MID PENN BANCORP INC
Form 10-K
March 17, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 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 (State or Other Jurisdiction of Incorporation or Organization)	25-1666413 (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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant’s voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the common equity of $15.48 per share, as reported by The NASDAQ Stock Market LLC (“NASDAQ”), on June 30, 2015, the last business day of the registrant’s most recently completed second fiscal quarter was approximately $65,382,799.

As of February 16, 2016, the registrant had 4,226,717 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be used in connection with the 2016 Annual Meeting of Shareholders is incorporated herein by reference in partial response to Part III, hereof.

MID PENN BANCORP, INC.

FORM 10-K

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MID PENN BANCORP, INC.

PART I

ITEM 1. BUSINESS

The disclosures set forth in this Item are qualified by the section captioned "Special Cautionary Notice Regarding Forward-Looking Statements" contained in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Mid Penn Bancorp, Inc.

Mid Penn Bancorp, Inc. is a one-bank holding company, incorporated in the Commonwealth of Pennsylvania in August 1991. Mid Penn Bancorp, Inc. and its wholly owned subsidiaries are collectively referred to herein as "Mid Penn" or the "Corporation." On December 31, 1991, Mid Penn acquired, as part of the holding company formation, all of the outstanding common stock of Mid Penn Bank (the "Bank"), and the Bank became a wholly owned subsidiary of Mid Penn. Mid Penn's primary business is to supervise and coordinate the business of its subsidiaries and to provide them with capital and resources.

Mid Penn Insurance Services, LLC was a wholly-owned subsidiary of Mid Penn Bank that provided a wide range of personal and commercial insurance products. Due to the lack of activity within this subsidiary, the decision was made to exit this line of business, effective March 1, 2016.

Mid Penn's consolidated financial condition and results of operations consist almost entirely of that of Mid Penn Bank, which is managed as a single business segment. At December 31, 2015, Mid Penn had total consolidated assets of $931,724,000, total deposits of $777,043,000, and total shareholders' equity of $70,068,000.

As of December 31, 2015, Mid Penn Bancorp, Inc. did not own or lease any properties. Mid Penn Bank owns or leases the banking offices as identified in Part I, Item 2.

All Mid Penn employees are employed by the Bank. At December 31, 2015, the Bank had 229 full-time and 23 part-time employees. The Bank and its employees are not subject to a collective bargaining agreement, and the Bank believes it enjoys good relations with its personnel.

Mid Penn Bank

Millersburg Bank, the predecessor to the Bank, was organized in 1868 and became a state chartered bank in 1931, obtaining trust powers in 1935, at which time its name was changed to Millersburg Trust Company. In 1971, Millersburg Trust Company adopted the name “Mid Penn Bank.” On March 1, 2015, in connection with the acquisition of Phoenix Bancorp, Inc. (“Phoenix”) by Mid Penn, Miners Bank, Phoenix’s wholly-owned banking subsidiary, merged with and into the Bank, with the Bank surviving and Miners Bank’s four branches in Schuylkill and Luzerne Counties, Pennsylvania operating as “Miners Bank, a Division of Mid Penn Bank”. The Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (the “FDIC”) supervise the Bank. Mid Penn’s and the Bank’s legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061. The Bank presently has 20 retail banking properties located in Cumberland, Dauphin, Lancaster, Luzerne, Northumberland, and Schuylkill Counties, Pennsylvania.

Mid Penn’s primary business consists of attracting deposits and loans from its network of community banking offices operated by the Bank. The Bank engages in full-service commercial banking and trust business, making available to the community a wide range of financial services, including, but not limited to, mortgage and home equity loans, secured and unsecured commercial and consumer loans, lines of credit, construction financing, farm loans, community development and local government loans and various types of time and demand deposits. Deposits of the Bank are insured by the Deposit Insurance Fund (the “DIF”) of the FDIC to the maximum extent provided by law. In addition, the Bank provides a full range of trust and retail investment services. The Bank also offers other services such as online banking, telephone banking, cash management services, automated teller services and safe deposit boxes.

Business Strategy

The Bank’s services are provided to small and middle-market businesses, consumers, nonprofit organizations, municipalities, and real estate investors through 20 full service retail banking properties. Two of Mid Penn’s primary markets currently, and historically, have lower unemployment than the U.S. as a whole. This is due in part to a diversified manufacturing and services base and the presence of state government offices, which help shield the markets from national trends. At December 31, 2015, the unadjusted unemployment rate for the Harrisburg/Carlisle and Lancaster areas, two of Mid Penn’s primary markets, were 3.2% and 3.0%, respectively, versus the seasonally adjusted national unemployment rate of 5.0%. The unadjusted unemployment rate for Mid Penn’s other primary market in the Scranton/Wilkes-Barre/Hazleton area was also below the national unemployment rate at 4.6% at December 31, 2015.

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The Bank seeks to develop long-term customer relationships, maintain high quality service and provide quick responses to customer needs. Mid Penn believes that an emphasis on local relationship building and its conservative approach to lending are important factors in the success and growth of Mid Penn.

The Bank seeks credit opportunities of good quality within its target market that exhibit positive historical trends, stable cash flows and secondary sources of repayment from tangible collateral. The Bank extends credit for the purpose of obtaining and continuing long-term relationships. Lenders are provided with detailed underwriting policies for all types of credit risks accepted by the Bank and must obtain appropriate approvals for credit extensions. The Bank also maintains strict documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered might be reduced.

Lending Activities

The Bank offers a variety of loan products to its customers, including loans secured by real estate and commercial and consumer loans. The Bank's lending objectives are as follows:

- to establish a diversified commercial loan portfolio; and
- to provide a satisfactory return to Mid Penn's shareholders by properly pricing loans to include the cost of funds, administrative costs, bad debts, local economic conditions, competition, customer relationships, the term of the loan, credit risk, collateral quality and a reasonable profit margin.

Credit risk is managed through portfolio diversification, underwriting policies and procedures, and loan monitoring practices. The Bank generally secures its loans with real estate with such collateral values dependent and subject to change based on real estate market conditions within its market area. As of December 31, 2015, the Bank's highest concentration of credit is in commercial real estate. Most of the Bank's business activity with customers is located in Central Pennsylvania, specifically in eastern Cumberland, Dauphin, northwestern Lancaster, western Luzerne, southern Northumberland, and Schuylkill Counties.

Investment Activities

Mid Penn's investment portfolio is used to improve earnings through investments in higher-yielding assets than overnight funding alternatives, while maintaining asset quality, which provides the necessary balance sheet liquidity for Mid Penn. Mid Penn does not have any significant concentrations within investment securities.

Mid Penn's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded on the balance sheet at fair value. Mid Penn's investments include US Treasury, agency and municipal securities that derive fair values relative to investments of the same type with similar maturity dates. As the interest rate environment changes, Mid Penn's fair value of existing securities will change. This difference in value, or unrealized gain, amounted to $2,371,000 as of December 31, 2015. A majority of the investments are high quality United States and municipal securities that, if held to maturity, are expected to result in no loss to the Bank.

For additional information with respect to Mid Penn's business activities, see Part II, Item 7 of this report, which is incorporated herein by reference.

Sources of Funds

The Bank primarily uses deposits and borrowings to finance lending and investment activities. Borrowing sources include advances from the Federal Home Loan Bank of Pittsburgh (the "FHLB") and overnight borrowings from the Bank's correspondent banks. All borrowings, except for lines of credit with the Bank's correspondent banks, require collateral in the form of loans or securities. Collateral levels, therefore, limit borrowings and the available lines of credit extended by the Bank's creditors. As a result, deposits remain critical to the future funding and growth of the business. Deposit growth within the banking industry has been subject to strong competition from a variety of financial services companies. This competition may require financial institutions to adjust their product offerings and pricing to adequately grow deposits.

Competition

The banking business is highly competitive, and the profitability of Mid Penn depends principally upon the Bank's ability to compete in its market area. The Bank actively competes with other financial services companies for deposit, loan, and trust business. Competitors include other commercial banks, credit unions, savings banks, savings and loan associations, insurance companies, securities brokerage firms, finance companies, mutual funds, and service alternatives via the Internet. Financial institutions compete primarily on the quality of services rendered, interest rates on loans and deposits, service charges, the convenience of banking facilities, location and hours of operation and, in the case of loans to larger commercial borrowers, relative lending limits.

Many competitors are significantly larger than the Bank and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, the Bank is subject to banking regulations while certain competitors may not be. There are relatively few barriers for companies wanting to enter into the financial services industry. For more information, see the "Supervision and Regulation" section below.

Mid Penn has been able to compete effectively with other financial institutions by emphasizing customer service. Mid Penn's customer service model is based on convenient hours, efficient and friendly employees, local decision making, and quality products. The Gramm-Leach-Bliley Act ("GLB"), which broke down many barriers between the banking, securities and insurance industries, has significantly affected the competitive environment in which Mid Penn operates.

The flow of cash into mutual funds, much of which is made through tax deferred investment vehicles such as 401(k) plans, have, until recently, had been a popular savings vehicle for investors. The recent economic turmoil has negatively impacted the returns on many of these investments and impacted the manner in which investors distribute their funds across investment alternatives. The safety of traditional bank products has again become an attractive option during this period of market volatility. Mid Penn's ability to attract funds in the future will be impacted by the public's appetite for the safety of insured or local investments versus the returns offered by alternative choices as part of their personal investment mix.

Supervision and Regulation

General

Bank holding companies and banks are extensively regulated under both Federal and state laws. The regulation and supervision of Mid Penn and the Bank are designed primarily for the protection of depositors, the DIF, and the

monetary system, and not Mid Penn or its shareholders. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance on deposits, the imposition of civil money penalties, and removal and prohibition orders. If a banking regulator takes any enforcement action, the value of an equity investment in Mid Penn could be substantially reduced or eliminated.

Federal and state banking laws contain numerous provisions affecting various aspects of the business and operations of Mid Penn and the Bank. Mid Penn is subject to, among others, the regulations of the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and the Bank is subject to, among others, the regulations of the Pennsylvania Department of Banking and Securities and the FDIC. The insurance activities of Mid Penn Insurance Services, LLC were subject to regulations by the insurance departments of the various states in which it conducts business including principally the Pennsylvania Department of Insurance. The descriptions below of, and references to, applicable statutes and regulations are not intended to be complete descriptions of these provisions or their effects on Mid Penn or the Bank. They are summaries only and are qualified in their entirety by reference to such statutes and regulations.

Holding Company Regulation

Mid Penn is a registered bank holding company subject to supervision and regulation by the Federal Reserve. As such, it is subject to the Bank Holding Company Act of 1956 ("BHCA") and many of the Federal Reserve's regulations promulgated thereunder. The Federal Reserve has broad enforcement powers over bank holding companies, including the power to impose substantial fines and civil penalties.

The BHCA requires Mid Penn to file an annual report with the Federal Reserve regarding the holding company and its subsidiary bank. The Federal Reserve Board also makes examinations of the holding company. The Bank is not a member of the Federal Reserve System; however, the Federal Reserve possesses cease-and-desist powers over bank holding companies and their subsidiaries where their actions would constitute an unsafe or unsound practice or violation of law. The Federal Reserve Board also makes policy that guides the declaration and distribution of dividends by bank holding companies.

The BHCA restricts a bank holding company's ability to acquire control of additional banks. In addition, the BHCA restricts the activities in which bank holding companies may engage directly or through non-bank subsidiaries.

MID PENN BANCORP, INC.

Gramm-Leach-Bliley Financial Modernization Act

Under GLB, bank holding companies, such as Mid Penn, that meet certain management, capital, and Community Reinvestment Act standards, are permitted to become financial holding companies and, by doing so, to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature, incidental to such financial activities, or complementary to such activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the FDIC Improvement Act's prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. The required filing is a declaration that the bank holding company wishes to become a financial holding company and meets all applicable requirements. Mid Penn has not elected to become a financial holding company at this time.

No prior regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities permitted under GLB. Activities cited by GLB as being financial in nature include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and agency;
- merchant banking activities; and
- activities that the Federal Reserve has determined to be closely related to banking.

In addition to permitting financial services providers to enter into new lines of business, the law allows firms the freedom to streamline existing operations and to potentially reduce costs. The Act may increase both opportunity as well as competition. Many community banks are less able to devote the capital and management resources needed to facilitate broad expansion of financial services including insurance and brokerage services.

Bank Regulation

The Bank, a Pennsylvania-chartered institution, is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities and the FDIC. The deposits of the Bank are insured by the FDIC to the maximum extent provided by law. The FDIC assesses deposit insurance premiums the amount of which depends in part on the condition of the Bank. Moreover, the FDIC may terminate deposit insurance of the Bank under certain circumstances. The federal and state banking regulatory agencies have broad enforcement powers over depository institutions under their jurisdiction, including the power to terminate deposit insurance, to impose fines and other civil and criminal penalties, and to appoint a conservator or receiver if any of a number of conditions is met. In

addition, the Bank is subject to a variety of local, state and federal laws that affect its operations.

Banking regulations include, but are not limited to, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans, compensation standards, payment of dividends, and the safety and soundness of banking practices.

Capital Requirements

Under risk-based capital requirements for bank holding companies, Mid Penn is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) of eight percent. Through December 31, 2015, at least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less goodwill ("Tier 1 Capital" and together with Tier 2 Capital, "Total Capital"). The remainder may consist of subordinated debt, non-qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 Capital").

In addition, the Federal Reserve has established minimum leverage ratio requirements for bank holding companies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets ("leverage ratio") equal to 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least 4-5%. The requirements also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the requirements indicate that the Federal Reserve will continue to consider a "Tangible Tier 1 Leverage Ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. The Federal Reserve has not advised Mid Penn of any specific minimum Tier 1 leverage ratio.

In January 2015, the Federal Reserve raised the asset size threshold for determining the applicability of its Small Bank Holding Company Policy Statement, as required by recent federal legislation adopted in December 2014, from $500 million to $1 billion and, so long as certain qualitative factors are met, to be regulated under such policy, which allows simplified reporting requirements and less stringent capital standards that reflect the traditional banking services provided by such smaller banks.

The Bank is subject to similar capital requirements adopted by the FDIC. The FDIC has not advised the Bank of any specific minimum leverage ratios.

The capital ratios of Mid Penn and the Bank are described in Note 18 to Mid Penn's Consolidated Financial Statements, which are included herein.

Banking regulators continue to indicate their desire to further develop capital requirements applicable to banking organizations. Changes to capital requirements could materially affect the profitability of Mid Penn or the fair value of Mid Penn stock.

Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The phase-in period for community banking organizations began January 1, 2015. The final rules called for the following minimum capital requirements (which include the impact of the capital conservation buffer effective January 1, 2016):

	Effective January 1,	
	2015	2016
Common equity tier 1 capital to risk-weighted assets	4.5%	5.125%
Tier 1 capital to risk-weighted assets	6.0%	6.625%
Total capital to risk-weighted assets	8.0%	8.625%
Leverage ratio	4.0%	4.0%

In addition, the final rules establishes a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016 at the 0.625% level. Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter).

The final rules allow community banks to make a one-time election not to include the additional components of accumulated other comprehensive income ("AOCI") in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. Mid Penn made the election not to include the additional components of AOCI in regulatory capital.

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

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

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

Mid Penn has assessed the impact of these changes on the regulatory ratios of Mid Penn and the Bank on the capital, operations, liquidity and earnings of Mid Penn and the Bank, and concluded that the new rules will not have a material negative effect on Mid Penn’s financial condition.

Safety and Soundness Standards

The federal banking regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards for depository institutions such as the Bank. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the agencies adopted regulations that authorize an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If the institution fails to submit an acceptable compliance plan or fails to implement an accepted plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions be taken, including restricting asset growth, restricting interest rates paid on deposits, and requiring an increase in the institution’s ratio of tangible equity to assets.

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Payment of Dividends and Other Restrictions

Mid Penn is a legal entity separate and distinct from its subsidiary, the Bank. There are various legal and regulatory limitations on the extent to which the Bank can, among other things, finance, or otherwise supply funds to, Mid Penn. Specifically, dividends from the Bank are the principal source of Mid Penn's cash funds and there are certain legal restrictions under Pennsylvania law and Pennsylvania banking regulations on the payment of dividends by state-chartered banks. The relevant regulatory agencies also have authority to prohibit Mid Penn and the Bank from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound banking practice. The payment of dividends could, depending upon the financial condition of Mid Penn and the Bank, be deemed to constitute such an unsafe or unsound practice.

Prompt Corrective Action

In addition to the required minimum capital levels described above, federal law establishes a system of "prompt corrective actions" which federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution, which is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" if it exceeds the minimum federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements, "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person". Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

Deposit Insurance

The FDIC insures deposits of the Bank through the DIF. The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon a variety of factors that include the balance of insured deposits as well as the degree of risk the institution poses to the insurance fund. The FDIC insures deposits up to $250,000. The Bank pays an insurance premium into the DIF based on the quarterly average daily deposit liabilities net of certain exclusions. The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the DIF. The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Subsequently, the rate for each institution within a risk category may be adjusted depending upon different factors that either enhance or reduce the risk the institution poses to the DIF, including the unsecured debt, secured liabilities and brokered deposits related to each institution. Finally, certain risk multipliers may be applied to the adjusted assessment.

Beginning with the second quarter of 2011, as mandated by the Dodd-Frank Act, the assessment base that the FDIC uses to calculate assessment premiums is a bank's average assets minus average tangible equity. As the asset base of the banking industry is larger than the deposit base, the range of assessment rates is a low of 2.5 basis points and a high of 45 basis points, per $100 of assets.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the DIF to achieve a reserve ratio of 1.35% of Insurance Fund insured deposits by September 2020. In addition, the FDIC has established a "designated reserve ratio" of 2.0%, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35% ratio, the FDIC is required to implement assessment formulas that charge banks over $10 billion in asset size more than banks under that size. Those new formulas began in the second quarter of 2011, but did not affect the Bank. Under the Dodd-Frank Act, the FDIC is authorized to make reimbursements from the insurance fund to banks if the reserve ratio exceeds 1.50%, but the FDIC has adopted the "designated reserve ratio" of 2.0% and has announced that any reimbursements from the fund are indefinitely suspended.

