

FIRST KEYSTONE CORP
Form 10-Q
August 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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
(State or other jurisdiction of

23-2249083
(I.R.S. Employer

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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

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, 5,742,102 shares as of August 6, 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)	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$9,032	\$ 7,913
Interest-bearing deposits in other banks	805	826
Total cash and cash equivalents	9,837	8,739
Time deposits with other banks	1,482	1,482
Debt securities available-for-sale	338,570	348,586
Marketable equity securities	1,653	1,632
Restricted investment in bank stocks	6,579	4,058
Loans	584,824	559,397
Allowance for loan losses	(6,946)	(7,487)
Net loans	577,878	551,910
Premises and equipment, net	20,266	20,623
Accrued interest receivable	4,179	4,237
Cash surrender value of bank owned life insurance	22,651	22,354
Investments in low-income housing partnerships	2,279	2,626
Goodwill	19,133	19,133
Foreclosed assets held for resale	1,076	1,071
Deferred income taxes	2,185	936
Other assets	2,829	2,734
TOTAL ASSETS	\$1,010,597	\$ 990,121
LIABILITIES		
Deposits:		
Non-interest bearing	\$125,693	\$ 121,415
Interest bearing	599,341	656,731
Total deposits	725,034	778,146
Short-term borrowings	113,012	26,296
Long-term borrowings	55,000	65,000
Accrued interest payable	680	490
Other liabilities	3,560	3,470
TOTAL LIABILITIES	897,286	873,402
STOCKHOLDERS' EQUITY		

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Preferred stock, par value \$2.00 per share; authorized 1,000,000 shares as of June 30, 2018 and December 31, 2017; issued 0 as of June 30, 2018 and December 31, 2017		
Common stock, par value \$2.00 per share; authorized 20,000,000 shares as of June 30, 2018 and December 31, 2017; issued 5,973,714 as of June 30, 2018 and 5,950,951 as of December 31, 2017; outstanding 5,742,102 as of June 30, 2018 and 5,719,339 as of December 31, 2017	11,947	11,902
Surplus	36,757	36,193
Retained earnings	73,943	72,507
Accumulated other comprehensive (loss) income	(3,627)	1,826
Treasury stock, at cost, 231,612 shares as of June 30, 2018 and December 31, 2017	(5,709)	(5,709)
TOTAL STOCKHOLDERS' EQUITY	113,311	116,719
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,010,597	\$ 990,121

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2017	June 30,	2017
	2018		2018	2017
<i>(Dollars in thousands, except per share data)</i>				
INTEREST INCOME				
Interest and fees on loans	\$ 6,274	\$ 5,544	\$ 12,219	\$ 11,056
Interest and dividend income on investment securities:				
Taxable	1,162	1,072	2,202	2,214
Tax-exempt	1,170	1,296	2,369	2,443
Dividends	10	11	21	22
Dividend income on restricted investment in bank stocks	112	78	180	155
Interest on interest-bearing deposits in other banks	9	9	17	17
Total interest income	8,737	8,010	17,008	15,907
INTEREST EXPENSE				
Interest on deposits	1,293	999	2,565	1,900
Interest on short-term borrowings	400	262	574	398
Interest on long-term borrowings	291	366	626	748
Total interest expense	1,984	1,627	3,765	3,046
Net interest income	6,753	6,383	13,243	12,861
Provision for loan losses	—	—	50	83
Net interest income after provision for loan losses	6,753	6,383	13,193	12,778
NON-INTEREST INCOME				
Trust department	223	219	458	457
Service charges and fees	532	461	989	897
Bank owned life insurance income	154	160	297	318
ATM fees and debit card income	399	356	756	683
Gains on sales of mortgage loans	38	88	67	124
Net investment securities gains	54	172	37	472
Other	70	39	125	82
Total non-interest income	1,470	1,495	2,729	3,033
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,957	3,031	5,993	5,773
Occupancy, net	427	430	899	917
Furniture and equipment	152	137	292	276
Computer expense	240	267	493	513
Professional services	309	195	532	433
Pennsylvania shares tax	200	205	399	411
FDIC insurance	75	80	156	160

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ATM and debit card fees	192	188	367	325
Data processing fees	266	263	533	486
Foreclosed assets held for resale expense	7	80	75	106
Advertising	129	184	210	262
Other	722	606	1,622	1,267
Total non-interest expense	5,676	5,666	11,571	10,929
Income before income tax expense	2,547	2,212	4,351	4,882
Income tax expense	71	293	98	677
NET INCOME	\$ 2,476	\$ 1,919	\$4,253	\$4,205
PER SHARE DATA				
Net income per share:				
Basic	\$ 0.43	\$ 0.34	\$0.74	\$0.74
Diluted	0.43	0.34	0.74	0.74
Dividends per share	0.27	0.27	0.54	0.54

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30,	
	2018	2017
Net Income	\$ 2,476	\$ 1,919
Other comprehensive income:		
Unrealized net holding (losses) gains on debt securities available-for-sale arising during the period, net of income taxes of \$(174) and \$1,205, respectively	(656)	2,336
Less reclassification adjustment for net gains included in net income, net of income taxes of \$(0) and \$(58), respectively (a) (b)	—	(114)
Total other comprehensive (loss) income	(656)	2,222
Total Comprehensive Income	\$ 1,820	\$ 4,141

(a) Gross amounts are included in net securities 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.

(Dollars in thousands)	Six Months Ended June 30,	
	2018	2017
Net Income	\$ 4,253	\$ 4,205
Other comprehensive income:		
Unrealized net holding (losses) gains on debt securities available-for-sale arising during the period, net of income taxes of \$(1,373) and \$1,740, respectively	(5,166)	3,368
Less reclassification adjustment for net gains included in net income, net of income taxes of \$(3) and \$(161), respectively (a) (b)	(13)	(311)

Total other comprehensive (loss) income	(5,179)	3,057
Total Comprehensive (Loss) Income	\$(926)	\$7,262

(a) Gross amounts are included in net securities 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

SIX MONTHS ENDED JUNE 30, 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				4,253			4,253
Other comprehensive loss, net of taxes					(5,179)		(5,179)
Issuance of common stock under dividend reinvestment plan	22,763	45	564				609
Impact of adoption of accounting standards ¹				274	(274)		