MID PENN BANCORP INC
Form 10-K
March 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	**25-1666413**
(State or Other Jurisdiction of	*(I.R.S. Employer*
Incorporation or Organization)	*Identification Number)*
349 Union Street	
Millersburg, Pennsylvania	**17061**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant s telephone number, including area code 717.692.2133

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	**The NASDAQ Stock Market, Inc.**

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 x

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 x

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 x 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 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 x 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 x

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 $25.20 per share, as reported by NASDAQ, on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter was approximately $87,690,456.

As of February 1, 2009, the registrant had 3,479,780 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be used in connection with the 2009 Annual Meeting of Shareholders is incorporated herein by reference in partial response to Part III, hereof.

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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. On December 31, 1991, MPB acquired, as part of the holding company formation, all of the outstanding common stock of Mid Penn Bank, and the Bank became a wholly owned subsidiary of MPB. MPB s other wholly owned subsidiaries are Mid Penn Insurance Services, LLC, which provides a range of personal and investment insurance products and Mid Penn Investment Corporation, which is engaged in investing activities. Mid Penn Bancorp, Inc. and its wholly owned subsidiaries are collectively referred to herein as MPB or the Company. MPB s primary business is to supervise and coordinate the business of its subsidiaries and to provide them with capital and resources.

MPB 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, 2008, MPB had total consolidated assets of $572,300,000 total deposits of $436,824,000 and total shareholders equity of $50,890,000.

As of December 31, 2008, Mid Penn Bancorp, Inc. did not own or lease any properties. Mid Penn Bank owns the banking offices as identified in Item 2. All MPB employees are employed by Mid Penn Bank, Mid Penn Insurance Services, LLC or Mid Penn Investment Corporation.

Mid Penn Bank

Millersburg Bank, the predecessor to Mid Penn Bank (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 1962, the Lykens Valley Bank merged with and into Millersburg Trust Company. In 1971, Farmer s State Bank of Dalmatia merged with Millersburg Trust Company and the resulting entity adopted the name Mid Penn Bank. In 1985, the Bank acquired Tower City National Bank. In 1998, MPB acquired Miners Bank of Lykens, which was merged into Mid Penn Bank. The Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation supervise the Bank. MPB s and the Bank s legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061. The Bank presently has 14 offices located in Dauphin, Northumberland, Schuylkill, and Cumberland Counties, Pennsylvania.

MPB s primary business consists of attracting deposits 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, installment loans, personal loans, 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 Bank Insurance Fund of the FDIC to the maximum extent provided by law. In addition, the Bank provides a full range of trust services through its Trust Department. The Bank also offers other services such as Internet banking, telephone banking, cash management services, automated teller services and safe deposit boxes.

Business Strategy

The Bank provides an array of sophisticated products typically found only in major regional banks. These services are provided to small to middle market businesses, high net worth individuals, and retail consumers through 14 full service banking facilities. Several banking locations have seasoned management with significant lending experience who are responsible for credit and pricing decisions, subject to loan committee approval for larger credits. This decentralized relationship management approach, coupled with the continuity of service by its banking officers, enables the Bank to develop long-term customer relationships, maintain high quality service and provide quick responses to customer needs. MPB believes that its emphasis on local relationship banking, together with its conservative approach to lending and resultant strong asset quality, are important factors in the success and the growth of MPB.

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 in excess of conservatively assigned individual lending limits. 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.

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At December 31, 2008, the Bank had 142 full-time and 33 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.

Lending Activities

The Bank offers a variety of loan products to its customers, including loans secured by real estate, 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 MPB 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, 2008, the Bank s highest concentrations of credit were in hotel/motel and multiple-family housing financings and most of the Bank s business activity with customers was located in Central Pennsylvania, specifically in Dauphin, lower Northumberland, Western Schuylkill, and Cumberland Counties.

Investment Activities

MPB s investment portfolio is used to improve earnings through investments of funds in higher-yielding assets, while maintaining asset quality, which provide the necessary balance sheet liquidity for MPB. MPB does not have any significant concentrations within investment securities.

MPB s entire portfolio of investment securities is considered available for sale. As such, the investments are recorded on the balance sheet at market value. MPB s investments include US Treasury, agency and municipal securities that are given a market price relative to investments of the same type with similar maturity dates. As the interest rate environment changes, MPB s market value of existing securities will change. This difference in value, or unrealized gain, amounted to $838,000, as of December 31, 2008. A majority of the investments are high quality United States and municipal securities that if held to maturity are expected to yield no loss to the Bank.

For additional information with respect to MPB 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, reverse repurchase agreements with investment banks and overnight borrowings from the Bank s customers and correspondent bank. All borrowings, except for the line of credit with the Bank s correspondent bank, 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 key to the future funding and growth of the business. Deposit growth within the banking industry has been generally slow due 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 MPB depends principally upon the Bank s ability to compete in its market area. The Bank actively competes with other financial services companies for deposit and loan business. Competitors include other commercial banks, savings banks, savings and loan associations, insurance companies, securities brokerage firms, credit unions, finance companies, mutual funds, and money market funds. 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.

MPB has been able to compete effectively with other financial institutions by emphasizing technology and customer service, including local branch decision making on loans, establishing long-term customer relationships and building customer loyalty, and providing products and services designed to address the specific needs of its customers. The Gramm-Leach-Bliley Act (see discussion below), which breaks down many barriers between the banking, securities and insurance industries, may significantly affect the competitive environment in which MPB operates.

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The growth of mutual funds over the past decade has made it increasingly difficult for financial institutions to attract deposits. The continued flow of cash into mutual funds, much of which is made through tax deferred investment vehicles such as 401(k) plans, and a generally strong economy, have, until recently, fueled high returns for these investments, in particular, certain equity funds. These returns perpetuated the flow of additional investment dollars into mutual funds and other products not traditionally offered by banks.

