$ 28	\$ -	\$ 5	\$ 17	\$ -	\$ -	\$ 1,713
Ending balance: collectively evaluated for impairment	\$ 1,198	\$ 1,963	\$ 11	\$ 1	\$ 598	\$ 332	\$ 105	\$ (51)	\$ 4,157
Loans receivables:									
Ending balance	\$ 83,479	\$ 285,873	\$ 35,278	\$ 1,256	\$ 59,359	\$ 22,800	\$ 7,151	\$ -	\$ 495,196
Ending balance: individually evaluated for impairment	\$ 393	\$ 10,628	\$ 54	\$ -	\$ 60	\$ 188	\$ -	\$ -	\$ 11,323
Ending balance: collectively evaluated for impairment	\$ 83,086	\$ 275,245	\$ 35,224	\$ 1,256	\$ 59,299	\$ 22,612	\$ 7,151	\$ -	\$ 483,873

(Dollars in thousands)

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

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

(Dollars in thousands)

As of December 31, 2012	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	\$ 1,298	\$ 3,112	\$ 64	\$ 1	\$ 581	\$ 343	\$ 101	\$ 9	\$ 5,509
Ending balance: individually evaluated for impairment	\$ 111	\$ 1,200	\$ 54	\$ -	\$ -	\$ 18	\$ -	\$ -	\$ 1,383
Ending balance: collectively evaluated for impairment	\$ 1,187	\$ 1,912	\$ 10	\$ 1	\$ 581	\$ 325	\$ 101	\$ 9	\$ 4,126
Loans receivables:									
Ending balance	\$ 77,883	\$ 284,867	\$ 33,231	\$ 1,305	\$ 57,455	\$ 22,920	\$ 6,559	\$ -	\$ 484,220
Ending balance: individually evaluated for impairment	\$ 415	\$ 9,084	\$ 54	\$ -	\$ -	\$ 191	\$ -	\$ -	\$ 9,744
Ending balance: collectively evaluated for impairment	\$ 77,468	\$ 275,783	\$ 33,177	\$ 1,305	\$ 57,455	\$ 22,729	\$ 6,559	\$ -	\$ 474,476

The recorded investments in troubled debt restructured loans at March 31, 2013 and December 31, 2012 are as follows:

(Dollars in thousands)	March 31, 2013	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and industrial		\$ 40	\$ 35	\$ 30
Commercial real estate		7,326	3,748	2,857

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Residential mortgage	618	612	475
	\$ 7,984	\$ 4,395	\$ 3,362

(Dollars in thousands)	December 31, 2012	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and industrial		\$ 40	\$ 35	\$ 30
Commercial real estate		7,326	3,748	2,916
Residential mortgage		558	552	448
		\$ 7,924	\$ 4,335	\$ 3,394

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, 2013 totaled \$3,362,000, of which, \$347,000, representing six loans to unrelated borrowers, are accruing residential mortgages in compliance with the terms of the modification. The remaining \$3,015,000, representing 12 loans, are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. Of these 12 loans, one business relationship accounted for five loans totaling \$620,000, a large commercial participation totaling \$1,616,000 accounted for three loans, and the remaining four unrelated loans totaled \$779,000.

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

At December 31, 2012, troubled debt restricted loans totaled \$3,394,000, of which, \$426,000, representing seven loans to unrelated borrowers, are accruing residential mortgages in compliance with the terms of the modification. The remaining \$2,968,000, representing 10 loans, are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. Of these 10 loans, one business relationship accounted for five loans totaling \$634,000, a large commercial participation totaling \$1,663,000 accounted for three loans, and the remaining two unrelated loans totaled \$671,000.

