

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

MID PENN BANCORP INC  
Form 10-Q  
November 08, 2007

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

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

For the quarterly period ended September 30, 2007

Commission file number 001-13677

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

Pennsylvania  
(State or other jurisdiction of  
Incorporation or Organization)

25-1666413  
(IRS Employer ID No.)

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

17061  
(Zip Code)

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

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

Yes       No

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

Large accelerated Filer       Accelerated Filer  
 Non-accelerated Filer

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

Yes       No

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

3,493,331 shares of Common Stock, \$1.00 par value per share, were outstanding as of November 5, 2007.

PART I  
MID PENN BANCORP, INC.  
FINANCIAL INFORMATION

ITEM 1: Financial Statements:

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MID PENN BANCORP, INC.  
CONSOLIDATED BALANCE SHEET  
(In thousands, except per share data)

	Sept. 30, 2007 ----- (Unaudited)	Dec. 31 2006 ----- (Audited)
<b>ASSETS:</b>		
Cash and due from banks	\$ 6,879	\$ 9,498
Interest-bearing balances	48,839	46,921
Available-for-sale securities	54,383	57,261
Federal funds sold	0	0
Loans and leases	372,355	358,573
Less,		
Allowance for loan and lease losses	4,441	4,187
	-----	-----
Net loans and leases	367,914	354,386
	-----	-----
Bank premises and equip't, net	10,722	9,562
Foreclosed assets held for sale	445	146
Accrued interest receivable	2,775	2,822
Goodwill	1,016	1,016
Core deposit intangible, net	379	428
Cash surrender value of life insurance	7,355	7,154
Deferred income taxes	1,659	1,610
Other assets	1,230	890
	-----	-----
Total Assets	\$ 503,596	\$ 491,694
	=====	=====
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>		
<b>Deposits:</b>		
Demand	\$ 45,035	\$ 44,097
NOW	34,352	32,978
Money Market	63,531	59,640
Savings	24,498	25,397
Time	194,528	202,114
	-----	-----
Total deposits	361,944	364,226
Short-term borrowings	41,429	24,275
Accrued interest payable	2,959	1,912
Other liabilities	2,839	2,483
Long-term debt	54,615	59,713
	-----	-----
Total Liabilities	463,786	452,609
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$1 per share; authorized 10,000,000 shares; issued 3,533,340 and 3,367,119 shares at September 30, 2007 and December 31, 2006, resp	3,533	3,367
Additional paid-in capital	31,107	27,452
Retained earnings	6,161	8,583
Accumulated other comprehensive inc(loss)	44	317
Treasury Stock at cost (39,557 and 19,086 shs. resp.)	(1,035)	(634)

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Total Stockholders' Equity	39,810	39,085
Total Liabilities & Equity	\$ 503,596	\$ 491,694

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

MID PENN BANCORP, INC.  
CONSOLIDATED STATEMENT OF INCOME  
(In thousands, except for per share data)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2007	2006	2007	2006
<b>INTEREST INCOME:</b>				
Interest & fees on loans	\$ 6,686	\$ 5,898	\$ 19,622	\$ 17,194
Int.-bearing balances	637	566	1,894	1,608
Treas. & Agency securities	225	288	723	757
Municipal securities	352	290	1,012	917
Other securities	50	45	150	141
Fed funds sold and repos	0	17	33	29
Total Int. Income	7,950	7,104	23,434	20,646
<b>INTEREST EXPENSE:</b>				
Deposits	2,879	2,280	8,571	6,296
Short-term borrowings	305	185	649	490
Long-term borrowings	708	825	2,165	2,382
Total Int. Expense	3,892	3,290	11,385	9,168
Net Int. Income	4,058	3,814	12,049	11,478
PROVISION FOR LOAN LOSSES	175	75	375	435
Net Int. Inc. after Prov	3,883	3,739	11,674	11,043
<b>NON-INTEREST INCOME:</b>				
Trust dept	69	63	225	194
Service chgs. on deposits	389	340	1,121	1,018
Investment securities				
Gains(losses), net	0	33	0	33
Incr. in cash surrender value of life ins	66	54	201	162
Gain on sale of other real estate	0	0	0	131
Income from sale of investment products	25	32	121	86
Other	200	213	775	656
Total Non-Interest Income	749	735	2,443	2,280
<b>NON-INTEREST EXPENSE:</b>				
Salaries and benefits	1,675	1,557	5,000	4,704
Occupancy, net	202	159	640	470
Equipment	293	200	804	617
PA Bank Shares tax	83	72	246	214
ATM/Debit card expenses	60	30	170	116