MPB s success is dependent to a significant degree on economic conditions in Central Pennsylvania, especially in Dauphin, lower Northumberland, Western Schuylkill and eastern Cumberland Counties, which we define 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 the 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. We cannot assure you that adverse changes in the local economy would not have a material adverse effect on MPB s consolidated financial condition, results of operations, and cash flows.

Supervision and Regulation

General

Bank holding companies and banks are extensively regulated under both Federal and state laws. The regulation and supervision of MPB and the Bank are designed primarily for the protection of depositors, the FDIC, and the monetary system, and not MPB 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 MPB could be substantially reduced or eliminated.

Federal and state banking laws contain numerous provisions affecting various aspects of the business and operations of MPB and the Bank. MPB is subject to, among others, the regulations of the Securities and Exchange Commission and the Federal Reserve Board and the Bank is subject to, among others, the regulations of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The following descriptions of and references to applicable statutes and regulations are not intended to be complete descriptions of these provisions or their effects on MPB or the Bank. They are summaries only and are qualified in their entirety by reference to such statutes and regulations.

Holding Company Regulation

MPB is a registered bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (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 MPB 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 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.

Gramm-Leach-Bliley Financial Modernization Act

The Gramm-Leach-Bliley Act (GLB) became effective on March 11, 2000. The primary purpose of GLB was to eliminate barriers between investment banking and commercial banking and to permit, within certain limitations, the affiliation of financial service providers. Generally, GLB:

repealed the historical restrictions against, and eliminated many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers;

provided a uniform framework for the activities of banks, savings institutions and their holding companies;

broadened the activities that may be conducted by and through national banks and other banking subsidiaries of bank holding companies;

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- provided an enhanced framework for protecting the privacy of consumers information;
- adopted a number of provisions related to the capitalization, membership, corporate governance and other measures designed to modernize the Federal Home Loan Bank System;
- modified the laws governing the implementation of the Community Reinvestment Act; and
- addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

More specifically, under GLB, bank holding companies, such as MPB, 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 Acts 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.

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.

Corporate Governance

On July 30, 2002, the Sarbanes-Oxley Act of 2002 was enacted. The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established:

- new requirements for audit committees, including independence, expertise and responsibilities;
- additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company;
- new standards for auditors and regulation of audits;
- increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and
- new and increased civil and criminal penalties for violations of the securities laws.

The SEC and NASDAQ have adopted numerous rules implementing the provisions of the Sarbanes-Oxley Act that affect MPB. The changes are intended to allow shareholders to monitor more effectively the performance of companies and management. Increased costs have been approximately $200,000 annually related to MPB s compliance with the Sarbanes-Oxley Act.

Bank Regulation

The Bank, a Pennsylvania-chartered institution, is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and the FDIC. The deposits of the Bank are insured by the FDIC to the extent provided by law. The FDIC assesses deposit insurance premiums the amount of which may, in the future, depend in part on the condition of the Bank. Moreover, the FDIC may terminate deposit insurance of the Bank under certain circumstances. The Bank 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 and the safety and soundness of banking practices.

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Capital Requirements

Under risk-based capital requirements for bank holding companies, MPB 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. 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 Board 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 from 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 Board will continue to consider a Tangible Tier 1 Leverage Ratio (deducting all intangibles) in evaluating proposals for expansion or new activity. The Federal Reserve Board has not advised MPB of any specific minimum Tier 1 leverage ratio applicable to it.

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 applicable to it.

The capital ratios of MPB and the Bank are described in Note 17 to MPB s Consolidated Financial Statements, which are incorporated herein by reference.

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 MPB or the market value of MPB stock.

FDIC Improvement Act

As a result of the FDIC Improvement Act of 1991, banks are subject to increased reporting requirements and more frequent examinations by the bank regulatory agencies. The agencies also have the authority to dictate certain key decisions that formerly were left to management, including compensation standards, loan underwriting standards, asset growth, and payment of dividends. Failure to comply with these standards, or failure to maintain capital above specified levels set by the regulators, could lead to the imposition of penalties or the forced resignation of management. If a bank becomes critically undercapitalized, the banking agencies have the authority to place an institution into receivership.

Safety and Soundness Standards

Pursuant to FDICIA, 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.

Payment of Dividends and Other Restrictions

MPB 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, MPB. Specifically, dividends from the Bank are the principal source of

MPB 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 MPB 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 MPB and the Bank, be deemed to constitute such an unsafe or unsound practice. Further, under the terms of the Capital Purchase Program, MPB is restricted from increasing its dividends on its common stock as long as the CPP preferred stock is outstanding.

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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 Bank Insurance Fund (BIF). The insurance assessments paid by an institution are to be based on the probability that the fund will incur a loss with respect to the institution. The FDIC has adopted deposit insurance regulations under which insured institutions are assigned a risk-weighted assessment multiplier based on regulatory CAMELS ratings, capital position, and certain financial ratios. Our current assessment, based upon the current assessment formula is .0766 basis points.

Environmental Laws

Management does not anticipate that compliance with environmental laws and regulations will have any material effect on MPB 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.

In 1995, the Pennsylvania General Assembly enacted the Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act, which among other things, provides 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 Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act does not limit federal liability which still exists under certain circumstances.

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

In 2000, the federal banking regulators issued final regulations implementing certain provisions of GLB governing the privacy of consumer financial information. The regulations limit the disclosure by financial institutions, such as MPB 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;

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- provide annual notices of their privacy policies to their current customers; and
- provide a reasonable method for consumers to opt out of disclosures to nonaffiliated third parties.

Protection of Customer Information

In 2001, the federal banking regulators issued final regulations implementing the provisions of GLB relating to the protection of customer information. The regulations, applicable to the MPB and the Bank, relate to administrative, technical, and physical safeguards for customer records and information. These safeguards are intended to:

- insure the security and confidentiality of customer records and information;
- protect against any anticipated threats or hazards to the security or integrity of such records; and
- protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Affiliate Transactions

Transactions between MPB 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.