As a result of the evaluations at March 31, 2013 and December 31, 2012, a specific allocation and, subsequently, charge-offs have been taken as appropriate. As of March 31, 2013 and December 31, 2012, 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, 2013, one forbearance agreement was negotiated during 2008, 12 forbearance agreements were negotiated during 2009, four forbearance agreements were negotiated in 2010, and one forbearance agreement was negotiated in 2013.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the three months ended March 31, 2013:

(Dollars in thousands)		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
	Number of Contracts			
Residential mortgage	1	\$ 60	\$ 60	\$ 60

(4) 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. The fair value hierarchy is as follows:

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

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

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



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

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, 2013. The following table illustrates 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, 2013	Fair value measurements at March 31, 2013 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	\$ 17,653	\$ -	\$ 17,653	\$ -
Mortgage-backed U.S. government agencies	58,286	-	58,286	-
State and political subdivision obligations	69,180	-	69,180	-
Equity securities	387	387	-	-
	\$ 145,506	\$ 387	\$ 145,119	\$ -

(Dollars in thousands)	Total carrying value at December 31, 2012	Fair value measurements at December 31, 2012 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	\$ 17,740	\$ -	\$ 17,740	\$ -
Mortgage-backed U.S. government agencies	66,686	-	66,686	-
State and political subdivision obligations	69,479	-	69,479	-
Equity securities	390	390	-	-
	\$ 154,295	\$ 390	\$ 153,905	\$ -

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, 2013	Fair value measurements at March 31, 2013 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	\$ 4,451	\$ -	\$ -	\$ 4,451
Foreclosed Assets Held for Sale	456	-	-	456

(Dollars in thousands)	Total carrying value at December 31, 2012	Fair value measurements at December 31, 2012 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired Loans	\$ 3,075	\$ -	\$ -	\$ 3,075
Foreclosed Assets Held for Sale	105	-	-	105

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

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, 2013 and December 31, 2012.

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements				Weighted
	Fair Value	Valuation Technique	Unobservable Input	Range	
March 31, 2013	Estimate			Average	
Impaired Loans	\$ 4,451	Appraisal of collateral (1)	Appraisal adjustments (2)	10% - 95%	(28%)
Foreclosed Assets Held for Sale	\$ 456	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	15% - 40%	(24%)

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements				Weighted
	Fair Value	Valuation Technique	Unobservable Input	Range	
December 31, 2012	Estimate			Average	
Impaired Loans	\$ 3,075	Appraisal of collateral (1)	Appraisal adjustments (2)	10% - 95%	(28%)
Foreclosed Assets Held for Sale	\$ 105	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	15% - 40%	(24%)

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

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

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

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

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

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

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

Loans:

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, carrying values approximated fair value. The fair value of other loans are estimated by calculating the present value of the cash flow difference between the current rate and the market rate, for the average maturity, discounted quarterly at the market rate.

Foreclosed Assets Held for Sale:

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

Accrued Interest Receivable and Payable:

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

Restricted Investment in Bank Stocks:

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

Mortgage Servicing Rights:

The fair value of servicing rights is based on the present value of estimated future cash flows on pools of mortgages 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.

Long-term Debt:

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

Commitments to Extend Credit and Letters of Credit:

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

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

The following table summarizes the carrying value and fair value of financial instruments at March 31, 2013 and December 31, 2012.

(Dollars in thousands)	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 41,485	\$ 41,485	\$ 15,473	\$ 15,473
Interest-bearing time balances with other financial institutions	16,808	16,808	23,563	23,563
Investment securities	145,506	145,506	154,295	154,295
Net loans and leases	489,326	502,295	478,711	495,181
Restricted investment in bank stocks	2,197	2,197	2,503	2,503
Accrued interest receivable	2,846	2,846	2,893	2,893
Mortgage servicing rights	230	230	233	233
<b>Financial liabilities:</b>				
Deposits	\$ 640,185	\$ 643,259	\$ 625,461	\$ 629,096
Long-term debt	21,777	22,392	22,510	23,240
Accrued interest payable	736	736	620	620
<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, 2013 and December 31, 2012. 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, and accrued interest receivable and payable. Other than cash and cash equivalents, which are considered Level 1 Inputs, these instruments are Level 2 Inputs. These tables exclude financial instruments for which the carrying amount approximates fair value.

