

FIRST KEYSTONE CORP
Form 10-Q
May 08, 2015

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, 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: 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, 5,580,913 shares as of May 4, 2015

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, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$6,353	\$ 7,543
Interest-bearing deposits in other banks	382	424
Total cash and cash equivalents	6,735	7,967
Time deposits with other banks	1,482	1,482
Investment securities available-for-sale	340,348	347,666
Investment securities held-to-maturity (fair value 2015- \$1,054; 2014 - \$1,060)	1,051	1,056
Restricted investment in bank stocks	6,585	5,308
Loans	507,654	487,461
Allowance for loan losses	(6,485)	(6,390)
Net loans	501,169	481,071
Premises and equipment, net	20,614	20,871
Accrued interest receivable	3,630	3,313
Cash surrender value of bank owned life insurance	21,400	21,236
Investments in low-income housing partnerships	1,088	1,130
Goodwill	19,133	19,133
Core deposit intangible, net	53	122
Foreclosed assets held for resale	55	55
Other assets	3,043	1,943
TOTAL ASSETS	\$926,386	\$ 912,353
LIABILITIES		
Deposits:		
Non-interest bearing	\$105,842	\$ 96,530
Interest bearing	555,352	565,032
Total deposits	661,194	661,562
Short-term borrowings	78,088	73,123
Long-term borrowings	70,313	65,339
Accrued interest payable	433	399
Deferred income taxes	873	211
Other liabilities	6,850	5,448
TOTAL LIABILITIES	817,751	806,082

STOCKHOLDERS' EQUITY

Preferred stock, par value \$2.00 per share; authorized 1,000,000 shares in 2015 and 2014; issued 0 in 2015 and 2014		
Common stock, par value \$2.00 per share; authorized 20,000,000 shares in 2015 and 2014; issued 5,814,287 in 2015 and 5,802,521 in 2014; outstanding 5,580,913 in 2015 and 5,567,372 in 2014	11,629	11,605
Surplus	32,934	32,674
Retained earnings	64,430	63,485
Accumulated other comprehensive income	5,407	4,330
Treasury stock, at cost, 233,374 shares in 2015 and 235,149 in 2014	(5,765)	(5,823)
TOTAL STOCKHOLDERS' EQUITY	108,635	106,271
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 926,386	\$ 912,353

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2015 and 2014

(Unaudited)

(Dollars in thousands, except per share data)

	2015	2014
INTEREST INCOME		
Interest and fees on loans	\$5,320	\$4,961
Interest and dividend income on investment securities:		
Taxable	1,691	2,003
Tax-exempt	671	633
Dividends	15	16
Dividend income on restricted investment in bank stocks	204	20
Interest on interest bearing deposits in other banks	8	—
Total interest income	7,909	7,633
INTEREST EXPENSE		
Interest on deposits	752	814
Interest on short-term borrowings	64	35
Interest on long-term borrowings	376	276
Total interest expense	1,192	1,125
Net interest income	6,717	6,508
Provision for loan losses	212	133
Net interest income after provision for loan losses	6,505	6,375
NON-INTEREST INCOME		
Trust department	214	226
Service charges and fees	399	317
Bank owned life insurance income	164	182
ATM fees and debit card income	283	260
Gains on sales of mortgage loans	181	24
Net investment securities gains	492	597
Other	124	109
Total non-interest income	1,857	1,715
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,844	2,817
Occupancy, net	468	456
Furniture and equipment	147	154
Computer expense	234	263
Professional services	154	163
Pennsylvania shares tax	176	159

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FDIC insurance	124	118
ATM and debit card fees	125	116
Data processing fees	161	38
Foreclosed assets held for resale expense	7	103
Advertising	73	125
Other	770	740
Total non-interest expense	5,283	5,252
Income before income tax expense	3,079	2,838
Income tax expense	630	540
NET INCOME	\$2,449	\$2,298
PER SHARE DATA		
Net income per share:		
Basic	\$0.44	\$0.42
Diluted	0.44	0.42
Dividends per share	0.27	0.26

