

PENNS WOODS BANCORP INC
Form 10-Q
May 10, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended March 31, 2013.

o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from to .

No. 0-17077

(Commission File Number)

PENNS WOODS 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 No.)

300 Market Street, P.O. Box 967 Williamsport, Pennsylvania
(Address of principal executive offices)

17703-0967
(Zip Code)

(570) 322-1111

Registrant's telephone number, including area code

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 the 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

Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

On May 2, 2013 there were 3,839,054 shares of the Registrant's common stock outstanding.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(In Thousands, Except Share Data)	March 31, 2013	December 31, 2012
ASSETS:		
Noninterest-bearing balances	\$ 9,120	\$ 12,695
Interest-bearing deposits in other financial institutions	3,948	2,447
Total cash and cash equivalents	13,068	15,142
Investment securities available for sale, at fair value	288,577	289,316
Loans held for sale	2,425	3,774
Loans	512,422	512,232
Allowance for loan losses	(8,830)	(7,617)
Loans, net	503,592	504,615
Premises and equipment, net	9,128	8,348
Accrued interest receivable	4,070	4,099
Bank-owned life insurance	16,517	16,362
Investment in limited partnerships	2,717	2,883
Goodwill	3,032	3,032
Deferred tax asset	5,751	4,731
Other assets	4,120	4,233
TOTAL ASSETS	\$ 852,997	\$ 856,535
LIABILITIES:		
Interest-bearing deposits	\$ 538,833	\$ 527,073
Noninterest-bearing deposits	120,471	114,953
Total deposits	659,304	642,026
Short-term borrowings	16,632	33,204
Long-term borrowings, Federal Home Loan Bank (FHLB)	71,278	76,278
Accrued interest payable	357	366
Other liabilities	12,413	10,935
TOTAL LIABILITIES	759,984	762,809
SHAREHOLDERS EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued		
Common stock, par value \$8.33, 15,000,000 shares authorized; 4,019,522 and 4,019,112 shares issued	33,496	33,492
Additional paid-in capital	18,170	18,157
Retained earnings	43,948	43,030
Accumulated other comprehensive income:		

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Net unrealized gain on available for sale securities	8,516	10,164
Defined benefit plan	(4,807)	(4,807)
Treasury stock at cost, 180,596 shares	(6,310)	(6,310)
TOTAL SHAREHOLDERS EQUITY	93,013	93,726
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 852,997	\$ 856,535

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

(In Thousands, Except Per Share Data)	Three Months Ended March 31,	
	2013	2012
INTEREST AND DIVIDEND INCOME:		
Loans, including fees	\$ 6,768	\$ 6,314
Investment securities:		
Taxable	1,443	1,474
Tax-exempt	1,267	1,405
Dividend and other interest income	62	92
TOTAL INTEREST AND DIVIDEND INCOME	9,540	9,285
INTEREST EXPENSE:		
Deposits	791	961
Short-term borrowings	25	34
Long-term borrowings, FHLB	519	620
TOTAL INTEREST EXPENSE	1,335	1,615
NET INTEREST INCOME	8,205	7,670
PROVISION FOR LOAN LOSSES	500	600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,705	7,070
NON-INTEREST INCOME:		
Service charges	442	447
Securities gains, net	986	589
Bank-owned life insurance	138	268
Gain on sale of loans	351	183
Insurance commissions	264	442
Brokerage commissions	248	212
Other	304	622
TOTAL NON-INTEREST INCOME	2,733	2,763
NON-INTEREST EXPENSE:		
Salaries and employee benefits	3,068	3,017
Occupancy	351	328
Furniture and equipment	408	346
Pennsylvania shares tax	184	169
Amortization of investment in limited partnerships	165	165
Federal Deposit Insurance Corporation deposit insurance	129	123
Other	1,546	1,316
TOTAL NON-INTEREST EXPENSE	5,851	5,464
INCOME BEFORE INCOME TAX PROVISION	4,587	4,369
INCOME TAX PROVISION	903	680
NET INCOME	\$ 3,684	\$ 3,689
EARNINGS PER SHARE - BASIC	\$ 0.96	\$ 0.96

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EARNINGS PER SHARE - DILUTED	\$	0.96	\$	0.96
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC		3,838,671		3,837,204
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED		3,838,671		3,837,204
DIVIDENDS PER SHARE	\$	0.72	\$	0.47