(Dollars in thousands)	Fair Value Measurements	
	Quoted Prices in Active Markets	Significant Unobservable

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	Carrying Amount	Fair Value	Fair Value Measurements		
			Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013					
Financial instruments - assets					
Net loans and leases	\$ 489,326	\$ 502,295	\$ -	\$ -	\$ 502,295
Financial instruments - liabilities					
Deposits	\$ 640,185	\$ 643,259	\$ -	\$ 643,259	\$ -
Long-term debt	21,777	22,392	-	22,392	-

(Dollars in thousands)

	Carrying Amount	Fair Value	Fair Value Measurements		
			Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012					
Financial instruments - assets					
Net loans and leases	\$ 478,711	\$ 495,181	\$ -	\$ -	\$ 495,181
Financial instruments - liabilities					
Deposits	\$ 625,461	\$ 629,096	\$ -	\$ 629,096	\$ -
Long-term debt	22,510	23,240	-	23,240	-

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

## (5) Guarantees

In the normal course of business, Mid Penn makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying consolidated financial statements. The commitments include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Mid Penn evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the customer. Standby letters of credit and financial guarantees written are conditional commitments to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Mid Penn had \$9,464,000 and \$10,417,000 standby letters of credit outstanding as of March 31, 2013 and December 31, 2012, respectively. Mid Penn does not anticipate any losses because of these transactions. The current amount of the liability as of March 31, 2013 for payment under standby letters of credit issued was not material.

## (6) Defined Benefit Plans

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

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

(Dollars in thousands)	Three Months Ended			
	March 31,		Other	
	Pension Benefits		Benefits	
	2013	2012	2013	2012
Service cost	\$ 8	\$ 6	\$ 4	\$ 5
Interest cost	11	12	9	9
Amortization of prior service cost	5	5	-	-



Net periodic benefit cost        \$ 24   \$ 23   \$ 13   \$ 14

(7)        Accumulated Other Comprehensive Income

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

(Dollars in thousands)	Unrealized Gain on Securities	Defined Benefit Plan Liability	Accumulated Other Comprehensive Income
Balance - March 31, 2013	\$ 2,028	\$ (137)	\$ 1,891
Balance - December 31, 2012	\$ 2,433	\$ (140)	\$ 2,293

(8)        Preferred Stock

On December 19, 2008, Mid Penn entered into and closed a letter agreement with the United States Department of the Treasury (the "Treasury") pursuant to which the Treasury invested \$10,000,000 in the Mid Penn Bank under the Treasury's Capital Purchase Program (the "CPP"). Under the letter agreement, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation preference ("Series A Preferred Stock"), and (2) warrants to purchase up to 73,099 shares of Mid Penn common stock at an exercise price of \$20.52 per share (the "Warrants").

On December 28, 2012, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury all 10,000 shares of the Series A Preferred Stock issued to the Treasury which constitutes all of the issued and outstanding shares of Series A Preferred Stock. Mid Penn repurchased the Series A Preferred Stock for a purchase price equal to the aggregate liquidation amount of the Preferred Stock of \$10,000,000, plus accrued but unpaid dividends of \$59,722. All 10,000 shares of Series A Preferred Stock have subsequently been cancelled.



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

On January 23, 2013, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury on that date the Warrants for \$58,479. The Warrants have subsequently been cancelled.

As of the date hereof, Mid Penn has no further financial obligations under the Series A Preferred Stock, the Warrants or the Treasury's CPP.

(9) 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.

Sales of 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.

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, 2013:

(Dollars in thousands)

Period	Shares
--------	--------

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		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 - March 31, 2013	120	120,000
Total	5,000	\$ 5,000,000

Terms of the Series B Preferred Stock

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 and we currently expect them to be declared quarterly for payment 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.

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

## (10) 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. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted average common shares available from the exercise of all dilutive stock warrants issued to the U.S. Treasury under the provisions of the Capital Purchase Program, based on the average share price of Mid Penn's common stock during the period.

The computations of basic earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2013	2012
Net Income	\$ 685	\$ 1,134
Less: Dividends on Series A preferred stock	-	(125)
Accretion of Series A preferred stock discount	(14)	(3)
Dividends on Series B preferred stock	(47)	-
Net income available to common shareholders	\$ 624	\$ 1,006
Weighted average common shares outstanding	3,489,729	3,484,538
Basic earnings per common share	\$ 0.18	\$ 0.29

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2013	2012

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Net income available to common stockholders	\$ 624	\$ 1,006
Weighted average number of common shares outstanding	3,489,729	3,484,538
Dilutive effect of potential common stock arising from stock warrants:		
Exercise of outstanding stock warrants issued to U.S. Treasury under the Capital Repurchase Program	-	-
Adjusted weighted-average common shares outstanding	3,489,729	3,484,538
Diluted earnings per common share	\$ 0.18	\$ 0.29

As of March 31, 2013 Mid Penn no longer had any warrants outstanding. As of March 31, 2012, Mid Penn had 73,099 warrants outstanding that were anti-dilutive because the fair value of the common stock was below the \$20.52 exercise price of these warrants.