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Net Income	\$ 2,449	\$ 2,298
Other comprehensive income:		
Unrealized net holding gains on available-for-sale investment securities arising during the period, net of income taxes of \$716 and \$1,394, respectively	1,402	2,708
Less reclassification adjustment for net gains included in net income, net of income taxes of \$(167) and \$(203), respectively (a) (b)	(325)	(394)
Total other comprehensive income	1,077	2,314
Total Comprehensive Income	\$ 3,526	\$ 4,612

(a) Gross amounts are included in net investment 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

THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock			Retained	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Surplus	Earnings			
Balance at January 1, 2015	5,802,521	\$ 11,605	\$ 32,674	\$ 63,485	\$ 4,330	\$ (5,823)	\$ 106,271
Net Income				2,449			2,449
Other comprehensive income, net of taxes					1,077		1,077
Issuance of common stock under dividend reinvestment and stock purchase plans	11,766	24	260			58	342
Dividends - \$0.27 per share				(1,504)			(1,504)
Balance at March 31, 2015	5,814,287	\$ 11,629	\$ 32,934	\$ 64,430	\$ 5,407	\$ (5,765)	\$ 108,635
Balance at January 1, 2014	5,756,474	\$ 11,513	\$ 31,626	\$ 59,089	\$ (54)	\$ (5,823)	\$ 96,351
Net Income				2,298			2,298
Other comprehensive income, net of taxes					2,314		2,314
Issuance of common stock under dividend reinvestment plan	10,795	22	254				276
Dividends - \$0.26 per share				(1,435)			(1,435)
Balance at March 31, 2014	5,767,269	\$ 11,535	\$ 31,880	\$ 59,952	\$ 2,260	\$ (5,823)	\$ 99,804

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Unaudited)

(Dollars in thousands)

	2015	2014
OPERATING ACTIVITIES		
Net income	\$2,449	\$2,298
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	212	133
Depreciation and amortization	401	400
Net premium amortization on investment securities	625	457
Deferred income tax expense (benefit)	113	(31)
Gains on sales of mortgage loans	(181)	(24)
Proceeds from sales of mortgage loans originated for resale	5,721	1,027
Originations of mortgage loans originated for resale	(4,410)	(1,209)
Gains on sales of investment securities	(492)	(597)
Losses on sales of foreclosed real estate held for resale, including write-downs		85
(Increase) decrease in accrued interest receivable	(317)	114
Earnings on investment in bank owned life insurance	(164)	(182)
Increase in other assets	(1,071)	(161)
Increase in accrued interest payable	34	49
Decrease in other liabilities	(2,333)	(2,931)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	587	(572)
INVESTING ACTIVITIES		
Proceeds from sales of investment securities available-for-sale	47,774	80,165
Proceeds from maturities and redemptions of investment securities available-for-sale	6,677	10,541
Purchases of investment securities available-for-sale	(41,904)	(89,687)
Proceeds from maturities and redemptions of investment securities held-to-maturity	5	4
Net change in restricted investment in bank stocks	(1,277)	(446)
Net increase in loans	(21,419)	(9,386)
Purchases of premises and equipment	(54)	(90)
NET CASH USED IN INVESTING ACTIVITIES	(10,198)	(8,899)
FINANCING ACTIVITIES		
Net decrease in deposits	(368)	(20,550)
Net increase in short-term borrowings	4,965	5,423
Proceeds from long-term borrowings	5,000	10,000
Repayment of long-term borrowings	(26)	(5,024)
Common stock issued	280	255
Proceeds from issuance of treasury stock	32	
Dividends paid	(1,504)	(1,435)

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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,379	(11,331)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,232)	(20,802)
CASH AND CASH EQUIVALENTS, BEGINNING	7,967	30,623
CASH AND CASH EQUIVALENTS, ENDING	\$6,735	\$9,821
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$1,158	\$1,104
Income taxes paid	1,064	792
Loans transferred to foreclosed assets held for resale		45

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated financial statements include the accounts of First Keystone Corporation (the “Corporation”) and its wholly owned subsidiary, First Keystone Community Bank (the “Bank”). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three month period ended March 31, 2015, are not necessarily indicative of the results for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and notes thereto included in First Keystone Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014.