Consumer Protection Laws

A number of laws govern the relationship between the Bank and its customers. For example, the Community Reinvestment Act is designed to encourage lending by banks to persons in low and moderate income areas. The Home Mortgage Disclosure Act and the Equal Credit Opportunity Act attempt to minimize lending decisions based on impermissible criteria, such as race or gender. The Truth-in-Lending Act and the Truth-in-Savings Act require banks to provide certain disclosure of relevant terms related to loans and savings accounts, respectively. Anti-

tying restrictions (which prohibit conditioning the availability or terms of credit on the purchase of another banking product) further restrict the Bank's relationships with its customers.

Privacy Laws

The federal banking regulators have issued a number of regulations governing the privacy of consumer financial and customer information. The regulations limit the disclosure by financial institutions, such as Mid Penn and the Bank, of nonpublic personal information about individuals who obtain financial products or services for personal, family, or household purposes. Subject to certain exceptions allowed by law, the regulations cover information sharing between financial institutions and nonaffiliated third parties. More specifically, the regulations require financial institutions to:

- provide initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal financial information to nonaffiliated third parties and affiliates;
- provide annual notices of their privacy policies to their current customers;
- provide a reasonable method for consumers to "opt out" of disclosures to nonaffiliated third parties.

Affiliate Transactions

Transactions between Mid Penn and the Bank and its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An "affiliate" of a bank or savings institution is any company or entity that controls, is controlled by, or is under common control with the bank or savings institution. Generally, a subsidiary of a depository institution that is not also a depository institution is not treated as an affiliate of the bank for purposes of Sections 23A and 23B. Sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and requiring that such transactions be on terms that are consistent with safe and sound banking practices.

The USA Patriot Act

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") was signed into law. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA Patriot Act require that regulated financial

institutions, including state-chartered banks:

- establish an anti-money laundering program that includes training and audit components;
- comply with regulations regarding the verification of the identity of any person seeking to open an account;
- take additional required precautions with non-U.S. owned accounts; and
- perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships.

The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institution. The Bank has adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

Anti-Money Laundering and Anti-Terrorism Financing

Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including Mid Penn and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged for financial institutions that comply with this provision and the authorization of the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing. The effectiveness of a financial institution in combating money-laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank.

JOBS Act

In 2012, the Jumpstart Our Business Startups Act (the “JOBS Act”) became law. The JOBS Act is aimed at facilitating capital raising by smaller companies, banks, and bank holding companies by implementing the following changes:

- raising the threshold requiring registration under the Securities Exchange Act of 1934 (the "Exchange Act") for banks and bank holdings companies from 500 to 2,000 holders of record;
- raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;
- raising the limit for Regulation A offerings from $5 million to $50 million per year and exempting some Regulation A offerings from state blue sky laws;
- permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;
- allowing private companies to use "crowdfunding" to raise up to $1 million in any 12-month period, subject to certain conditions; and
- creating a new category of issuer, called an "Emerging Growth Company," for companies with less than $1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity IPO and complying with public company reporting obligations for up to five years.

Dodd-Frank Act

The Dodd-Frank Act, which became law in July 2010, significantly changed regulation of financial institutions and the financial services industry, including: creating a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which will be responsible for implementing, examining and enforcing compliance with federal consumer financial laws; permanently raising the current standard maximum deposit insurance amount to $250,000; establishing strengthened capital standards for banks, and disallowing certain trust preferred securities from qualifying as Tier 1 capital (subject to certain grandfather provisions for existing trust preferred securities); establishing new minimum mortgage underwriting standards; granting the Federal Reserve the power to regulate debit card interchange fees; and implementing corporate governance changes.

Effects of Government Policy and Potential Changes in Regulation

Changes in regulations applicable to Mid Penn or the Bank, or shifts in monetary or other government policies, could have a material effect on our business. Mid Penn’s and the Bank’s business is also affected by the state of the financial services industry in general. As a result of legal and industry changes, management believes that the industry will continue to experience an increased rate of change as the financial services industry strives for greater product

offerings, market share and economies of scale.

From time to time, legislation is enacted that has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, and before various bank regulatory agencies. Mid Penn cannot predict the likelihood of any major changes or the impact such changes might have on Mid Penn and/or the Bank. Various congressional bills and other proposals have proposed a sweeping overhaul of the banking system, including provisions for: limitations on deposit insurance coverage; changing the timing and method financial institutions use to pay for deposit insurance; expanding the power of banks by removing the restrictions on bank underwriting activities; and tightening the regulation of bank derivatives activities; and allowing commercial enterprises to own banks.

Mid Penn's earnings are, and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve have had, and will likely continue to have, an impact on the operating results of commercial banks because of the Federal Reserve's power to implement national monetary policy to, among other things, curb inflation or combat recession. The Federal Reserve has a major impact on the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

From time to time, various types of federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of Mid Penn and the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business. Congress is currently debating major legislation that may fundamentally change the regulatory oversight of banking institutions in the United States. Whether any legislation will be enacted or additional regulations will be adopted, and how they might impact Mid Penn cannot be determined at this time.

MID PENN BANCORP, INC.

Environmental Laws

Management does not anticipate that compliance with environmental laws and regulations will have any material effect on Mid Penn's capital, expenditures, earnings, or competitive position. However, environmentally related hazards have become a source of high risk and potentially unlimited liability for financial institutions.

Additionally, the Pennsylvania Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act provides, among other things, protection to lenders from environmental liability and remediation costs under the environmental laws for releases and contamination caused by others. A lender who engages in activities involved in the routine practices of commercial lending, including, but not limited to, the providing of financial services, holding of security interests, workout practices, foreclosure or the recovery of funds from the sale of property shall not be liable under the environmental acts or common law equivalents to the Pennsylvania Department of Environmental Resources or to any other person by virtue of the fact that the lender engages in such commercial lending practice. A lender, however, will be liable if it, its employees or agents, directly cause an immediate release or directly exacerbate a release of regulated substance on or from the property, or known and willfully compelled the borrower to commit an action which caused such release or violate an environmental act. The Pennsylvania Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act does not limit federal liability which still exists under certain circumstances.

Corporate Governance

The Sarbanes-Oxley Act of 2002 and related regulations adopted by the SEC and NASDAQ address the following other issues: corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. Mid Penn has prepared policies, procedures, and systems designed to ensure compliance with these regulations.

Available Information

Mid Penn's common stock is registered under Section 12(b) of the Securities Exchange Act of 1934 and is traded on NASDAQ under the trading symbol MPB. Mid Penn is subject to the informational requirements of the Exchange Act, and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission. The reports, proxy statements and other information filed with the SEC are available for inspection and copying at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Mid Penn is an electronic filer with the SEC. The SEC maintains an Internet site that contains reports, proxy and information

statements, and other information regarding issuers that file electronically with the SEC. The SEC's Internet site address is www.sec.gov.

Mid Penn's headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061, and its telephone number is 1-866-642-7736. Mid Penn's website is midpennbank.com. Mid Penn makes available through its website, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after filing with the Securities and Exchange Commission. Mid Penn has adopted a Code of Ethics that applies to all employees. This document is also available on Mid Penn's website. The information included on our website is not a part of this document.

ITEM 1A. RISK FACTORS

Mid Penn is subject to interest rate risk

Mid Penn's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond Mid Penn's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest Mid Penn receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Mid Penn's ability to originate loans and obtain deposits, (ii) the fair value of Mid Penn's financial assets and liabilities, and (iii) the average duration of Mid Penn's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, Mid Penn's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on Mid Penn's results of operations. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on Mid Penn's financial condition and results of operations.

Mid Penn is subject to lending risk

As of December 31, 2015, approximately 70.0% of Mid Penn's loan portfolio consisted of commercial and industrial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because Mid Penn's loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan and lease losses and an increase in loan charge-offs, all of which could have a material adverse effect on Mid Penn's financial condition and results of operations.

Mid Penn's allowance for possible loan and lease losses may be insufficient

Mid Penn maintains an allowance for possible loan and lease losses, which is a reserve established through provisions for possible losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible loan and lease losses inherently involves a high degree of subjectivity and requires Mid Penn to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem credits and other factors, both within and outside of Mid Penn's control, may require an increase in the allowance. In addition, bank regulatory agencies periodically review Mid Penn's allowance for possible loan and lease losses and may require an increase in the provision for possible loan and lease losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance, Mid Penn may need additional provisions to increase the allowance for possible loan and lease losses. Any increases in the allowance will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on Mid Penn's financial condition and results of operations.

Competition from other financial institutions may adversely affect Mid Penn's profitability

Mid Penn's banking subsidiary faces substantial competition in originating both commercial and consumer loans. This competition comes principally from other banks, credit unions, savings institutions, mortgage banking companies and other lenders. Many of its competitors enjoy advantages, including greater financial resources and higher lending

limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce Mid Penn's net income by decreasing the number and size of loans that its banking subsidiary originates and the interest rates it may charge on these loans.

In attracting business and consumer deposits, its banking subsidiary faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of Mid Penn's competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition, and more convenient branch locations. These competitors may offer higher interest rates than Mid Penn, which could decrease the deposits that Mid Penn attracts or require Mid Penn to increase its rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect Mid Penn's ability to generate the funds necessary for lending operations. As a result, Mid Penn may need to seek other sources of funds that may be more expensive to obtain and could increase its cost of funds.

Mid Penn's banking subsidiary also competes with non-bank providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance agencies and governmental organizations, which may offer more favorable terms. Some of its non-bank competitors are not subject to the same extensive regulations that govern its banking operations. As a result, such non-bank competitors may have advantages over Mid Penn's banking subsidiary in providing certain products and services. This competition may reduce or limit Mid Penn's margins on banking services, reduce its market share and adversely affect its earnings and financial condition.

The Basel III capital requirements will require us to maintain higher levels of capital, which could reduce our profitability

Basel III targets higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital. Although the new capital requirements are phased in through January 1, 2019, Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. The direction of the Basel III implementation activities or other regulatory viewpoints could require additional capital to support our business risk profile prior to final implementation of the Basel III standards. Mid Penn may be required to maintain higher levels of capital than historically maintained, thus potentially reducing opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to Mid Penn and adversely impact our financial condition and results of operations.

If Mid Penn's information systems are interrupted or sustain a breach in security, those events may negatively affect Mid Penn's financial performance and reputation

In conducting its business, Mid Penn relies heavily on its information systems. Maintaining and protecting those systems is difficult and expensive, as is dealing with any failure, interruption, or breach in security of these systems, whether due to acts or omissions by Mid Penn or by a third party, and whether intentional or not. Any such failure, interruption, or breach could result in failures or disruptions in Mid Penn's customer relationship management, general ledger, deposit, loan, and other systems. A breach of Mid Penn's information security may result from fraudulent activity committed against Mid Penn or its clients, resulting in financial loss to Mid Penn or its clients, or privacy breaches against Mid Penn's clients. Such fraudulent activity may consist of check fraud, electronic fraud, wire fraud, "phishing", social engineering or other deceptive acts. The policies, procedures, and technical safeguards put in place by Mid Penn to prevent or limit the effect of any failure, interruption, or security breach of its information systems may be insufficient to prevent or remedy the effects of any such occurrences. The occurrence of any failures, interruptions, or security breaches of Mid Penn's information systems could damage Mid Penn's reputation, cause Mid Penn to incur additional expenses, result in online services or other businesses becoming inoperable, subject Mid Penn to regulatory sanctions or additional regulatory scrutiny, or expose Mid Penn to civil litigation and possible financial liability, any of which could have a material adverse effect on Mid Penn's financial condition and results of operations.

Mid Penn's controls and procedures may fail or be circumvented

Management periodically reviews and updates Mid Penn's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of Mid Penn's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on Mid Penn's business, results of operations, and financial condition.

Mid Penn's ability to pay dividends on its common stock and principal and interest on its subordinated notes depends primarily on dividends from its banking subsidiary, which is subject to regulatory limits

Mid Penn is a bank holding company and its operations are conducted by its subsidiaries. Its ability to pay dividends on its common stock and subordinated notes, depends on its receipt of dividends from the Bank. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits, and retained earnings, imposed by the various banking regulatory agencies. The ability of the Bank to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that Mid Penn's subsidiaries will be able to pay dividends in the future or that Mid Penn will generate adequate cash flow to pay dividends in the future. Federal Reserve policy, which applies to Mid Penn as a registered bank holding

company, also provides that dividends by bank holding companies should generally be paid out of current earnings looking back over a one-year period. Mid Penn's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

The 5.15% interest rate on our subordinated notes will remain fixed at this level until December 2020, when it will float to prime plus 0.50%

The per annum interest rate our subordinated notes is fixed at 5.15% until December 2020, when it will float at the Wall Street Journal's prime rate plus 0.50%, provided that the interest rate applicable will at no times be less than 4.0%. Depending on Mid Penn's financial condition at the time, an increase in the interest rate could have a material negative effect on its liquidity and results of operations.

Mid Penn's profitability depends significantly on economic conditions in Central Pennsylvania

Unlike larger or regional lenders that are more geographically diversified, Mid Penn's success is dependent to a significant degree on economic conditions in central Pennsylvania, especially in eastern Cumberland, Dauphin, northwestern Lancaster, western Luzerne, southern Northumberland, and Schuylkill Counties, which Mid Penn defines as our primary market. The banking industry is affected by general economic conditions including the effects of inflation, recession, unemployment, real estate values, trends in the national and global economics, and other factors beyond our control. An economic recession or a delayed recovery over a prolonged period of time in Central Pennsylvania area could cause an increase in the level of the Bank's non-performing assets and loan and lease losses, thereby causing operating losses, impairing liquidity, and eroding capital. Mid Penn cannot assure you that adverse changes in the local economy would not have a material adverse effect on Mid Penn's consolidated financial condition, results of operations, and cash flows.

Mid Penn may not be able to attract and retain skilled people

Mid Penn's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by Mid Penn can be intense and Mid Penn may not be able to hire people or to retain them. The unexpected loss of services of one or more of Mid Penn's key personnel could have a material adverse impact on Mid Penn's business because of their skills, knowledge of Mid Penn's market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

MID PENN BANCORP, INC.

Mid Penn is subject to claims and litigation pertaining to fiduciary responsibility

From time to time, customers make claims and take legal action pertaining to Mid Penn's performance of its fiduciary responsibilities. Whether customer claims and legal action related to Mid Penn's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to Mid Penn they may result in significant financial liability and/or adversely affect the market perception of Mid Penn and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on Mid Penn's business, which, in turn, could have a material adverse effect on Mid Penn's financial condition and results of operations.

The trading volume in Mid Penn's common stock is less than that of other larger financial services companies

Mid Penn's common stock is listed for trading on NASDAQ; the trading volume in its common stock, however, is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of Mid Penn's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which Mid Penn has no control. Given the lower trading volume of Mid Penn's common stock, significant sales of Mid Penn's common stock, or the expectation of these sales, could cause Mid Penn's stock price to fall.

Mid Penn operates in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations

Mid Penn is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on Mid Penn and its operations. Additional legislation and regulations that could significantly affect Mid Penn's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on its financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on Mid Penn's results of operations and financial condition.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting many aspects of our operations, including capital levels, lending and funding practices, and liquidity standards. New laws and regulations may increase our costs of regulatory compliance and of doing business and otherwise affect our

operations, and may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

The soundness of other financial institutions may adversely affect Mid Penn

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. Mid Penn has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose Mid Penn to credit risk in the event of a default by a counterparty or client. In addition, Mid Penn's credit risk may be exacerbated when the collateral held by Mid Penn cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to Mid Penn. Any such losses could have a material adverse effect on Mid Penn's financial condition and results of operations.

Prior levels of market volatility were unprecedented and future volatility may have materially adverse effects on our liquidity and financial condition

In the recent past, the capital and credit markets experienced extreme volatility and disruption for more than two years. In some cases, the markets exerted downward pressure on stock prices, security prices, and credit availability for certain issuers without regard to their underlying financial strength. If such levels of market disruption and volatility return, there can be no assurance that we will not experience adverse effects, which may be material, on our liquidity, financial condition, and profitability.

Mid Penn's banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect its earnings

Poor economic conditions and the resulting bank failures have increased the costs of the FDIC and depleted the DIF. Additional bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue special assessments. Mid Penn generally is unable to control the amount of premiums or special assessments that its subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on our results of operations, financial condition, and our ability to continue to pay dividends on our common stock at the current rate or at all.

Pennsylvania Business Corporation Law and various anti-takeover provisions under our articles and bylaws could impede the takeover of Mid Penn

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire Mid Penn, even if the acquisition would be advantageous to shareholders. In addition, we have various anti-takeover measures in place under our articles of incorporation and bylaws, including a supermajority vote requirement for mergers, a staggered board of directors, and the absence of cumulative voting. Any one or more of these measures may impede the takeover of Mid Penn without the approval of our board of directors and may prevent our shareholders from taking part in a transaction in which they could realize a premium over the current market price of our common stock.

Mid Penn may need to or be required to raise additional capital in the future, and capital may not be available when needed and on terms favorable to current shareholders

Federal banking regulators require Mid Penn and its subsidiary bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation, and banking regulatory agencies. In addition, capital levels are also determined by Mid Penn's management and board of directors, based on capital levels that they believe are necessary to support Mid Penn's business operations.

If Mid Penn raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and could dilute the per share book value and earnings per share of its common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on Mid Penn's stock price. New investors also may have rights, preferences and privileges senior to Mid Penn's current shareholders, which may adversely impact its current shareholders.

Mid Penn's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of its control, and on its financial performance. Accordingly, Mid Penn cannot be certain of its ability to raise additional capital on acceptable terms and acceptable time frames or to raise additional capital at all. If Mid Penn cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect Mid Penn's financial condition and results of operations.

If we conclude that the decline in the value of any of our investment securities is other than temporary, we are required to write down the value of that security through a charge to earnings

We review our investment securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of our investment securities has declined below its carrying value, we are required to assess whether the decline is other than temporary. If we conclude that the decline is other than temporary, we are required to write down the value of that security through a charge to earnings. Changes in the expected cash flows of these securities and/or prolonged price declines have resulted and may result in our concluding in future periods that there is additional impairment of these securities that is other than temporary, which would require a charge to earnings to write down these securities to their fair value. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, the impairment disclosed may not accurately reflect the actual impairment in the future.