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Professional fees	125	142	442	425
Director fees and benefits	72	55	264	175
Advertising Expense	85	51	312	170
Computer software licensing	60	64	201	186
Stationery and supplies	64	54	185	151
Early withdrawal fee on int-bearing bals	0	0	0	191
Postage Expense	27	35	110	97
Legal Expense	17	32	94	62
Donations	29	10	74	38
Meals, Travel, and Lodging Expense	26	25	87	72
Other	232	299	901	885
	-----	-----	-----	-----
Tot. Non-int. Exp	3,050	2,785	9,530	8,573
	-----	-----	-----	-----
Income before income taxes	1,582	1,689	4,587	4,750
INCOME TAX EXPENSE	372	447	1,114	1,236
	-----	-----	-----	-----
NET INCOME	\$ 1,210	\$ 1,242	\$ 3,473	\$ 3,514
	=====	=====	=====	=====
NET INCOME PER SHARE	\$ 0.35	\$ 0.35	\$ 0.99	\$ 1.00
	=====	=====	=====	=====
DIVIDENDS PER SHARE	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.60
	=====	=====	=====	=====
Weighted Average No. of Shares Outstanding	3,494,195	3,514,965	3,499,812	3,515,297

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

MID PENN BANCORP, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(In thousands)

	For the Nine Months Ended Sept. 30,	
	2007	2006
	-----	-----
Operating Activities:		
Net Income	\$ 3,473	\$ 3,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	375	435
Depreciation	593	470
Incr. in cash-surr. value of life insurance	(201)	(162)
Investment securities gains, net	0	(33)
Amortization	98	28
Gain on sale of loans	(21)	0
Loss (gain) on sale/disposal of bank premises and equipment	0	(9)
Loss (gain) on the sale of foreclosed assets	21	(131)
Deferred income taxes	92	7
Change in accrued interest receivable	47	(195)
Change in other assets	(389)	(589)
Change in accrued interest payable	1,047	920

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Change in other liabilities	45	571
	-----	-----
Net cash provided by operating activities	5,180	4,826
	-----	-----
Investing Activities:		
Net (incr)decr in int-bearing balances	(1,918)	9,934
Incr. in federal funds sold	0	0
Proceeds from sale of securities	0	1,923
Proceeds from the maturity of secs	6,918	4,112
Purchases of investment securities	(4,144)	(12,063)
Net increase in loans	(14,407)	(20,434)
Purchases of bank premises & equip't	(1,753)	(261)
Proceeds from sale of foreclosed assets	205	205
Proceeds from sale of bank premises & equip't	0	9
Capitalized additions - ORE	0	0
	-----	-----
Net cash used in investing activities	(15,099)	(16,575)
	-----	-----
Financing Activities:		
Net incr.(decr) in demand and savings deposits	5,304	(6,430)
Net (decr)incr. in time deposits	(7,586)	10,385
Net decrease in federal funds sold	0	0
Net incr. in short-term borrowings	17,154	5,804
Long-term debt repayments	(5,098)	(5,093)
Increase in long-term borrowings	0	10,000
Cash dividend paid	(2,073)	(1,983)
Purchase of treasury stock	(401)	(26)
	-----	-----
Net cash provided by financing activities	7,300	12,657
	-----	-----
Net (decr)incr in cash & due from banks	(2,619)	908
Cash & due from banks, beg of period	9,498	6,350
	-----	-----
Cash & due from banks, end of period	6,879	7,258
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Interest paid	10,338	8,248
Income taxes paid	1,405	1,390
Supplemental Noncash Disclosures:		
Loan charge-offs, net of recoveries	121	95
Transfers to other real estate	525	184