For comparative purposes, the March 31, 2014 balances have been reclassified to conform to the 2015 presentation. Such reclassifications had no impact on net income.

The Corporation has evaluated events and transactions occurring subsequent to the consolidated 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.

NOTE 2 RECENT ACCOUNTING STANDARDS UPDATES (“ASU”)

Except as disclosed below, there were no new accounting pronouncements affecting the Corporation during the three months ended March 31, 2015 that were not already adopted by the Corporation in previous periods.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue requirements in *Revenue Recognition (Topic 605)*. This ASU requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The ASU is effective for annual reporting periods beginning after December 31, 2016, including interim periods within the reporting period. Early application is not permitted. In April 2015, the FASB proposed a one-year delay of the effective date of this standard. The deferral would require public entities to apply the standard for annual reporting periods beginning after December 15, 2017. Public companies would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In September 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860)*. The ASU provides guidance on accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This guidance will result in accounting for both types of arrangements as secured borrowings on the balance sheet. Additionally, the ASU introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. This ASU is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

NOTE 3 — INVESTMENT SECURITIES

The Corporation classifies its investment securities as either “Held-to-Maturity” or “Available-for-Sale” at the time of purchase. Investment securities are accounted for on a trade date basis. Debt securities are classified as Held-to-Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities classified as Held-to-Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity.

Debt securities not classified as Held-to-Maturity and equity securities are included in the Available-for-Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as accumulated other comprehensive income (loss) in the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held-to-Maturity or Available-for-Sale is adjusted for amortization of premiums and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends, are included in interest and dividend income from investment securities. Realized gains and losses are included in net investment securities gains and losses. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities classified as "Available-For-Sale" or "Held-to-Maturity" were as follows at March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>March 31, 2015:</i>				
U.S. Treasury securities	\$6,029	\$ 62	\$	\$6,091
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	76,827	1,098	(286)	77,639
Other	34,488	412		34,900
Obligations of state and political subdivisions	160,285	6,710	(200)	166,795
Corporate debt securities	53,239	288	(605)	52,922
Marketable equity securities	1,208	813	(20)	2,001
Total	\$332,076	\$ 9,383	\$ (1,111)	\$340,348

<i>(Dollars in thousands)</i>	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>March 31, 2015:</i>				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$51	\$ 2	\$	\$53
Other	1,000	1		1,001
Total	\$1,051	\$ 3	\$	\$1,054

<i>(Dollars in thousands)</i>	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>December 31, 2014:</i>				

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U.S. Treasury securities	\$11,356	\$ 24	\$ (2) \$11,378
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	112,146	1,055	(487) 112,714
Other	26,246	270	(6) 26,510
Obligations of state and political subdivisions	151,565	6,127	(469) 157,223
Corporate debt securities	38,499	112	(825) 37,786
Marketable equity securities	1,208	867	(20) 2,055
Total	\$341,020	\$ 8,455	\$ (1,809) \$347,666

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<i>(Dollars in thousands)</i>	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>December 31, 2014:</i>				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 56	\$ 2	\$	\$ 58
Other	1,000	2		1,002
Total	\$ 1,056	\$ 4	\$	\$ 1,060

Securities Available-for-Sale with an aggregate fair value of \$213,671,000 at March 31, 2015 and \$222,847,000 at December 31, 2014, and securities Held-to-Maturity with an aggregate book value of \$1,051,000 at March 31, 2015 and \$1,056,000 at December 31, 2014, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase, FHLB advances and other balances of \$156,887,000 at March 31, 2015 and \$155,895,000 at December 31, 2014.

