

MID PENN BANCORP INC
Form 10-Q
August 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

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

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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”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 11, 2017, the registrant had 4,238,423 shares of common stock outstanding.

MID PENN BANCORP, INC.

FORM 10-Q

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Signatures

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

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MID PENN BANCORP, INC.

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except share data)	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$25,246	\$ 13,493
Interest-bearing balances with other financial institutions	2,813	2,003
Federal funds sold	1,120	30,477
Total cash and cash equivalents	29,179	45,973
Investment securities available for sale, at fair value	111,353	133,625
Investment securities held to maturity, at amortized cost (fair value \$71,199 and \$0)	71,096	—
Loans held for sale	2,369	1,959
Loans and leases, net of unearned interest	862,307	813,924
Less: Allowance for loan and lease losses	(7,713)	(7,183)
Net loans and leases	854,594	806,741
Bank premises and equipment, net	11,190	11,074
Bank premises and equipment held for sale	—	1,894
Cash surrender value of life insurance	12,911	12,780
Restricted investment in bank stocks	3,985	2,443
Foreclosed assets held for sale	—	224
Accrued interest receivable	3,991	3,928
Deferred income taxes	3,396	4,286
Goodwill	3,918	3,918
Core deposit and other intangibles, net	486	539
Other assets	3,408	3,215
Total Assets	\$1,111,876	\$ 1,032,599
LIABILITIES & SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	\$140,837	\$ 122,811
Interest-bearing demand	339,057	317,533
Money Market	240,107	252,271
Savings	63,232	60,163
Time	204,235	182,595
Total Deposits	987,468	935,373

Short-term borrowings	21,468	—
Long-term debt	13,467	13,581
Subordinated debt	7,419	7,414
Accrued interest payable	788	515
Other liabilities	5,630	5,249
Total Liabilities	1,036,240	962,132
Shareholders' Equity:		
Common stock, par value \$1.00; authorized 10,000,000 shares; 4,235,237 and 4,233,297 shares issued and outstanding at June 30, 2017, and at December 31, 2016, respectively	4,235	4,233
Additional paid-in capital	40,775	40,688
Retained earnings	31,637	28,399
Accumulated other comprehensive loss	(1,011)	(2,853)
Total Shareholders' Equity	75,636	70,467
Total Liabilities and Shareholders' Equity	\$1,111,876	\$ 1,032,599

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

MID PENN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
INTEREST INCOME				
Interest and fees on loans and leases	\$9,949	\$8,905	\$19,651	\$17,712
Interest on interest-bearing balances	5	2	7	9
Interest and dividends on investment securities:				
U.S. Treasury and government agencies	574	311	1,019	633
State and political subdivision obligations, tax-exempt	264	548	580	1,012
Other securities	64	78	107	172
Interest on federal funds sold	23	15	74	18
Total Interest Income	10,879	9,859	21,438	19,556
INTEREST EXPENSE				
Interest on deposits	1,277	1,092	2,481	2,131
Interest on short-term borrowings	13	12	13	25
Interest on long-term and subordinated debt	179	222	359	452
Total Interest Expense	1,469	1,326	2,853	2,608
Net Interest Income	9,410	8,533	18,585	16,948
PROVISION FOR LOAN AND LEASE LOSSES	100	395	225	735
Net Interest Income After Provision for Loan and Lease Losses	9,310	8,138	18,360	16,213
NONINTEREST INCOME				
Income from fiduciary activities	200	139	396	245
Service charges on deposits	174	158	379	313
Net gain on sales of investment securities	12	213	20	213
Earnings from cash surrender value of life insurance	66	65	131	135
Mortgage banking income	225	246	416	432
ATM debit card interchange income	232	209	456	409
Merchant services income	92	85	166	152
Net gain on sales of SBA loans	157	75	441	265
Other income	204	208	393	466
Total Noninterest Income	1,362	1,398	2,798	2,630
NONINTEREST EXPENSE				
Salaries and employee benefits	4,159	3,723	8,389	7,446
Occupancy expense, net	593	499	1,241	1,046
Equipment expense	370	411	751	846
Pennsylvania bank shares tax expense	160	206	330	409
FDIC Assessment	194	147	388	300
Legal and professional fees	189	183	366	385
Marketing and advertising expense	131	139	238	223
Software licensing	370	334	699	665
Telephone expense	133	143	259	285
Loss on sale or write-down of foreclosed assets	6	28	88	132
Intangible amortization	24	34	53	71