Effective April 1, 2003, Regulation W of the Federal Reserve comprehensively amended Sections 23A and 23B. The regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by bank and bank holding companies in recent years and authorized for financial holding companies under the GLB.

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 Acts 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 MPB 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 by the presence of an exemption from the privacy provisions of the GLB Act 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.

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Effects of Government Policy and Potential Changes in Regulation

Changes in regulations applicable to MPB or the Bank, or shifts in monetary or other government policies, could have a material affect on our business. MPB 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. MPB cannot predict the likelihood of any major changes or the impact such changes might have on MPB 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.

MPB 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 the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect the business of 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.

Recent Developments

The global and U.S. economies are experiencing significantly reduced business activity as a result of disruptions in the financial system during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result. In the latter part of 2008, volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers underlying financial strength.

In response to the financial crises affecting the banking system and financial markets, and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Treasury will have the authority to purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The EESA included a provision for a temporary increase in FDIC insurance from $100,000 to $250,000 per depositor through December 31, 2009.

On October 14, 2008, the Secretary of the Treasury, after consulting with the Federal Reserve and the FDIC, announced that the Department of the Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program (TARP) Capital Purchase Program, from the $700 billion authorized by the EESA, the Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the Treasury s standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under TARP Capital Purchase Program.

Also on October 14, 2008, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, the Secretary of the Treasury signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing transaction

MID PENN BANCORP, INC.

deposit accounts under a Temporary Liquidity Guarantee Program. Coverage under the Temporary Liquidity Guarantee Program was available until November 12, 2008 without charge and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits. Participating under the Capital Purchase Program, the Company sold $10,000,000 in Series A Fixed Rate Cumulative Perpetual Preferred Stock to the United States Department of the Treasury on December 19, 2008. For more information about the Company s participation, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Capital Purchase Program Participation .

It is not clear at this time what impact the EESA, TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the other difficulties described above, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have a material impact on the Company and its business.

The American Recovery and Reinvestment Act of 2009 amended the Emergency Economic Stabilization Act of 2008 as it applies to institutions that received financial assistance under the Troubled Asset Relief Program. As an institution that received financial assistance under this program, MPB is subject to the executive compensation and corporate governance requirements contained in the Emergency Economic Stabilization Act of 2008, as amended, which are more fully discussed in Item 7 on page 31.

Available Information

Mid Penn Bancorp Inc. s common stock is registered under Section 12(b) of the Securities Exchange Act of 1934 and is traded on the NASDAQ Stock Market under the trading symbol MPB. Mid Penn Bancorp, Inc. 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 (202) 551-8090. Mid Penn Bancorp, Inc. 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.

MPB s headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061, and its telephone number is (717) 692-2133. MPB s Internet address is www.midpennbank.com. MPB 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. MPB has adopted a Code of Ethics that applies to all employees. This document is also available on MPB s website. The information included on our website is not a part of this document.

ITEM 1A. RISK FACTORS

Future dividend payments and common stock repurchases are restricted by the terms of the U.S. Treasury s equity investment in MPB

Under the terms of the CPP, for so long as any preferred stock issued under the CPP remains outstanding, MPB is prohibited from increasing dividends to holders of its common stock, and from making certain repurchases of equity securities, including our common stock, without the U.S. Treasury s consent until the third anniversary of the U.S. Treasury s investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties. As long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including MPB s common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

MPB Is Subject To Interest Rate Risk

MPB 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 MPB 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 MPB receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) MPB s ability to originate loans and obtain deposits, (ii) the fair value of MPB s financial assets and liabilities, and (iii) the average duration of MPB 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, MPB 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.

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

MPB Is Subject To Lending Risk

As of December 31, 2008, approximately 70.4% of MPB 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 MPB 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 MPB s financial condition and results of operations.

MPB s Allowance For Possible Loan and Lease Losses May Be Insufficient

MPB 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 MPB 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 MPB s control, may require an increase in the allowance. In addition, bank regulatory agencies periodically review MPB s 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, MPB will 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 MPB s financial condition and results of operations.

Competition from other financial institutions may adversely affect MPB s profitability

MPB s banking subsidiary faces substantial competition in originating, both commercial and consumer loans. This competition comes principally from other banks, 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 the Corporation 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 MPB 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 MPB, which could decrease the deposits that MPB attracts or require MPB to increase its rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect MPB s ability to generate the funds necessary for lending operations. As a result, MPB may need to seek other sources of funds that may be more expensive to obtain and could increase its cost of funds.

MPB 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 MPB s banking subsidiary in providing certain products and services. This competition may reduce or limit MPB s margins on banking services, reduce its market share and adversely affect its earnings and financial condition.

MPB s Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates MPB 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 MPB s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on MPB s business, results of operations, and financial condition.

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MPB s ability to pay dividends depends primarily on dividends from its banking subsidiary, which is subject to regulatory limits

MPB is a bank holding company and its operations are conducted by its subsidiaries. Its ability to pay dividends depends on its receipt of dividends from its subsidiaries. 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 MPB s subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that MPB s subsidiaries will be able to pay dividends in the future or that MPB will generate adequate cash flow to pay dividends in the future. MPB s failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

MPB May Not Be Able To Attract and Retain Skilled People

MPB 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 MPB can be intense and MPB may not be able to hire people or to retain them. The unexpected loss of services of one or more of MPB s key personnel could have a material adverse impact on MPB s business because of their skills, knowledge of MPB s market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel. Other than a Change of Control Agreement with the Chief Financial Officer, MPB does not currently have employment or non-competition agreements with any of its other senior officers.

MPB Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to MPB s performance of its fiduciary responsibilities. Whether customer claims and legal action related to MPB s performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to MPB they may result in significant financial liability and/or adversely affect the market perception of MPB 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 MPB s business, which, in turn, could have a material adverse effect on MPB s financial condition and results of operations.