The amortized cost, estimated fair value and weighted average yield of debt and equity securities, by contractual maturity, are shown below at March 31, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	March 31, 2015				Held-To-Maturity		
	Available-For-Sale		Obligations		U.S. Government Corporations & Agencies Obligations ¹		
	U.S. Treasury Securities	U.S. Government Corporations & Agencies Obligations ¹	of State & Political Subdivisions ²	Corporate Debt Securities	Marketable Equity Securities ³		
Within 1 Year:							
Amortized cost	\$	\$	\$ 1,576	\$ 1,000	\$	\$	1,000
Fair value			1,587	1,005		1,001	
Weighted average yield			3.93	% 3.10	%	0.77	%
1 - 5 Years:							
Amortized cost	6,029	13,859	15,854	7,690		51	
Fair value	6,091	13,986	16,446	7,680		53	
Weighted average yield	1.32	% 1.70	% 3.55	% 2.27	%	2.55	%

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5 - 10 Years:

Amortized cost	16,715		67,448		44,549	
Fair value	16,952		68,877		44,237	
Weighted average yield	2.18	%	3.25	%	2.68	%

After 10 Years:

Amortized cost	80,741		75,407		1,208	
Fair value	81,601		79,885		2,001	
Weighted average yield	2.36	%	5.67	%	4.88	%

Total:

Amortized cost	\$6,029	\$	111,315	\$	160,285	\$	53,239	\$	1,208	\$	1,051	
Fair value	6,091		112,539		166,795		52,922		2,001		1,054	
Weighted average yield	1.32	%	2.25	%	4.43	%	2.63	%	4.88	%	0.86	%

¹Mortgage-backed securities are allocated for maturity reporting at their original maturity date.

²Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.

³Marketable equity securities are not considered to have defined maturities and are included in the after ten year category.

There were no aggregate investments with a single issuer (excluding the U.S. Government and U.S. Government Agencies and Corporations) which exceeded ten percent of consolidated stockholders' equity at March 31, 2015. The quality rating of the obligations of state and political subdivisions are generally investment grade, as rated by Moody's, Standard and Poor's or Fitch. The typical exceptions are local issues which are not rated, but are secured by the full faith and credit obligations of the communities that issued these securities.

Proceeds from sales of investments in Available-for-Sale debt and equity securities for the first quarter of 2015 and 2014 were \$47,774,000 and \$80,165,000, respectively. Gross gains realized on these sales were \$548,000 and \$808,000, respectively. Gross losses on these sales were \$56,000 and \$211,000, respectively. There were no other-than-temporary impairment losses during the first quarter of 2015 or 2014.

There were no proceeds from sales of investments in Held-to-Maturity debt and equity securities during the first quarter of 2015 or 2014. Therefore, there were no gains or losses realized during these periods.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, *Investments - Debt and Equity Securities*. In determining OTTI under the FASB ASC 320 model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary impairment occurs on debt securities, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected, and the realized loss is recognized in net investment securities gains on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment related to the other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment.

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non-performing assets and loan loss reserves. The starting point for the equity analysis is the length and severity of market value decline. The realized loss is recognized in net investment securities gains on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment is recognized in other comprehensive income, net of applicable taxes.

The Corporation and its investment advisors monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. Based on the factors described above, management did not consider any securities to be other-than-temporarily impaired at March 31, 2015 and December 31, 2014.

In accordance with disclosures required by FASB ASC 320-10-50, *Investments - Debt and Equity Securities*, the summary below shows the gross unrealized losses and fair value of the Corporation's investments, aggregated by investment category, that individual securities have been in a continuous unrealized loss position for less than 12 months or 12 months or more as of March 31, 2015 and December 31, 2014:

March 31, 2015

<i>(Dollars in thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale:						
U.S. Treasury securities	\$	\$	\$	\$	\$	\$
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	14,098	(149)	12,673	(137)	26,771	(286)
Other						
Obligations of state and political subdivisions	15,332	(90)	10,382	(110)	25,714	(200)
Corporate debt securities	9,382	(84)	19,214	(521)	28,596	(605)
Marketable equity securities	30	(20)			30	(20)
	\$ 38,842	\$ (343)	\$ 42,269	\$ (768)	\$ 81,111	\$ (1,111)

December 31, 2014

<i>(Dollars in thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale:						
U.S. Treasury securities	\$ 6,030	\$ (2)	\$	\$	\$ 6,030	\$ (2)
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	19,823	(230)	17,099	(257)	36,922	(487)
Other	7,154	(6)			7,154	(6)
Obligations of state and political subdivisions	21,459	(94)	18,273	(375)	39,732	(469)
Corporate debt securities	22,227	(542)	12,066	(283)	34,293	(825)
Marketable equity securities	30	(20)			30	(20)
	\$ 76,723	\$ (894)	\$ 47,438	\$ (915)	\$ 124,161	\$ (1,809)

