MID PENN BANCORP INC
Form 10-K
March 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

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

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	**25-1666413**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification Number)***
349 Union Street	
Millersburg, Pennsylvania	**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	**American Stock Exchange**

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer ¨ Accelerated Filer x Non-accelerated Filer ¨

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 $24.35 per share, as reported by the AMEX, on June 30, 2006, the last business day of the registrant s most recently completed second fiscal quarter was approximately $74,330,000.

As of February 21, 2007, the registrant had 3,341,825 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Excerpts from the registrant s Annual Report to Shareholders for the fiscal year ended December 31, 2006 are incorporated herein by reference in response to Part II, hereof. Portions of the registrant s definitive proxy statement to be used in connection with the 2007 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, 2006, MPB had total consolidated assets of $491,694,000 total deposits of $364,226,000 and total shareholders equity of $39,085,000.

As of December 31, 2006, MPB did not own or lease any properties. Mid Penn Bank owns the banking offices 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 Bank is supervised by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. MPB s and the Bank s legal headquarters are located at 349 Union Street, Millersburg, Pennsylvania 17061. The Bank presently has 14 offices located throughout 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

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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.

At December 31, 2006, the Bank had 125 full-time and 21 part-time employees. No employees are represented by a collective bargaining agent, 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, 2006, 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.

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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 of 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 of these securities changes, MPB s existing securities are valued differently in comparison. This difference in value, or unrealized gain, amounted to $60,000, net of tax, as of December 31, 2006. 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.

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. Borrowings are, therefore, limited by collateral levels 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. In addition, insurance companies recently have become more significant competitors for deposits through their thrift subsidiaries.

Further, MPB s success is dependent to a significant degree on economic conditions in Central Pennsylvania, especially in Dauphin, lower Northumberland, Western Schuylkill and 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 further 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 any enforcement action is taken by a banking regulator, 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.

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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

In 1999, the Gramm-Leach Bliley Act (GLB) was signed into law and it 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,
- 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.

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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 AMEX 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. Among the many new changes this year are enhanced proxy statement disclosures on corporate governance, stricter independence requirements for the Board of Directors and its committees, and posting of various policies and SEC reports on our website. The full impact of the Sarbanes-Oxley Act and the increased costs related to MPB s compliance are still uncertain and evolving.

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.

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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.

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 18 to MPB s Consolidated Financial Statements.

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 enactment in 1991 of the FDIC Improvement Act, 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.

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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.

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 or better 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%.

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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 to be 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

Deposits of the Bank are insured by the FDIC 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 to one of the following three capital groups based on their capital levels: well-capitalized, adequately capitalized and undercapitalized. Banks in each of these three groups are further classified into three subgroups based upon the level of supervisory concern with respect to each bank. The resulting matrix creates nine assessment risk classifications to which are assigned deposit insurance premiums ranging from 0.00% for the best capitalized, healthiest institutions, to 0.27% for undercapitalized institutions with substantial supervisory concerns.

The FDIC sets deposit insurance assessment rates on a semiannual basis and will increase deposit insurance assessments whenever the ratio of reserves to insured deposits in a fund is less than 1.25. While under the current assessment matrix, the Bank does not pay any assessments for deposit insurance, because of past bank failures there is a possibility that the FDIC will adjust the assessment matrix in the future and that as a result the Bank may have to start paying insurance assessments.

The Bank is also subject to quarterly assessments relating to interest payments on Financing Corporation (FICO) bonds issued in connection with the resolution of the thrift industry crisis. The FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the BIF and SAIF. The FICO assessments on BIF-insured deposits are set at an annual rate of .0168% of assessable deposits.

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.

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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

There are a number of laws that 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, for instance, 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;
- 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 February 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;

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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.

On October 31, 2002, the Federal Reserve adopted a new regulation, Regulation W, effective April 1, 2003, that comprehensively amends 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

On October 26, 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.

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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.

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.

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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, if adopted, 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.

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 American Stock Exchange under the trading symbol MBP. 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.

You may also inspect materials and other information concerning Mid Penn Bancorp, Inc. at the offices of the American Stock Exchange, Inc. at 86 Trinity Place, New York, New York 10006. Our common stock is listed on the American Stock Exchange under the trading symbol MBP. The American Stock Exchange s Internet site address is www.amex.com.

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ITEM 1A. RISK FACTORS.

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.

Although 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, 2006, approximately 76.5% 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 a provision for possible 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

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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 originate and the interest rates they 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 it attracts or require it 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, it 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 its 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 its subsidiaries to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that its 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. MPB does not currently have employment agreements or non-competition agreements with any of its 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 AMEX, 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.

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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.

Like other bank holding companies and financial institutions, 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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.