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Merger and acquisition expense	14	—	224	—
Other expenses	1,215	1,074	2,334	2,095
Total Noninterest Expense	7,558	6,921	15,360	13,903
INCOME BEFORE PROVISION FOR INCOME TAXES	3,114	2,615	5,798	4,940
Provision for income taxes	769	593	1,459	1,113
NET INCOME	\$2,345	\$2,022	\$4,339	\$3,827
PER COMMON SHARE DATA:				
Basic and Diluted Earnings Per Common Share	\$0.55	\$0.48	\$1.02	\$0.91
Cash Dividends Paid	\$0.13	\$0.12	\$0.36	\$0.34

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

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MID PENN BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)	Three Months Ended June 30,	
	2017	2016
Net income	\$2,345	\$2,022
Other comprehensive income:		
Unrealized gains arising during the period on available-for-sale securities, net of income taxes of \$763 and \$955, respectively	1,480	1,854
Reclassification adjustment for net gain on sales of available-for-sale securities included in net income, net of income taxes of (\$4) and (\$73), respectively (a)	(8)	(140)
Change in defined benefit plans, net of income taxes of (\$1) and (\$1), respectively (b)	(1)	(2)
Total other comprehensive income	1,471	1,712
Total comprehensive income	\$3,816	\$3,734

(Dollars in thousands)	Six Months Ended June 30,	
	2017	2016
Net income	\$4,339	\$3,827
Other comprehensive income:		
Unrealized gains arising during the period on available-for-sale securities, net of income taxes of \$958 and \$1,144, respectively	1,859	2,220
Reclassification adjustment for net gain on sales of available-for-sale securities included in net income, net of income taxes of (\$7) and (\$73), respectively (a)	(13)	(140)
Change in defined benefit plans, net of income taxes of (\$2) and (\$60), respectively (b)	(4)	(116)
Total other comprehensive income	1,842	1,964
Total comprehensive income	\$6,181	\$5,791

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

(b) 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.

MID PENN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance, January 1, 2017	\$ 4,233	\$ 40,688	\$ 28,399	\$ (2,853)	\$ 70,467
Net income	—	—	4,339	—	4,339
Total other comprehensive income, net of taxes	—	—	—	1,842	1,842
Employee Stock Purchase Plan (1,940 shares)	2	50	—	—	52
Common stock dividends	—	—	(1,101)	—	(1,101)
Restricted stock activity	—	37	—	—	37
Balance, June 30, 2017	\$ 4,235	\$ 40,775	\$ 31,637	\$ (1,011)	\$ 75,636
Balance, January 1, 2016	\$ 4,227	\$ 40,559	\$ 23,470	\$ 1,812	\$ 70,068
Net income	—	—	3,827	—	3,827
Total other comprehensive income, net of taxes	—	—	—	1,964	1,964
Employee Stock Purchase Plan (2,289 shares)	2	33	—	—	35
Common stock dividends	—	—	(1,437)	—	(1,437)
Restricted stock activity	—	17	—	—	17
Balance, June 30, 2016	\$ 4,229	\$ 40,609	\$ 25,860	\$ 3,776	\$ 74,474