Mid Penn Bancorp, Inc.  
Notes to Consolidated Financial Statements

1. The consolidated interim financial statements include the accounts of Mid Penn Bancorp, inc. and its wholly-owned subsidiaries Mid Penn Bank ("MPB"), Mid Penn Investment Corporation and Mid Penn Insurances Services, LLC (collectively, the "Corporation"). All material inter-company balances and transactions have been eliminated in consolidation.

The consolidated interim financial statements, with the exception of the consolidated balance sheet dated December 31, 2006, are unaudited and have been prepared according to the rules and regulations of the Securities and Exchange Commission with respect to Form 10-Q. The financial information reflects all adjustments (consisting only of normal recurring adjustments), which are, in our

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opinion, necessary for a fair statement of results for the periods covered. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted according to these rules and regulations. We believe, however, that the disclosures are adequate so that the information is not misleading. You should read these interim financial statements along with the financial statements including the notes included in the Corporation's most recent Form 10-K.

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

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

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

5. Short-term borrowings as of Sept. 30, 2007, and December 31, 2006, consisted of:

(Dollars in thousands)

	9/30/07	12/31/06	
	-----	-----	
Repurchase agreements	\$ 9,423	\$ 9,175	
Treasury, tax and loan note	1,006	600	
Federal funds purchased	31,000	14,500	
	-----	-----	
	\$41,429	\$24,275	
	=====	=====	

Federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury, tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by the Bank are placed in the Treasury note option account.

6. During the third quarter, Mid Penn Bank ("MPB") did not enter into any long-term borrowings.

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

### Components of Net Periodic Benefit Cost

Nine months ended September 30:

(In thousands)

	Pension Benefits		Other Benefits	
	-----	-----	-----	-----
	2007	2006	2007	2006
	----	----	----	----
Service cost	\$ 30	\$ 30	\$ 19	\$ 15
Interest cost	24	21	45	27
Expected return on plan assets	--	--	--	--
Amortization of transition obligation	11	12	--	--

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Amortization of prior service cost	--	--	20	--
Amortization of net gain	(5)	(3)	--	--
	----	----	----	----
Net periodic benefit cost	\$ 60	\$ 60	\$ 84	\$ 42
	----	----	----	----

8. Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each of the periods presented, giving retroactive effect to stock dividends. The basic and diluted earnings per share are the same since there are no dilutive shares of securities outstanding.

9. The purpose of reporting comprehensive income (loss) is to report a measure of all changes in the Corporation's equity resulting from economic events other than transactions with stockholders in their capacity as stockholders. For the Corporation, "comprehensive income(loss)" includes traditional income statement amounts as well as unrealized gains and losses on certain investments in debt and equity securities (i.e. available-for-sale securities). Because unrealized gains and losses are part of comprehensive income (loss), comprehensive income (loss) may vary substantially between reporting periods due to fluctuations in the market prices of securities held. Other comprehensive income will annually include a pension component in accordance with Financial Accounting Standards Board No. 158.

(In thousands)	Three Months		Nine Months	
	Ended Sept. 30,		Ended Sept. 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Net Income	\$ 1,210	\$ 1,242	\$ 3,473	\$ 3,5
Other comprehensive income(loss):				
Unrealized holding gains (losses)				
on securities arising during the				
period	480	690	(103)	
Less: reclassification				
ajds for losses(gains) included				
in net income	0	(3)	0	(
	-----	-----	-----	-----
Other comprehensive income(loss)				
before income tax (provision)				
benefit	480	657	(103)	
Other comprehensive income related to SFAS 158	0	0	(311)	
Income tax (provision) benefit				
related to other comp.income (loss)	(163)	(223)	141	
	-----	-----	-----	-----
Other comprehensive inc(loss)	317	434	(273)	
	-----	-----	-----	-----
Comprehensive Income	1,527	1,676	3,200	3,5
	=====	=====	=====	=====

Mid Penn Bancorp, Inc.  
Millersburg, Pennsylvania

ITEM 2: Management's Discussion of Consolidated Financial Condition

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### Special Cautionary Notice Regarding Forward-looking Statements

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 the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "estimate," and similar expressions are intended to identify such forward-looking statements.

