

FIRST KEYSTONE CORP
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

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

For the quarterly period ended March 31, 2018

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: 2-88927

FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania

23-2249083

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(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

111 West Front Street, Berwick, PA 18603
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (570) 752-3671

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 definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, \$2 Par Value, 5,731,624 shares as of May 4, 2018

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$8,973	\$ 7,913
Interest-bearing deposits in other banks	1,328	826
Total cash and cash equivalents	10,301	8,739
Time deposits with other banks	1,482	1,482
Debt securities available-for-sale	342,093	348,586
Marketable equity securities	1,599	1,632
Restricted investment in bank stocks	5,445	4,058
Loans	573,244	559,397
Allowance for loan losses	(7,379)	(7,487)
Net loans	565,865	551,910
Premises and equipment, net	20,389	20,623
Accrued interest receivable	3,852	4,237
Cash surrender value of bank owned life insurance	22,497	22,354
Investments in low-income housing partnerships	2,371	2,626
Goodwill	19,133	19,133
Foreclosed assets held for resale	1,115	1,071
Deferred income taxes	2,138	936
Other assets	3,150	2,734
TOTAL ASSETS	\$1,001,430	\$ 990,121
LIABILITIES		
Deposits:		
Non-interest bearing	\$131,282	\$ 121,415
Interest bearing	617,564	656,731

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Total deposits	748,846	778,146
Short-term borrowings	80,791	26,296
Long-term borrowings	55,000	65,000
Accrued interest payable	549	490
Other liabilities	3,816	3,470
TOTAL LIABILITIES	889,002	873,402
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$2.00 per share; authorized 1,000,000 shares as of March 31, 2018 and December 31, 2017; issued 0 as of March 31, 2018 and December 31, 2017		
Common stock, par value \$2.00 per share; authorized 20,000,000 shares as of March 31, 2018 and December 31, 2017; issued 5,950,951 as of March 31, 2018 and December 31, 2017; outstanding 5,719,339 as of March 31, 2018 and December 31, 2017	11,902	11,902
Surplus	36,193	36,193
Retained earnings	73,013	72,507
Accumulated other comprehensive (loss) income	(2,971)) 1,826
Treasury stock, at cost, 231,612 shares as of March 31, 2018 and December 31, 2017	(5,709)) (5,709)
TOTAL STOCKHOLDERS' EQUITY	112,428	116,719
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,001,430	\$ 990,121

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

(Dollars in thousands, except per share data)

	2018	2017
Interest and fees on loans	\$5,945	\$5,512
Interest and dividend income on securities:		
Taxable	1,040	1,142
Tax-exempt	1,199	1,147
Dividends	11	11
Dividend income on restricted investment in bank stocks	68	77
Interest on interest-bearing deposits in other banks	8	8
Total interest income	8,271	7,897
INTEREST EXPENSE		
Interest on deposits	1,272	901
Interest on short-term borrowings	174	136
Interest on long-term borrowings	335	382
Total interest expense	1,781	1,419
Net interest income	6,490	6,478
Provision for loan losses	50	83
Net interest income after provision for loan losses	6,440	6,395
NON-INTEREST INCOME		
Trust department	235	238
Service charges and fees	457	436
Bank owned life insurance income	143	158
ATM fees and debit card income	357	327
Gains on sales of mortgage loans	29	36
Net securities (losses) gains	(17)	303
Other	55	40
Total non-interest income	1,259	1,538
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,036	2,742
Occupancy, net	472	487
Furniture and equipment	140	139

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Computer expense	253	246
Professional services	223	238
Pennsylvania shares tax	199	206
FDIC insurance	81	80
ATM and debit card fees	175	137
Data processing fees	267	227
Foreclosed assets held for resale expense	68	26
Advertising	81	78
Other	900	657
Total non-interest expense	5,895	5,263
Income before income tax expense	1,804	2,670
Income tax expense	27	384
NET INCOME	\$1,777	\$2,286

PER SHARE DATA

Net income per share:		
Basic	\$0.31	\$0.40
Diluted	0.31	0.40
Dividends per share	0.27	0.27

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
 THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

(Dollars in thousands)

	2018	2017
Net Income	\$1,777	\$2,286
Other comprehensive income:		
Unrealized net holding (losses) gains on debt securities available-for-sale arising during the period, net of income taxes of \$(1,199) and \$534, respectively	(4,510)	1,035
Less reclassification adjustment for net gains included in net income, net of income taxes of \$(3) and \$(103), respectively (a) (b)	(13)	(200)
Total other comprehensive (loss) income	(4,523)	835
Total Comprehensive (Loss) Income	\$(2,746)	\$3,121

(a) Gross amounts are included in net securities (losses) gains on the Consolidated Statements of Income in non-interest income.

(b) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock			Retained	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Surplus	Earnings			
Balance at January 1, 2018	5,950,951	\$11,902	\$36,193	\$72,507	\$ 1,826	\$(5,709)	\$ 116,719
Net Income				1,777			1,777
Other comprehensive loss, net of taxes					(4,523)		(4,523)
Impact of adoption of accounting standards ¹				274	(274)		—
Dividends - \$0.27 per share				(1,545)			(1,545)
Balance at March 31, 2018	5,950,951	\$11,902	\$36,193	\$73,013	\$(2,971)	\$(5,709)	\$ 112,428
Balance at January 1, 2017	5,904,563	\$11,809	\$35,047	\$70,004	\$(1,419)	\$(5,756)	\$ 109,685
Net Income				2,286			