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

MID PENN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Six Months Ended	
	June 30, 2017	2016
Operating Activities:		
Net Income	\$4,339	\$3,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	225	735
Depreciation	715	820
Amortization of intangibles	53	71
Net (accretion) amortization of security discounts/premiums	(742)	11,330
Gain on sales of investment securities	(20)	(213)
Earnings on cash surrender value of life insurance	(131)	(135)
Mortgage loans originated for sale	(23,234)	(7,731)
Proceeds from sales of mortgage loans originated for sale	23,240	8,163
Gain on sale of mortgage loans	(416)	(432)
SBA loans originated for sale	(5,605)	(3,318)
Proceeds from sales of SBA loans originated for sale	6,046	3,583
Gain on sale of SBA loans	(441)	(265)
Loss on disposal of property, plant, and equipment	26	—
Loss on sale or write-down of foreclosed assets	88	132
Restricted stock compensation expense	37	17
Deferred income tax (benefit) expense	(65)	16
Increase in accrued interest receivable	(63)	(130)
(Increase) decrease in other assets	(193)	161
Increase in accrued interest payable	273	308
Increase in other liabilities	381	1,847
Net Cash Provided By Operating Activities	4,513	18,786
Investing Activities:		
Net decrease in interest-bearing time deposits with other financial institutions	—	3,330
Proceeds from the sale of available-for-sale securities	37,667	38,501
Proceeds from the maturity or call of available-for-sale securities	3,579	6,264
Purchases of available-for-sale securities	(13,827)	(84,352)
Purchases of held-to-maturity securities	(72,684)	—
(Purchases) redemptions of restricted investment in bank stock	(1,542)	1,623
Net increase in loans and leases	(48,078)	(30,054)
Proceeds from the sale of bank premises and equipment held for sale	2,201	—
Purchases of bank premises and equipment	(1,164)	(319)
Proceeds from the sale of foreclosed assets	136	614
Net Cash Used In Investing Activities	(93,712)	(64,393)
Financing Activities:		
Net increase in deposits	52,095	116,397
Net increase (decrease) in short-term borrowings	21,468	(31,596)

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Common stock dividend paid	(1,101)	(1,437)
Employee Stock Purchase Plan	52	35
Long-term debt repayment	(109)	(10,116)
Net Cash Provided By Financing Activities	72,405	73,283
Net (decrease) increase in cash and cash equivalents	(16,794)	27,676
Cash and cash equivalents, beginning of period	45,973	13,284
Cash and cash equivalents, end of period	\$29,179	\$40,960

MID PENN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (continued)

(Dollars in thousands)	Six Months Ended June 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$2,580	\$2,300
Income taxes paid	\$2,190	\$565
Supplemental Noncash Disclosures:		
Loan transfers to foreclosed assets held for sale	\$-	\$101

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

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

(1)Basis of Presentation

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

Effective March 1, 2016, Mid Penn Insurance Services, LLC, an immaterial subsidiary of the Bank, was liquidated.

Certain information and disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Mid Penn believes the information presented is not misleading and the disclosures are adequate. For comparative purposes, the June 30, 2016 and December 31, 2016 balances have been reclassified, when, and if necessary, to conform to the 2017 presentation. Such reclassifications had no impact on net income. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

On March 29, 2017, Mid Penn announced the signing of a definitive merger agreement with The Scottdale Bank and Trust Company (“Scottdale”). Under the merger agreement, Scottdale will merge with and into Mid Penn Bank, with Mid Penn Bank as the surviving bank. Before the merger is completed, the shareholders of Mid Penn and Scottdale must approve and adopt the merger agreement, and customary regulatory approvals must be received. Refer to Note 12, Agreement and Plan of Merger, as well as Form 8-K filed on March 30, 2017, for more information.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2017, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

(2)Investment Securities

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

Realized gains and losses on dispositions are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities are based on the difference between the amortized cost and fair value of each security as of the respective reporting date. Unrealized gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through Mid Penn’s consolidated statements of income for the respective period.

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, in addition to the credit condition of the underlying issuer, whether (a) it has the intent to

sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment.

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

Mid Penn had no securities considered by management to be other-than-temporarily impaired as of June 30, 2017, December 31, 2016, or June 30, 2016, and did not record any securities impairment charges in the respective periods ended on these dates. Mid Penn does not consider the securities with unrealized losses on the respective dates to be other-than-temporarily impaired as the unrealized losses were deemed to relate to changes in interest rates, and not erosion of credit quality.