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

- o The effects of future economic conditions on the Corporation and the its customers;
- o The costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- o Governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- o 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;
- o 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;
- o 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 MPB'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;
- o Technological changes;
- o Acquisitions and integration of acquired businesses;
- o 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; and
- o Acts of war or terrorism.

The following is management's discussion and analysis of the significant changes in the consolidated financial condition of the Corporation as of September 30, 2007, compared to year-end 2006 and the results of operations for the three months and nine months ended September 30, 2007 and 2006.



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### CONSOLIDATED FINANCIAL CONDITION

Total assets as of Sept. 30, 2007, were \$503,596,000, compared to \$491,694,000 as of December 31, 2006. Asset growth has been led by growth in the MPB's loan portfolio.

During the first nine months of 2007, net loans outstanding increased by \$13,528,000 from year end. The majority of this 3.8% increase occurred during the third quarter, representing mostly growth in the area of commercial real estate loans in the Capital Region (Harrisburg Area).

Total deposits decreased by \$2,282,000 during the first nine months of 2007 as management attempted to control interest expense in order to maintain net interest margin in the difficult environment of a flat yield curve accompanied by intense competition for deposits from bank and non-bank competitors.

Interest-bearing balances were increased during the quarter in anticipation of lower short-term interest rates during the fourth quarter of 2007.

All components of long-term debt are advances from the FHLB.

As of September 30, 2007, MPB's capital ratios are well in excess of the minimum and well-capitalized guidelines, and the Corporation's capital ratios are in excess of the Bank's capital ratios. The changes in Mid Penn Bancorp's additional paid-in capital account resulted from the 5% stock dividend paid to shareholders in May of 2007.

In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp common stock. Through September 30, 2007, 20,501 shares have been repurchased at an average price of \$24.27 per share.

### RESULTS OF OPERATIONS

Net income for the first nine months of 2007 was \$3,473,000, compared with \$3,514,000 earned in the same period of 2006. Net income per share for the same period in 2007 and 2006 was \$.99 and \$1.00, respectively. Net income as a percentage of average stockholders' equity, also known as return on equity (ROE), was 11.8% on an annualized basis for the nine months ended September 30, 2007, and 12.5% for the same period in 2006.

Net income for the third quarter of 2007 was \$1,210,000, compared with \$1,242,000 earned in the same quarter of 2006. Net income per share for the third quarter of both 2007 and 2006 was \$.35.

Net interest income of \$4,058,000 for the quarter ended September 30, 2007, increased by 6.4% compared to the \$3,814,000 earned in the same quarter of 2006. Despite the growth in earning assets over the past twelve months, net interest income was restricted to a degree by the flat yield curve and the competition for interest-yielding assets.

The following tables illustrate MPB's net interest margin on an average, taxable equivalent, basis for both the year ended 2006 and the nine months ended September 30, 2007, annualized. The margin during 2006 was 3.82%. The margin began decreasing during the last four months of 2006. The margin stabilized during the first nine months of 2007; however the net interest margin for the year-to-date 2007 is 3.72% or 0.10% lower than that of the prior year.