Mid Penn's operations of its business, including its interaction with customers, are increasingly done via electronic means, and this has increased its risks related to cyber security

Mid Penn is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. Mid Penn has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, policies and procedures are in place to prevent or limit the effect of the possible security breach of its information systems and it has insurance against some cyber-risks and attacks. While Mid Penn has not incurred any material losses related to cyber-attacks, nor is it aware of any specific or threatened cyber-incidents as of the date of this report, it may incur substantial costs and suffer other negative consequences if it falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

Mid Penn is subject to environmental liability risk associated with lending activities

A significant portion of Mid Penn's loan portfolio is secured by real property. During the ordinary course of business, Mid Penn may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, Mid Penn may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require Mid Penn to incur substantial expenses and may materially reduce the affected property's value or limit Mid Penn's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies

with respect to existing laws, may increase Mid Penn's exposure to environmental liability. Although Mid Penn has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on Mid Penn's financial condition and results of operations.

Mid Penn's financial performance may suffer if its information technology is unable to keep pace with its growth or industry developments

Effective and competitive delivery of Mid Penn's products and services is increasingly dependent upon information technology resources and processes, both those provided internally as well as those provided through third party vendors. In addition to better serving customers, the effective use of technology increases efficiency and enables Mid Penn to reduce costs. Mid Penn's future success will depend, in part, upon its ability to address the needs of its customers by using technology to provide products and services to enhance customer convenience, as well as to create additional efficiencies in its operations. Many of Mid Penn's competitors have greater resources to invest in technological improvements. Additionally, as technology in the financial services industry changes and evolves, keeping pace becomes increasingly complex and expensive for Mid Penn. There can be no assurance that Mid Penn will be able to effectively implement new technology-driven products and services, which could reduce its ability to compete effectively.

Future credit downgrades of the United States Government due to issues relating to debt and the deficit may adversely affect Mid Penn

As a result of failure of the federal government to reach agreement over federal debt and the ongoing issues connected with the debt ceiling, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which Mid Penn invests and receives lines of credit on negative watch and a downgrade of the United States' credit rating would trigger a similar downgrade in the credit rating of these government sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States credit rating be downgraded. The impact that a credit rating downgrade may have on the national and local economy could have an adverse effect on Mid Penn's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

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MID PENN BANCORP, INC.

ITEM 2. PROPERTIES

With the exception of the Market Square Office, Derry Street Loan Operations Center, Front Street Administrative Office, Simpson Ferry Office, Elizabethtown Office, Frackville Office, Hazleton Office, Rockwood Center, and the Halifax ATM, the Bank owns the properties listed below, as well as certain parking facilities related to its banking offices, all of which are free and clear of any lien. The Bank's main office and all branch offices are located in Pennsylvania. All of these properties are in good condition and are deemed by management to be adequate for the Bank's purposes. The table below sets forth the location of each of the Bank's properties at December 31, 2015.

Property Location	Description of Property	Property Location	Description of Property
Millersburg Office 349 Union Street Millersburg, PA 17061	Main Office & Branch Office	Middletown Office 1100 Spring Garden Drive Middletown, PA 17057	Branch Office
Elizabethville Office 4642 State Route 209 Elizabethville, PA 17023	Branch Office	Steelton Office 51 South Front Street Steelton, PA 17113	Branch Office
Dalmatia Office 132 School House Road Dalmatia, PA 17017	Branch Office	Camp Hill Office 2101 Market Street Camp Hill, PA 17011	Branch Office
Tower City Office 545 East Grand Avenue Tower City, PA 17980	Branch Office	Elizabethtown Office 2305 South Market Street Elizabethtown, PA 17022	Branch Office
Simpson Ferry Road Office 5288 Simpson Ferry Road Mechanicsburg, PA 17055	Branch Office	Minersville Office Route 901 Pottsville/Minersville Hwy. Minersville, PA 17954	Branch Office
Derry Street Office 4509 Derry Street Harrisburg, PA 17111	Branch Office	Frackville Office 504 South Lehigh Avenue Frackville, PA 17931	Branch Office
		Tremont Office	

Dauphin Office 1001 Peters Mountain Road Dauphin, PA 17018	Branch Office	29 East Main Street Tremont, PA 17981	Branch Office
Carlisle Pike Office 4622 Carlisle Pike Mechanicsburg, PA 17050	Branch Office	Hazleton Office 641 State Route 93 Conyngham, PA 18219	Branch Office
Lykens Office 550 Main Street Lykens, PA 17048	Branch Office	Halifax Operations Center 894 N. River Road Halifax, PA 17032	Operations Center
Front Street Office 2615 North Front Street Harrisburg, PA 17110	Branch Office	Derry Street Loan Operations Center 4099 Derry Street Harrisburg, PA 17111	Operations Center
Allentown Boulevard Office 5500 Allentown Boulevard Harrisburg, PA 17112	Branch Office	Front Street Administrative Office 4311 North Front Street, Ste. 101 Harrisburg, PA 17110	Administrative Office
Market Square Office 17 N. Second Street Harrisburg, PA 17101	Branch Office	Rockwood Center 1504 Route 61 South Pottsville, PA 17901	Administrative Office
Gordon ATM 300 Hobart Street Gordon, PA 17936	ATM Only	Halifax ATM 3777 Peters Mountain Road Halifax, PA 17032	ATM Only

ITEM 3. LEGAL PROCEEDINGS

Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. Mid Penn and the Bank have no proceedings pending other than ordinary, routine litigation occurring in the normal course of business. In addition, management does not know of any material proceedings contemplated by governmental authorities against Mid Penn, the Bank, or any of its properties.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is traded on NASDAQ under the symbol MPB. The following table shows the range of high and low sale prices for the Corporation's stock and cash dividends paid for the quarters indicated.

	High	Low	Cash Dividends Paid
Quarter Ended:			
March 31, 2015	$ 16.09	$ 15.35	$ 0.10
June 30, 2015	16.50	15.24	0.10
September 30, 2015	16.94	15.32	0.12
December 31, 2015	17.00	15.60	0.12

March 31, 2014	$ 14.97	$ 13.25	$ 0.05
June 30, 2014	16.00	14.00	0.10
September 30, 2014	16.33	15.05	0.10
December 31, 2014	15.95	15.06	0.20

Transfer Agent: Computershare, Attn: Shareholder Services, P.O. Box 30170, College Station, TX 77842-3170. Phone: 1-800-368-5948.

Number of Shareholders: As of February 16, 2016, there were approximately 1,620 shareholders of record of Mid Penn's common stock.

Dividends: Cash dividends of $0.44 were paid in 2015, while $0.45 was paid in 2014, and $0.25 in 2013. The declaration of cash dividends on Mid Penn's common stock is at the discretion of its Board of Directors, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant.

Dividend Reinvestment and Stock Purchases: Shareholders of Mid Penn may acquire additional shares of common stock by reinvesting their cash dividends under the Dividend Reinvestment Plan without paying a brokerage fee. Voluntary cash contributions may also be made under the Plan. For additional information about the Plan, contact the Transfer Agent.

Annual Meeting: The Annual Meeting of the Shareholders of Mid Penn is expected to be held at 10:00 a.m. on Tuesday, May 3, 2016, at 31 Bunker Hill Road, Halifax, PA 17032.

Accounting, Auditing and Internal Control Complaints: Information on how to report a complaint regarding accounting, internal accounting controls or auditing matters is available at Mid Penn's website: midpennbank.com.

MID PENN BANCORP, INC.

Stock Performance Graph

	Period Ending					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Mid Penn Bancorp, Inc.	100.00	102.95	156.74	205.02	228.85	243.52
Russell 3000	100.00	101.03	117.61	157.07	176.79	177.64
Mid-Atlantic Custom Peer Group*	100.00	98.67	114.76	134.66	144.73	154.25

*Mid-Atlantic Custom Peer Group consists of Mid-Atlantic commercial banks with assets less than $1B.

Source : SNL Financial LC, Charlottesville, VA
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www.snl.com

A detailed list of the Banks comprising the Mid-Atlantic Custom Peer Group is incorporated herein by reference to Exhibit 99.1, which is attached to this Annual Report on Form 10-K.

MID PENN BANCORP, INC.

ITEM 6. SELECTED FINANCIAL DATA

Summary of Selected Financial Data

(Dollars in thousands, except per share data)	2015	2014	2013	2012	2011
INCOME:					
Total Interest Income	$ 36,490	$ 30,627	$ 28,983	$ 30,366	$ 31,545
Total Interest Expense	4,607	4,427	5,057	7,125	9,522
Net Interest Income	31,883	26,200	23,926	23,241	22,023
Provision for Loan and Lease Losses	1,065	1,617	1,685	1,036	1,205
Noninterest Income	4,087	3,248	3,290	3,683	2,996
Noninterest Expense	26,733	20,668	19,391	19,693	18,048
Income Before Provision for Income Taxes	8,172	7,163	6,140	6,195	5,766
Provision for Income Taxes	1,644	1,462	1,201	1,244	1,223
Net Income	6,528	5,701	4,939	4,951	4,543
Series A Preferred Stock Dividends and Discount Accretion	-	-	14	514	514
Series B Preferred Stock Dividends and Redemption Premium	473	350	309	-	-
Series C Preferred Stock Dividends	17	-	-	-	-
Net Income Available to Common Shareholders	6,038	5,351	4,616	4,437	4,029
COMMON STOCK DATA PER SHARE:					
Earnings Per Common Share (Basic)	$ 1.47	$ 1.53	$ 1.32	$ 1.27	$ 1.16
Earnings Per Common Share (Fully Diluted)	1.47	1.53	1.32	1.27	1.16
Cash Dividends	0.44	0.45	0.25	0.25	0.20
Book Value Per Common Share	16.58	15.48	13.71	13.57	12.47
AVERAGE SHARES OUTSTANDING (BASIC):	4,106,548	3,495,705	3,491,653	3,486,543	3,481,414
AVERAGE SHARES OUTSTANDING (FULLY DILUTED):	4,106,548	3,495,705	3,491,653	3,486,543	3,481,414
AT YEAR-END:					
Available For Sale Investment Securities	$ 135,721	$ 141,634	$ 122,803	$ 154,295	$ 159,043

Loans and Leases, Net of Unearned Interest	739,191	571,533	546,462	484,220	482,717
Allowance for Loan and Lease Losses	6,168	6,716	6,317	5,509	6,772
Total Assets	931,724	755,657	713,125	705,200	715,383
Total Deposits	777,043	637,922	608,130	625,461	634,055
Short-term Borrowings	31,596	578	23,833	-	-
Long-term Debt	40,305	52,961	23,145	22,510	22,701
Subordinated Debt	7,500	-	-	-	-
Shareholders' Equity	70,068	59,130	52,916	52,220	53,452
RATIOS:					
Return on Average Assets	0.74%	0.78%	0.71%	0.69%	0.66%
Return on Average Shareholders' Equity	9.16%	9.95%	9.37%	8.78%	8.96%
Cash Dividend Payout Ratio	29.93%	29.41%	18.94%	19.69%	17.24%
Allowance for Loan and Lease Losses to Loans and Leases	0.83%	1.18%	1.16%	1.14%	1.40%
Average Shareholders' Equity to Average Assets	8.06%	7.80%	7.56%	7.98%	7.37%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mid Penn to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "estimate," and sin expressions are intended to identify such forward-looking statements.

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

· the effects of future economic conditions on Mid Penn and its customers;
· governmental monetary and fiscal policies, as well as legislative and regulatory changes;
· future actions or inactions of the United States government, including a failure to increase the government debt limit or a prolonged shutdown of the federal government;
· the continued failure of the Commonwealth of Pennsylvania to pass its 2015-2016 budget;
· an increase in the Pennsylvania Bank Shares Tax to which Mid Penn Bank's capital stock is currently subject, or imposition of any additional taxes on the capital stock of Mid Penn or Mid Penn Bank;
· impacts of the capital and liquidity requirements imposed by Basel III standards and other regulatory pronouncements, regulations and rules;
· the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, Financial Accounting Standards Board, and other accounting standard setters;
· the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
· the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in Mid Penn's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
· the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
· technological changes;
· our ability to implement business strategies, including our acquisition strategy;
· our acquisition strategy may not be successful in locating advantageous targets or acquiring targets at advantageous prices;
· our ability to successfully integrate any banks, companies, assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within

expected time frames;

- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our ability to attract and retain qualified management and personnel;
- results of the regulator examination and supervision process;
- the failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities;
- acts of war or terrorism;
- our ability to maintain compliance with the exchange rules of NASDAQ;
- our ability to maintain the value and image of our brand and protect our intellectual property rights;
- disruptions due to flooding, severe weather, or other natural disasters of Acts of God;
- volatilities in the securities markets; and
- slow economic conditions.

All written or oral forward-looking statements attributable to Mid Penn are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of Mid Penn's consolidated financial statements and should be read in conjunction with the Consolidated Financial Statements of the Corporation and Notes thereto and other detailed information appearing elsewhere in this Annual Report. The comparability of the financial condition of Mid Penn as of December 31, 2015 compared to December 31, 2014, and the results of operations for the year ended 2015 compared to 2014 and 2013, in general, have been impacted by the acquisition of Phoenix on March 1, 2015. The assets and liabilities of Phoenix were recorded on the consolidated balance sheet at their established fair value as of March 1, 2015, and their results of operations have been included in the consolidated income statement since that date.

Mid Penn is not aware of any known trends, events, uncertainties or of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on Mid Penn's liquidity, capital resources, or operations.

Critical Accounting Estimates

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

Management of the Corporation considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of the Corporation's investment securities for other-than-temporary impairment, the valuation of the Corporation's goodwill for impairment, and the valuation of assets acquired and liabilities assumed in business combinations, to be the accounting areas that require the most subjective and complex judgments.

The allowance for loan and lease losses represents management's estimate of probable incurred credit losses inherent in the loan and lease portfolio. Determining the amount of the allowance for loan and lease losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan and lease portfolio also represents the largest asset type on the consolidated balance sheet. Throughout the remainder of this report, the terms "loan" or "loans" refers to both loans and leases.

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

Goodwill recorded in connection with acquisitions is tested annually for impairment. If certain events occur, which indicate goodwill might be impaired between annual tests, goodwill must be tested when such events occur. In making this assessment, Mid Penn considers a number of factors including operating results, business plans, economic projections, anticipated future cash flows, current market data, stock price, etc. There are inherent uncertainties related to these factors and Mid Penn's judgment in applying them to the analysis of goodwill impairment. Changes in economic and operating conditions could result in goodwill impairment in future periods.

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

Financial Summary

The comparability of the financial condition and results of operations as of, and for the years ended 2015 and 2014, in general, have been impacted by the acquisition of Phoenix. The consolidated earnings of Mid Penn are derived primarily from the operations of its wholly owned subsidiary, Mid Penn Bank.

2015 versus 2014

Mid Penn's net income available to common shareholders of $6,038,000 for the year 2015 reflects an increase of $687,000, or 12.8%, over the $5,351,000 for the year 2014. This represents net income in 2015 of $1.47 per common share compared to $1.53 per common share in 2014.

Total assets of Mid Penn grew $176,067,000, or 23.3%, in 2015 to close the year at $931,724,000, compared to $755,657,000 at the end of 2014. This increase was impacted by the inclusion of Phoenix's assets on Mid Penn's balance sheet, as well as growth in the loan portfolio, which increased $167,658,000, or 29.3%, to $739,191,000. Loans attributable to Phoenix included in the growth of the loan portfolio were $91,655,000.

Total deposits increased $139,121,000, or 21.8%, from $637,922,000 at the end of 2014 to $777,043,000 at December 31, 2015. Over the last twelve months, all deposit categories increased, mainly due to the inclusion of Phoenix's deposits, but also due to strong cash management and retail efforts. Long-term debt decreased by $12,656,000, or 23.9%, to $40,305,000 by the end of 2015. Mid Penn increased its short-term borrowing position by $31,018,000 to $31,596,000 at the end of 2015 as a low-cost funding source to fund the increased loan demand and to replace the long-term debt that matured in 2015.

Mid Penn's return on average shareholders' equity, ("ROE"), a widely recognized performance indicator in the financial industry, was 9.30% in 2015 and 9.95% in 2014. Return on average assets ("ROA"), another performance indicator, was 0.74% in 2015 and 0.78% in 2014.

Performance in 2015 was influenced by the March 1, 2015 acquisition of Phoenix, which resulted in increased earning assets and shareholders’ equity, as well as an improved cost of funds. Mid Penn also had improvement in nonperforming loans and consistent management of controllable expenses throughout 2015.

Net interest margin improved to 4.03% in 2015 from 3.99% in 2014. This improvement was driven by a decrease in the rate on supporting liabilities to 0.64% in 2015 from 0.71% in 2014, which allowed the average interest spread to increase to 3.94% from 3.91% in 2014. Net interest income on a tax equivalent basis increased to $33,806,000 in 2015 from $27,968,000 in 2014. Included in the net interest income increase for the year ended December 31, 2015 is $558,000 in income from the successful resolution of six legacy Phoenix loans acquired with credit deterioration. The income was the result of recognizing the remaining accretable and nonaccretable discounts on these loans. Further discussion of net interest margin can be found in the Net Interest Income section below.

Total nonperforming assets decreased $5,445,000 from $11,507,000 in 2014 to $6,062,000 at the end of 2015. Decreasing nonaccrual loans were the leading source of improvement in nonperforming assets. Two nonaccrual troubled debt restructured loans to unrelated borrowers that totaled 4,680,000 at December 31, 2014, were resolved in 2015 further aiding in the reduction in nonperforming assets. Further discussion of these components can be found in the Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses section below.

Net charge-offs increased to $1,613,000 in 2015 from $1,218,000 during 2014. Gross charge-offs increased $456,000 from $1,328,000 in 2014 to $1,784,000 in 2015 mainly due to the impact of two large charge-offs to unrelated borrowers in 2015 totaling $1,461,000. Mid Penn decreased the provision for loan and lease losses from $1,617,000 in 2014 to $1,065,000 in 2015. This was largely driven by decreasing balances of nonperforming assets within the portfolio. Further discussion of these issues can be found in the Provision for Loan and Lease Losses section below.