The Corporation invests in various forms of agency debt including mortgage-backed securities and callable debt. The mortgage-backed securities are issued by FHLMC ("Federal Home Loan Mortgage Corporation"), FNMA ("Federal National Mortgage Association") or GNMA ("Government National Mortgage Association"). The municipal securities

consist of general obligations and revenue bonds. The marketable equity securities consist of stocks in other bank holding companies. The fair market value of the above securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid-offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation's carrying value at any measurement date. Management does not believe any of their 30 securities with a one year or less unrealized loss position or any of their 22 securities with a greater than one year unrealized loss position as of March 31, 2015, represent an other-than-temporary impairment, as these unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans

Net loans are stated at their outstanding unpaid principal balances, net of deferred fees or costs, unearned income and the allowance for loan losses. Interest on loans is recognized as income over the term of each loan, generally, by the accrual method. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the straight line method or the interest method over the contractual life of the related loans as an interest yield adjustment.

Residential mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis determined by independent pricing from appropriate federal or state agency investors. These loans are sold without recourse.

The loans receivable portfolio is segmented into commercial, residential and consumer loans. Commercial loans consist of the following classes: Commercial and Industrial and Commercial Real Estate.

Commercial and Industrial Lending

The Corporation originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include short-term loans and lines of credit to finance machinery and equipment, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and are reviewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum thresholds have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, business financial statements, collateral appraisals, etc. Commercial and industrial loans are typically secured by personal guarantees of the borrower.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower's character and capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as the conditions affecting the

borrower. Evaluation of the borrower's past, present and future cash flows is also an important aspect of the Corporation's analysis of the borrower's ability to repay.

Commercial and industrial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions. Commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from cash flows from the borrower's primary business activities. As a result, the availability of funds for the repayment of commercial and industrial loans is dependent on the success of the business itself, which in turn, is likely to be dependent upon the general economic environment.

Commercial Real Estate Lending

The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation's commercial real estate portfolio is secured primarily by commercial retail space, commercial office buildings, residential housing and hotels. Generally, commercial real estate loans have terms that do not exceed twenty years, have loan-to-value ratios of up to eighty percent of the value of the collateral property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. The value of the property is determined by either independent appraisers or internal evaluations by Bank officers.

Commercial real estate loans generally present a higher level of risk than residential real estate secured loans. Repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project and/or the effect of the general economic conditions on income producing properties.

Residential Real Estate Lending (Including Home Equity)

The Corporation's residential real estate portfolio is comprised of one-to-four family residential mortgage loan originations, home equity term loans and home equity lines of credit. These loans are generated by the Corporation's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within or with customers from the Corporation's market area.

The Corporation's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The Corporation offers fixed-rate mortgage loans with terms up to a maximum of twenty years for both permanent structures and those under construction. Generally, the majority of the Corporation's residential mortgage loans originate with a loan-to-value of eighty percent or less, or those with primary mortgage insurance at ninety-five percent or less. Generally, home equity term loans are secured by the borrower's primary residence with a maximum loan-to-value of eighty percent and a maximum term of fifteen years. Generally, home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of eighty percent and a maximum term of twenty years.

In underwriting one-to-four family residential mortgage loans, the Corporation evaluates the borrower's ability to make monthly payments, the borrower's repayment history and the value of the property securing the loan. The ability and willingness to repay is determined by the borrower's employment history, current financial conditions and credit background. A majority of the properties securing residential real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires mortgage loan borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance, including flood insurance, if applicable.

Residential mortgage loans, home equity term loans and home equity lines of credit generally present a lower level of risk than consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Corporation is in a subordinate position, especially to another lender, for the loan collateral.

Consumer Lending

The Corporation offers a variety of secured and unsecured consumer loans, including vehicle loans, stock loans and loans secured by financial institution deposits. These loans originate primarily within or with customers from the market area.

Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting personal loans, a thorough analysis is performed regarding the borrower's willingness and financial ability to repay the loan as agreed. The ability to repay is determined by the borrower's employment history, current financial condition and credit background.