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TABLE 1: AVERAGE BALANCES, EFFECTIVE INTEREST DIFFERENTIAL AND INTEREST YIELDS

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
FOR NINE MONTHS ENDED SEPTEMBER 30, 2007

(Dollars in thousands)	Average Balance -----	Annualized Interest Income /Expense -----
<b>ASSETS:</b>		
Interest Bearing Balances	46,478	2,522
Investment Securities:		
Taxable	25,459	1,169
Tax-Exempt	29,475	2,044
	-----	
Total Investment Securities	54,934	
Federal Funds Sold	834	44
Loans, Net	358,531	26,503
	-----	-----
Total Earning Assets	460,777	32,159
Cash and Due from Banks	7,524	
Other Assets	24,822	
	-----	
Total Assets	493,123	
	=====	
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>		
Interest Bearing Deposits:		
NOW	34,655	139
Money Market	64,004	2,240
Savings	25,684	73
Time	205,035	8,977
Short-term Borrowings	18,246	866
Long-term Debt	57,686	2,887
	-----	-----
Total Interest Bearing Liabilities	405,310	15,182
Demand Deposits	43,660	
Other Liabilities	5,558	
Stockholders' Equity	38,595	
	-----	
Total Liabilities and Stockholders' Equity	493,123	
	=====	
Net Interest Income		17,101
Net Yield on Interest Earning Assets:		
Total Yield on Earning Assets		
Rate on Supporting Liabilities		
Average Interest Spread		
Net Interest Margin		

INCOME AND RATES ON A TAXABLE EQUIVALENT BASIS  
FOR YEAR ENDED DECEMBER 31, 2006

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(Dollars in thousands)	Average Balance -----	Interest Income/Expens -----
<b>ASSETS:</b>		
Interest Bearing Balances	46,038	2,225
Investment Securities:		
Taxable	27,343	1,218
Tax-Exempt	28,402	1,950
	-----	
Total Investment Securities	55,745	
Federal Funds Sold	564	29
Loans, Net	324,720	23,598
	-----	-----
Total Earning Assets	427,067	29,020
Cash and Due from Banks	7,000	
Other Assets	19,100	
	-----	
Total Assets	453,167	
	=====	
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY:</b>		
Interest Bearing Deposits:		
NOW	31,877	90
Money Market	60,968	1,898
Savings	24,772	61
Time	172,792	6,819
Short-term Borrowings	14,937	686
Long-term Debt	63,329	3,178
	-----	-----
Total Interest Bearing Liabilities	368,675	12,732
Demand Deposits	43,161	
Other Liabilities	3,527	
Stockholders' Equity	37,804	
	-----	
Total Liabilities and Stockholders' Equity	453,167	
	=====	
Net Interest Income		16,288
Net Yield on Interest Earning Assets:		
Total Yield on Earning Assets		
Rate on Supporting Liabilities		
Average Interest Spread		
Net Interest Margin		

During the third quarter of 2007, MPB analyzed interest rate risk using the Profitstar Asset-Liability Management Model. Using the computerized model, Management reviews interest rate risk on a periodic basis. This analysis includes an earnings scenario whereby interest rates are increased by 200 basis points (2 percentage points) and another whereby they are decreased by 200 basis points. At September 30, 2007, these scenarios were within the policy limits of +/- 15% in net interest income for the next twelve months; however, actual results could vary significantly from the calculations prepared by management.

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Based on Management's analysis of the loan portfolio, MPB recorded a \$175,000 provision for possible loan and lease losses during the third quarter of 2007, compared to a provision of \$75,000 made during the third quarter of 2006. The larger provision in the third quarter of 2007 reflects both an increase in non-performing loans as well as an increase in loan volume during the quarter, compared to the same period of 2006. On a quarterly basis, senior management reviews potentially unsound loans taking into consideration judgments regarding risk of loss, economic conditions, trends and other factors in determining a reasonable provision for the period. A portion of the allowance for loan and lease losses is based on applying historical loss ratios to the existing loan portfolio.

Non-interest income amounted to \$749,000 for the third quarter of 2007 compared to \$735,000 earned during the same quarter of 2006. The major contributor to non-interest income is insufficient fund (NSF) fee income. NSF fee income contributed approximately \$319,000 of income during the third quarter of 2007 and \$274,000 during the same quarter of 2006.