Mid Penn’s tier one capital (to risk weighted assets) of $64,089,000, or 9.1%, and total capital (to risk weighted assets) of $77,852,000, or 11.0%, at December 31, 2015, are above the regulatory requirements. Tier one capital consists primarily of Mid Penn’s shareholders' equity. Total capital also includes Mid Penn’s qualifying subordinated debt and the allowance for loan and lease losses, within permitted limits. Risk-weighted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities.

2014 versus 2013

Mid Penn’s net income available to common shareholders of $5,351,000 for the year 2014 reflects an increase of $735,000, or 15.9%, over the $4,616,000 for the year 2013. This represents net income in 2014 of $1.53 per common

share compared to $1.32 per common share in 2013.

Net income available to common shareholders for both the fourth quarter and year of 2014 was impacted by $573,000 in merger and acquisition expenses incurred in conjunction with the acquisition of Phoenix. Excluding these charges and the corresponding tax impact, net income available to common shareholders for the twelve months ended December 31, 2014 would have been $5,760,000, an increase of $1,144,000, or 24.8%, over the twelve months ended December 31, 2013.

Total assets of Mid Penn grew $42,532,000, or 6.0% in 2014 to close the year at $755,657,000, compared to $713,125,000 at the end of 2013. The majority of the asset growth was centered in the loan portfolio, which increased $25,071,000, or 4.6%, to $571,533,000. Mid Penn's investment portfolio also increased $18,831,000, or 15.3%, to $141,634,000.

Total deposits increased $29,792,000, or 4.9%, from $608,130,000 at the end of 2013 to $637,922,000 at December 31, 2014. This was part of a comprehensive effort to improve Mid Penn's overall funding mix by reducing reliance on higher-priced money market and certificate of deposit funds and placing greater emphasis on less expensive demand deposits and savings balances. As a result of these efforts, demand deposits and savings comprise 49.5% of total deposits at the end of 2014 versus 45.9% of total deposits at the end of 2013. Mid Penn also had increased its long-term debt by $29,816,000, or 128.8%, to $52,961,000 by the end of 2014 to take advantage of low long-term borrowing rates and to provide funds to increase earning assets. This increase in long-term debt reduced Mid Penn's short-term borrowing position $23,255,000, or 97.6%, to $578,000 at the end of 2014.

Mid Penn's ROE was 9.95% in 2014 and 9.37% in 2013. ROA was 0.78% in 2014 and 0.71% in 2013.

Mid Penn's performance during 2014 improved over the results reported in 2013. This improvement was the result of increasing earning assets, improving cost of funds, improvement in nonperforming loans, and consistent management of controllable expenses throughout 2014.

Net interest margin improved to 3.99% in 2014 from 3.80% in 2013. This improvement was driven by a 15 basis point improvement in the rate on supporting liabilities to 0.71% in 2014 from 0.86% in 2013. This improvement allowed average interest spread to increase to 3.91% from 3.70% in 2013 and net interest income on a tax equivalent basis to increase to $27,968,000 in 2014 from $25,250,000 in 2013. This increase was achieved in spite of the substantial pool of nonperforming loans being carried on the balance sheet. The amount of interest income lost on this pool of troubled loans in 2014 amounted to $798,000. Further discussion of net interest margin can be found in the Net Interest Income section below.

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Total nonperforming assets decreased $1,168,000 from $12,675,000 in 2013 to $11,507,000 at the end of 2014. Decreasing nonaccrual loans were the leading source of improvement in nonperforming assets. Further discussion of these components can be found in the Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses section below.

Net charge-offs increased to $1,218,000 in 2014 from $877,000 during 2013, mainly due to the impact of two large recoveries in 2013 totaling $429,000. Gross charge-offs fell $145,000 from $1,473,000 in 2013 to $1,328,000 in 2014. Mid Penn decreased provision for loan and lease losses from $1,685,000 in 2013 to $1,617,000 in 2014. This was largely driven by decreasing balances of nonperforming assets within the portfolio. Further discussion of these issues can be found in the Provision for Loan and Lease Losses section below.

Mid Penn's tier one capital (to risk weighted assets) of $56,560,000, or 10.1%, and total capital (to risk weighted assets) of $63,336,000, or 11.4%, at December 31, 2014, was above the regulatory requirements.

Net Interest Income

Net interest income, Mid Penn's primary source of earnings, represents the difference between interest income and interest expense. Net interest income is affected by changes in interest rates and changes in average balances (volume) in the various interest-sensitive assets and liabilities.

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

(Dollars in thousands)	Income and Rates on a Taxable Equivalent Basis for Years Ended								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates
ASSETS:									
Interest Bearing Balances	$ 6,377	$ 44	0.69%	$ 6,839	$ 41	0.60%	$ 14,818	$ 109	0.74%
Investment Securities:									
Taxable	67,382	1,604	2.38%	62,214	1,501	2.41%	68,524	617	0.90%
Tax-Exempt	69,996	3,031	4.33%	74,508	3,303	4.43%	66,147	2,911	4.40%
Total Securities	137,378			136,722			134,671		
Federal Funds Sold	535	2	0.37%	30	-	0.00%	3,580	11	0.31%
Loans and Leases, Net	689,870	33,483	4.85%	554,970	27,427	4.94%	508,638	26,639	5.24%
Restricted Investment in Bank Stocks	3,751	249	6.64%	3,063	123	4.02%	2,545	20	0.79%
Total Earning Assets	837,911	38,413	4.58%	701,624	32,395	4.62%	664,252	30,307	4.56%
Cash and Due from Banks	13,263			8,460			8,156		
Other Assets	32,754			24,152			25,472		
Total Assets	$ 883,928			$ 734,236			$ 697,880		
LIABILITIES & SHAREHOLDERS' EQUITY:									
Interest Bearing Deposits:									
NOW	$ 238,141	804	0.34%	$ 216,656	777	0.36%	$ 182,118	659	0.36%
Money Market	208,693	1,122	0.54%	201,281	1,088	0.54%	202,393	1,194	0.59%
Savings	52,895	31	0.06%	30,953	16	0.05%	29,597	15	0.05%
Time	154,335	1,932	1.25%	127,071	1,971	1.55%	148,863	2,568	1.73%
Short-term Borrowings	13,184	47	0.36%	14,813	55	0.37%	10,533	26	0.25%
Long-term Debt	51,267	671	1.31%	30,889	520	1.68%	16,268	595	3.66%
Total Interest Bearing Liabilities	718,515	4,607	0.64%	621,663	4,427	0.71%	589,772	5,057	0.86%

	2015		2014		2013	
Demand Deposits	87,474		49,814		49,318	
Other Liabilities	6,691		5,491		6,051	
Shareholders' Equity	71,248		57,268		52,739	
Total Liabilities and Shareholders' Equity	$ 883,928		$ 734,236		$ 697,880	
Net Interest Income		$ 33,806		$ 27,968		$ 25,250
Net Yield on Interest Earning Assets:						
Total Yield on Earning Assets		4.58%		4.62%		4.56%
Rate on Supporting Liabilities		0.64%		0.71%		0.86%
Average Interest Spread		3.94%		3.91%		3.70%
Net Interest Margin		4.03%		3.99%		3.80%

Interest and average rates are presented on a fully taxable equivalent basis, using an effective tax rate of 34%. For purposes of calculating loan yields, average loan balances include nonaccrual loans.

Loan fees of $666,000, $749,000, and $1,020,000 are included with interest income in Table 1 for the years 2015, 2014 and 2013, respectively.

TABLE 2: VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Dollars in thousands)	2015 Compared to 2014 Increase (Decrease) Due to Change In:			2014 Compared to 2013 Increase (Decrease) Due to Change In:		
Taxable Equivalent Basis	Volume	Rate	Net	Volume	Rate	Net
INTEREST INCOME:						
Interest Bearing Balances	$ (3)	$ 6	$ 3	$ (59)	$ (9)	$ (68)
Investment Securities:						
Taxable	125	(22)	103	(57)	941	884
Tax-Exempt	(200)	(72)	(272)	368	24	392
Total Investment Securities	(75)	(94)	(169)	311	965	1,276
Federal Funds Sold	-	2	2	(11)	-	(11)
Loans and Leases, Net	6,667	(611)	6,056	2,427	(1,639)	788
Restricted Investment Bank Stocks	28	98	126	4	99	103
Total Interest Income	6,617	(599)	6,018	2,672	(584)	2,088
INTEREST EXPENSE:						
Interest Bearing Deposits:						
NOW	77	(50)	27	125	(7)	118
Money Market	41	(7)	34	(6)	(100)	(106)
Savings	-	15	15	-	1	1
Time	422	(461)	(39)	(376)	(221)	(597)
Total Interest Bearing Deposits	540	(503)	37	(257)	(327)	(584)
Short-term Borrowings	(6)	(2)	(8)	11	18	29
Long-term Debt	343	(192)	151	535	(610)	(75)
Total Interest Expense	877	(697)	180	289	(919)	(630)
NET INTEREST INCOME	$ 5,740	$ 98	$ 5,838	$ 2,383	$ 335	$ 2,718

The effect of changing volume and rate has been allocated entirely to the rate column. Tax-exempt income is shown on a tax equivalent basis assuming a federal income tax rate of 34%.

During 2015, taxable equivalent net interest income increased $5,838,000, or 20.9%, as compared to an increase of $2,718,000, or 10.8%, in 2014. The average balances, effective interest differential, and interest yields for the years

ended December 31, 2015, 2014, and 2013 and the components of net interest income, are presented in Table 1. A comparative presentation of the changes in net interest income for 2015 compared to 2014, and 2014 compared to 2013, is provided in Table 2. This analysis indicates the changes in interest income and interest expense caused by the volume and rate components of interest earning assets and interest bearing liabilities.

The yield on earning assets decreased to 4.58% in 2015 from 4.62% in 2014. The yield on earning assets for 2013 was 4.56%. The decline in the yield on earning assets in 2015 was softened by the increase in loan volume. The increased volume helped mask the decline in the average rate, which decreased from 4.94% in 2014 to 4.85% in 2015. The average "prime rate" for 2015, 2014, and 2013 was 3.25%. The average rates on investment securities also declined from 2014 to 2015. Taxable investments decreased from 2.41% to 2.38% and tax-exempt investments decreased from 4.43% to 4.33%. This decline in rate was the result of matured and called municipal bonds being reinvested at current market rates.

Interest expense increased by $180,000, or 4.1%, in 2015 as compared to a decrease of $630,000, or 12.5%, in 2014. The cost of interest bearing liabilities decreased to 0.64% in 2015 from 0.71% in 2014. The cost of interest bearing liabilities for 2013 was 0.86%. While the continued low interest rate environment, the addition of Phoenix's low-cost deposit products, and Mid Penn's ability to replace higher-cost time deposits with lower-cost demand deposits aided in reducing the cost of interest bearing liabilities in 2015, the increase in the volume of interest bearing liabilities of $96,852,000 at December 31, 2015 compared to the same period in 2014 led to the increase in interest expense.

Included in the net interest income increase for the year ended December 31, 2015 is $558,000 in income from the successful resolution of six legacy Phoenix loans acquired with credit deterioration.

Net interest margin, on a tax equivalent basis was 4.03% in 2015 compared to 3.99% in 2014 and 3.80% in 2013. The interest rate impact of earning assets and funding sources due to changes in interest rates can be reasonably estimated at current interest rate levels, the options selected by customers, and the future mix of the loan, investment, and deposit products in the Bank's portfolios, may significantly change the estimates used in the simulation models. In addition, our net interest income may be impacted by further interest rate actions of the Federal Reserve. Management continues to monitor the net interest margin closely.

Provision for Loan and Lease Losses

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

Mid Penn has maintained the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which took into consideration the risk characteristics of the loan and lease portfolio and shifting collateral values from December 31, 2014 to December 31, 2015. For the year ended December 31, 2015, the provision for loan and lease losses was $1,065,000, as compared to $1,617,000 for the year ended December 31, 2014. The allowance for loan and lease losses as a percentage of total loans was 0.83% at December 31, 2015, compared to 1.18% at December 31, 2014 and 1.16% at December 31, 2013. This ratio was impacted by the inclusion of the Phoenix loan portfolio in the calculation coupled with the elimination of Phoenix's allowance for loan and lease losses in conformity with GAAP purchase accounting treatment in 2015.

For the year ended December 31, 2015, Mid Penn had net charge-offs of $1,613,000 compared to net charge-offs of $1,218,000 during the year ended December 31, 2014. Loans charged off during 2015 were comprised of seven commercial real estate loans among six relationships totaling $1,569,000. Two of these loans to unrelated borrowers comprised $1,461,000 of the total $1,568,000. In addition, there were charge-offs for five residential real estate loans to unrelated borrowers totaling $35,000, two commercial and industrial loans to one borrower totaling $130,000, and one home equity loan representing $36,000 of the total charged off during 2015. The remaining $14,000 was comprised of various consumer loans to unrelated borrowers.

Mid Penn may need to make future adjustments to the allowance and the provision for loan and lease losses if economic conditions or loan credit quality differs substantially from the assumptions used in making Mid Penn's evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.

Several factors contributed to the decrease in provision expense of $552,000 in 2015 versus 2014. The first element was the general decline in criticized and classified assets during 2015. These categories of loans declined $4,221,000, or 20.6% from $20,507,000 at the end 2014 to $16,286,000 at December 31, 2015. The second element was a decrease in the special mention historical loss factor. This element of the allowance calculation declined to 2.2% at December 31, 2015 from 4.1% at the end of 2014. The decline was triggered by a more favorable loss history during the look-back period. Finally, the level of specific allocations required against impaired loans decreased from $1,634,000 at December 31, 2014 to $503,000 at the end of 2015 due to the resolution of several problem loan relationships.

A summary of charge-offs and recoveries of loans and leases are presented in Table 3.

TABLE 3: ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

(Dollars in thousands)	Years ended December 31,				
	2015	2014	2013	2012	2011
Balance, beginning of year	$ 6,716	$ 6,317	$ 5,509	$ 6,772	$ 7,061
Loans and leases charged off:					
Commercial real estate, construction and land development	1,569	1,057	936	499	545
Commercial, industrial and agricultural	130	62	183	834	546
Real estate - residential	35	133	167	195	310
Consumer	50	76	187	860	142
Leases	-	-	-	-	44
Total loans and leases charged off	1,784	1,328	1,473	2,388	1,587
Recoveries on loans and leases previously charged off:					
Commercial real estate, construction and land development	75	13	286	15	26
Commercial, industrial and agricultural	12	13	193	31	10
Real estate - residential	44	20	23	-	19
Consumer	40	64	92	43	32
Leases	-	-	2	-	6
Total loans and leases recovered	171	110	596	89	93
Net charge-offs	1,613	1,218	877	2,299	1,494
Provision for loan and lease losses	1,065	1,617	1,685	1,036	1,205
Balance, end of year	$ 6,168	$ 6,716	$ 6,317	$ 5,509	$ 6,772

	Years ended December 31,				
	2015	2014	2013	2012	2011
Ratio of net charge-offs during the year to average loans and leases outstanding during					

the year, net of unearned discount	0.23%	0.22%	0.17%	0.48%	0.31%
Allowance for loan and lease losses as a percentage of total loans and leases at December 31	0.83%	1.18%	1.16%	1.14%	1.40%
Allowance for loan and lease losses as a percentage of non-performing assets at December 31	101.75%	58.36%	49.84%	42.05%	50.91%

Noninterest Income

2015 versus 2014

During the twelve months ended December 31, 2015, noninterest income, excluding securities gains of $325,000, increased $682,000, or 22.1%, versus the twelve months ended December 31, 2014, excluding security gains of $168,000. The twelve months ended December 31, 2015 was positively impacted by the addition of Phoenix to the income stream. Items of particular note are detailed below.

Income from fiduciary activities for 2015 was $466,000, an $86,000, or 15.6% decrease from $552,000 in 2014. This is primarily attributable to a change in the commission structure on the sale of third-party mutual funds and annuities to the Bank's retail and commercial customers. Assets under management in the areas of Trust and Wealth Management decreased from $46,859,000 at the end of 2014 to $42,891,000 at the end of 2015 and are not a component of Mid Penn's consolidated balance sheets.

Mid Penn recognized gains on sale of investment securities in 2015 of $325,000 as a result of efforts to better align the portfolio for a rising interest rate environment, up $157,000 from the $168,000 recorded in 2014.

Earnings on bank-owned life insurance increased $68,000, or 33.8%, to $269,000 during 2015 over earnings of $201,000 in 2014. This increase was from the addition of a pool of employee split-dollar policies acquired in the Phoenix acquisition.

Mortgage banking activity increased $143,000 or 45.7% to $456,000 during 2014 from $313,000 in 2014. Improved real estate activity throughout Mid Penn's footprint and favorable interest rate conditions have contributed to increasing revenue from this business line.

Mid Penn has experienced significant activity in Small Business Administration ("SBA") loans during 2015 as more qualified borrowers have taken advantage of Mid Penn's Preferred Lender status with the SBA. During 2015, this business activity generated $252,000 in fee income, an increase of $133,000, or 111.8% versus the twelve months ended December 31, 2014.

An increase in Letter of Credit fees of $40,000 in 2015 aided in the increase in other income of $140,000, or 27.3% from 2014.

2014 versus 2013

Income from fiduciary activities for 2014 was $552,000, a $60,000, or 12.2% increase from $492,000 in 2013. This revenue source is comprised of fees generated by Mid Penn's Trust department and fees from the sale of third-party mutual funds and annuities to the Bank's retail and commercial customers. Assets under management in the areas of Trust and Wealth Management increased from $26,054,000 at the end of 2013 to $46,859,000 at the end of 2014 due to more active marketing of these services to potential customers. This increase in assets under management, which are not a component of Mid Penn's consolidated balance sheets, accounted for the increased fee income during 2014.