Consumer loans may entail greater credit risk than residential real estate loans, particularly in the case of personal loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, repossessed collateral for a defaulted personal loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, personal loan collections are dependent on the borrower's continuing financial stability and therefore, are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Delinquent Loans

Generally, a loan is considered to be past-due when scheduled loan payments are in arrears 15 days or more. Delinquent notices are generated automatically when a loan is 15 days past-due. Collection efforts continue on past-due loans that have not been brought current, when it is believed that some chance exists for improvement in the status of the loan. Past-due loans are continually evaluated with the determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

Commercial and Industrial and Commercial Real Estate loans are charged off in whole or in part when they become sufficiently delinquent based upon the terms of the underlying loan contract and when a collateral deficiency exists. Because all or part of the contractual cash flows are not expected to be collected, the loan is considered to be impaired, and the Bank estimates the impairment based on its analysis of the cash flows or collateral estimated at fair value less cost to sell.

Residential Real Estate and Consumer loans are charged off when they become sufficiently delinquent based upon the terms of the underlying loan contract and when the value of the underlying collateral is not sufficient to support the loan balance and a loss is expected. At that time, the amount of estimated collateral deficiency, if any, is charged off for loans secured by collateral, and all other loans are charged off in full. Loans with collateral are charged down to the estimated fair value of the collateral less cost to sell.

Loans in which the borrower is in bankruptcy are considered on a case by case basis and are either charged off or reaffirmed by the borrower.

Generally, a loan is classified as non-accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may currently be performing. A loan may remain on accrual status if it is well secured (or supported by a strong guarantee) and in the process of collection. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against interest income. Certain non-accrual loans may continue to perform; that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny, and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are individually classified as impaired. Select loans are not aggregated for collective impairment evaluation, as such; all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular

loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loans may be reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses and qualitative factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over a time period that management has determined represents the current credit cycle. Qualitative factors impacting each portfolio segment may include: delinquency trends, loan volume trends, Bank policy changes, management processes and oversight, economic trends (including change in consumer and business disposable incomes, unemployment and under-employment levels, and other conditions), concentrations by industry or product, internal and external loan review processes, collateral value and market conditions, and external factors including regulatory issues and competition.

The unallocated component of the allowance is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A reserve for unfunded lending commitments is provided for possible credit losses on off-balance sheet credit exposures. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and, if necessary, is recorded in other liabilities on the Consolidated Balance Sheet. As of March 31, 2015 and December 31, 2014, the amount of the reserve for unfunded lending commitments was \$40,000 and \$0.

The Corporation is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the original loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate at inception or the fair value of the collateral for certain collateral dependent loans.

The restructuring of a loan is considered a "troubled debt restructuring" if both the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the Bank has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, and (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan. A less common concession is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower were a concession not granted. Similarly, the determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

Loans modified in a troubled debt restructuring are considered impaired and may or may not be placed on non-accrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrates a period of performance according to the restructured terms of six months.

The Bank utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns an asset quality rating (risk grade) to all Commercial and Industrial, Commercial Real Estate, Residential Real Estate and Consumer borrowings. An asset quality rating is assigned using the guidance provided in the Bank's loan policy. Primary responsibility for assigning the asset quality rating rests with the lender. The asset quality rating is validated periodically by both an internal and external loan review process.

The commercial loan grading system focuses on a borrower's financial strength and performance, experience and depth of management, primary and secondary sources of repayment, the nature of the business and the outlook for the particular industry. Primary emphasis is placed on the financial condition and trends. The grade also reflects current economic and industry conditions; as well as other variables such as liquidity, cash flow, revenue/earnings trends, management strengths or weaknesses, quality of financial information, and credit history.

The loan grading system for Residential Real Estate and Consumer loans focuses on the borrower's credit score and credit history, debt-to-income ratio and income sources, collateral position and loan-to-value ratio, as well as other variables such as current economic conditions, and individual strengths and weaknesses.