(11) Recent Accounting Pronouncements

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

MID PENN BANCORP, INC.

## 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, 2013, compared to year-end 2012, and the Results of Operations for the three months ended March 31, 2013, compared to the same period in 2012.

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, 2012. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year.

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

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

- The effects of economic deterioration and the prolonged economic malaise on current customers, specifically the effect of the economy on loan customers' ability to repay loans;
- Governmental monetary and fiscal policies, as well as legislative and regulatory changes, including the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- Possible impacts of the capital and liquidity requirements proposed by the 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 Financial Accounting Standards Board and other accounting standard setters;
- The risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in Mid Penn's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and

- services by mail, telephone, computer and the internet;
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
  - Technological changes;
  - Acquisitions and integration of acquired businesses;
  - The failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities;
  - Acts of war or terrorism;
  - Volatilities in the securities markets; 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 we periodically file with the SEC, including Mid Penn's Annual Report on Form 10-K for the year ended December 31, 2012.

#### Critical Accounting Estimates

Mid Penn's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and conform to general practices within the banking industry. Application of these principles involves significant judgments and estimates by management that have a material impact on the carrying value of certain assets and liabilities. The judgments and estimates that we used are based on historical experiences and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and estimates that we have made, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of our operations.

Management of Mid Penn considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of the Corporation's investment securities for other-than-temporary impairment, the assessment of goodwill for impairment, and the valuation of deferred tax assets to be the accounting areas that require the most subjective and complex judgments.



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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.

Accounting Standards Codification ("ASC") Topic 350, Intangibles-Goodwill and Other, requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Corporation did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2012. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur.

Mid Penn recognizes deferred tax assets and liabilities for the future effects of temporary differences and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the consolidated statements of income in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management's judgment, it is "more likely than not" that some portion of the asset will not be realized. Management may need to modify their judgment in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair Mid Penn's ability to benefit from the asset in the future.

## Results of Operations

### Overview

Net income available to common shareholders was \$624,000, \$0.18 per common share, for the quarter ended March 31, 2013, as compared to net income available to common shareholders of \$1,006,000, or \$0.29 per common share,

for the quarter ended March 31, 2012, a 38.0% decrease.

Net interest income declined \$218,000, or 3.8%, to \$5,459,000 for the quarter ended March 31, 2013 from \$5,677,000 during the quarter ended March 31, 2012. This decline is a combination of lower yields on our earning assets and a reduction in the level of average earning assets, which decreased from \$679,381,000 at March 31, 2012 to \$664,083,000 at March 31, 2013.

The provision for loan and lease losses in the first quarter of 2013 was \$495,000, compared to \$300,000 in the first quarter of 2012.

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,	
	2013	2012
Return on average assets	0.40%	0.64%
Return on average equity	5.26%	8.42%

Total assets increased \$21,230,000 to \$726,430,000 at March 31, 2013, from \$705,200,000 at December 31, 2012. This increase is attributable to growth in net loans, increasing \$10,615,000 from \$478,711,000 at December 31, 2012 to \$489,326,000 at March 31, 2013, as well as an increase in cash and cash equivalents due to the influx of public and non-profit entity deposits. Those deposits are a result of Mid Penn’s decision to expand its Cash Management offerings and attract a larger share of public and non-profit deposit dollars. Total deposits increased \$14,724,000 from \$625,461,000 at December 31, 2012 to \$640,185,000 at March 31, 2013. Other liabilities increased \$6,824,000 from \$4,389,000 at December 31, 2012. This increase was the result of \$7,166,000 in pending purchases of available for sale investment securities included on the consolidated balance sheet but not yet reaching their settlement date. Growth in available for sale investment securities has declined in the first quarter of 2013 mainly due to the rapid amortization of our CMO portfolio, as well as the lack of quality investment securities available that meet our needs. In order to continue improving net interest margin within the current environment, Mid Penn has chosen to manage the consolidated balance sheet in such a way that loan and deposit growth in 2013 remain closely matched.