The Trading Volume In MPB s Common Stock Is Less Than That Of Other Larger Financial Services Companies

MPB s common stock is listed for trading on NASDAQ; the trading volume in its common stock 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 MPB s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which MPB has no control. Given the lower trading volume of MPB s common stock, significant sales of MPB s common stock, or the expectation of these sales, could cause MPB s stock price to fall.

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

MPB 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 MPB and its operations. Additional legislation and regulations that could significantly affect MPB 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 MPB s results of operations and financial condition.

MPB must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, MPB is required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions, which fail to comply with these laws or make required reports.

The soundness of other financial institutions may adversely affect MPB

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. MPB 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 MPB to credit risk in the event of a default by a counterparty or client. In addition, MPB s credit risk may be exacerbated when the collateral held by MPB cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to MPB. Any such losses could have a material adverse affect on the MPB s financial condition and results of operations.

Current levels of market volatility are unprecedented and may have materially adverse effects on our liquidity and financial condition

The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices, security prices and credit capacity for certain issuers without regard to those issuers underlying financial strength. If the current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience adverse effects, which may be material, on our liquidity, financial condition, and profitability.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

With the exception of the Market Square Office in Harrisburg, PA, the Bank owns its main office, branch offices and 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. The table below sets forth the location of each of the Bank s properties.

Property Location	Description of Property
Main Office 349 Union Street Millersburg, PA 17061	Main Bank Office
Elizabethville Branch Office 4642 State Route 209 Elizabethville, PA 17023	Branch Bank
Dalmatia Branch Office School House Road Dalmatia, PA 17017	Branch Bank
Carlisle Pike Branch Office 4622 Carlisle Pike Mechanicsburg, PA 17050	Branch Bank
Harrisburg Branch Office 4098 Derry Street Harrisburg, PA 17111	Branch Bank
Harrisburg Branch Office 2615 North Front Street Harrisburg, PA 17110	Branch Bank
Tower City Branch Office 545 East Grand Avenue	Branch Bank

Tower City, PA 17980	
Dauphin Branch Office 1001 Peters Mountain Road Dauphin, PA 17018	Branch Bank
Miners-Lykens Branch Office 550 Main Street Lykens, PA 17048	Branch Bank
Allentown Boulevard Office 5500 Allentown Boulevard Harrisburg, PA 17112	Branch Bank
Market Square Office 17 N. Second Street Harrisburg, PA 17101	Branch Bank

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Steelton Office 51 South Front Street Steelton, PA 17113	Branch Bank
Middletown Office 1100 Spring Garden Drive Middletown, PA 17057	Branch Bank
Camp Hill Office 2101 Market Street Camp Hill, PA 17011	Branch Bank
Operations Center 906 N. River Road Halifax, PA 17032	Operations Center

All of these properties are in good condition and are deemed by management to be adequate for the bank s purposes.

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 company. MPB 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 MPB or the Bank or any of its properties.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 10, 2008, Mid Penn held a special meeting of shareholders to approve and adopt an amendment to the articles of incorporation to provide for up to 10,000,000 shares of preferred shares to be issued. The amendment was approved and adopted by the shareholders pursuant to the following vote totals:

Votes for the proposal	2,280,861
Votes against the proposal	98,037
Abstentions and broker non-votes	2,916

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PART II

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

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

	High	Low	Cash Dividends Paid
Quarter Ended:			
March 31, 2008	$ 26.70	$ 23.00	$ 0.20
June 30, 2008	27.50	22.85	0.20
September 30, 2008	25.85	21.60	0.20
December 31, 2008	24.00	14.75	0.20
March 31, 2007	$ 25.45	$ 23.15	$ 0.20
June 30, 2007	26.86	22.00	0.20
September 30, 2007	26.50	23.70	0.20
December 31, 2007	27.10	23.75	0.20

Transfer Agent: Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016. Phone: 1-800-368-5948.

Number of Stockholders: As of February 6, 2009, there were approximately 1,489 shareholders of record of MPB s common stock.

Dividends: A dividend of $.20 per share was paid during each quarter of 2008 and 2007. Mid Penn Bancorp, Inc. plans to continue a quarterly dividend payable in February, May, August and November. Additionally, a 5% stock dividend was paid in May of 2007.

Dividend Reinvestment and Stock Purchases: Stockholders of Mid Penn Bancorp, Inc. 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 Stockholders of Mid Penn Bancorp, Inc. will be held at 10:00 a.m. on Tuesday, April 28, 2009, at 349 Union Street, Millersburg, Pennsylvania.

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 Bank s website: www.midpennbank.com.

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Stock Performance Graph

Index	*Period Ending* 12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Mid Penn Bancorp, Inc.	100.00	123.21	116.80	126.63	144.70	116.69
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
Mid-Atlantic Custom Peer Group*	100.00	113.29	113.25	115.44	107.89	83.30

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

Source : SNL Financial LC, Charlottesville, VA

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.