Mid Penn recognized gains on sale of investment securities in 2014 of $168,000 as a result of efforts to position the portfolio to provide improved earnings and cash flow in support of future loan growth, down $52,000 from the $220,000 recorded in 2013.

Mortgage refinancing activity decreased $35,000 or 10.1% to $313,000 during 2014 from $348,000 in 2013 due to mortgage rate increases. While home purchase activity improved throughout the year, it did not rebound enough to compensate for the decline throughout our market area during the first quarter of 2014 due to harsh winter weather conditions.

Merchant services revenue, which is derived from the interchange fee income received as a result of customers utilizing Mid Penn as their credit card processor, decreased to $254,000 in 2014, a decline of $76,000, or 23.0%, compared to $330,000 in 2013. The decrease was mainly due to increased competition in this business line as more financial institutions pursued additional revenue sources, which hindered Mid Penn's ability to price as it did in 2013.

During 2014, Mid Penn began selling the guaranteed portion of SBA loans in the secondary market. This new business activity generated $119,000 in fee income during the year.

The decline in other income of $72,000, or 12.3% from 2013 can be traced to the recognition in 2013 of a refund of collection costs on a previously troubled loan and a refund of previously paid sales taxes.

TABLE 4: NONINTEREST INCOME

(Dollars in thousands)	Years ended December 31,		
	2015	2014	2013
Income from fiduciary activities	$ 466	$ 552	$ 492
Service charges on deposits	690	584	576
Net gain on sales of investment securities	325	168	220
Earnings from cash surrender value of life insurance	269	201	231
Mortgage banking income	456	313	348
ATM debit card interchange income	741	544	508
Merchant services income	235	254	330
Gain on sales of SBA loans	252	119	-
Other income	653	513	585
Total Noninterest Income	$ 4,087	$ 3,248	$ 3,290

Noninterest Expense

2015 versus 2014

Noninterest expenses increased $6,065,000, or 29.3%, during the twelve months ended December 31, 2015, versus the same period in 2014. Both periods were impacted by the addition of Phoenix to the expense stream or related merger expenses. Items of particular note are detailed below.

Salaries and employee benefits increased during the year ended December 31, 2015 by $3,164,000, or 29.1%, versus 2014. The increase was driven by the addition of the Phoenix employees to Mid Penn's employee pool, an increase in staffing levels due to Mid Penn's entry into the Lancaster County and Mechanicsburg markets, and an increase in lending personnel and support staff to augment the expanding reach of Mid Penn.

Occupancy expense increased $634,000 to $1,947,000 in 2015. In addition to the occupancy expenses from the three leased and three owned properties acquired in the Phoenix transaction, this increase was impacted by the inclusion of rent for the new Corporate Administration offices on North Front Street in Harrisburg, and the new Elizabethtown and Simpson Ferry Road branch offices.

Legal and professional fees increased $72,000, or 14.0% , during the twelve months ended December 31, 2015 compared to the same period in 2014. This was due to the increase in consultant fees incurred for cyber penetration testing of Mid Penn's computer network, implementation of Mid Penn's mobile banking app, routine legal fees generated through the normal conduct of business, and the periodic examination of potential merger and acquisition opportunities as they became available.

Marketing and advertising expense increased $225,000 in 2015 to $533,000 from $308,000 in 2014. This increase is primarily the result of rebranding efforts in the Phoenix footprint to bring Mid Penn's style of community banking to the new region.

Equipment, Pennsylvania Bank Shares tax, software licensing, telephone, and other expenses all saw increases related to the inclusion of Phoenix's normal operating expenses to Mid Penn's expense stream year-to-date.

Merger and acquisition expenses in connection with the acquisition of Phoenix increased $189,000 to $762,000 in 2015 versus 2014. All expenses in connection with the merger have been recognized.

2014 versus 2013

Occupancy expense increased $185,000 to $1,313,000 in 2014. This expense area was negatively impacted by harsh weather conditions during the first and early second quarters of 2014. Increased snow removal and heating costs were incurred during this period.

Pennsylvania Bank Shares tax expense decreased $99,000 to $365,000 in 2014 due to a statutory change in the calculation method.

Legal and professional fees decreased from $705,000 in 2013 to $516,000 in 2014, due to a decrease in consultant expenses over the same period last year, which included one-time set-up fees associated with the migration of Mid Penn's core banking data from an in-house environment to a service bureau hosted platform in 2013.

Loss (gain) on sale/write-down of foreclosed assets went from $302,000 of income in 2013 to $204,000 of expense in 2014 due to the write-down of foreclosed assets as a result of updated appraisals on subject properties within the portfolio during 2014 and the recognition of a $340,000 gain on the sale of a property during the second quarter of 2013.

One-time merger and acquisition expenses of $573,000 in connection with the acquisition of Phoenix were incurred during 2014.

TABLE 5: NONINTEREST EXPENSE

(Dollars in thousands)	Years ended December 31,		
	2015	2014	2013
Salaries and employee benefits	$ 14,043	$ 10,879	$ 10,788
Occupancy expense, net	1,947	1,313	1,128
Equipment expense	1,477	1,205	1,299
Pennsylvania Bank Shares tax expense	408	365	464
FDIC Assessment	613	542	486
Legal and professional fees	588	516	705
Director fees and benefits expense	363	377	319
Marketing and advertising expense	533	308	253
Software licensing	1,472	965	947
Telephone expense	569	467	436
Loss (gain) on sale/write-down of foreclosed assets	111	204	(302)
Intangible amortization	88	27	29
Loan collection costs	306	288	214
Merger and acquisition expense	762	573	-
ATM debit card processing expense	334	310	202
Internet banking expense	429	319	252
Meals, travel, and lodging expense	399	273	271
Data processing	346	251	130
Insurance	186	141	129
OREO expense	255	172	290
Investor services	96	72	68
Other expenses	1,408	1,101	1,283
Total Noninterest Expense	$ 26,733	$ 20,668	$ 19,391

Investments

Mid Penn's investment portfolio is utilized to provide liquidity, collateral, and managed to maximize return within reasonable risk parameters.

Mid Penn's entire portfolio of investment securities is considered available for sale. As such, the investments are recorded at fair value. The investments are valued at a market price relative to investments of the same type with similar maturity dates. As the interest rate environment of these securities changes, the value of securities changes accordingly.

At December 31, 2015, the unrealized gain on investment securities resulted in an increase in shareholders' equity of $1,565,000 (unrealized gain on securities of $2,371,000 less deferred income taxes of $806,000). At December 31, 2014, the unrealized gain on investment securities resulted in an increase in shareholders' equity of $1,625,000 (unrealized gain on securities of $2,462,000 less deferred income taxes of $837,000). Mid Penn does not have any significant concentrations within its portfolio of investment securities. Table 6 provides a summary of our available for sale investment securities.

TABLE 6: FAIR VALUE OF INVESTMENT SECURITIES

(Dollars in thousands)	December 31,		
	2015	2014	2013
U.S. Treasury and U.S. government agencies	$ 26,990	$ 27,066	$ 12,834
Mortgage-backed U.S. government agencies	38,804	33,776	39,392
State and political subdivision obligations	66,617	79,171	69,038
Equity securities	3,310	1,621	1,539
	$ 135,721	$ 141,634	$ 122,803

Maturity and yield information relating to debt securities is shown in Table 7.

TABLE 7: INVESTMENT MATURITY AND YIELD

(Dollars in thousands) As of December 31, 2015	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
U.S. Treasury and U.S. government agencies	$ 1,032	$ 8,779	$ 17,179	$ -	$ 26,990
Mortgage-backed U.S. government agencies	1,786	31,951	5,067	-	38,804
State and political subdivision obligations	4,319	23,740	35,321	3,237	66,617
Equity securities	-	1,080	990	1,240	3,310
	$ 7,137	$ 65,550	$ 58,557	$ 4,477	$ 135,721

Weighted Average Yields	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
U.S. Treasury and U.S. government agencies	5.17%	3.31%	2.51%	-	2.87%
Mortgage-backed U.S. government agencies	4.32%	3.67%	2.41%	-	3.54%
State and political subdivision obligations	4.56%	5.18%	4.63%	4.69%	4.80%
Equity securities	-	6.38%	4.75%	2.84%	4.57%
	4.59%	4.04%	3.71%	4.18%	3.94%

Loans

At December 31, 2015, loans and leases totaled $739,191,000, a $167,658,000, or 29.3% increase from December 31, 2014. Along with the addition of $110,363,000 from Phoenix's loan portfolio, the other main driver of Mid Penn's loan growth was in the commercial loan area, specifically in commercial and industrial and commercial real estate loans. Mid Penn has made enhancements to its commercial lending team over the past few years and now has

professional lenders who focus their efforts on developing and maintaining complete business relationships.

At December 31, 2015, loans, net of unearned income, represented 83.6% of earning assets as compared to 79.0% on December 31, 2014, and 80.2% on December 31, 2013.

The Bank's loan portfolio is diversified among individuals and small and medium-sized businesses generally located within the Bank's primary market area of eastern Cumberland, Dauphin, northwestern Lancaster, western Luzerne, southern Northumberland, and Schuylkill Counties. Commercial real estate, construction, and land development loans are collateralized mainly by mortgages on the income-producing real estate or land involved. Commercial, industrial, and agricultural loans are made to business entities and may be secured by business assets, including commercial real estate, or may be unsecured. Residential real estate loans are secured by liens on the residential property. Consumer loans include installment loans, lines of credit and home equity loans. The Bank has no concentration of credit to any one borrower. The Bank’s highest concentration of credit is in commercial real estate financings.

A distribution of the Bank's loan portfolio according to major loan classification is shown in Table 8.

TABLE 8: LOAN PORTFOLIO

(Dollars in thousands)	December 31,														
	2015			2014			2013			2012			2011		
	Amount		%	Amount		%	Amount		%	Amount		%	Amount		%
Commercial real estate, construction and land development	$	355,339	48.1	$	289,378	50.6	$	274,279	50.2	$	255,231	52.7	$	249,204	51.6
Commercial, industrial and agricultural		160,988	21.8		120,326	21.0		107,492	19.7		79,228	16.4		78,656	16.3
Real estate - residential		218,947	29.6		159,004	27.8		160,294	29.3		143,243	29.6		146,846	30.4
Consumer		4,204	0.5		3,018	0.6		4,646	0.8		6,770	1.4		8,327	1.7
Total Loans		739,478	100.0		571,726	100.0		546,711	100.0		484,472	100.0		483,033	100.0
Unearned income		(287)			(193)			(249)			(252)			(316)	
Loans net of unearned discount		739,191			571,533			546,462			484,220			482,717	
Allowance for loan and lease losses		(6,168)			(6,716)			(6,317)			(5,509)			(6,772)	
Net loans	$	733,023		$	564,817		$	540,145		$	478,711		$	475,945	

Mid Penn's maturity and rate sensitivity information related to the loan portfolio is reflected in Table 9.

TABLE 9: LOAN MATURITY AND INTEREST SENSITIVITY

(Dollars in thousands) As of December 31, 2015	One Year and Less	After One Year thru Five Years	After Five Years	Total
Commercial real estate, construction and land development	$ 28,885	$ 33,042	$ 293,412	$ 355,339
Commercial, industrial and agricultural	9,290	38,365	113,854	161,509
Real estate - residential mortgages	5,572	19,311	194,064	218,947
Consumer	111	1,145	2,140	3,396
	$ 43,858	$ 91,863	$ 603,470	$ 739,191

Rate Sensitivity				
Predetermined rate	$ 20,552	$ 50,121	$ 131,696	$ 202,369
Floating or adjustable rate	23,306	41,742	471,774	536,822
	$ 43,858	$ 91,863	$ 603,470	$ 739,191

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

Other than as described herein, Mid Penn does not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Further, based on known information, Mid Penn believes that the effects of current and past economic conditions and other unfavorable business conditions may influence certain borrowers' abilities to comply with their repayment terms. Mid Penn continues to monitor the financial strength of these borrowers constantly and does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not normally structure construction loans with interest reserve components, or perform commercial real estate or other type of loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not extend loans at maturity solely due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

TABLE 10: NONPERFORMING ASSETS

(Dollars in thousands)	December 31,				
	2015	2014	2013	2012	2011
Nonperforming Assets:					
Nonaccrual loans	$ 4,418	$ 8,907	$ 10,877	$ 11,831	$ 11,800
Accruing troubled debt restructured loans	459	2,035	833	426	571
Total nonperforming loans	4,877	10,942	11,710	12,257	12,371
Foreclosed real estate	1,185	565	965	843	931
Total nonperforming assets	6,062	11,507	12,675	13,100	13,302
Accruing loans 90 days or more past due	55	-	-	-	-
Total risk elements	$ 6,117	$ 11,507	$ 12,675	$ 13,100	$ 13,302
Nonperforming loans as a % of total loans outstanding	0.66%	1.91%	2.14%	2.53%	2.56%
Nonperforming assets as a % of total loans outstanding and other real estate	0.82%	2.01%	2.32%	2.71%	2.76%
Ratio of allowance for loan losses to nonperforming loans	126.46%	61.37%	53.94%	44.95%	54.74%

Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit. During 2015, nonperforming loans declined $6,065,000 from $10,942,000 at December 31, 2014. Decreasing nonaccrual loans were the leading source of improvement in nonperforming assets. Two nonaccrual troubled debt restructured loans to unrelated borrowers that totaled $4,680,000 at December 31, 2014, were charged off in 2015 aiding in the reduction in nonperforming assets. The remaining improvement has primarily been the result of well-structured workout plans.

Mid Penn's troubled debt restructured loans at December 31, 2015 totaled $2,805,000, of which, $459,000 were accruing loans in compliance with the terms of the modification. $2,346,000 of the troubled debt restructured loans are included in nonaccrual loans. As a result of the evaluation, a specific allocation and, subsequently, charge-offs have been taken as appropriate. Further discussion of troubled debt restructured loans can be found in Note 8 to Mid Penn's Consolidated Financial Statements, which are included in Item 8. As of December 31, 2015, there were no defaulted troubled debt restructured loans as all troubled debt restructured loans were current with respect to their associated forbearance agreements.

Mid Penn entered into forbearance agreements on all loans currently classified as troubled debt restructures and all of these agreements have resulted in additional principal repayment. The terms of these forbearance agreements vary whereby principal payments have been decreased, interest rates have been reduced and/or the loan will be repaid as collateral is sold.

The following table provides additional analysis of partially charged off loans:

TABLE 11: PARTIALLY CHARGED OFF LOANS

(Dollars in thousands)

	December 31, 2015	December 31, 2014
Period ending total loans outstanding (net of unearned income)	$ 739,191	$ 571,533
Allowance for loan and lease losses	6,168	6,716
Total Nonperforming loans	4,877	10,942
Nonperforming and impaired loans with partial charge-offs	1,869	2,441
Ratio of nonperforming loans with partial charge-offs to total loans	0.25%	0.43%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	38.32%	22.31%
Coverage ratio net of nonperforming loans with partial charge-offs	205.05%	79.00%
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	0.84%	1.18%

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

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

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

collateral evaluation completed in accordance with the 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. The balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variation in value. A specific allocation of allowance is made for any anticipated collateral shortfall. The balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The collateral shortfall of the consumer loan is recommended for charge-off at this point.

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

Larger groups of small-balance loans, such as residential mortgages and consumer installment loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment disclosures unless such loans are the subject of a restructuring agreement.

Mid Penn’s rating system assumes any loans classified as substandard nonaccrual to be impaired, and most of these loans are considered collateral dependent; therefore, most of Mid Penn’s impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate as soon as practically possible of the credit being classified as substandard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until such time Mid Penn is in receipt of the updated valuation. The Asset Recovery department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no material 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 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 as soon as practically possible of being placed on nonaccrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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

Excluding $1,331,000 in loans acquired with credit deterioration, of which none were subsequently impaired after being acquired as of December 31, 2015, Mid Penn had several loan relationships, with an aggregate carrying balance of $4,573,000, deemed impaired. This pool of loans was further broken down into a group of loans with an aggregate carrying balance of $2,092,000 for which specific allocations totaling $503,000 were included within the loan loss reserve for these loans. The remaining $2,481,000 of loans required no specific allocation within the loan loss reserve. The $4,573,000 pool of impaired loan relationships was comprised of $2,970,000 in commercial real estate relationships, $1,361,000 in residential relationships, $127,000 in commercial and industrial relationships, and $115,000 in home equity relationships. There were specific allocations of $429,000 against the commercial real estate relationships. $272,000 of this total was between two unrelated relationships. There was also $51,000 against the commercial and industrial relationships and $23,000 against the residential mortgage relationships. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In conjunction with an internal loan review function that operates

independently of the lending function, management monitors the loan portfolio to identify risk on a monthly basis so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Board of Directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses an integral part of the examination process. As part of the examination process, federal or state regulatory agencies may require Mid Penn 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.

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

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. These factors include:

- changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the value of underlying collateral for collateral-dependent loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;
- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- changes in the quality of the institution's loan review system;
- changes in the nature and volume of the portfolio and in the terms of loans;
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio; and
- the existence and effect of any concentrations of credit and changes in the level of such concentrations.

While the allowance for loan and lease losses is maintained at a level believed to be adequate by management to provide for probable losses inherent in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

Management believes, based on information currently available, that the allowance for loan and lease losses of $6,168,000 as of December 31, 2015 is adequate to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

The allocation of the allowance for loan and lease losses among the major classifications is shown in Table 12 as of December 31 of each of the past five years.

TABLE 12: ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

(Dollars in thousands)	December 31, 2015	2014	2013	2012	2011
Commercial real estate, construction and land development	$ 3,705	$ 3,958	$ 4,015	$ 3,122	$ 3,567
Commercial, industrial and agricultural	1,394	1,395	1,187	1,299	2,276
Real estate - residential	534	450	581	635	362
Consumer	329	688	513	444	424
Unallocated	206	225	21	9	143
	$ 6,168	$ 6,716	$ 6,317	$ 5,509	$ 6,772

The growth in the loan portfolio during 2015, countered by the resolution of several problem loan relationships with specific allocation requirements, a 20.6% decline in criticized and classified assets, as well as decreases in the historical loss factor in the special mention portion of the portfolio, necessitated a smaller allowance in 2015. See also the discussion in the Provision for Loan and Lease Losses section.