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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, 2013, Mid Penn's taxable-equivalent net interest margin decreased slightly to 3.53%, from 3.54%, as compared to the three months ended March 31, 2012. Net interest income, on a taxable-equivalent basis, in the three months ended March 31, 2013, decreased to \$5,785,000 from \$5,980,000 during the same three months of 2012. This decline is attributable to the increasing level of investment securities relative to loans in the composition of interest earning assets and the reduction in average earning assets, which decreased 2.3% from the three months ended March 31, 2012 to the three months ended March 31, 2013.

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

Provision for Loan Losses

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

During the first three months of 2013, Mid Penn continued to experience a challenging economic and operating environment both on a national and local level. Given the economic pressures that impact some borrowers, Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which took into consideration the risk characteristics of the loan and lease portfolio and shifting collateral values from December 31, 2012 to March 31, 2013.

Following its model for loan and lease loss allowance adequacy, management recorded a \$495,000 provision for the three months ended March 31, 2013, as compared to a provision of \$300,000 for the three months ended March 31, 2012. The allowance for loan and lease losses as a percentage of total loans was 1.19% at March 31, 2013, compared to 1.14% at December 31, 2012. 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 \$112,000, or 15.2%, during the first quarter of 2013 versus the first quarter of 2012. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	Three Months Ended March 31,			
	2013	2012	Variance	% Variance
			\$	
Income from fiduciary activities	\$ 139	\$ 112	\$ 27	24.1%
Net gain on sales of investment securities	-	16	(16)	-100.0%
Mortgage banking income	110	122	(12)	-9.8%
Other income	290	177	113	63.8%

Income from fiduciary activities increased during the three months ended March 31, 2013 versus the same periods in 2012. This variance is the result of an increase in estate settlement fees and sales of third party mutual funds during 2013 versus 2012.

Mid Penn recognized investment security gains in the three months ended March 31, 2012, while there were no sales of investment securities in the first quarter of 2013. Mortgage banking income was off slightly during the three months ended March 31, 2013. Refinancing activity has begun to subside while purchase activity has increased, but is still weak versus pre-recession levels in spite of low financing rates and reduced home prices.

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Other income also increased during the three months ended March 31, 2013 versus the three months ended March 31, 2012 due to the growth in merchant services revenue, as well as the reimbursement of loan collection costs by a commercial borrower and the reimbursement of unclaimed funds from the flexible spending and dental reimbursement Plans from the 2011-2012 plan year.

## Noninterest Expenses

Noninterest expenses increased \$299,000 or 6.3% during the first quarter of 2013, versus the same period in 2012. The changes were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended March 31,			
	2013	2012	Variance	% Variance
			\$	
Salaries and employee benefits	\$ 2,857	\$ 2,596	\$ 261	10.1%
FDIC Assessment	202	301	(99)	-32.9%
Legal and professional fees	154	107	47	43.9%
Other expenses	610	513	97	18.9%

Salaries and employee benefits increased during the three months ended March 31, 2013, primarily due to the increase in actual medical claims experienced from Mid Penn's self-funded medical insurance plan. Also contributing to the increase were the merit increases for existing team members and the hiring of new, experienced team members to add depth to the sales and support areas. FDIC assessments consist of premiums paid by FDIC-insured institutions. The assessments are based on statutory and risk classification factors. FDIC assessments decreased during the three months ended March 31, 2013 mainly due to a reduction in the Bank's risk rating over that period, as well as the contraction in the asset base used in the computation. Legal and professional fees increased during the three months ended March 31, 2013, comprised primarily of increased fees associated with a change in the firm used for outsourced internal audit and a fee paid to a recruiter for the hiring of an additional commercial lender. Other expenses increased during the three months ended March 31, 2013, due to the use of temporary staff to complete Mid Penn's transition to electronic retention of loan documents, higher costs of managing the pool of other real estate owned and a general increase in overall cost of services utilized.

## Income Taxes

The provision for income taxes was \$92,000 for the three months ended March 31, 2013, as compared to the provision for income taxes of \$243,000 in the same period last year. The effective tax rate for the three months ended March

31, 2013, was 11.8% compared to 17.6% for the three months ended March 31, 2012. This decline was the result of lower taxable income in the first quarter of 2013 versus the same period in 2012. Generally, our effective tax rate is below the statutory rate due to earnings on tax-exempt loans, investments, and bank-owned life insurance, as well as the impact of tax credits. The realization of deferred tax assets is dependent on future earnings. We currently anticipate that future earnings will be adequate to fully utilize deferred tax assets.