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ITEM 6. SELECTED FINANCIAL DATA
Summary of Selected Financial Data

(Dollars in thousands, except per share data)

	2008	2007	2006	2005	2004
INCOME:					
Total Interest Income	$ 31,856	$ 31,444	$ 28,214	$ 23,294	$ 20,077
Total Interest Expense	14,890	15,339	12,732	9,557	8,005
Net Interest Income	16,966	16,105	15,482	13,737	12,072
Provision for Possible Loan and Lease Losses	1,230	925	735	225	725
Noninterest Income	3,682	3,481	3,028	2,953	3,457
Noninterest Expense	14,726	12,596	11,263	10,262	9,030
Income Before Income Taxes	4,692	6,065	6,512	6,203	5,774
Provision for Income Taxes	1,104	1,394	1,624	1,600	1,405
Net Income	3,588	4,671	4,888	4,603	4,369
COMMON STOCK DATA PER SHARE:					
Earnings Per Share (Basic)	$ 1.03	$ 1.34	$ 1.39	$ 1.31	$ 1.24
Earnings Per Share (Fully Diluted)	1.03	1.34	1.39	1.31	1.24
Cash Dividends Declared, historical	0.80	0.80	0.80	0.80	1.80
Stockholders Equity	14.61	11.56	11.12	10.48	10.03
AVERAGE SHARES OUTSTANDING (BASIC)	3,483,097	3,497,806	3,514,820	3,515,714	3,515,726
AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	3,483,153	3,497,806	3,514,820	3,515,714	3,515,726
AT YEAR-END:					
Investments	$ 52,739	$ 50,250	$ 57,261	$ 54,549	$ 44,613
Loans and Leases, Net of Unearned Discount	434,643	377,128	358,612	311,837	279,547
Allowance for Loan and Lease Losses	5,505	4,790	4,187	3,704	3,643
Total Assets	572,300	509,757	491,694	438,110	403,256
Total Deposits	436,824	372,817	364,226	325,274	301,144
Short-term Borrowings	23,977	37,349	24,275	12,342	13,801
Long-term Debt	55,223	54,581	59,713	59,838	49,957
Stockholders Equity	50,890	40,444	39,085	36,861	35,272
RATIOS:					
Return on Average Assets	0.67%	0.94%	1.08%	1.10%	1.12%
Return on Average Stockholders Equity	8.83%	11.84%	12.93%	12.87%	12.73%
Cash Dividend Payout Ratio	77.67%	59.70%	54.79%	55.56%	131.38%
Allowance for Loan and Lease Losses to Loans and Leases	1.27%	1.27%	1.17%	1.19%	1.30%
Average Stockholders Equity to Average Assets	7.55%	7.82%	8.34%	8.55%	8.75%

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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 MPB 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 expressions are intended to identify such forward-looking statements.

MPB 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 MPB and the Bank s customers;
- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;
- the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in MPB s market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet;
- technological changes;
- acquisitions and integration of acquired businesses;
- the failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities;
- acts of war or terrorism; and

disruption of credit and equity markets.

All written or oral forward-looking statements attributable to MPB 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 MPB s consolidated financial statements and should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto and other detailed information appearing elsewhere in this Annual Report. MPB 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 MPB s liquidity, capital resources or operations.

Financial Summary

The consolidated earnings of MPB are derived primarily from the operations of its wholly owned subsidiary, Mid Penn Bank.

MPB earned net income of $3,588,000 for the year 2008, compared to $4,671,000 in 2007, which was a decrease of $1,083,000 or 23.2%. This represents net income in 2008 of $1.03 per share compared to $1.34 per share in 2007 and $1.39 per share in 2006.

Total assets of MPB continued to grow in 2008, reaching the level of $572,300,000, an increase of $62,543,000 or 12.3% over $509,757,000 at year-end 2007. The majority of growth came from increases in commercial real estate loans in the Capital Region. These increases were funded primarily through growth in deposits.

MPB s return on average shareholders equity, (ROE), a widely recognized performance indicator in the financial industry, was 8.83% in 2008, 11.84% in 2007 and 12.93% in 2006. Return on average assets (ROA), another performance indicator, was 0.67% in 2008, 0.94% in 2007 and 1.08% in 2006.

MPB s performance during 2008 was adversely impacted by several factors. First is the declining interest rate environment that persisted throughout the year. While MPB exhibited strong growth in both loans and deposits, the Federal Reserve s program of interest rate cuts to spur a loosening of the credit markets blunted the benefit of this growth. MPB s net interest margin declined to 3.50% in 2008 from 3.68% in 2007. Net interest income rose a modest $786,000 or 4.6% over 2007 levels in spite of a 9.9% increase in average earning assets.

Secondly, was the recording of severance expenses amounting to $478,000, related to the departure in October of the former CEO.

Thirdly, was an increase in provision for loan and lease losses, driven by the spreading weakness in the economy and the downturn in real estate values, which management considered in its portfolio reviews, and the continued strong growth in loan volumes, particularly from the Capital region of the company. Further discussion of this increase can be found in the Provision for Loan and Lease Losses section below.

Finally, 2008 was impacted by a write-down of other real estate assets to better align these properties with current market prices. A charge of $281,000 was recorded during the year to reflect these eroding market values.

MPB s fundamental performance in 2008 was strong despite these issues and the general economic slowing and credit crisis issues experienced by the banking industry as a whole. MPB s ongoing investment in marketing and business development in 2008 and 2007 was rewarded with strong growth in loans and deposits in its markets. MPB did not participate in subprime lending and faired better than many banks in the industry faced with problems associated with these lending practices during 2008.

The Bank s tier one capital (to risk weighted assets) of $39,975,000 or 9.3% and total capital (to risk weighted assets) of $45,376,000 or 10.5% at December 31, 2008, are above the regulatory requirements, which is 4% for tier one capital and 8% for total capital. Tier one capital consists primarily of the bank s stockholders equity. Total capital includes qualifying subordinated debt, if any, 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.

Critical Accounting Policies

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management s current evaluation of the allowance indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance may need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan losses may be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company s non-performing loans and potential problem loans have a significant impact on the overall analysis of the adequacy of the allowance. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Company s allowance may also require additional provisions for loan and lease losses.

Net Interest Income

Net interest income, MPB s primary source of revenue, 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.