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In Thousands)	Three Months Ended March 31,	
	2013	2012
Net Income	\$ 3,684	\$ 3,689
Other comprehensive (loss) income:		
Change in unrealized (loss) gain on available for sale securities	(1,511)	5,010
Tax effect	514	(1,703)
Net realized gain included in net income	(986)	(589)
Tax effect	335	200
Total other comprehensive (loss) income	(1,648)	2,918
Comprehensive income	\$ 2,036	\$ 6,607

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		TREASURY STOCK	TOTAL SHAREHOLDERS EQUITY
	SHARES	AMOUNT			INCOME	LOSS		
Balance, December 31, 2011	4,017,677	\$ 33,480	\$ 18,115	\$ 36,394	\$ (1,219)	\$ (6,310)	\$ 80,460	
Comprehensive income:								
Net income				3,689			3,689	
Other comprehensive income					2,918		2,918	
Dividends declared, (\$0.47 per share)				(1,804)			(1,804)	
Common shares issued for employee stock purchase plan	391	4	12				16	
Balance, March 31, 2012	4,018,068	\$ 33,484	\$ 18,127	\$ 38,279	\$ 1,699	\$ (6,310)	\$ 85,279	

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		TREASURY STOCK	TOTAL SHAREHOLDERS EQUITY
	SHARES	AMOUNT			INCOME	LOSS		
Balance, December 31, 2012	4,019,112	\$ 33,492	\$ 18,157	\$ 43,030	\$ 5,357	\$ (6,310)	\$ 93,726	
Comprehensive income:								
Net income				3,684			3,684	
Other comprehensive loss					(1,648)		(1,648)	

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Dividends declared, (\$0.72 per share)				(2,766)			(2,766)
Common shares issued for employee stock purchase plan	410	4	13				17
Balance, March 31, 2013	4,019,522	\$ 33,496	\$ 18,170	\$ 43,948	\$ 3,709	\$ (6,310)	93,013

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

(In Thousands)	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES:		
Net Income	\$ 3,684	\$ 3,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	194	191
Provision for loan losses	500	600
Accretion and amortization of investment security discounts and premiums	(125)	(377)
Securities gains, net	(986)	(589)
Originations of loans held for sale	(11,636)	(4,301)
Proceeds of loans held for sale	13,336	6,206
Gain on sale of loans	(351)	(183)
Earnings on bank-owned life insurance	(138)	(268)
(Increase) decrease in deferred tax asset	(171)	71
Other, net	(62)	(1,549)
Net cash provided by operating activities	4,245	3,490
INVESTING ACTIVITIES:		
Investment securities available for sale:		
Proceeds from sales	20,492	9,765
Proceeds from calls and maturities	3,309	3,400
Purchases	(23,685)	(22,741)
Net decrease (increase) in loans	523	(7,627)
Acquisition of bank premises and equipment	(1,014)	(767)
Proceeds from the sale of foreclosed assets		131
Purchase of bank-owned life insurance	(26)	(29)
Proceeds from bank-owned life insurance death benefit		383
Proceeds from redemption of regulatory stock	479	281
Purchases of regulatory stock	(315)	
Net cash used for investing activities	(237)	(17,204)
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	11,760	34,961
Net increase in noninterest-bearing deposits	5,518	4,917
Repayment of long-term borrowings, FHLB	(5,000)	
Net decrease in short-term borrowings	(16,572)	(14,830)
Dividends paid	(1,805)	(1,804)
Issuance of common stock	17	16
Net cash (used for) provided by financing activities	(6,082)	23,260
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,074)	9,546
CASH AND CASH EQUIVALENTS, BEGINNING	15,142	13,885
CASH AND CASH EQUIVALENTS, ENDING	\$ 13,068	\$ 23,431
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Dividends payable	\$ 961	\$
Interest paid	1,344	1,645
Income taxes paid	600	925
Transfer of loans to foreclosed real estate		

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**PENNS WOODS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 1. Basis of Presentation**

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the Company) and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., and Jersey Shore State Bank (the Bank) and its wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group (The M Group). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 35 through 39 of the Annual Report on Form 10-K for the year ended December 31, 2012.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component as of March 31, 2013 were as follows:

(In Thousands)	Three Months Ended March 31, 2013		
	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total
Balance, December 31, 2012	\$ 10,164	\$ (4,807)	\$ 5,357
Other comprehensive income before reclassifications	(997)		(997)
Amounts reclassified from accumulated other comprehensive income	(651)		(651)
Net current-period other comprehensive income	(1,648)		(1,648)

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Balance, March 31, 2013	\$	8,516	\$	(4,807)	\$	3,709
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The reclassifications out of accumulated other comprehensive income as of March 31, 2013 were as follows:

(In Thousands)