## Financial Condition

### Loans

During the first three months of 2013, Mid Penn experienced an increase in loans outstanding. Commercial real estate, as well as commercial, industrial, and agricultural balances showed modest increases as requests from creditworthy borrowers began to increase, while balances in the residential real estate portfolio have eroded through contractual payments and the refinancing of real estate secured debt by borrowers with equity in their properties. While loan demand has shown improvement, Mid Penn continues to experience weaker than normal loan demand during the first three months of 2013 despite a desire to sensibly lend to support creditworthy existing and new customers in our marketplace.

(Dollars in thousands)	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Commercial real estate, construction and land development	\$ 264,806	53.5%	\$ 255,231	52.7%
Commercial, industrial and agricultural	85,238	17.2%	79,228	16.4%
Residential mortgage	138,504	28.0%	143,243	29.6%
Consumer	6,648	1.3%	6,518	1.3%
	\$ 495,196	100.0%	\$ 484,220	100.0%

## MID PENN BANCORP, INC.

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, 2013, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 7.5% versus the seasonally adjusted national unemployment rate of 7.6%.

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

During the first three months of 2013, Mid Penn had net charge-offs of \$134,000 compared to net charge-offs of \$495,000 during the same period of 2012. Loans charged off during the first three months of 2013 were comprised of five residential real estate loans totaling \$104,000, three commercial and industrial loans totaling \$21,000, two consumer loans totaling \$3,000, and one commercial real estate loan totaling \$25,000. The remaining \$2,000 was comprised of deposit account charge-offs. All loans charged off during the first quarter were to unrelated borrowers. 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, 2013 and 2012 are summarized as follows:

(Dollars in thousands)	Three Months Ended	
	March 31, 2013	2012
Average total loans outstanding (net of unearned income)	\$ 479,507	\$ 484,415
Period ending total loans outstanding (net of unearned income)	495,196	488,670
Balance, beginning of period	5,509	6,772
Loans charged off during period	(155)	(522)
Recoveries of loans previously charged off	21	27
Net chargeoffs	(134)	(495)
Provision for loan and lease losses	495	300
Balance, end of period	\$ 5,870	\$ 6,577

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Ratio of net loans charged off to average loans outstanding (annualized)	0.11%	0.41%
Ratio of allowance for loan losses to net loans at end of period	1.19%	1.35%

Other than as described herein, we do not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Further, based on known information, we believe that the effects of current and past economic conditions and other unfavorable business conditions may influence certain borrowers' abilities to comply with their repayment terms. Mid Penn continues to monitor closely the financial strength of these borrowers. Mid Penn does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not 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, 2013, total nonperforming loans amounted to \$12,149,000, or 2.45% of loans and leases net of unearned income, as compared to levels of \$12,257,000, or 2.53%, at December 31, 2012 and \$12,192,000, or 2.49%, at March 31, 2012.

(Dollars in thousands)

	March 31, 2013	December 31, 2012	March 31, 2012
Nonperforming Assets:			
Nonaccrual loans	\$ 11,802	\$ 11,831	\$ 11,756
Loans renegotiated with borrowers	347	426	436
Total nonperforming loans	12,149	12,257	12,192
Foreclosed real estate	772	843	889
Total non-performing assets	12,921	13,100	13,081
Accruing loans 90 days or more past due	-	-	-
Total risk elements	\$ 12,921	\$ 13,100	\$ 13,081
Nonperforming loans as a % of total loans outstanding	2.45%	2.53%	2.49%
Nonperforming assets as a % of total loans outstanding and other real estate	2.61%	2.71%	2.67%
Ratio of allowance for loan losses to nonperforming loans	48.32%	44.95%	53.95%

In the above table, 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, 2013	December 31, 2012
Period ending total loans outstanding (net of unearned income)	\$ 495,196	\$ 484,220
Allowance for loan and lease losses	5,870	5,509
Total Nonperforming loans	12,149	12,257
Nonperforming and impaired loans with partial charge-offs	3,588	3,744
Ratio of nonperforming loans with partial charge-offs to total loans	0.72%	0.77%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	29.53%	30.55%
Coverage ratio net of nonperforming loans with partial charge-offs	68.57%	64.71%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	1.19%	1.15%

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

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

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the

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

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

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

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

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 12 months for possible revaluation by an independent third party.