During 2008, net interest income increased $786,000 or 4.6% as compared to an increase of $756,000 or 4.6% in 2007. The average balances, effective interest differential, and interest yields for the years ended December 31, 2008, 2007, and 2006 and the components of net interest income, are presented in Table 1. A comparative presentation of the changes in net interest income for 2008 compared to 2007, and 2007 compared to 2006, is given 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 6.42% in 2008 from 6.98% in 2007. The yield on earning assets for 2006 was 6.80%. The change in the yield on earning assets was due primarily to changes in market interest rates and extreme rate competition within our market. The average prime rate for 2008 was 5.09% as compared to 8.06% for 2007 and 7.96% for 2006. The yield on earning assets is also negatively impacted by the loss of interest on nonperforming loans. During 2008, this loss of interest amounted to $335,000. Had this revenue been included in MPB s earnings, the yield on earning assets would have increased 0.07%.

Interest expense decreased by $449,000, or 2.9%, in 2008 as compared to an increase of $2,607,000, or 20.5%, in 2007. The cost of interest bearing liabilities decreased to 3.35% in 2008 from 3.76% in 2007. The cost of interest bearing liabilities for 2006 was 3.45%. The reduction in cost of interest bearing liabilities was due to changes in market interest rates and MPB s ability to reduce the rates on Money Market accounts and Certificates of Deposit. The reduction in market interest rates also had a positive impact on MPB s cost for short-term borrowings.

Net interest margin, on a tax equivalent basis, influenced by fluctuations in interest rates in 2008 was 3.50% compared to 3.68% in 2007 and 3.81% in 2006. Management continues to monitor the net interest margin closely.

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

Income and Rates on a Taxable Equivalent Basis for Years Ended

(Dollars in thousands)

	December 31, 2008			December 31, 2007			December 31, 2006		
	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rates
ASSETS:									
Interest Earning Balances	$ 54,804	$ 2,499	4.56%	$ 46,900	$ 2,546	5.43%	$ 46,038	$ 2,225	4.83%
Investment Securities:									
Taxable	19,870	831	4.18%	21,709	959	4.42%	24,138	1,044	4.33%
Tax-Exempt	27,287	1,895	6.94%	29,726	2,062	6.94%	28,402	1,950	6.87%
Total Securities	47,157			51,435			52,540		
Federal Funds Sold				624	33	5.29%	564	29	5.14%
Loans and Leases, Net:									
Taxable	394,674	26,713	6.77%	361,324	26,592	7.36%	324,720	23,598	7.27%
Tax-Exempt	8,994	648	7.20%						
Total Loans and Leases, Net	403,668			361,324			324,720		
Restricted Investment in Bank Stocks	3,657	134	3.66%	3,334	191	5.73%	3,205	174	5.43%
Total Earning Assets	509,286	32,720	6.42%	463,617	32,383	6.98%	427,067	29,020	6.80%
Cash and Due from Banks	7,745			7,559			7,000		
Other Assets	21,326			25,012			19,100		
Total Assets	$ 538,357			$ 496,188			$ 453,167		
LIABILITIES & STOCKHOLDERS EQUITY:									
Interest Bearing Deposits:									
NOW	$ 36,551	$ 108	0.30%	$ 35,048	$ 144	0.41%	$ 31,877	$ 90	0.28%
Money Market	69,251	1,456	2.10%	63,927	2,208	3.45%	60,968	1,898	3.11%
Savings	25,607	65	0.25%	25,513	72	0.28%	24,772	61	0.25%
Time	230,773	9,903	4.29%	203,671	9,006	4.42%	172,792	6,819	3.95%
Short-term Borrowings	29,144	608	2.09%	22,528	1,049	4.66%	14,937	686	4.59%
Long-term Debt	52,843	2,750	5.20%	56,908	2,860	5.03%	63,329	3,178	5.02%
Total Interest Bearing Liabilities	444,169	14,890	3.35%	407,595	15,339	3.76%	368,675	12,732	3.45%
Demand Deposits	47,274			44,021			43,161		
Other Liabilities	6,456			5,734			3,527		
Stockholders Equity	40,458			38,838			37,804		
	$ 538,357			$ 496,188			$ 453,167		

Total Liabilities and Stockholders Equity			
Net Interest Income	$ 17,830	$ 17,044	$ 16,288
Net Yield on Interest Earning Assets:			
Total Yield on Earning Assets	6.42%	6.98%	6.80%
Rate on Supporting Liabilities	3.35%	3.76%	3.45%
Average Interest Spread	3.07%	3.22%	3.34%
Net Interest Margin	3.50%	3.68%	3.81%

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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 $637,000, $604,000 and $748,000 are included with interest income in Table 1 for the years 2008, 2007 and 2006, respectively.

TABLE 2: VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Dollars in thousands)

	2008 Compared to 2007 Increase (Decrease) Due to Change In:			2007 Compared to 2006 Increase (Decrease) Due to Change In:		
Taxable Equivalent Basis	Volume	Rate	Net	Volume	Rate	Net
INTEREST INCOME:						
Interest Bearing Balances	$ 429	$ (476)	$ (47)	$ 42	$ 279	$ 321
Investment Securities:						
Taxable	(81)	(47)	(128)	(105)	20	(85)
Tax-Exempt	(169)	2	(167)	91	21	112
Total Investment Securities	(250)	(45)	(295)	(14)	41	27
Federal Funds Sold	(33)		(33)	3	1	4
Loans and Leases, Net	3,116	(2,347)	769	2,661	333	2,994
Restricted Investment Bank Stocks	19	(76)	(57)	7	10	17
Total Interest Income	3,281	(2,944)	337	2,699	664	3,363
INTEREST EXPENSE:						
Interest Bearing Deposits:						
NOW	6	(42)	(36)	9	45	54
Money Market	184	(936)	(752)	92	218	310
Savings		(7)	(7)	2	9	11
Time	1,198	(301)	897	1,220	967	2,187
Total Interest Bearing Deposits	1,388	(1,286)	102	1,323	1,239	2,562
Short-term Borrowings	308	(749)	(441)	348	15	363
Long-term Debt	(204)	94	(110)	(322)	4	(318)
Total Interest Expense	1,492	(1,941)	(449)	1,349	1,258	2,607
NET INTEREST INCOME	$ 1,789	$ (1,003)	$ 786	$ 1,350	$ (594)	$ 756

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%.