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

The amortized cost, fair value, and unrealized gains and losses on investment securities at June 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2017				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 42,629	\$ -	\$ 858	\$ 41,771
Mortgage-backed U.S. government agencies	28,543	3	307	28,239
State and political subdivision obligations	39,539	70	514	39,095
Corporate debt securities	1,100	5	-	1,105
Equity securities	1,168	15	40	1,143
Total available-for-sale securities	112,979	93	1,719	111,353
Held-to-maturity securities:				
U.S. Treasury and U.S. government agencies	10,984	24	5	11,003
Mortgage-backed U.S. government agencies	51,248	72	99	51,221
State and political subdivision obligations	8,864	120	9	8,975
Corporate debt securities	-	-	-	-
Equity securities	-	-	-	-
Total held-to-maturity securities	71,096	216	113	71,199
Total	\$ 184,075	\$ 309	\$ 1,832	\$ 182,552

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2016				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 48,520	\$ 34	\$ 1,542	\$ 47,012
Mortgage-backed U.S. government agencies	26,181	17	579	25,619
State and political subdivision obligations	61,079	91	2,332	58,838
Corporate debt securities	1,100	-	-	1,100
Equity securities	1,168	-	112	1,056
Total available-for-sale securities	\$ 138,048	\$ 142	\$ 4,565	\$ 133,625

There were no held-to-maturity securities as of December 31, 2016.

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

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. Please refer to Note (4) – Fair Value Measurement for more information on the fair value of investment securities.

Investment securities having a fair value of \$126,032,000 at June 30, 2017 and \$131,469,000 at December 31, 2016, were pledged to secure public deposits and certain other borrowings.

Mid Penn realized gross gains and losses of \$77,000 and (\$65,000), respectively, on sales of securities available for sale during the three months ended June 30, 2017, while gross gains and losses of \$200,000 and (\$180,000), respectively, were realized on sales of securities available for sale during the six months ended June 30, 2017. Mid Penn realized gross gains and losses of \$450,000 and (\$237,000), respectively, on sales of securities available for sale during the six months ended June 30, 2016.

The following tables present 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 June 30, 2017 and December 31, 2016.

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
June 30, 2017									
Available-for-sale securities:									
U.S. Treasury and U.S. government agencies	21	\$39,077	\$ 852	1	\$2,694	\$ 6	22	\$41,771	\$ 858
Mortgage-backed U.S. government agencies	18	26,466	291	1	535	16	19	27,001	307
State and political subdivision obligations	48	24,121	381	7	3,845	133	55	27,966	514
Equity securities	0	-	-	1	550	40	1	550	40
Total temporarily impaired available-for-sale securities	87	89,664	1,524	10	7,624	195	97	97,288	1,719
Held-to-maturity securities:									
U.S. Treasury and U.S. government agencies	2	4,991	5	0	-	-	2	4,991	5
Mortgage-backed U.S. government agencies	14	22,879	99	0	-	-	14	22,879	99
State and political subdivision	3	1,536	9	0	-	-	3	1,536	9

obligations

Total temporarily impaired held-to-maturity securities	19	29,406	113	0	-	-	19	29,406	113
Total	106	\$119,070	\$1,637	10	\$7,624	\$195	116	\$126,694	\$1,832

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

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
December 31, 2016									
Available-for-sale securities:									
U.S. Treasury and U.S. government agencies	23	\$43,698	\$ 1,542	0	\$-	\$ -	23	\$43,698	\$ 1,542
Mortgage-backed U.S. government agencies	18	24,321	579	0	-	-	18	24,321	579
State and political subdivision obligations	108	50,582	2,332	0	-	-	108	50,582	2,332
Equity securities	0	-	-	2	1,056	112	2	1,056	112
Total temporarily impaired available-for-sale securities									