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

As of March 31, 2013, Mid Penn had several loan relationships, with an aggregate carrying balance of \$11,323,000, deemed impaired. This pool of loans is further broken down into a group of loans with an aggregate carrying balance of \$4,616,000 for which specific allocations totaling \$1,713,000 have been included within the loan loss reserve for these loans. The remaining \$6,707,000 of loans requires no specific allocation within the loan loss reserve. The \$11,323,000 pool of impaired loan relationships is comprised of \$9,217,000 in real estate secured commercial relationships and \$2,106,000 in business relationships. There are specific allocations against the real estate secured pool totaling \$894,000, spread among 19 loans and thirteen relationships. Two of the relationships have four loans each, accounting for \$478,000 of the total; the remaining loans are to unrelated borrowers. The group of impaired business relationships with specific allocations is made up of five relationships and a specific allocation of \$819,000 has been set aside against these credits. Four small business relationships account for

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\$112,000 of the specific allocations due to the negative effects of the economy on their businesses. One additional large commercial participation loan in this pool has shown exceptional collateral devaluation and is responsible for a specific allocation of \$707,000 of the total pool attributable to this segment. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships.

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

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

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that 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 \$5,870,000 is adequate as of March 31, 2013.

## Liquidity

Mid Penn Bank's objective is to maintain adequate liquidity to meet funding needs at a reasonable cost and to provide contingency plans to meet unanticipated funding needs or a loss of funding sources, while minimizing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals and for funding corporate operations. Sources of liquidity are as follows:

- A growing core deposit base;
- Proceeds from the sale or maturity of investment securities;
- Proceeds from interest-bearing time deposits with other financial institutions;
- Payments received on loans and mortgage-backed securities; and,
- Overnight correspondent bank borrowings on various credit lines; and,
- Borrowing capacity available from the FHLB.

We believe that our core deposits are stable even in periods of changing interest rates. Liquidity and funds management are governed by policies and are measured on a monthly basis. These measurements indicate that liquidity generally remains stable and exceeds our minimum defined levels of adequacy. Other than the trends of continued competitive pressures and volatile interest rates, there are no known demands, commitments, events, or uncertainties that will result in, or that are reasonably likely to result in, liquidity increasing or decreasing in any material way.

## Capital Resources

Shareholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The greater a corporation's capital resources, the more likely it is to meet its cash obligations and absorb unforeseen losses. Too much capital, however, indicates that not enough of the corporation's earnings have been invested in the continued growth of the business or paid to shareholders. The buildup makes it

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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, 2013 by \$299,000, or 0.6%, from December 31, 2012. Capital has been positively impacted in 2013 by positive earnings available to common shareholders of \$624,000 and the issuance of the remaining 120 shares of Series B preferred stock, offset by a \$402,000 decline in other comprehensive income and \$58,000 used to repurchase the warrants associated with the CPP.

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios as of March 31, 2013 and December 31, 2012.

(Dollars in thousands)	Capital Adequacy				To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Actual: Amount	Ratio	Minimum Required: Amount	Capital Ratio	Amount	Ratio
<b>Corporation</b>						
As of March 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 49,528	7.1%	\$ 27,845	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	49,528	9.7%	20,328	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	55,488	10.9%	40,655	8.0%	N/A	N/A
<b>Bank</b>						
As of March 31, 2013:						
Tier 1 Capital (to Average Assets)	\$ 49,451	7.1%	\$ 27,844	4.0%	\$ 34,805	5.0%
Tier 1 Capital (to Risk Weighted Assets)	49,451	9.7%	20,328	4.0%	30,491	6.0%
Total Capital (to Risk Weighted Assets)	55,411	10.9%	40,655	8.0%	50,819	10.0%
<b>Corporation</b>						
As of December 31, 2012:						
Tier 1 Capital (to Average Assets)	\$ 48,822	6.8%	\$ 28,530	4.0%	\$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	48,822	10.0%	19,593	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	54,421	11.1%	39,185	8.0%	N/A	N/A
<b>Bank</b>						
As of December 31, 2012:						
Tier 1 Capital (to Average Assets)	\$ 48,764	6.9%	\$ 28,111	4.0%	\$ 35,138	5.0%