Provision for Loan and Lease Losses

The provision for loan and lease losses charged to operating expense represents the amount deemed appropriate by management to maintain an adequate allowance for possible loan and lease losses. Following its model for loan and lease loss allowance adequacy, management made a $1,230,000 provision in 2008, as well as a provision of $925,000 in 2007, and $735,000 in 2006. The allowance for loan and lease losses as a percentage of total loans was 1.27% at December 31, 2008, compared to 1.27% at December 31, 2007, and 1.17% at December 31, 2006, which has been higher than that of peer financial institutions due to MPB s higher level of loans to finance commercial real estate. The higher 2008 provision was due to ongoing concern surrounding the deteriorating health of the overall economy and the volume of nonperforming loans continuing to be at levels higher than historically experienced. The robust growth in the loan portfolio during 2008 also contributed to the increased level of provision for the year. A summary of charge-offs and recoveries of loans and leases are presented in Table 3.

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

(Dollars in thousands)

	Years ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Balance, beginning of year	$ 4,790	$ 4,187	$ 3,704	$ 3,643	$ 2,992
Loans and leases charged off:					
Commercial real estate, construction and land development	384		17	32	25
Commercial, industrial and agricultural	70	100	158	29	10
Real estate residential					8
Consumer	188	231	134	138	78
Leases	5	129			
Total loans and leases charged off	647	460	309	199	121
Recoveries on loans and leases previously charged off:					
Commercial real estate, construction and land development	1				
Commercial, industrial and agricultural	20	5	3	12	8
Real estate residential					
Consumer	111	49	54	23	39
Leases		84			
Total loans and leases recovered	132	138	57	35	47
Net charge-offs	515	322	252	164	74
Provision for loan and lease losses	1,230	925	735	225	725
Balance, end of year	$ 5,505	$ 4,790	$ 4,187	$ 3,704	$ 3,643
Ratio of net charge-offs during the year to average loans and leases outstanding during the year, net of unearned discount	0.13%	0.09%	0.08%	0.06%	0.03%
Allowance for loan and lease losses as a percentage of total loans and leases at December 31, 2008	1.27%	1.27%	1.17%	1.18%	1.30%
Allowance for loan and lease losses as a percentage of non-performing assets at December 31, 2008	73.01%	65.23%	172.02%	111.67%	205.24%

Noninterest Income

A summary of the major components of noninterest income for the years ended December 31, 2008, 2007, and 2006 is found in Table 4. During 2008, MPB earned $3,682,000 in noninterest income, compared to $3,481,000 earned in 2007 and $3,028,000 earned in 2006.

Service charges on deposit accounts amounted to $1,654,000 for 2008, an increase of $155,000 or 10.3% compared to $1,499,000 for 2007, which was an increase of $123,000 or 8.9% above 2006. The majority of this increase is attributable to the general growth in transaction accounts during 2008.

MPB owns cash surrender value of life insurance policies on its directors. The income on these policies amounted to $267,000 during the year 2008, $271,000 in 2007, and $219,000 in 2006.

Trust department income for 2008 was $313,000, a $6,000 or 1.9% decrease from $319,000 in 2007, which was a $61,000 or 23.6% increase from $258,000 in 2006. Trust Department income can fluctuate from year to year, due to the number of estates settled during the year.

Significant revenue originated from our portfolio of ATM and debit cards. This is in the form of interchange fees generated by cardholder transactions. During 2008, MPB switched its third-party card processor, generating increased revenue, which coupled with increasing customer usage led to earnings of $375,000, a $44,000 or 13.3% increase from $ $331,000 in 2007, which was a $60,000 increase from 2006.

MPB also earned $175,000 in 2008, $155,000 in 2007, and $112,000 in 2006 in fees from the third-party seller of investments whose services the Bank has contracted.

Other income amounted to $726,000 in 2008, $746,000 in 2007, and $633,000 in 2006.

TABLE 4: NONINTEREST INCOME

(Dollars in thousands)

	Years ended December 31,		
	2008	**2007**	**2006**
Trust department income	$ 313	$ 319	$ 258
Service charges on deposits	1,654	1,499	1,376
Investment securities gains, net	9		33
Increase in bank-owned life insurance	267	271	219
Mortgage banking income	163	160	126
ATM debit card interchange income	375	331	271
Retail investment revenue	175	155	112
Other	726	746	633
Total Noninterest Income	$ 3,682	$ 3,481	$ 3,028

Noninterest Expense

A summary of the major components of noninterest expense for the years ended December 31, 2008, 2007, and 2006 is reflected in Table 5. Noninterest expense increased to $14,726,000 in 2008 from $12,596,000 in 2007 and $11,263,000 in 2006.

The major component of noninterest expense is salaries and employee benefits. The number of full-time equivalent employees increased from 143 to 152 during 2008. Increases in the 2008 workforce primarily included additions to support functions within the company, in order to support future growth. MPB also recognized a full year of salaries and employee benefits following the acquisition of the Camp Hill office during September of 2007.

Marketing and advertising expense increased from $403,000 in 2007 to $525,000 in 2008, which is attributed to the promotions surrounding MPB s 140th anniversary celebration as well as continuing promotion of loan and deposit products to enhance market share.

Occupancy and equipment expenses also increased in 2008 due to the recognition of a full year expenses for the new Camp Hill office and the relocated Elizabethville office, coupled with rising utility costs.

Legal and professional expenses increased in 2008 to $694,000 from $562,000 in 2007. MPB incurred increased legal fees associated with its loan workout efforts. The increase was also driven by ongoing projects within the technology and human resources area to enhance MPB s ability to attract and retain new customers and employees.