The allowance for loan and lease losses at December 31, 2015 was $6,168,000, or 0.83%, of total loans less unearned discount as compared to $6,716,000, or 1.18%, at December 31, 2014, and $6,317,000, or 1.16%, at December 31, 2013. This ratio was impacted by the inclusion of the Phoenix loan portfolio in the calculation coupled with the elimination of Phoenix’s allowance for loan and lease losses in conformity with GAAP purchase accounting treatment in 2015.

Deposits and Other Funding Sources

Mid Penn's primary source of funds are deposits. Total deposits at December 31, 2015 increased by $139,121,000, or 21.8%, over December 31, 2014, which increased by $29,792,000, or 4.9%, over December 31, 2013. During 2015, all deposit categories increased, mainly due to the inclusion of Phoenix’s deposits, but also due to strong cash management and retail efforts. Average balances and average interest rates applicable to the major classifications of deposits for the years ended December 31, 2015, 2014, and 2013 are presented in Table 13.

Average short-term borrowings for 2015 were $13,184,000 as compared to $14,813,000 in 2014. These borrowings consisted of federal funds purchased.

At December 31, 2015, the Bank had $11,168,000 in brokered deposits, an increase of $6,706,000, or 150.3%, over December 31, 2014, which increased by $1,712,000, or 62.3%, over the same period in 2013. The increase in brokered deposits in 2015 was mainly due to the brokered certificates of deposits Mid Penn acquired from Phoenix, which totaled $6,221,000 at December 31, 2015.

TABLE 13: DEPOSITS BY MAJOR CLASSIFICATION

(Dollars in thousands)	Years Ended December 31,					
	2015		2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	$ 87,474	0.00%	$ 49,814	0.00%	$ 49,318	0.00%
Interest-bearing demand deposits	238,141	0.34%	216,656	0.36%	182,118	0.36%
Money market	208,693	0.54%	201,281	0.54%	202,393	0.59%
Savings	52,895	0.06%	30,953	0.05%	29,597	0.05%
Time	154,335	1.25%	127,071	1.55%	148,863	1.73%
	$ 741,538	0.53%	$ 625,775	0.62%	$ 612,289	0.72%

The maturity distribution of time deposits of $100,000 or more is reflected in Table 14.

TABLE 14: MATURITY OF TIME DEPOSITS $100,000 OR MORE

(Dollars in thousands)	December 31,		
	2015	2014	2013
Three months or less	$ 8,986	$ 4,506	$ 4,745
Over three months to twelve months	17,807	21,308	16,953
Over twelve months	37,233	22,604	24,230
	$ 64,026	$ 48,418	$ 45,928

Capital Resources

Shareholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The detailed computation of Mid Penn's regulatory capital ratios can be found in Note 18 of Item 8, Notes to Consolidated Financial Statements. The greater a corporation's capital resources, the more likely it is to meet its cash obligations and absorb unforeseen losses. Too much capital, however, indicates that not enough of the corporation's earnings have been invested in the continued growth of the business or paid to shareholders. The buildup makes it difficult for a corporation to offer a competitive return on the shareholders' capital going forward. For these reasons capital adequacy has been, and will continue to be, of paramount importance.

Shareholders' equity increased in 2015 by $10,938,000, or 18.5%, following an increase in 2014 of $6,214,000, or 11.7%, and a increase in 2013 of $696,000, or 1.3%. Capital was positively impacted in 2015 by the issuance of 723,851 shares of common stock valued at $11,292,000 as merger consideration in the Phoenix acquisition, as well as an increase in retained earnings from the normal operations of Mid Penn. Mid Penn also used the $7,500,000 in net proceeds from the issuance and sale of its subordinated notes to redeem all of its Series B Preferred Stock for an aggregate redemption price of $5,123,000 and Series C Preferred Stock for an aggregate redemption price of $1,754,000. These redemptions negatively impacted shareholders' equity in 2015. Capital was positively impacted in 2014 by the net income available to common shareholders of $5,351,000 and other comprehensive income of $2,385,000. Capital was positively impacted in 2013 by the net income available to common shareholders of $4,616,000; however, the increase was muted by other comprehensive loss.

Mid Penn's current intent for dividend payout is to provide quarterly cash returns to shareholders and earnings retention at a level sufficient to finance future growth. For additional information, see "Part II – Item 5 - Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Repurchases of Equity Securities – Dividends". The dividends paid on common shares totaled $0.44 for the year ended December 31, 2015, $0.45 for the year ended December 31, 2014, and $0.25 for the year ended December 31, 2013.

The dividend payout ratio, which represents the percentage of annual net income returned to shareholders in the form of cash dividends, was 29.93% for 2015 and 29.41% for 2014.

Mid Penn maintained regulatory capital levels, leverage ratios, and risk-based capital ratios as of December 31, 2015, and 2014, as follows:

(Dollars in thousands)	Capital Adequacy					
	Actual		Minimum Capital Required		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Corporation						
As of December 31, 2015:						
Tier 1 Capital (to Average Assets)	$ 64,089	7.3%	$ 35,098	4.0%	$ N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	64,089	9.1%	31,731	4.5%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	64,089	9.1%	42,308	6.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	77,852	11.0%	56,410	8.0%	N/A	N/A
Bank						
As of December 31, 2015:						
Tier 1 Capital (to Average Assets)	$ 70,351	7.8%	$ 36,245	4.0%	$ 45,306	5.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	70,351	10.0%	31,698	4.5%	45,786	6.5%
Tier 1 Capital (to Risk Weighted Assets)	70,351	10.0%	42,264	6.0%	56,352	8.0%
Total Capital (to Risk Weighted Assets)	76,614	10.9%	56,352	8.0%	70,440	10.0%
Corporation						
As of December 31, 2014:						
Tier 1 Capital (to Average Assets)	$ 56,560	7.4%	$ 30,429	4.0%	$ N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	56,560	10.1%	22,295	4.0%	N/A	N/A
Total Capital (to Risk Weighted Assets)	63,336	11.4%	44,590	8.0%	N/A	N/A
Bank						
As of December 31, 2014:						
Tier 1 Capital (to Average Assets)	$ 56,647	7.5%	$ 30,360	4.0%	$ 37,950	5.0%
Tier 1 Capital (to Risk Weighted Assets)	56,647	10.2%	22,295	4.0%	33,442	6.0%
Total Capital (to Risk Weighted Assets)	63,423	11.4%	44,590	8.0%	55,737	10.0%

Series B Preferred Stock

Between September 26, 2012 and January 3, 2013, Mid Penn issued, via a private placement, 5,000 shares of its 7% Non-Cumulative Non-Voting Non-Convertible Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), resulting in total gross proceeds of $5,000,000.

On December 9, 2015, Mid Penn, using a portion of the proceeds from the offering of the subordinated notes described below, redeemed all of its issued and outstanding shares of Series B Preferred Stock at a price equal to $1,024.67 per share, which is equal to $1,020 per share plus an amount equal to declared but unpaid dividends on December 9, 2015, for a total redemption price of $5,123,000.

Small Business Lending Fund Preferred Shares

On March 1, 2015, Mid Penn assumed all of the issued and outstanding shares of Phoenix with respect to 1,750 shares of Phoenix's preferred stock issued to the Treasury in connection with the Small Business Lending Fund and issued 1,750 shares of SBLF Preferred Shares, having a $1,000 liquidation preference per share, to the Treasury. The SBLF Preferred Shares qualified as Tier 1 capital and had terms and conditions identical to those shares of preferred stock issued by Phoenix to the Treasury. Mid Penn paid noncumulative dividends payable quarterly on January 1, April 1, July 1, and October 1. The dividend rate was 1.00% per annum for payment dates up to its redemption.

On December 15, 2015, Mid Penn, using a portion of the proceeds from the offering of subordinated notes described below, redeemed all of the outstanding shares of its SBLF Preferred Shares, which were held by the Treasury for an aggregate redemption price of $1,754,000, including accrued but unpaid dividends.

Subordinated Debt

On November 9, 2015, Mid Penn entered into agreements with investors to purchase $7,500,000 aggregate principal amount of its Subordinated Notes (the “Notes”) due 2025. The Notes are treated as Tier 2 capital for regulatory capital purposes. The offering closed in December 2015.

The Notes bear interest at a rate of 5.15% per year for the first five years and then float at the Wall Street Journal’s Prime Rate plus 0.50%, provided that the interest rate applicable to the outstanding principal balance will at no times be less than 4.0%. Interest is paid quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, beginning on January 1, 2016. The Notes will mature on December 9, 2025 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 9, 2020, and prior to December 9, 2025. Additionally, Mid Penn may redeem the Notes in whole at any time, or in part from time to time, upon at least 30 days’ notice if: (i) a change or prospective change in law occurs that could prevent Mid Penn from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) an event occurs that precludes the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) Mid Penn becomes required to register as an investment company under the Investment Company Act of 1940, as amended, in each case at 100% of the principal amount of the subordinated notes, plus accrued and unpaid interest thereon to but excluding the date of redemption.

Holders of the Notes may not accelerate the maturity of the Notes, except upon Mid Penn’s or Mid Penn Bank’s, its principal banking subsidiary’s, bankruptcy, insolvency, liquidation, receivership, or similar event.

Federal Income Taxes

Federal income tax expense for 2015 was $1,644,000 compared to $1,462,000 in 2014 and $1,201,000 in 2013. The effective tax rate was 20% for 2015, 2014 and 2013.

Liquidity

Mid Penn's asset-liability management policy addresses the management of Mid Penn's liquidity position and its ability to raise sufficient funds to meet deposit withdrawals, fund loan growth and meet other operational needs. Mid Penn utilizes its investments as a source of liquidity, along with deposit growth and increases in borrowings. (See Deposits and Other Funding Sources which appears earlier in this discussion.) Liquidity from investments is provided primarily through investments and interest-bearing balances with maturities of one year or less.

The Bank has short-term borrowing capacity from the FHLB for overnight borrowings up to the Bank's unused borrowing capacity of $342,362,000 at December 31, 2015, upon satisfaction of any stock purchase requirements of the FHLB. This line is collateralized by certain qualifying loans and investment securities of the Bank. The Bank also has unused lines of credit with correspondent banks amounting to $15,000,000 at December 31, 2015.

Major sources of cash in 2015 came from the $37,142,000 proceeds from the sales of investments securities, the increase in short-term borrowings of $31,018,000, and the increase in deposits of $15,883,000, which excludes the deposits acquired in the Phoenix acquisition.

Major uses of cash in 2015 were the increase in loans of $60,043,000, excluding the loans acquired in the Phoenix acquisition, the purchases of investment securities of $35,858,000, and long-term debt repayments of $16,226,000.

Major sources of cash in 2014 came from the proceeds from long-term debt borrowings of $30,000,000, the increase in deposits of $29,792,000, and $27,314,000 from the maturities and sales of investment securities.

Major uses of cash in 2014 were the purchases of investment securities of $43,633,000, the increase in loans of $27,170,000, and the net decrease in short-term borrowings of $23,255,000.

Aggregate Contractual Obligations

Table 15 represents Mid Penn's on-and-off balance sheet aggregate contractual obligations to make future payments as of December 31, 2015.

TABLE 15: AGGREGATE CONTRACTUAL OBLIGATIONS

(Dollars in thousands)			Payments Due by Period			
	Financial Statements Note Reference	Total	One Year or Less	One to Three Years	Three to Five Years	More than Five Years
Certificates of deposit	10	$ 160,849	$ 68,704	$ 55,107	$ 36,206	$ 832
Short-term borrowings	11	31,596	31,596	-	-	-
Long-term debt	12	40,305	26,521	1,016	10,000	2,768
Subordinated debt	13	7,500	386	773	773	5,568
Payments under benefit plans	15	1,476	159	312	306	699
Executive compensation payments	16	397	23	96	96	182
Operating lease obligations	20	7,934	715	1,479	1,184	4,556
		$ 250,057	$ 128,104	$ 58,783	$ 48,565	$ 14,605

We are not aware of any other commitments or contingent liabilities which may have a material adverse impact on Mid Penn's liquidity or capital resources.

Effects of Inflation

A bank's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of a bank are monetary in nature. Management believes the impact of inflation on its financial results depends principally upon Mid Penn's ability to manage the balance sheet sensitivity to changes in interest rates and, by such reaction, mitigate the inflationary impact on performance. Interest rates do not necessarily move in the same direction or at the same magnitude as the prices of other goods and services. As discussed previously, Management seeks to manage the relationship between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Information shown elsewhere in this Annual Report will assist in the understanding of how Mid Penn is positioned to react to changing interest rates and inflationary trends. In particular, the summary of net liabilities, as well as the composition of loans, investments and deposits should be considered.

Off-Balance Sheet Items

Mid Penn makes contractual commitments to extend credit and extends lines of credit, which are subject to Mid Penn's credit approval and monitoring procedures.

As of December 31, 2015, commitments to extend credit amounted to $157,338,000 as compared to $125,279,000 as of December 31, 2014.

Mid Penn also issues standby letters of credit to its customers. The risk associated with standby letters of credit is essentially the same as the credit risk involved in loan extensions to customers. Standby letters of credit increased to $15,805,000 at December 31, 2015, from $9,837,000 at December 31, 2014.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a financial institution, Mid Penn’s primary source of market risk is interest rate risk. Interest rate risk is the exposure to fluctuations in Mid Penn’s future earnings (earnings at risk) resulting from changes in interest rates. This exposure or sensitivity is a function of the repricing characteristics of Mid Penn's portfolio of assets and liabilities. Each asset and liability reprices either at maturity or during the life of the instrument. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities that are subject to repricing in a future period of time.

The principal purpose of asset-liability management is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Net interest income is increased by increasing the net interest margin and by volume growth. Thus the goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

Mid Penn utilizes an asset-liability management model to measure the impact of interest rate movements on its interest rate sensitivity position. Mid Penn’s management also reviews the traditional maturity gap analysis regularly. Mid Penn does not always attempt to achieve an exact match between interest sensitive assets and liabilities because it believes that an actively managed amount of interest rate risk is inherent and appropriate in the management of the Corporation’s profitability.

Modeling techniques and simulation analysis involve assumptions and estimates that inherently cannot be measured with complete precision. Key assumptions in the analyses include maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturing deposit sensitivity, and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of Mid Penn’s interest rate risk position over time.

Management reviews interest rate risk on a quarterly basis. This analysis includes earnings scenarios whereby interest rates are increased and decreased by 100, 200, and 300 basis points. These scenarios, detailed in Table 16, indicate that Mid Penn would experience enhanced net interest income over a one-year time frame due to upward interest rate changes, while a reduction in interest rates would result in a decline in net interest income over a one-year time frame; however, actual results could vary significantly from the calculations prepared by Management. At December 31, 2015, all interest rate risk levels according to the model were within the tolerance limits of the Board approved policy.

TABLE 16: EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES

December 31, 2015			December 31, 2014		
Change in Basis Points	% Change in Net Interest Income	Risk Limit	Change in Basis Points	% Change in Net Interest Income	Risk Limit
300	5.77%	≥ -20%	300	18.89%	≥ -25%
200	3.64%	≥ -15%	200	14.52%	≥ -15%
100	1.55%	≥ -10%	100	10.10%	≥ -10%
0			0		
(100)	-2.19%	≥ -10%	(100)	-10.66%	≥ -10%
(200)	-7.09%	≥ -15%	(200)	-16.09%	≥ -15%
(300)	-12.21%	≥ -20%	(300)	-21.32%	≥ -25%

MID PENN BANCORP, INC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited financial statements are set forth in this Annual Report of Form 10-K on the following pages:

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Mid Penn Bancorp, Inc.

