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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	25-1666413

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
349 Union Street	
Millersburg, Pennsylvania (Address of Principal Executive Offices)	17061 (Zip Code)

Registrant's telephone number, including area code 1.866.642.7736

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of May 15, 2015, the registrant had 4,222,693 shares of common stock outstanding.

MID PENN BANCORP, INC.

FORM 10-Q

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

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

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

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

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

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

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2015	2014
INTEREST INCOME		
Interest & fees on loans and leases	$ 7,154	$ 6,540
Interest on interest-bearing balances	11	10
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	331	277
State and political subdivision obligations, tax-exempt	531	519
Other securities	131	34
Total Interest Income	8,158	7,380
INTEREST EXPENSE		
Interest on deposits	914	978
Interest on short-term borrowings	11	14
Interest on long-term debt	195	116
Total Interest Expense	1,120	1,108
Net Interest Income	7,038	6,272
PROVISION FOR LOAN AND LEASE LOSSES	300	547
Net Interest Income After Provision for Loan and Lease Losses	6,738	5,725
NONINTEREST INCOME		
Income from fiduciary activities	127	158
Service charges on deposits	150	127
Net gain on sales of investment securities	177	150
Earnings from cash surrender value of life insurance	56	51
Mortgage banking income	67	38
ATM debit card interchange income	155	126
Merchant services income	50	67
Net gain on sales of SBA loans	-	51
Other income	167	126
Total Noninterest Income	949	894
NONINTEREST EXPENSE		
Salaries and employee benefits	3,195	2,548
Occupancy expense, net	454	382
Equipment expense	313	301
Pennsylvania Bank Shares tax expense	115	99
FDIC Assessment	139	132
Legal and professional fees	143	97
Director fees and benefits expense	83	79
Marketing and advertising expense	88	48
Software licensing	319	237
Telephone expense	123	96
Loss on sale/write-down of foreclosed assets	32	87
Intangible amortization	9	7

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

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

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

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

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

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

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

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

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

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance, January 1, 2015	$ 5,000	$ 3,498	$ 29,902	$ 19,217	$ 1,513	$ 59,130
Net income	-	-	-	963	-	963
Total other comprehensive income, net of taxes	-	-	-	-	361	361
Employee Stock Purchase Plan (1,013 shares)	-	1	15	-	-	16
Common stock dividends	-	-	-	(350)	-	(350)
Series B preferred stock dividends	-	-	-	(87)	-	(87)
SBLF preferred stock in connection with Phoenix acquisition	1,750	-	-	-	-	1,750
Common stock issued to Phoenix shareholders	-	724	10,568	-	-	11,292
Restricted stock compensation expense	-	-	8	-	-	8
Balance, March 31, 2015	$ 6,750	$ 4,223	$ 40,493	$ 19,743	$ 1,874	$ 73,083
Balance, January 1, 2014	$ 5,000	$ 3,494	$ 29,853	$ 15,441	$ (872)	$ 52,916
Net income	-	-	-	1,511	-	1,511
Total other comprehensive income, net of taxes	-	-	-	-	1,065	1,065
Employee Stock Purchase Plan (985 shares)	-	1	13	-	-	14
Common stock dividends	-	-	-	(174)	-	(174)
Series B preferred stock dividends	-	-	-	(87)	-	(87)
Balance, March 31, 2014	$ 5,000	$ 3,495	$ 29,866	$ 16,691	$ 193	$ 55,245

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

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

(Dollars in thousands)	Three Months Ended March 31, 2015		2014	
Operating Activities:				
Net Income	$	963	$	1,511
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan and lease losses		300		547
Depreciation		314		313
Amortization of intangibles		13		4
Net amortization of security premiums		384		43
Gain on sales of investment securities		(177)		(150)
Earnings on cash surrender value of life insurance		(56)		(51)
SBA loans originated for sale		-		(468)
Proceeds from sales of SBA loans originated for sale		-		519
Gain on sale of loans		-		(51)
Loss on sale / write-down of foreclosed assets		32		87
Restricted stock compensation expense		8		-
Deferred income tax benefit		(76)		(28)
Decrease (increase) in accrued interest receivable		52		(200)
Increase in other assets		(47)		(152)
Increase in accrued interest payable		117		93
Decrease in other liabilities		(40)		(282)
Net Cash Provided By Operating Activities		1,787		1,735
Investing Activities:				
Net decrease in interest-bearing time deposits with other financial institutions		103		2,190

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

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

Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 971	$ 1,015
Income taxes paid	$ 100	$ -
Supplemental Noncash Disclosures:		
Loan transfers to foreclosed assets held for sale	$ 216	$ 264

Assets, Liabilities, and Equity in Connection with Merger:
(Dollars in thousands)