Another expense of note in 2008 was the increase in FDIC insurance premiums resulting from the ongoing financial crisis. In 2008, MPB s FDIC premium expense was $116,000 compared with $43,000 in 2007.

Severance expense related to the departure of the former CEO in October of 2008 was $478,000. This reflects the contractual payments due under the terms of his employment contract with MPB.

The final significant item was the loss on sale or write-down on foreclosed assets of $281,000 in 2008 as compared with minimal amounts in both 2007 and 2006. This item resulted from MPB s ongoing analysis of the carrying values of our repossessed properties and the adjustment of their values to current market rates in the face of the overall decline in real estate values plaguing the economy.

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TABLE 5: NONINTEREST EXPENSE

(Dollars in thousands)

	Years ended December 31, 2008	2007	2006
Salaries and employee benefits	$ 7,197	$ 6,554	$ 6,000
Severance expense	478		
Occupancy expense, net	967	868	622
Equipment expense	870	828	699
Pennsylvania bank shares tax expense	315	329	286
Legal and professional expense	694	562	560
Early withdrawal penalty on investment CDs			191
Marketing and advertising expense	525	403	255
ATM debit card processing expense	169	140	129
Director fees and benefits expense	354	322	250
Computer expense	457	434	378
Stationery and supplies expense	242	263	235
Postage expense	162	152	139
Meals, travel, and lodging expense	146	109	96
Contributions expense	134	97	60
Internet banking expense	112	88	59
Courier expense	112	107	92
Core deposit intangible expense	66	131	39
Service charge expense	90	88	76
FDIC insurance	116	43	41
Loss / write-down on sale of foreclosed assets	281		6
Other	1,239	1,078	1,050
Total Noninterest Expense	$ 14,726	$ 12,596	$ 11,263

Investments

MPB s investment portfolio is utilized to provide liquidity and managed to maximize return within reasonable risk parameters.

MPB s entire portfolio of investment securities is considered available for sale. As such, the investments are recorded at fair value. Our investments: US Treasury, Agency and Municipal securities 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.

As of December 31, 2008, SFAS No. 115 (the marking of securities to market value) resulted in an increase in shareholders equity of $553,000 (unrealized gain on securities of $838,000 less estimated income tax expense of $285,000). At December 31, 2007, SFAS No. 115 resulted in an increase in the unrealized gain included in other comprehensive income of $434,000 (unrealized gain on securities of $657,000 less estimated income tax expense of $223,000) compared to a December 31, 2006 increase in the unrealized gain included in other comprehensive income of $291,000 (unrealized gain on securities of $441,000, less estimated income tax expense of $150,000). MPB does not have any significant concentrations within investment securities.

Table 6 provides a history of the amortized cost of investment securities at December 31, for each of the past three years. The unrealized gains and losses on investment securities are shown in Note 6 to the Consolidated Financial Statements.

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TABLE 6: AMORTIZED COST OF INVESTMENT SECURITIES

(Dollars in thousands)

	December 31,		
	2008	2007	2006
U.S. Treasury and U.S. government agencies	$ 22,347	$ 12,044	$ 15,015
Mortgage-backed U.S. government agencies	4,154	6,862	9,041
State and political subdivision obligations	25,151	30,437	29,050
Equity securities	250	250	250
Total	$ 51,902	$ 49,593	$ 53,356

Maturity and yield information relating to the investment portfolio is shown in Table 7.

TABLE 7: INVESTMENT MATURITY AND YIELD

Amortized Cost

(Dollars in thousands)

	December 31, 2008				
	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	$ 11,503	$ 4,602	$ 6,242	$	$ 22,347
State and political subdivision obligations	140	4,450	11,865	8,696	25,151
Mortgage-backed U.S. government agencies		20	22	4,112	4,154
Equity securities				250	250
Total	$ 11,643	$ 9,072	$ 18,129	$ 13,058	$ 51,902

	One Year and Less	After One Year thru Five Years	After Five Years thru Ten Years	After Ten Years	Total
Weighted Average Yields					
U.S. Treasury and U.S. government agencies	4.31%	4.33%	4.93%		4.49%
State and political subdivision obligations (FTE)	6.70%	7.10%	7.00%	6.40%	6.81%
Mortgage-backed U.S. government agencies		6.50%	4.17%	5.13%	5.13%
Equity securities				3.75%	3.75%
Total	4.34%	5.69%	6.28%	5.95%	5.66%

Loans

At December 31, 2008, loans and leases totaled $434,643,000; a $57,515,000 or 15.3% increase from December 31, 2007. During 2008, MPB experienced a net increase in commercial real estate and commercial/industrial loans of approximately $43,534,000, the majority of which was generated in the greater Harrisburg (Capital) Region.

At December 31, 2008, loans, net of unearned income, represented 80.2% of earning assets as compared to 77.9% on December 31, 2007, and 76.1% on December 31, 2006.

The Bank s loan portfolio is diversified among individuals, farmers, and small and medium-sized businesses generally located within the Bank s trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County. 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 or industry segment. The only concentration is in loans secured by commercial real estate.

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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,									
	2008		2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, construction and land development	$ 234,762	53.9	$ 197,192	52.1	$ 191,420	63.0	$ 183,543	58.6	$ 163,145	58.0
Commercial, industrial and agricultural	71,385	16.4	65,421	17.3	60,566	16.8	39,820	12.7	28,211	10.0
Real estate residential	118,547	27.2	106,141	28.0	98,323	27.3	80,530	25.7	77,662	27.6
Consumer	11,103	2.5	9,987	5.0	10,027	2.8	9,530	3.0	12,065	4.3
Total Loans	435,797	100.0	378,741	100.0	360,336	100.0	313,423	100.0	281,083	100.0
Unearned income	(1,154)		(1,613)		(1,763)		(1,586)		(1,536)	
Loans net of unearned discount	434,643		377,128		358,573		311,837		279,547	
Allowance for loan and lease losses	(5,505)									