Non-interest expense increased by \$265,000, or 9.5%, during the third quarter of 2007 compared to the same quarter of 2006. The majority of this increase was \$118,000 in additional personnel expense as MPB continues to grow its talent pool and branch network. The Bank added sixteen full-time equivalent personnel during the last year including those at our two newest offices in Middletown and Steelton, which were acquired in December of 2006, as well as staff hired for our newest branch office in Camp Hill, PA, opening in October of 2007. Expenses related to property, premises and equipment increased by approximately \$136,000 compared to the third quarter of 2006. This increase reflects higher depreciation, tax and utility costs as well as the addition of the two new offices mentioned previously and the relocation of our Lykens Valley Office to a newly constructed building at a site adjoining a new Walmart Superstore in Elizabethville, PA, as well as the purchase of our newest branch office in Camp Hill, PA. Advertising expense also increased by approximately \$34,000 during the quarter as MPB is in the midst of a marketing campaign to further develop brand recognition and market penetration in conjunction with the recent announcement of the sale of one of MPB's major competitors.

### LIQUIDITY

MPB's objective is to maintain adequate liquidity while managing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals, and for funding Corporate operations. Sources of liquidity include interest-bearing balances, maturing investment securities, borrowings, payments received on loans, and increases in deposit liabilities.

Funds generated from operations were a significant source of funds for the first nine months of 2007. The major source of funds during the first nine months was a net increase of \$17 million in short-term borrowings mainly with the FHLB, \$5 million of which replaced a FHLB long-term borrowing that matured during the year. Management plans on replacing a portion of the short-term borrowings with long-term borrowings and increases in deposits as interest rates fall. Another significant source of funds came from the maturity of investment securities, which provided approximately \$6.9 million in funds. Net increases in demand and savings deposits contributed another \$5.3 million, which helped offset the decrease in time deposits.

The major use of funds during the first nine months of 2007 was the net increase in loans of \$13.8 million, particularly in the area of commercial loans secured by real estate. Another major use of cash during the period was the net purchase of \$1.9 million in interest bearing deposits (certificates of deposits) of other

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banks in anticipation of lower interest rates during the last quarter of the year.

### CREDIT RISK AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Total non-performing assets were \$3,777,000, representing 0.75% of total assets at September 30, 2007, compared to \$2,434,000, or 0.50% of total assets, at December 31, 2006. Much of the increase in non-performing assets is attributable to one delinquent commercial relationship, of approximately \$730,000, on which we have ceased the accrual of interest income. This borrower is involved in residential development and the loans are secured by real estate. Most non-performing assets are supported by collateral value that appears to be adequate at September 30, 2007.

The allowance for loan losses at September 30, 2007, was \$4,441,000 or 1.19% of loans, net of unearned interest, as compared to \$4,187,000 or 1.17% of loans, net of unearned interest, at December 31, 2006.

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

### RECENT ACCOUNTING PRONOUNCEMENT

In February 2007, The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities," including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Corporation is currently evaluating the impact of the adoption of this pronouncement on its consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 (EITF 06-10), Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently evaluating the impact that the adoption of the EITF will have on its financial statements.

In September 2006, the FASB issued SFAS NO. 157, Fair Value Measurements ("SFAS 157"), to establish a consistent framework for measuring fair value and expand disclosures on fair value measurements. The provisions of SFAS 157 are effective beginning in 2008 and are not expected to have a material effect on its financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - and interpretation of FASB Statement No. 109 ("Interpretation 48"). Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation 48 did not have a material effect on its financial statements.

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## MID PENN BANCORP, INC.