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

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

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

(1) Basis of Presentation

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

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Mid Penn believes the information presented is not misleading and the disclosures are adequate. For comparative purposes, the March 31, 2014 and December 31, 2014 balances have been reclassified to conform to the 2014 presentation. Such reclassifications had no impact on net income. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Mid Penn's Annual Report on Form 10-K for the year ended December 31, 2014.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2015, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

(2) Merger

On March 1, 2015, Mid Penn consummated the merger with Phoenix Bancorp, Inc. ("Phoenix"), a Pennsylvania corporation. Under the terms of a merger agreement between the parties, Phoenix merged with, and into Mid Penn, with Mid Penn continuing as the surviving entity. Simultaneously with the consummation of the foregoing merger, Miners Bank ("Miners"), a Pennsylvania-state chartered bank and wholly-owned subsidiary of Phoenix, merged with and into Mid Penn Bank, a Pennsylvania-state chartered bank and wholly-owned subsidiary of Mid Penn.

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

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

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

Included in the purchase price was goodwill and a core deposit intangible of $2,597,000 and $578,000, respectively. The core deposit intangible will be amortized over a ten-year period using a sum of the year's digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. Core deposit intangible amortization expense projected for the succeeding five years beginning 2015 is estimated to be $88,000, $96,000, $86,000, $75,000, and $65,000 per year, respectively, and $168,000 in total for years after 2019.

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

The allocation of the purchase price is as follows:

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

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

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

	11,644
Goodwill	$ 2,597

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $113,090,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

(Dollars in thousands)	
Gross amortized cost basis at March 1, 2015	$ 113,090
Market rate adjustment	222
Credit fair value adjustment on pools of homogeneous loans	(1,462)
Credit fair value adjustment on impaired loans	(1,143)
Fair value of purchased loans at March 1, 2015	$ 110,707

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

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

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$ 3,548
Contractual cash flows not expected to be collected (nonaccretable discount)	(663)
Expected cash flows at acquisition	2,885
Interest component of expected cash flows (accretable discount)	(480)
Fair value of acquired loans	$ 2,405

The following table presents pro forma information as if the merger between Mid Penn and Phoenix had been completed on January 1, 2014. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn merged with Phoenix at the beginning of 2014. Supplemental pro forma earnings for 2015 were adjusted to exclude $909,000 of merger related costs incurred in the first three months of 2015; the results for the first three months of 2014 were adjusted to include these charges. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, or other factors.

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

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

(3) Investment Securities

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

Realized gains and losses on dispositions are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between amortized cost and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through the Corporation's consolidated statements of income.

Accounting Standards Codification ("ASC") Topic 320, Investments – Debt and Equity Securities, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment.

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

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

In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intent and ability to hold the securities until recovery of unrealized losses.

At March 31, 2015 and December 31, 2014, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2015				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	$ 26,337	$ 1,026	$ 16	$ 27,347
Mortgage-backed U.S. government agencies	36,938	250	140	37,048
State and political subdivision obligations	74,162	2,077	242	75,997
Equity securities	2,239	70	21	2,288
	$ 139,676	$ 3,423	$ 419	$ 142,680

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

Estimated fair values of debt securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

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

Mid Penn realized gross gains of $177,000 and $150,000 on sales of securities available for sale during the three months ended March 31, 2015 and March 31, 2014. Mid Penn realized gross losses on the sale of securities available for sale of $0 during the three months ended March 31, 2015 and March 31, 2014.

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014.

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

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

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

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis; and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, and the financial condition and near term prospects of the issuer. In addition, for debt securities, the Corporation considers (a) whether management has the intent to sell the security, (b) it is more likely than not that management will be required to sell the security prior to its anticipated recovery, and (c) whether management expects to recover the entire amortized cost basis. For equity securities, management considers the intent and ability to hold securities until recovery of unrealized losses.

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

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

Because Mid Penn does not intend to sell these investments and it is not likely it will be required to sell these investments before a recovery of fair value, which may be maturity, Mid Penn does not consider the securities with unrealized losses to be other-than-temporarily impaired as losses relate to changes in interest rates and not erosion of credit quality.

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

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

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

(4) Loans and Allowance for Loan and Lease Losses

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

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

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

Commercial and industrial

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

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

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

Commercial real estate and commercial real estate - construction

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

Lease financing

Mid Penn originates leases for select commercial and state and municipal government lessees. The nature of the leased asset is often subject to rapid depreciation in salvage value over a relatively short time frame or may be of an industry specific nature, making appraisal or liquidation of the asset difficult. These factors have led the Bank to severely curtail the origination of new leases to state or municipal government agencies where default risk is extremely limited and to only the most credit-worthy commercial customers. These commercial customers are primarily leasing fleet vehicles for use in their primary line of business, mitigating some of the asset value concerns within the portfolio. Leasing has been a declining percentage of the Mid Penn's portfolio since 2006, representing 0.15% of the portfolio at March 31, 2015.