Office and Address	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
Halifax Branch Office Halifax Shopping Center 3763 Peters Mountain Road Halifax, PA 17032	Branch Bank

Carlisle Pike Branch Office	Branch Bank
4622 Carlisle Pike	
Mechanicsburg, PA 17050	

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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 Tower City, PA 17980	Branch Bank
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
Steelton Office 51 South Front Street Steelton, PA 17113	Branch Bank
Middletown Office 1100 Spring Garden Drive Middletown, PA 17057	Branch Bank

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 MPB. There are no proceedings pending other than ordinary routine litigation incident to the business of MPB and of the Bank. 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.

None.

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PART II

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

The information required by this Item 5, regarding market value, dividend payments, and number of shareholders is set forth on page 2 of MPB s 2006 Annual Report to Shareholders, which page is included at Exhibit 13 hereto, and incorporated herein by reference.

As of February 21, 2007, there were approximately 1,100 shareholders of record of MPB s common stock.

A dividend of $0.20 per share was paid during each quarter of 2005.

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Set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on Mid Penn Bancorp, Inc. s common stock against the cumulative total return of the NASDAQ Composite Index and the Mid-Atlantic Custom Peer Group Index for the period of five fiscal years commencing December 31, 2001, and ending December 31, 2006. The graph shows that the cumulative investment return to shareholders, based on the assumption that a $100 investment was made on December 31, 2001, in each of the corporation s capital stock, the NASDAQ Composite Index and the Mid-Atlantic Custom Peer Group Index, and that all dividends were reinvested in such securities over the past five years. The shareholder return shown on the graph below is not necessarily indicative of future performance.

Mid Penn Bancorp, Inc.

	Period Ending					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Mid Penn Bancorp, Inc.	100.00	126.26	149.74	184.49	174.90	189.61
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
Mid-Atlantic Custom Peer Group*	100.00	117.92	173.81	195.63	194.01	207.37

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

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Issuer Purchases of Equity Securities

In September 2005, MPB announced a plan to repurchase shares of its outstanding common stock up to a total of 250,000 shares. The Board of Directors authorized repurchase from time to time at prevailing market prices in open market or in privately negotiated transactions as, in management s sole opinion, market conditions warrant and based on stock availability, price and MPB s financial performance. As of December 31, 2006, there was a maximum of 245,818 additional shares available for purchases under this program.

The following table sets forth a summary of the purchases by MPB on the open market, of its equity securities for the fourth quarter of 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Dollar Value of Shares Purchased Under Program
October 1-31, 2006	86	$ 25.49	$ 2,192
November 1-30, 2006	1,000	24.12	24,115
December 1-31, 2006	1,779	25.44	45,254
Quarterly Totals	2,865	24.98	71,561

MPB does not maintain any equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this Item is set forth on page 41 of MPB s 2006 Annual Report to Shareholders, which page is included at Exhibit 13 hereto, and incorporated herein by reference.

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 and in documents incorporated by reference herein, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations contained in MPB s 2006 Annual Report to Shareholders as incorporated by reference to Exhibit 13, 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;

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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; and

acts of war or terrorism.

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.

The information required by this Item is set forth on pages 27-40 of MPB s 2006 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto, and incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required by this Item is set forth on pages 37-40 of MPB s 2006 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto and incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this Item is set forth on pages 5-26 of MPB s 2006 Annual Report to Shareholders, which pages are included at Exhibit 13 hereto, and incorporated herein by reference.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

MPB carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of December 31, 2006. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, MPB s disclosure controls and procedures are effective in timely alerting them to material information relating to MPB (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

Changes in Internal Controls Over Financial Reporting

There have been no material changes in MPB s internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, MPB s internal control over financial reporting.

Mid Penn Bancorp, Inc. Management Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a and 15(d) 15(f) under the Exchange Act of 1934 (1934 Act). The corporation s internal control over financial reporting includes those policies and procedures that pertain to the corporation s ability to record, process, summarize, and report reliable financial data. All internal control systems have inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the corporation s internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2006. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management has concluded that MPB s internal control over financial reporting, as of December 31, 2006, is effective based on the criteria set forth by COSO in *Internal Control Integrated Framework* .

Parente Randolph, LLC, independent registered public accounting firm that audited MPB s financial statements, has issued an audit report on management s assertion of the effectiveness of the corporation s internal control over financial reporting as of December 31, 2006.

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Alan W. Dakey President and Chief Executive Officer	Kevin W. Laudenslager Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Mid Penn Bancorp, Inc.:

We have audited management s assessment, included in the accompanying management report on internal controls over financial reporting, that Mid Penn Bancorp, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mid Penn Bancorp, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Mid Penn Bancorp, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Mid Penn Bancorp, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and related consolidated statements of income, stockholders equity, and cash flows of Mid Penn Bancorp, Inc. and subsidiaries and our report dated February 26, 2007 expressed an unqualified opinion.