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Tier 1 Capital (to Risk Weighted Assets)	48,764	10.0%	19,593	4.0%	29,389	6.0%
Total Capital (to Risk Weighted Assets)	54,363	11.1%	39,185	8.0%	48,981	10.0%

In June 2012, the Federal Reserve Bank, the FDIC and the OCC issued proposed rules that would revise bank regulatory capital requirements and the risk-weighted asset rules. These rules represent the most extensive changes to bank capital requirements in the recent past. The rules will extend large parts of a regulatory capital administration to all U.S. banks and their holding companies, other than the smallest bank holding companies (generally, those with under \$500 million in consolidated assets). The comment period ended in October 2012, and provision of the new rules could have begun as early as January 2013, although a multi-year phase-in is included in the proposed rules. Implementation of the proposed rules was deferred by U.S. Regulators in November 2012. Below is a summary:

Summary of proposed rules for capital

- Revise the definition of regulatory capital components and related calculations, which would include conservative guidelines for determining whether an instrument could qualify as regulatory capital;
- Add common equity tier 1 capital as a new regulatory capital component;
- Increase the minimum tier 1 capital ratio requirement;
- Create a capital conservation buffer that would limit payment of capital distributions and certain discretionary bonus payments to executive officers if the institution does not hold enough common equity tier 1 capital;
- Provide for a transition period for several aspects of the rule; and
- Incorporate the new and revised regulatory capital requirements into the Prompt Corrective Action rules.



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Summary of proposed rules for risk-weighted assets

The proposal would expand the number of risk-weighted categories and increase the required capital for certain categories of assets, including higher-risk residential mortgages and higher-risk construction real estate loans. In addition, the rule would:

- revise risk weights for residential mortgages based on LTV ratios and certain loan characteristics, assigning risk weights between 35% and 200%;
- increase capital requirements for past-due loans from 100% to 150% and set the risk weight for high volatility commercial real estate loans at 150%; and
- revise the risk-weighted percentage for unused commitments with an original maturity of one year or less from 0% to 20% unless the commitment is unconditionally cancelable by the bank.

The risk-weighted asset rule will apply to all U.S. banks and savings banks and almost all of their holding companies, although smaller, “non-complex” banking organizations will not need to comply with some of the rule’s requirements. Mid Penn is in the process of assessing the impact of these proposed changes on the regulatory ratios of Mid Penn Bank and Mid Penn.

Capital Purchase Program Participation

On December 19, 2008, Mid Penn entered into and closed a letter agreement with the United States Department of the Treasury (the “Treasury”) pursuant to which the Treasury invested \$10,000,000 in Mid Penn under the Treasury’s Capital Purchase Program (the “CPP”). Under the letter agreement, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation preference (“Series A Preferred Stock”), and (2) warrants to purchase up to 73,099 shares of the Mid Penn common stock at an exercise price of \$20.52 per share (the “Warrants”).

On December 28, 2012, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury all 10,000 shares of the Series A Preferred Stock issued to the Treasury, which constitutes all of the issued and outstanding shares of Series A Preferred Stock. Mid Penn repurchased the Series A Preferred Stock for a purchase price equal to the aggregate liquidation amount of the Preferred Stock of \$10,000,000, plus accrued but unpaid dividends of \$59,722. All 10,000 shares of Series A Preferred Stock have subsequently been cancelled.

On January 23, 2013, Mid Penn entered into a letter agreement with the Treasury pursuant to which Mid Penn repurchased from the Treasury on that date the Warrants for \$58,479. The Warrants have subsequently been

cancelled.

As of the date hereof, Mid Penn has no further financial obligations under the Series A Preferred Stock, the Warrants, or the Treasury's CPP.

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

There has been no material change in market risk since December 31, 2012, as reported in Mid Penn's Form 10-K filed with the SEC on March 25, 2013.

### 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, 2013, 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, 2013, 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, 2012. 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 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

MID PENN BANCORP, INC.

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, 2013

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

Date: May 15, 2013