

FIRST KEYSTONE CORP  
Form 10-Q  
November 07, 2013

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 September 30, 2013

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 incorporation or organization) (I.R.S. Employer 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

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, 5,511,239 shares as of November 5, 2013.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## FIRST KEYSTONE CORPORATION AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 8,331	\$ 10,038
Interest-bearing deposits in other banks	1,358	10,882
Total cash and cash equivalents	9,689	20,920
Investment securities available-for-sale	315,275	296,312
Investment securities held-to-maturity (estimated fair value 2013- \$1,560; 2012 - \$2,599)	1,546	2,561
Restricted securities at cost - available-for-sale	3,480	4,883
Loans, net of unearned income	445,652	432,896
Allowance for loan losses	(6,000 )	(5,772 )
Net loans	439,652	427,124
Premises and equipment, net	21,026	19,363
Accrued interest receivable	3,868	4,060
Cash surrender value of bank owned life insurance	20,387	19,869
Investments in real estate ventures	1,334	1,480
Goodwill	19,133	19,133
Core deposit intangible, net	463	668
Prepaid FDIC insurance	0	1,002
Foreclosed assets held for resale	480	468
Deferred income taxes	1,271	5
Other assets	2,088	2,118
<b>TOTAL ASSETS</b>	<b>\$ 839,692</b>	<b>\$ 819,966</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 82,279	\$ 76,418
Interest bearing	583,804	532,416
Total deposits	666,083	608,834
Short-term borrowings	24,553	55,069
Long-term borrowings	47,453	44,520
Accrued interest and other expenses	3,511	2,902

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Deferred income taxes	36	4,612
Other liabilities	563	699
<b>TOTAL LIABILITIES</b>	<b>\$ 742,199</b>	<b>\$ 716,636</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$2.00 per share; authorized 1,000,000 shares in 2013 and 2012; issued 0 in 2013 and 2012	\$ 0	\$ 0
Common stock, par value \$2.00 per share; authorized 20,000,000 shares in 2013 and 2012; issued 5,746,388 in 2013 and 5,717,400 in 2012	11,493	11,435
Surplus	31,397	30,725
Retained earnings	58,802	54,532
Accumulated other comprehensive income	1,640	12,528
Treasury stock, at cost, 235,646 in 2013 and 237,183 in 2012	(5,839 )	(5,890 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>97,493</b>	<b>103,330</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 839,692</b>	<b>\$ 819,966</b>

See accompanying notes to consolidated financial statements.

## FIRST KEYSTONE CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Unaudited)

*(Amounts in thousands, except per share data)*

	2013	2012
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$5,182	\$5,534
Interest and dividend income on investment securities	2,486	2,987
Interest on deposits in banks	0	1
Total interest income	\$7,668	\$8,522
<b>INTEREST EXPENSE</b>		
Interest on deposits	\$920	\$1,065
Interest on short-term borrowings	34	29
Interest on long-term borrowings	293	382
Total interest expense	\$1,247	\$1,476
Net interest income	\$6,421	\$7,046
Provision for loan losses	133	400
Net interest income after provision for loan losses	\$6,288	\$6,646
<b>NON-INTEREST INCOME</b>		
Trust department	\$213	\$193
Service charges and fees	353	313
Bank owned life insurance income	171	179
ATM fees and debit card income	258	239
Gains on sales of mortgage loans	77	332
Investment securities gains (losses) - net	264	477
Other	61	153
Total non-interest income	\$1,397	\$1,886
<b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	\$2,822	\$2,602
Occupancy, net	368	398
Furniture and equipment	131	202
Computer expense	264	277
Professional services	134	135
State shares tax	204	193
FDIC insurance	108	120
ATM and debit card fees	129	121

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Other	759	1,128
Total non-interest expense	\$4,919	\$5,176

Income before income tax expense	\$2,766	\$3,356
Income tax expense	611	592
NET INCOME	\$2,155	\$2,764

PER SHARE DATA

Net income per share:

Basic	\$.39	\$.51
Diluted	.39	.51
Cash dividends per share	.26	.25

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Unaudited)

*(Amounts in thousands, except per share data)*

	2013	2012
INTEREST INCOME		
Interest and fees on loans	\$15,488	\$16,833
Interest and dividend income on investment securities	7,845	9,456
Interest on deposits in banks	3	