/s/ Parente Randolph, LLC
Williamsport, Pennsylvania
February 26, 2007

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item, relating to directors, executive officers, and control persons is set forth under the captions Executive Officers , Information Regarding Director Nominees and Continuing Directors , Compliance with Section 16(a) Reporting , Audit Committee Report , and Governance of the Corporation in MPB s definitive proxy statement to be used in connection with the 2007 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to directors, officers and employees of the Company and the Bank. The Company amended the Code of Ethics twice in 2005 and a copy of the Code of Ethics is included as Exhibit 14 to the Form 8-K filed with the Securities and Exchange Commission on March 9, 2005. A request for the Company s Code of Ethics can be made either in writing to Alan W. Dakey, 349 Union Street, Millersburg, PA 17061 or by telephone at 717-692-2133.

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ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item, relating to executive compensation, is set forth under the captions Compensation Discussion and Analysis , Executive Compensation , Potential Payments Upon Termination or Change In Control , Election of Directors , Compensation Committee Report and Compensation Committee Interlocks and Insider Participation of MPB s definitive proxy statement to be used in connection with the 2007 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item, relating to beneficial ownership of MPB s common stock, is set forth under the caption Beneficial Ownership of Mid Penn Bancorp s Stock Held By Principal Shareholders and Management of MPB s definitive proxy statement to be used in connection with the 2007 Annual Meeting of Shareholders, which pages are incorporated herein by reference. MPB does not maintain any equity compensation plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item, relating to transactions with management and others, certain business relationships and indebtedness of management, is set forth under the captions Certain Relationships and Related Transactions and Governance of the Corporation of MPB s definitive proxy statement to be used in connection with the 2007 Annual Meeting of Shareholders, which page is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item, relating to the fees and services provided by MPB s principal accountant, is set forth under the caption Audit Committee Report of MPB s definitive proxy statement to be used in connection with the 2007 Annual Meeting of Shareholders, which page is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial statements are incorporated by reference in Part II, Item 8 hereof.

Independent Auditor s Report

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Cash Flows

Consolidated Statements of Stockholders Equity

Notes to Consolidated Financial Statements

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2. The financial statement schedules, required by Regulation S-X, are omitted because the information is either not applicable or is included elsewhere in the consolidated financial statements.

3. The following Exhibits are filed as part of this filing on Form 10-K, or incorporated by reference hereto:

3(i)	The Registrant s Articles of Incorporation. (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
3(ii)	The Registrant s By-laws. (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.1	Mid Penn Bank s Profit Sharing Retirement Plan. (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.2	Mid Penn Bank s Employee Stock Ownership Plan. (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.3	The Registrant s Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant s Registration Statement on Form S-3, filed with the SEC on October 12, 2005)
10.4	Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)
10.5	Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
10.6	Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant s Annual Report on Form 10-K filed with the SEC on March 14, 2005.)
11	Statement re: Computation of Per Share Earnings. (Included herein at Exhibit 13, at page 6 of Registrant s 2006 Annual Report to Shareholders.)
12	Statements re: Computation of Ratios. (Included herein at Exhibit 13, at page 40 of Registrant s 2006 Annual Report to Shareholders.)

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13	Excerpts from Registrant s 2006 Annual Report to Shareholders.
14	The Registrant s Code of Ethics. (Incorporated by reference to Registrant s Form 8-K filed with the Securities and Exchange Commission on March 9, 2005)
21	Subsidiaries of Registrant.
23	Consent of Parente Randolph, PC, independent auditors.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1	Chief Executive Officer s §1350 Certification.
32.2	Chief Financial Officer s §1350 Certification.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Alan W. Dakey
Alan W. Dakey
Chairman of the Board, President and

Chief Executive Officer

(Principal Executive Officer)

Date: March 6, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

		DATE
By:	/s/ Alan W. Dakey Alan W. Dakey President, Chief Executive Officer and Director (Principal executive officer)	March 6, 2007
By:	/s/ Kevin W. Laudenslager Kevin W. Laudenslager Treasurer (Principal Financial and Principal Financial Officer)	March 6, 2007
By:	Jere M. Coxon, Director	March 6, 2007
By:	A. James Durica, Director	March 6, 2007
By:	/s/ Robert C. Grubic Robert C. Grubic, Director	March 6, 2007
By:	/s/ Gregory M. Kerwin Gregory M. Kerwin, Director	March 6, 2007

By: March 6, 2007

Theodore W. Mowery, Director

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By:	/s/ Donald E. Sauve	March 6, 2007
	Donald E. Sauve, Director	
By:	/s/ Edwin D. Schlegel	March 6, 2007
	Edwin D. Schlegel, Director	
By:	/s/ Guy J. Snyder, Jr.	March 6, 2007
	Guy J. Snyder, Director	
By:	/s/ William A. Specht, III	March 6, 2007
	William A. Specht, Director	

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