Millersburg, Pennsylvania

We have audited the accompanying consolidated balance sheets of Mid Penn Bancorp, Inc. and subsidiaries, (the “Corporation”) as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mid Penn Bancorp, Inc. and subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania

March 17, 2016

MID PENN BANCORP, INC. Consolidated Balance Sheets

(Dollars in thousands)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 12,329	$ 8,869
Interest-bearing balances with other financial institutions	955	1,013
Total cash and cash equivalents	13,284	9,882
Interest-bearing time deposits with other financial institutions	4,317	5,772
Available for sale investment securities	135,721	141,634
Loans and leases, net of unearned interest	739,191	571,533
Less: Allowance for loan and lease losses	(6,168)	(6,716)
Net loans and leases	733,023	564,817
Bank premises and equipment, net	13,993	12,225
Restricted investment in bank stocks	4,266	3,181
Foreclosed assets held for sale	1,185	565
Accrued interest receivable	3,813	3,058
Deferred income taxes	1,821	2,125
Goodwill	3,918	1,016
Core deposit and other intangibles, net	665	187
Cash surrender value of life insurance	12,516	8,575
Other assets	3,202	2,620
Total Assets	$ 931,724	$ 755,657
LIABILITIES & SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand	$ 103,721	$ 60,613
Interest bearing demand	247,356	222,712
Money Market	208,386	197,418
Savings	56,731	32,394
Time	160,849	124,785
Total Deposits	777,043	637,922
Short-term borrowings	31,596	578
Long-term debt	40,305	52,961
Subordinated debt	7,500	-
Accrued interest payable	390	349
Other liabilities	4,822	4,717
Total Liabilities	861,656	696,527
Shareholders' Equity:		
Series B preferred stock, par value $1.00; liquidation value $1,000; authorized 5,000 shares; 7% non-cumulative dividend; 0 shares issued and outstanding at December 31, 2015 and 5,000 shares issued and outstanding at December 31, 2014	-	5,000
Series C preferred stock, par value $1.00; liquidation value $1,000; authorized 1,750 shares; 1% non-cumulative dividend; 0 shares issued and outstanding at December 31, 2015 and		

at December 31, 2014; total redemption value $1,750,000	-	-
Common stock, par value $1.00; authorized 10,000,000 shares; 4,226,717 shares issued and outstanding at December 31, 2015 and 3,497,829 at December 31, 2014	4,227	3,498
Additional paid-in capital	40,559	29,902
Retained earnings	23,470	19,217
Accumulated other comprehensive income	1,812	1,513
Total Shareholders’ Equity	70,068	59,130
Total Liabilities and Shareholders' Equity	$ 931,724	$ 755,657

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

MID PENN BANCORP, INC. Consolidated Statements of Income

(Dollars in thousands, except per share data)	Years Ended December 31,		
	2015	2014	2013
INTEREST INCOME			
Interest & fees on loans and leases	$ 32,840	$ 26,905	$ 26,305
Interest on interest-bearing balances	44	41	109
Interest and dividends on investment securities:			
U.S. Treasury and government agencies	1,222	1,346	591
State and political subdivision obligations, tax-exempt	2,000	2,180	1,921
Other securities	382	155	46
Interest on federal funds sold and securities purchased under agreements to resell	2	-	11
Total Interest Income	36,490	30,627	28,983
INTEREST EXPENSE			
Interest on deposits	3,889	3,852	4,436
Interest on short-term borrowings	47	55	26
Interest on long-term debt	671	520	595
Total Interest Expense	4,607	4,427	5,057
Net Interest Income	31,883	26,200	23,926
PROVISION FOR LOAN AND LEASE LOSSES	1,065	1,617	1,685
Net Interest Income After Provision for Loan and Lease Losses	30,818	24,583	22,241
NONINTEREST INCOME			
Income from fiduciary activities	466	552	492
Service charges on deposits	690	584	576
Net gain on sales of investment securities	325	168	220
Earnings from cash surrender value of life insurance	269	201	231
Mortgage banking income	456	313	348
ATM debit card interchange income	741	544	508
Merchant services income	235	254	330
Gain on sales of SBA loans	252	119	-
Other income	653	513	585
Total Noninterest Income	4,087	3,248	3,290
NONINTEREST EXPENSE			
Salaries and employee benefits	14,043	10,879	10,788
Occupancy expense, net	1,947	1,313	1,128
Equipment expense	1,477	1,205	1,299
Pennsylvania Bank Shares tax expense	408	365	464
FDIC Assessment	613	542	486
Legal and professional fees	588	516	705
Director fees and benefits expense	363	377	319
Marketing and advertising expense	533	308	253
Software licensing	1,472	965	947
Telephone expense	569	467	436
Loss (gain) on sale/write-down of foreclosed assets	111	204	(302)
Intangible amortization	88	27	29
Loan collection costs	306	288	214
Merger and acquisition expense	762	573	-
Other expenses	3,453	2,639	2,625

Total Noninterest Expense	26,733	20,668	19,391
INCOME BEFORE PROVISION FOR INCOME TAXES	8,172	7,163	6,140
Provision for income taxes	1,644	1,462	1,201
NET INCOME	6,528	5,701	4,939
Series A preferred stock dividends and discount accretion	-	-	14
Series B preferred stock dividends and redemption premium	473	350	309
Series C preferred stock dividends	17	-	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 6,038	$ 5,351	$ 4,616
PER COMMON SHARE DATA:			
Basic Earnings Per Common Share	$ 1.47	$ 1.53	$ 1.32
Diluted Earnings Per Common Share	1.47	1.53	1.32
Cash Dividends Per Common Share	0.44	0.45	0.25

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

(Dollars in thousands)	Years Ended December 31,		
	2015	2014	2013
Net income	$ 6,528	$ 5,701	$ 4,939
Other comprehensive income (loss):			
Unrealized gains (losses) arising during the period on available for sale securities, net of income taxes of $80, $1,280, and ($1,563), respectively	154	2,482	(3,033)
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of ($110), ($57), and ($75), respectively (1)	(215)	(111)	(145)
Change in defined benefit plans, net of income taxes of $185, $7, and $7, respectively (2)	360	14	13
Total other comprehensive income (loss)	299	2,385	(3,165)
Total comprehensive income	$ 6,827	$ 8,086	$ 1,774

(1) Amounts are included in net gain on sales of investment securities on the Consolidated Statements of Income as a separate component 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

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

(Dollars in thousands, except share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2013	$ 4,880	$ 3,490	$ 29,816	$ 11,741	$ 2,293	$ 52,220
Net income	-	-	-	4,939	-	4,939
Total other comprehensive loss, net of taxes	-	-	-	-	(3,165)	(3,165)
Common stock dividends	-	-	-	(872)	-	(872)
Employee Stock Purchase Plan (4,713 shares)	-	4	51	-	-	55
Series B preferred stock issuance	120	-	-	-	-	120
Series B preferred stock dividends	-	-	-	(309)	-	(309)
Amortization of warrant cost	-	-	(14)	-	-	(14)
Warrant repurchase	-	-	-	(58)	-	(58)
Balance, December 31, 2013	5,000	3,494	29,853	15,441	(872)	52,916
Net income	-	-	-	5,701	-	5,701
Total other comprehensive income, net of taxes	-	-	-	-	2,385	2,385
Common stock dividends	-	-	-	(1,575)	-	(1,575)
Employee Stock Purchase Plan (3,432 shares)	-	4	49	-	-	53
Series B preferred stock dividends	-	-	-	(350)	-	(350)
Balance, December 31, 2014	5,000	3,498	29,902	19,217	1,513	59,130
Net income	-	-	-	6,528	-	6,528
Total other comprehensive income, net of taxes	-	-	-	-	299	299
Common stock dividends	-	-	-	(1,785)	-	(1,785)
Employee Stock Purchase Plan (4,162 shares)	-	4	62	-	-	66
Series B preferred stock dividends	-	-	-	(373)	-	(373)
Series B preferred stock redemption	(5,000)	-	-		-	(5,000)
Series B preferred stock redemption premium	-	-	-	(100)	-	(100)
Series C preferred stock in connection with Phoenix acquisition	1,750	-	-	-	-	1,750
Series C preferred stock dividends	-	-	-	(17)	-	(17)
Series C preferred stock redemption	(1,750)	-	-	-	-	(1,750)
Common stock issued to Phoenix shareholders (723,851 shares)	-	724	10,568	-	-	11,292
Restricted stock activity (875 shares)	-	1	27	-	-	28
Balance, December 31, 2015	$ -	$ 4,227	$ 40,559	$ 23,470	$ 1,812	$ 70,068

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

MID PENN BANCORP, INC. Consolidated Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31,		
	2015	2014	2013
Operating Activities:			
Net Income	$ 6,528	$ 5,701	$ 4,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	1,065	1,617	1,685
Depreciation	1,485	1,235	1,250
Amortization of intangibles	100	62	39
Net amortization of security premiums	4,251	1,250	2,557
Gain on sales of investment securities	(325)	(168)	(220)
Earnings on cash surrender value of life insurance	(269)	(201)	(231)
SBA loans originated for sale	(3,484)	(1,168)	-
Proceeds from sales of SBA loans originated for sale	3,736	1,287	-
Gain on sale of SBA loans	(252)	(119)	-
Loss (gain) on disposal of property, plant, and equipment	-	18	(8)
Loss (gain) on sale / write-down of foreclosed assets	111	204	(302)
Restricted stock compensation expense	27	-	-
Deferred income tax expense (benefit)	997	(112)	192
(Increase) decrease in accrued interest receivable	(367)	(354)	189
Decrease (increase) in other assets	333	(547)	500
Increase (decrease) in accrued interest payable	9	(44)	(227)
(Decrease) increase in other liabilities	(771)	9	319
Net Cash Provided By Operating Activities	13,174	8,670	10,682
Investing Activities:			
Net decrease in interest-bearing time deposits with other financial institutions	1,455	1,741	16,050
Proceeds from the maturity of investment securities	11,940	13,585	37,101
Proceeds from the sale of investment securities	37,142	13,729	15,118
Purchases of investment securities	(35,858)	(43,633)	(27,881)
Net cash received from acquisition	8,095	-	-
Purchases of restricted investment in bank stock	(576)	(212)	(466)
Net increase in loans and leases	(60,043)	(27,170)	(65,896)
Purchases of bank premises and equipment	(1,461)	(1,009)	(588)
Proceeds from sale of foreclosed assets	403	1,077	2,957
Net Cash Used In Investing Activities	(38,903)	(41,892)	(23,605)
Financing Activities:			
Net increase (decrease) in deposits	15,883	29,792	(17,331)
Net increase (decrease) in short-term borrowings	31,018	(23,255)	23,833
Series B preferred stock issuance, net of costs	-	-	120
Series B preferred stock dividends and redemption premium paid	(473)	(350)	(309)
Series B preferred stock redemption	(5,000)	-	-
Series C preferred stock dividends paid	(17)	-	-
Series C preferred stock redemption	(1,750)	-	-
Common stock dividends paid	(1,785)	(1,575)	(872)
Employee Stock Purchase Plan	66	53	55
Warrant Repurchase	-	-	(58)

Long-term debt repayment	(16,226)	(184)	(14,365)
Proceeds from long-term debt borrowings	-	30,000	15,000
Deferred financing fees paid for subordinated debt issuance	(85)	-	-
Subordinated debt issuance	7,500	-	-
Net Cash Provided By Financing Activities	29,131	34,481	6,073
Net increase (decrease) in cash and cash equivalents	3,402	1,259	(6,850)
Cash and cash equivalents, beginning of year	9,882	8,623	15,473
Cash and cash equivalents, end of year	$ 13,284	$ 9,882	$ 8,623

Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 4,566	$ 4,471	$ 5,284
Income taxes paid	$ 1,130	$ 1,520	$ 775
Supplemental Noncash Disclosures:			
Loan transfers to foreclosed assets held for sale	$ 1,135	$ 881	$ 2,777
Common stock issued to Phoenix shareholders	$ 11,292	$ -	$ -

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

(Dollars in thousands)

Assets Acquired:			
Securities	$ 11,331	$ -	$ -
Loans	110,363	-	-
Restricted stock	509	-	-
Property and equipment	1,792	-	-
Deferred income taxes	503		
Accrued interest receivable	388	-	-
Core deposit and other intangible assets	578	-	-
Bank-owned life insurance	3,673	-	-
Other assets	624	-	-
	$ 129,761	$ -	$ -
Liabilities Assumed:			
Deposits	$ 123,238	$ -	$ -
Accrued interest payable	32	-	-
Long-term debt	3,570	-	-
Other liabilities	876	-	-
	$ 127,716	$ -	$ -
Equity Acquired:			
Preferred stock	$ 1,750	$ -	$ -

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

(1) Basis of Presentation

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

Each of Mid Penn's lines of business are part of the same reporting segment, community banking, whose operating results are regularly reviewed and managed by a centralized executive management group. As a result, Mid Penn has only one reportable segment for financial reporting purposes.

The comparability of the financial condition of Mid Penn as of December 31, 2015 compared to December 31, 2014, and the results of operations for the year ended 2015 compared to 2014 and 2013, in general, have been impacted by the acquisition of Phoenix as further described in Note 4. For comparative purposes, the 2014 and 2013 balances have been reclassified to conform to the 2015 presentation. Such reclassifications had no impact on net income.

(2) Nature of Business

The Bank engages in a full-service commercial banking and trust business, making available to the community a wide range of financial services, including, but not limited to, mortgage and home equity loans, secured and unsecured commercial and consumer loans, lines of credit, construction financing, farm loans, community development loans, loans to non-profit entities and local government loans and various types of time and demand deposits, including but not limited to, checking accounts, savings accounts, clubs, money market deposit accounts, certificates of deposit, and IRAs. In addition, the Bank provides a full range of trust services through its Trust Department. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The financial services are provided to individuals, partnerships, non-profit organizations, and corporations through its 20 retail banking properties located in eastern Cumberland, Dauphin, northwestern Lancaster, western Luzerne, southern Northumberland, and Schuylkill Counties.

A decision was made to close Mid Penn Insurance Services, LLC, effective March 1, 2016 due to a lack of activity within the subsidiary. Mid Penn Insurance Services, LLC was an immaterial subsidiary of Mid Penn.

(3) Summary of Significant Accounting Policies

The accounting and reporting policies of Mid Penn conform with accounting principles generally accepted in the United States of America ("GAAP") and to general practice within the financial industry. The following is a description of the more significant accounting policies.

(a)Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, the assessment of other-than-temporary impairment of investment securities, the valuation of the goodwill for impairment, and the valuation of assets acquired and liabilities assumed in business combinations.

(b)Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

(c)Interest-bearing Time Deposits with Other Financial Institutions

Interest-bearing time deposits with other financial institutions consist of certificates of deposits in other financial institutions with maturities within one year.

(d)Investment Securities

Available for sale securities include debt and equity securities. Debt and equity securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported, net of deferred income taxes, as a component of accumulated other comprehensive income (loss) within shareholders' equity. Premiums and discounts on debt securities are amortized as an adjustment to interest income using the interest method. Realized gains and losses on sales of investment securities are computed on the basis of specific identification of the cost of each security. Net gains on sales of investment securities were $325,000 in 2015, $168,000 in 2014, and $220,000 in 2013. Mid Penn had no held to maturity securities in 2015 and 2014.

(e)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 is credited to income. 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 other extensions of credit.

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.

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 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 evaluate 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 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 and was $94,500 at December 31, 2015 and $60,000 at December 31, 2014. The allowance for loan and lease losses is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan and lease losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in collateral values, changes in the experience of the lending staff and loan review systems, changes in lending policies and procedures, including underwriting standards, changes in the mix and volume of loans originated, the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio, 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 generally 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 or sooner when it is probable that Mid Penn will be unable to collect all contractual principal and interest due. This methodology assumes the borrower cannot or will not continue to make

additional payments. At that time the loan would generally be considered collateral dependent as the DCF method would generally indicate no operating income available for evaluating the collateral position; therefore, most impaired loans are deemed to be collateral dependent.

In addition, Mid Penn's rating system assumes any loans classified as nonaccrual, included in the substandard rating, to be impaired, and most of these loans are considered collateral dependent; therefore, most 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 substandard 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. The remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall. The remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans (including home

equity loans and other consumer loans) are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The collateral shortfall of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for commercial loans and commercial real estate loans. 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 as soon as practically possible of the credit being classified as substandard nonaccrual. 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 such time Mid Penn is in receipt of the updated valuation. The Asset Recovery department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no material 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 as soon as practically possible of the credit being placed on nonaccrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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

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. Nonaccrual 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 business combinations are recorded at fair value with no carryover of the existing 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.

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. These loans are accounted for under the Accounting Standard Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. 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.

Loans acquired through business combinations that do meet the specific criteria of ASC 310-30 are individually evaluated each period to analyze expected cash flows. To the extent that the expected cash flows of a loan have decreased due to credit deterioration, Mid Penn establishes an allowance.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30 are accounted for under ASC 310-20. These loans are initially recorded at fair value, and include credit and interest rate marks associated with acquisition accounting adjustments. Purchase premiums or discounts are subsequently amortized as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. An allowance for loan losses is recorded for any credit deterioration in these loans subsequent to acquisition.

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.

(f)Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, equipment, land improvements, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Building assets are depreciated using an estimated useful life of five to fifty years. Furniture, fixtures, and equipment are depreciated using an estimated useful life of three to ten years. Land improvements are depreciated over an estimated useful life of ten to twenty years. Leasehold improvements are depreciated using an estimated useful life that is the lesser of the remaining life of the lease or ten to thirty years. Maintenance and normal repairs are charged to expense when incurred, while major additions and improvements are capitalized. Gains and losses on disposals are reflected in current operations.

(g)Restricted Investments in Bank Stocks

Restricted investments in bank stocks represent required investments in the common stock of correspondent banks. As a member of the FHLB and Atlantic Community Bankers Bank (“ACBB”), the Bank is required to own restricted stock investments in these correspondent banks, which is carried at cost. The total amount of these restricted stock investments was $4,266,000 December 31, 2015 and $3,181,000 at December 31, 2014. Total dividends received in 2015 and 2014 totaled $250,000 and $123,000, respectively.

(h)Foreclosed Assets Held for Sale

Foreclosed assets held for sale consist primarily of real estate acquired through, or in lieu of, foreclosure in settlement of debt and are recorded at fair value less cost to sell at the date of transfer, establishing a new cost basis. Any valuation adjustments required at the date of transfer are charged to the allowance for loan losses. Subsequent to acquisition, foreclosed assets are carried at fair value less costs of disposal, based upon periodic evaluations that consider changes in market conditions and development and disposal costs. Operating results from assets acquired in satisfaction of debt, including rental income less operating costs and gains or losses on the sale of, or the periodic evaluation of foreclosed assets, are recorded in noninterest expense. As of December 31, 2015, Mid Penn had $358,000 of residential real estate held in other real estate owned. There were no loans for which formal foreclosure proceedings were in process at December 31, 2015.

(i)Mortgage Servicing Rights

Mortgage servicing rights are recognized as assets upon the sale of a mortgage loan. A portion of the cost of the loan is allocated to the servicing right based upon relative fair value. The fair value of servicing rights is based on the present value of estimated future cash flows of mortgages sold, stratified by rate and maturity date. Assumptions that are incorporated in the valuation of servicing rights include assumptions about prepayment speeds on mortgages and the cost to service loans. Servicing rights are reported in core deposit and other intangibles in the Consolidated Balance Sheets and are amortized over the estimated period of future servicing income to be received on the underlying mortgage loans. The carrying amount of mortgage servicing rights was $174,000 and $187,000 at December 31, 2015 and 2014, respectively. Amortization expense is reflected in the Consolidated Statements of Income in other income and was $24,000, $36,000, and $10,000 for the years 2015, 2014, and 2013, respectively. Servicing rights are evaluated for impairment based upon estimated fair value as compared to unamortized book value.

(j)Investment in Limited Partnership

Mid Penn is a limited partner in a partnership that provides low-income housing in Enola, Pennsylvania. The carrying value of Mid Penn’s investment in the limited partnership was $365,000 at December 31, 2015 and $408,000 at December 31, 2014, net of amortization, using the straight-line method and is reported in other assets on the Consolidated Balance Sheets. Mid Penn’s maximum exposure to loss is limited to the carrying value of its investment. The partnership received $46,000 in low-income housing tax credits during 2015, 2014 and 2013.

(k)Income Taxes

Mid Penn accounts for income taxes in accordance with income tax accounting guidance ASC Topic 740, Income Taxes.

