

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

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

Registrant's telephone number, including area code 1.866.642.7736

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

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

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

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

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

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

MID PENN BANCORP, INC.

FORM 10-Q

TABLE OF CONTENTS

PART 1 – FINANCIAL INFORMATION	2
Item 1 – Financial Statements	2
Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014 (Unaudited)	2
Consolidated Statements of Income for the Three Months Ended March 31, 2015 and March 31, 2014 (Unaudited)	3
Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and March 31, 2014 (Unaudited)	4
Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2015 and March 31, 2014 (Unaudited)	5
	6

Consolidated
 Statements of
 Cash Flows for
 the Three
 Months Ended
 March 31, 2015
 and March 31,
 2014

(Unaudited)

Notes to
 Consolidated
 Financial
 Statements

(Unaudited) 8

Item 2 – Management’s
 Discussion and
 Analysis of Financial
 Condition and Results
 of Operations 32

Item 3 – Quantitative
 and Qualitative
 Disclosures about
 Market Risk 41

Item 4 – Controls and
 Procedures 41

**PART II – OTHER
 INFORMATION 42**

Item 1 – Legal
 Proceedings 42

Item 1A – Risk Factors 42

Item 2 – Unregistered
 Sales of Equity
 Securities and Use of
 Proceeds 42

Item 3 – Defaults upon
 Senior Securities 42

Item 4 – Mine Safety
 Disclosures 42

Item 5 – Other
 Information 42

Item 6 – Exhibits 42

Signatures 43

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

1

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

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

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

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

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

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

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

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

MID PENN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

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

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

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

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

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

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

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Dollars in thousands)

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

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

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

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

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

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

Supplemental Disclosures of Cash Flow Information:

Interest paid	\$ 971	\$ 1,015
Income taxes paid	\$ 100	\$ -

Supplemental Noncash Disclosures:

Loan transfers to foreclosed assets held for sale	\$ 216	\$ 264
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Assets, Liabilities, and Equity in Connection with Merger:
(Dollars in thousands)

Assets Acquired:

Securities	\$ 11,331	\$ -
Loans	110,707	-
Restricted stock	509	-
Property and equipment	1,792	-
Accrued interest receivable	388	-
Core deposit and other intangible assets	578	-
Bank-owned life insurance	3,673	-
Other assets	933	-
	\$ 129,911	\$ -

Liabilities Assumed:

Deposits	\$ 123,238	\$ -
Accrued interest payable	32	-
Long-term debt	3,570	-
Other liabilities	744	-
	\$ 127,584	\$ -

Equity Acquired:

Preferred stock	\$ 1,750	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

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

(1) Basis of Presentation

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

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

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

(2) Merger

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

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

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

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

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

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

The allocation of the purchase price is as follows:

(Dollars in thousands)

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

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

(Dollars in thousands)

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

	11,644
Goodwill	\$ 2,597

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

(Dollars in thousands)

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

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the started rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from the loan inception to the acquisition date. The credit adjustment on impaired loans is derived

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

in accordance with ASC 310-30-30 and represents the portion of the loan balance that has been deemed uncollectible based on our expectations of future cash flows for each respective loan.

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

(Dollars in thousands)

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

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

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

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

(3) Investment Securities

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

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

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

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

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

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

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