Details about Accumulated Other Comprehensive Income Components	Three Months Ended March 31, 2013 Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
Net unrealized gain on available for sale securities	\$	986	Securities gains, net
		335	Income tax provision
<hr/>			
Total reclassifications for the period	\$	651	Net of tax

Note 3. Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative

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instruments in the scope of this update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU did not have a significant impact on the Company's financial statements.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has provided the necessary disclosures in Note 2 - Accumulated Other Comprehensive Income.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

	Three Months Ended March 31,	
	2013	2012
Weighted average common shares issued	4,019,267	4,017,800
Average treasury stock shares	(180,596)	(180,596)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	3,838,671	3,837,204

Note 5. Investment Securities

The amortized cost and fair values of investment securities at March 31, 2013 and December 31, 2012 are as follows:

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March 31, 2013

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	\$ 22,387	\$ 1,265	\$ (17)	\$ 23,635
State and political securities	160,817	10,260	(1,684)	169,393
Other debt securities	83,960	1,857	(237)	85,580
Total debt securities	267,164	13,382	(1,938)	278,608
Financial institution equity securities	7,580	1,474	(3)	9,051
Other equity securities	930	11	(23)	918
Total equity securities	8,510	1,485	(26)	9,969
Total investment securities AFS	\$ 275,674	\$ 14,867	\$ (1,964)	\$ 288,577

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(In Thousands)	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	\$ 24,475	\$ 1,384	\$ (19)	\$ 25,840
State and political securities	168,843	12,805	(1,424)	180,224
Other debt securities	70,108	1,750	(259)	71,599
Total debt securities	263,426	15,939	(1,702)	277,663
Financial institution equity securities	8,422	1,140	(14)	9,548
Other equity securities	2,068	74	(37)	2,105
Total equity securities	10,490	1,214	(51)	11,653
Total investment securities AFS	\$ 273,916	\$ 17,153	\$ (1,753)	\$ 289,316

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at March 31, 2013 and December 31, 2012.

(In Thousands)	March 31, 2013					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	\$ 847	\$ (17)	\$	\$	\$ 847	\$ (17)
State and political securities	12,448	(530)	5,915	(1,154)	18,363	(1,684)
Other debt securities	24,471	(209)	1,722	(28)	26,193	(237)
Total debt securities	37,766	(756)	7,637	(1,182)	45,403	(1,938)
Financial institution equity securities	65	(3)			65	(3)
Other equity securities	764	(18)	67	(5)	831	(23)
Total equity securities	829	(21)	67	(5)	896	(26)
Total	\$ 38,595	\$ (777)	\$ 7,704	\$ (1,187)	\$ 46,299	\$ (1,964)

(In Thousands)	December 31, 2012					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	\$ 910	\$ (19)	\$	\$	\$ 910	\$ (19)
State and political securities	8,882	(316)	5,647	(1,108)	14,529	(1,424)
Other debt securities	11,250	(189)	3,727	(70)	14,977	(259)
Total debt securities	21,042	(524)	9,374	(1,178)	30,416	(1,702)
Financial institution equity securities	66	(1)	205	(13)	271	(14)
Other equity securities	701	(28)	63	(9)	764	(37)
Total equity securities	767	(29)	268	(22)	1,035	(51)
Total	\$ 21,809	\$ (553)	\$ 9,642	\$ (1,200)	\$ 31,451	\$ (1,753)

At March 31, 2013 there were a total of 43 and 15 individual securities that were in a continuous unrealized loss position for less than twelve months and twelve months or greater, respectively.

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The Company reviews its position quarterly and has determined that, at March 31, 2013, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at March 31, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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(In Thousands)	Amortized Cost		Fair Value	
Due in one year or less	\$	7,494	\$	7,530
Due after one year to five years		37,838		39,012
Due after five years to ten years		52,615		53,709
Due after ten years		169,217		178,357
Total	\$	267,164	\$	278,608

Total gross proceeds from sales of securities available for sale were \$20,492,000 and \$9,765,000, for the three months ended March 31, 2013 and 2012, respectively. The following table represents gross realized gains and losses on those transactions:

(In Thousands)	Three Months Ended March 31,			
	2013		2012	
Gross realized gains:				
U.S. Government and agency securities	\$		\$	138
State and political securities		579		6
Other debt securities		121		55
Financial institution equity securities		130		355
Other equity securities		216		126
Total gross realized gains	\$	1,046	\$	680
Gross realized losses:				
State and political securities	\$	60	\$	
Financial institution equity securities				66
Other equity securities				25
Total gross realized losses	\$	60		