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Mid Penn determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Mid Penn accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Mid Penn recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

(l)Core Deposit Intangible

Core deposit intangible is a measure of the value of consumer demand and savings deposits acquired in business combinations accounted for as purchases. The core deposit intangible is being amortized over a ten-year period using a sum of the year’s digits basis. The core deposit intangible is subject to impairment testing whenever events or changes in circumstances indicate such testing.

(m)Goodwill

Goodwill is the excess of the purchase price over the fair value of assets acquired in connection with the 2004 and 2006 business acquisitions, as well as the 2015 Phoenix acquisition, accounted for as acquisitions. If certain events occur, which indicate goodwill might be impaired between annual tests, goodwill must be tested when such events occur. In making this assessment, Mid Penn considers a number of factors including operating results, business plans, economic projections, anticipated future cash flows, current market data, stock price, etc. There are inherent uncertainties related to these factors and Mid Penn’s judgment in applying them to the analysis of goodwill impairment. Changes in economic and operating conditions could result in goodwill impairment in future periods. Mid Penn did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2015 using a quantitative analysis. In addition, Mid Penn did not identify any impairment in 2014 or 2013 using a qualitative and quantitative analysis, respectively, in accordance with ASC 350.

(n)Bank Owned Life Insurance

Mid Penn is the owner and beneficiary of bank owned life insurance (“BOLI”) policies on current and former directors, as well as select Miners Bank employees, which were acquired through the Phoenix acquisition. The earnings from the BOLI policies are an asset that can be liquidated, if necessary, with associated tax costs. However, Mid Penn intends to hold these policies and, accordingly, Mid Penn had not provided deferred income taxes on the earnings from the increase in cash surrender value.

GAAP requires Split-Dollar Life Insurance Arrangements to have a liability recognized related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement, and a liability for the future death benefit.

(o)Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred.

(p)Postretirement Benefit Plans

Mid Penn follows the guidance in ASC Topic 715, Compensation-Retirement Benefits, related to postretirement benefit plans. This guidance requires additional disclosures about defined benefit pension plans and other postretirement defined benefit plans.

(q)Other Benefit Plan

A funded contributory defined-contribution plan is maintained for substantially all employees. The cost of the Mid Penn defined contribution plan is charged to current operating expenses and is funded annually.

(r)Trust Assets and Income

Assets held by the Bank in a fiduciary or agency capacity for customers of the Trust Department are not included in the consolidated financial statements since such items are not assets of the Bank. Trust income is recognized on the cash basis, which is not materially different than if it were reported on the accrual basis.

(s)Comprehensive Income

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income includes changes in unrealized gains and losses on securities available for sale arising during the period and reclassification adjustments for realized gains and losses on securities available for sale included in net income. Mid Penn has an unfunded noncontributory defined benefit Plan for directors and other postretirement benefit Plans covering full-time employees. These Plans utilize assumptions and methods to calculate the fair value of Plan assets and recognizing the overfunded and underfunded status of the Plans on its consolidated balance sheet. Gains and losses, prior service costs and credits are recognized in other comprehensive income, net of tax, until they are amortized, or immediately upon curtailment.

(t)Restricted Stock

Mid Penn provides those persons who have a responsibility for its growth with additional incentives by allowing them to acquire an ownership interest in Mid Penn through the Restricted Stock Plan. The restricted stock is non-voting and non-participating until the granted shares vest. Once the shares vest, the recipient would have full voting rights and be entitled to any commons stock dividends.

(u)Earnings Per Share

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each of the years presented. The following data show the amounts used in computing basic and diluted earnings per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted average common shares available from the exercise of all dilutive stock warrants issued to the U.S. Treasury under the provisions of the Capital Purchase Program, based on the average share price of Mid Penn's common stock during the period.

The computations of basic earnings per common share follow:

(Dollars in thousands, except per share data)	2015	2014	2013
Net Income	$ 6,528	$ 5,701	$ 4,939
Less: Accretion of Series A preferred stock discount	-	-	14
Dividends on Series B preferred stock	373	350	309
Redemption premium on Series B preferred stock	100	-	-
Dividends on Series C preferred stock	17	-	-
Net income available to common shareholders	$ 6,038	$ 5,351	$ 4,616
Weighted average common shares outstanding	4,106,548	3,495,705	3,491,653
Basic earnings per common share	$ 1.47	$ 1.53	$ 1.32

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)

	2015	2014	2013
Net income available to common stockholders	$ 6,038	$ 5,351	$ 4,616
Weighted average number of common shares outstanding	4,106,548	3,495,705	3,491,653
Dilutive effect of potential common stock arising from stock warrants:			
Exercise of outstanding stock warrants issued to U.S. Treasury under the Capital Repurchase Program	-	-	-
Adjusted weighted-average common shares outstanding	4,106,548	3,495,705	3,491,653
Diluted earnings per common share	$ 1.47	$ 1.53	$ 1.32

Mid Penn repurchased all warrants in 2013; therefore, there were none remaining as of December 31, 2015, 2014, and 2013.

(4) Mergers and Acquisitions

On March 1, 2015, Phoenix Bancorp, Inc. (“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 the Bank.

As part of this transaction, Phoenix shareholders received either 3.167 shares of the Company’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 the Company’s common stock as settlement of such rights. As a result, the Company issued 723,851 shares of common stock with an acquisition date fair value of approximately $11,292,000, based on the closing stock price of the Company’s

common stock on February 27, 2015 of $15.60, 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 the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C that had a $1,000 liquidation preference per share (the "SBLF Preferred Shares"), to the Treasury. The SBLF Preferred Shares qualified as Tier 1 capital and had 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 that date.

Included in the purchase price was goodwill and a core deposit intangible of $2,902,000 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 is not taxable and 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 next five years beginning in 2016 is estimated to be $96,000, $86,000, $75,000, $65,000, and $54,000 per year, respectively, and $114,000 in total for years after 2020.

The allocation of the purchase price is as follows:

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	$ 11,044
Investment securities	11,331
Loans	110,363
Goodwill	2,902
Core deposit and other intangibles	578
Other assets	7,489
Total assets acquired	143,707
Liabilities assumed:	
Deposits	123,238
FHLB borrowings	3,570
Other liabilities	908
Total liabilities assumed	127,716

Equity acquired:	
Preferred stock	1,750
Total equity acquired and liabilities assumed	129,466
Consideration paid	$ 14,241
Cash paid	$ 2,949
Fair value of common stock issued, including replacement equity awards	11,292

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	11,044
Investment securities	11,331
Restricted stock	509
Loans	110,363
Bank owned life insurance	3,673
Premises and equipment	1,792
Deferred income taxes	503
Accrued interest receivable	388
Core deposit and other intangibles	578
Other assets	624
Deposits	(123,238)
FHLB borrowings	(3,570)
Accrued interest payable	(32)
Other liabilities	(876)
Preferred stock	(1,750)
	11,339
Goodwill	$ 2,902

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $112,816,000. 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	$ 112,816
Market rate adjustment	270
Credit fair value adjustment on pools of homogeneous loans	(1,461)
Credit fair value adjustment on impaired loans	(1,262)
Fair value of purchased loans at March 1, 2015	$ 110,363

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the stated 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 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 loans accounted for under ASC 310-30 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)	(804)
Expected cash flows at acquisition	2,744
Interest component of expected cash flows (accretable discount)	(458)
Fair value of acquired loans	$ 2,286

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 $762,000 of merger related costs incurred for the year ended December 31, 2015; the results for the year ended December 31, 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. The pro forma data is intended for informational purposes and is not indicative of the future results of operations.

(Dollars in thousands, except per share data)	Years Ended December 31,	
	2015	2014
Net interest income after loan loss provision	$ 31,454	$ 29,745
Noninterest income	4,152	4,131
Noninterest expense	27,817	26,846
Net income available to common shareholders	5,811	5,259
Net income per common share	1.38	1.25

The amount of total revenue, consisting of interest income plus noninterest income specifically related to Phoenix for the period beginning March 1, 2015, included in the consolidated statements of income of Mid Penn for the year ended December 31, 2015, was $4,244,000. 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 year ended December 31, 2015, was $747,000.

(5) Accumulated Other Comprehensive Income

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

(Dollars in thousands)	Unrealized Gain on Securities	Defined Benefit Plan Liability	Accumulated Other Comprehensive Income
Balance - December 31, 2015	$ 1,565	$ 247	$ 1,812
Balance - December 31, 2014	$ 1,626	$ (113)	$ 1,513

(6) Restrictions on Cash and Due from Bank Accounts

The Bank is required to maintain reserve balances with the Federal Reserve Bank of Philadelphia. There was no required reserve balance at December 31, 2015 and December 31, 2014 because the Bank had sufficient vault cash available.

(7) Investment Securities

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

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

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 (loss).

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. Mid Penn had no other-than-temporary impaired equity securities in 2015, 2014, and 2013.

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

(Dollars in thousands)

December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Treasury and U.S. government agencies	$ 26,316	$ 729	$ 55	$ 26,990
Mortgage-backed U.S. government agencies	38,983	49	228	38,804
State and political subdivision obligations	64,780	1,914	77	66,617
Equity securities	3,271	82	43	3,310
	$ 133,350	$ 2,774	$ 403	$ 135,721

(Dollars in thousands)

December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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 $130,298,000 at December 31, 2015, and $134,740,000 at December 31, 2014, were pledged primarily to secure public deposits.

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 December 31, 2015 and 2014.

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
December 31, 2015	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available for sale securities:									
U.S. Treasury and U.S. government agencies	6	$ 6,259	$ 43	2	$ 1,383	$ 12	8	$ 7,642	$ 55
Mortgage-backed U.S. government agencies	13	12,759	124	11	6,282	104	24	19,041	228
State and political subdivision obligations	9	4,041	32	3	1,631	45	12	5,672	77
Equity securities	1	990	10	2	615	33	3	1,605	43
Total temporarily impaired available for sale securities	29	$ 24,049	$ 209	18	$ 9,911	$ 194	47	$ 33,960	$ 403

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
December 31, 2014	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available for sale securities:									
U.S. Treasury and U.S. government agencies	5	$ 6,059	$ 29	-	$ -	$ -	5	$ 6,059	$ 29
Mortgage-backed U.S. government agencies	15	9,511	62	5	4,416	115	20	13,927	177
State and political subdivision obligations	9	4,444	33	28	13,947	285	37	18,391	318
Equity securities	0	-	-	2	583	23	2	583	23
Total temporarily impaired available for sale securities	29	$ 20,014	$ 124	35	$ 18,946	$ 423	64	$ 38,960	$ 547

Management evaluates securities for other-than-temporary impairment 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, Mid Penn 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. 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 December 31, 2015, Mid Penn had 44 debt securities and 3 equity securities with unrealized losses totaling $403,000 that depreciated 1.19% from their amortized cost basis. At December 31, 2015, the majority of the unrealized losses on securities in an unrealized loss position were attributed to mortgage-backed U.S. government agencies. At December 31, 2014, Mid Penn had 62 debt securities and 2 equity securities with unrealized losses

totaling $547,000 that depreciated 1.40% from their amortized cost basis. At December 31, 2014, the unrealized loss on securities in an unrealized loss position 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.

Mid Penn realized gross gains of $325,000, $168,000, and $220,000 on sales of securities available for sale during 2015, 2014, and 2013, respectively. Mid Penn realized no gross losses on the sales of securities available for sale during 2015, 2014, and 2013.

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 at December 31, 2015.

(Dollars in thousands)	December 31, 2015	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 5,266	$ 5,351
Due after 1 year but within 5 years	31,508	32,519
Due after 5 years but within 10 years	51,069	52,500
Due after 10 years	3,253	3,237
	91,096	93,607
Mortgage-backed securities	38,983	38,804
Equity securities	3,271	3,310
	$ 133,350	$ 135,721

(8) Loans and Allowance for Loan and Lease Losses

The classes of the loan portfolio, summarized by the aggregate pass rating, net of deferred fees and costs of ($178,000) and ($194,000) as of December 31, 2014 and 2014, respectively, and the classified ratings of special mention, substandard, and doubtful within Mid Penn's internal risk rating system as of December 31, 2015 and 2014 are noted below:

(Dollars in thousands)

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 158,302	$ 1,289	$ 670	$ -	$ 160,261
Commercial real estate	359,859	2,088	7,517	-	369,464
Commercial real estate - construction	65,665	2,403	-	-	68,068
Lease financing	727	-	-	-	727
Residential mortgage	101,507	475	1,361	-	103,343
Home equity	32,928	261	222	-	33,411
Consumer	3,917	-	-	-	3,917
	$ 722,905	$ 6,516	$ 9,770	$ -	$ 739,191

(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

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

(Dollars in thousands)	December 31, 2015			December 31, 2014		
	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	$ 14	$ 49	$ -	$ 395	$ 430	$ -
Commercial real estate:						
Commercial real estate	1,023	2,020	-	1,971	4,481	-
Acquired with credit deterioration*	931	-	-	-	-	-
Residential mortgage:						
Residential mortgage	1,329	1,434	-	1,146	1,286	-
Acquired with credit deterioration*	400	-	-	-	-	-
Home equity:						
Home equity	115	137	-	29	88	-
With an allowance recorded:						
Commercial and industrial	$ 113	$ 128	$ 51	$ 223	$ 231	$ 137
Commercial real estate	1,947	1,981	429	6,954	7,255	1,382
Residential mortgage	32	32	23	-	-	-
Home equity	-	-	-	211	213	115
Total:						
Commercial and industrial	$ 127	$ 177	$ 51	$ 618	$ 661	$ 137
Commercial real estate	3,901	4,001	429	8,925	11,736	1,382
Residential mortgage	1,761	1,466	23	1,146	1,286	-
Home equity	115	137	-	240	301	115

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

Average recorded investment of impaired loans and related interest income recognized for the years ended December 31, 2015, 2014, and 2013 are summarized as follows:

(Dollars in thousands)	December 31, 2015 Average Recorded Investment	December 31, 2015 Interest Income Recognized	December 31, 2014 Average Recorded Investment	December 31, 2014 Interest Income Recognized	December 31, 2013 Average Recorded Investment	December 31, 2013 Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial:						
Commercial and industrial	$ 19	$ -	$ 72	$ -	$ 188	$ -
Acquired with credit deterioration	-	205	-	-	-	-
Commercial real estate:						
Commercial real estate	1,051	14	1,966	346	2,506	187
Acquired with credit deterioration	926	350	-	-	-	-
Residential mortgage:						
Residential mortgage	816	8	541	-	299	-
Acquired with credit deterioration	400	-	-	-	-	-
Home equity:						
Home equity	107	-	29	-	31	-
Acquired with credit deterioration	-	3	-	-	-	-
With an allowance recorded:						
Commercial and industrial	$ 123	$ -	$ 93	$ -	$ 51	$ -
Commercial real estate	1,721	-	6,823	-	4,349	-
Residential mortgage	25	-	-	-	13	-
Home equity	-	-	76	-	54	-
Total:						
Commercial and industrial	$ 142	$ 205	$ 165	$ -	$ 239	$ -
Commercial real estate	3,698	364	8,789	346	6,855	187
Residential mortgage	1,241	8	541	-	312	-
Home equity	107	3	105	-	85	-

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

(Dollars in thousands)	2015	2014
Commercial and industrial	$ 66	$ 267
Commercial real estate	2,607	7,249
Residential mortgage	1,630	1,152
Home equity	115	239
	$ 4,418	$ 8,907

If nonaccrual loans and leases had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period, Mid Penn would have recorded interest income on these loans of $778,000, $798,000, and $861,000, in the years ended December 31, 2015, 2014, and 2013, respectively. Mid Penn has no commitments to lend additional funds to borrowers with impaired or nonaccrual loans.

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 December 31, 2015 and 2014 are summarized as follows:

(Dollars in thousands)

December 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	$ 55	$ 204	$ 66	$ 325	$ 159,936	$ 160,261	$ -
Commercial real estate:							
Commercial real estate	211	608	1,456	2,275	366,263	368,538	-
Acquired with credit deterioration	215	518	55	788	138	926	55
Commercial real estate - construction:							
Commercial real estate - construction	-	-	-	-	68,068	68,068	-
Lease financing:							
Lease financing	-	-	-	-	727	727	-
Residential mortgage:							
Residential mortgage	694	550	778	2,022	100,921	102,943	-
Acquired with credit deterioration	12	-	222	234	166	400	-
Home equity:							
Home equity	-	50	23	73	33,338	33,411	-
Consumer:							
Consumer	10	5	-	15	3,902	3,917	-
Total	$ 1,197	$ 1,935	$ 2,600	$ 5,732	$ 733,459	$ 739,191	$ 55

(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	$ -

Activity in the allowance for loan and lease losses and recorded investment in loans receivable for the years ended December 31, 2015, 2014, and 2013, and as of December 31, 2015, 2014, and 2013 are as follows:

(Dollars in thousands)

December 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	(130)	(1,569)	-	-	(35)	(36)	(14)	-	(1,784)
Recoveries	12	75	-	-	44	29	11	-	171
Provisions	118	1,121	120	(1)	75	(329)	(20)	(19)	1,065
Ending balance	$ 1,393	$ 3,552	$ 153	$ 1	$ 534	$ 317	$ 12	$ 206	$ 6,168
Ending balance: individually evaluated for impairment	$ 51	$ 429	$ -	$ -	$ 23	$ -	$ -	$ -	$ 503
Ending balance: collectively evaluated for impairment	$ 1,342	$ 3,123	$ 153	$ 1	$ 511	$ 317	$ 12	$ 206	$ 5,665
Loans receivable:									
Ending balance	$ 160,261	$ 369,464	$ 68,068	$ 727	$ 103,343	$ 33,411	$ 3,917	$ -	$ 739,191
Ending balance: individually evaluated for impairment	$ 127	$ 2,970	$ -	$ -	$ 1,361	$ 115	$ -	$ -	$ 4,573
Ending balance: collectively evaluated for impairment	$ 160,134	$ 365,563	$ 68,068	$ 727	$ 101,582	$ 33,296	$ 3,917	$ -	$ 733,287
Ending balance: acquired with credit	$ -	$ 931	$ -	$ -	$ 400	$ -	$ -	$ -	$ 1,331

deterioration

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MID PENN BANCORP, INC. &