Residential mortgage

Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan to value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85% loan to value level. Residential mortgage loans generally do not include prepayment penalties.

In underwriting residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by Mid Penn are appraised by independent fee appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Bank underwrites residential mortgage loans to the standards established by the secondary mortgage market, i.e., Fannie Mae, Ginnie Mae, Freddie Mac, or Pennsylvania Housing Finance Agency standards, with the intention of selling the majority of residential mortgages originated into the secondary market. In the event that the facts and circumstances surrounding a residential mortgage application do not meet all underwriting conditions of the secondary mortgage market, the Bank will evaluate the failed conditions and the potential risk of holding the residential mortgage in the Bank's portfolio rather than rejecting the loan request. In the event that the loan is held in the Bank's portfolio, the interest rate on the residential mortgage would be increased to compensate for the added portfolio risk.

Consumer, including home equity

Mid Penn offers a variety of secured consumer loans, including home equity, automobile, and deposit secured loans. In addition, the Bank offers other secured and unsecured consumer loans. Most consumer loans are originated in Mid Penn's primary market and surrounding areas.

The largest component of Mid Penn's consumer loan portfolio consists of fixed rate home equity loans and variable rate home equity lines of credit. Substantially all home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank will lend amounts, which, together with all prior liens, typically may be up to 85% of the appraised value of the property securing the loan. Home equity term loans may have maximum terms up to 20 years while home equity lines of credit generally have maximum terms of five years.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

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

Allowance for Loan and Lease Losses

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

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

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

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

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

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

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

As noted above, Mid Penn assesses a specific allocation for commercial loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

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

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

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

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

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Mid Penn does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan’s stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans criticized as special mention have potential weaknesses that deserve management’s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Any loans not classified as noted above are rated pass.

In addition, Federal and State regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan and lease losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Acquired Loans

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

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

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

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

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

The classes of the loan portfolio, summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within Mid Penn's internal risk rating system as of March 31, 2015 and December 31, 2014 are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of March 31, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)

March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial:							
Commercial and industrial	$ 246	$ -	$ 92	$ 338	$ 159,644	$ 159,982	$ -
Acquired with credit deterioration	-	-	-	-	272	272	-
Commercial real estate:							
Commercial real estate	301	288	5,168	5,757	333,215	338,972	-
Acquired with credit deterioration	-	316	50	366	1,309	1,675	50
Commercial real estate - construction:							
Commercial real estate - construction	-	-	-	-	60,386	60,386	-
Lease financing:							
Lease financing	-	-	-	-	1,016	1,016	-
Residential mortgage:							
Residential mortgage	552	78	896	1,526	95,582	97,108	-
Acquired with credit deterioration	64	-	244	308	117	425	-
Home equity:							
Home equity	50	-	166	216	31,873	32,089	-
Acquired with credit deterioration	-	-	21	21	-	21	-
Consumer:							
Consumer	-	-	-	-	3,207	3,207	-
Total	$ 1,213	$ 682	$ 6,637	$ 8,532	$ 686,621	$ 695,153	$ 50

(Dollars in thousands)

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial	$ 172	$ 290	$ 87	$ 549	$ 118,461	$ 119,010	$ -
Commercial real estate	403	197	6,585	7,185	290,172	297,357	-
Commercial real estate - construction	-	-	-	-	56,076	56,076	-
Lease financing	-	-	-	-	1,121	1,121	-
Residential mortgage	328	82	1,117	1,527	64,915	66,442	-
Home equity	93	63	157	313	28,193	28,506	-
Consumer	6	-	-	6	3,015	3,021	-
Total	$ 1,002	$ 632	$ 7,946	$ 9,580	$ 561,953	$ 571,533	$ -

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

The following tables summarize the allowance for loan and lease losses and recorded investments in loans receivable.

(Dollars in thousands)

As of, and for the period ended, March 31, 2015	Commercial 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	$ 1,393	$ 3,925	$ 33	$ 2	$ 450	$ 653	$ 35	$ 225	$ 6,716
Charge-offs	-	(450)	-	-	(1)	(29)	(5)	-	(485)
Recoveries	-	2	-	-	-	29	4	-	35
Provisions	246	149	2	(1)	95	(134)	3	(60)	300
Ending balance	$ 1,639	$ 3,626	$ 35	$ 1	$ 544	$ 519	$ 37	$ 165	$ 6,566
Ending balance: individually evaluated for impairment	$ 223	$ 1,103	$ -	$ -	$ 23	$ 139	$ -	$ -	$ 1,488
Ending balance: collectively evaluated for impairment	$ 1,416	$ 2,523	$ 35	$ 1	$ 521	$ 380	$ 37	$ 165	$ 5,078
Ending balance: acquired with credit deterioration	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivables:									
Ending balance	$ 160,254	$ 340,647							