	Nine mos. Ended Sept. 30, 2007 -----	Year Ended Dec. 31, 2006 -----
<b>Non-Performing Assets:</b>		
Non-accrual loans and leases	2,350	1,293
Past due 90 days or more	982	995
Restructured loans	0	0
	-----	-----
Total non-performing loans	3,332	2,288
Other real estate	445	146
	-----	-----
Total	3,777	2,434
	=====	=====
Percentage of total loans outstanding	1.01%	0.68%
Percentage of total assets	0.75%	0.50%
 <b>Analysis of the Allowance for Loan and Lease Losses:</b>		
Balance beginning of period	4,187	3,704
Loans charged off:		
Commercial real estate, construction and land development	0	17
Commercial, industrial and agricultural	12	158
Real estate - residential mortgage	52	0
Consumer	103	134
Leases	84	0
	-----	-----
Total loans charged off	251	309
	-----	-----
Recoveries of loans previously charged off:		
Commercial real estate, construction and land development	0	0
Commercial, industrial and agricultural	4	3
Real estate - residential mortgage	0	0
Consumer	42	54
Leases	84	0
	-----	-----
Total recoveries	130	57
	-----	-----
Net charge-offs	(121)	(252)
	-----	-----
Current period provision for loan losses	375	735
	-----	-----
Balance end of period	4,441	4,187
	=====	=====

### Item 3: Quantitative and Qualitative Disclosure about Market Risk

In the normal course of conducting business activities, the Corporation is exposed to market risk, principally interest risk. Interest risk arises from market driven fluctuations in interest rates that affect cash flows, income,

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expense and values of financial instruments. The Asset/Liability Committee, using policies approved by the Board of Directors, is responsible for managing the rate sensitivity position.

No material changes in the market risk strategy occurred during the current period. No material changes have been noted in the Corporation's equity value at risk. A detailed discussion of market risk is provided in the Form 10-K for the year ended December 31, 2006.

### Item 4: Controls and Procedures:

#### Evaluation of Disclosure Controls and Procedures

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

#### Changes in Internal Controls Over Financial Reporting

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

Mid Penn Bancorp, Inc.

### PART II - OTHER INFORMATION:

Item 1. Legal Proceedings - Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. There are no proceedings pending other than ordinary routine litigation incident to the business of the Corporation. In addition, management does not know of any material proceedings contemplated by governmental authorities against the Corporation or any of its properties.

Item 1A. Risk Factors - There are no material changes from the risk factors as previously disclosed in the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp common stock. Through September 30, 2007, 20,501 shares have been repurchased at an average price of \$24.27 per share. During the third quarter of 2007, 659 shares were repurchased at an average price of \$25.66.

#### Issuer Purchases of Equity Securities During the Quarter:

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Total Number of Shares	Average Price	Total Number of Cumulative Shares Purchased as	Maximum Number of Shares that May Yet Be Purchased Under
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Period	Purchased	Paid per Share	Part of Plan	Plan
July-07	65	\$26.60	19,907	230,093
August-07	199	\$24.68	20,106	229,894
September-07	395	\$26.00	20,501	229,499
Total	659	\$25.66	20,501	229,499

Item 3. Defaults Upon Senior Securities - Nothing to report

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

Item 5. Other Information - The Bank opened a new banking office, located at 21st and Market Streets in Camp Hill, Cumberland County, PA, in October of 2007.

Item 6. Exhibits -

3(i) The Registrant's Articles of Incorporation. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)

3(ii) The Registrant's By-laws. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)

10.1 Mid Penn Bank's Profit Sharing Retirement Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)

10.2 Mid Penn Bank's Employee Stock Ownership Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)

10.3 The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005.)

10.4 Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)

10.5 Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)

10.6 Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)

10.7 Executive Employment Agreement between Mid Penn Bank and Alan W. Dakey dated as of August 31, 2007. (Incorporated by reference to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007)

11.1 Statement regarding the computation of Per Share Earnings (Included in



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body of 10-Q)

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Chief Executive Officer's ss.1350 Certification.
- 32.2 Chief Financial Officer's ss.1350 Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Mid Penn Bancorp, Inc.  
Registrant

/s/ Alan W. Dakey

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By: Alan W. Dakey  
President & CEO

Date: November 5, 2007

/s/ Kevin W. Laudenslager

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By: Kevin W. Laudenslager  
Treasurer

Date: November 5, 2007