Risk grade characteristics are as follows:

Risk Grade 1 – MINIMAL RISK through Risk Grade 6 – MANAGEMENT ATTENTION (Pass Grade Categories)

Risk is evaluated via examination of several attributes including but not limited to financial trends, strengths and weaknesses, likelihood of repayment when considering both cash flow and collateral, sources of repayment, leverage position, management expertise, and repayment history.

At the low-risk end of the rating scale, a risk grade of 1 - Minimal Risk is the grade reserved for loans with exceptional credit fundamentals and virtually no risk of default or loss. Loan grades then progress through escalating ratings of 2 through 6 based upon risk. Risk Grade 2 - Modest Risk are loans with sufficient cash flows; Risk Grade 3 - Average Risk are loans with key balance sheet ratios slightly above the borrower's peers; Risk Grade 4 - Acceptable Risk are loans with key balance sheet ratios usually near the borrower's peers, but one or more ratios may be higher; and Risk Grade 5 - Marginally Acceptable are loans with strained cash flow, increasing leverage and/or weakening markets. Risk Grade 6 - Management Attention are loans with weaknesses resulting from declining performance trends and the borrower's cash flows may be temporarily strained. Loans in this category are performing according to terms, but present some type of potential concern.

Risk Grade 7 – SPECIAL MENTION (Non-Pass Category)

Generally, these loans or assets are currently protected, but are "Potentially Weak". They constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard.

Assets in this category are currently protected but have potential weakness which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. No loss of principal or interest is envisioned; however, they constitute an undue credit risk that may be minor but is unwarranted in light of the circumstances surrounding a specific asset. Risk is increasing beyond that at which the loan originally would have been granted. Historically, cash flows are inconsistent; financial trends show some deterioration. Liquidity and leverage are above industry averages. Financial information could be incomplete or inadequate. A Special Mention asset has potential weaknesses that deserve management's close attention.

Risk Grade 8 – SUBSTANDARD (Non-Pass Category)

Generally, these assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have "well-defined" weaknesses that jeopardize the full liquidation of the debt.

They are characterized by the distinct possibility that the Bank will sustain some loss if the aggregate amount of substandard assets is not fully covered by the liquidation of the collateral used as security. Substandard loans have a high probability of payment default; are inadequately protected by the current sound net worth, paying capacity of the borrower, or pledged collateral; and may have other well-defined weaknesses. Such assets require more intensive supervision by Bank Management.

Risk Grade 9 – DOUBTFUL (Non-Pass Category)

Generally, loans graded doubtful have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point whereby the basis of current information, conditions, and values, collection or liquidation in full is deemed to be highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, its classification is deferred until, for example, a proposed merger, acquisition, liquidation procedure, capital injection, perfection of liens on additional collateral and/or refinancing plan is completed. Loans are graded doubtful if they contain weaknesses so serious that collection or liquidation in full is questionable.

The following table presents the classes of the loan portfolio summarized by risk rating as of March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Commercial and Industrial		Commercial Real Estate	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Grade:				
1-6 Pass	\$80,823	\$ 64,459	\$ 243,406	\$ 237,404
7 Special Mention	44	47	4,437	11,008
8 Substandard	18	21	11,739	5,472
9 Doubtful				
Add (deduct): Unearned discount and Net deferred loan fees and costs	162	129	254	38
Total loans	\$81,047	\$ 64,656	\$ 259,836	\$ 253,922

	Residential Real Estate Including Home Equity		Consumer Loans	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Grade:				
1-6 Pass	\$ 159,760	\$ 161,122	\$ 5,003	\$ 5,248
7 Special Mention	281	520	2	21
8 Substandard	1,596	1,640	8	9
9 Doubtful				
Add (deduct): Unearned discount and Net deferred loan fees and costs	68	271	(34)	(40)
Total loans	\$ 161,705	\$ 163,553	\$ 5,066	\$ 5,330

	Total Loans	
	March 31, 2015	December 31, 2014
Grade:		
1-6 Pass	\$488,992	\$ 468,233
7 Special Mention	4,764	11,596
8 Substandard	13,361	7,142
9 Doubtful		
Add (deduct): Unearned discount and Net deferred loan fees and costs	(34)	(40)
Total loans	\$507,654	\$ 487,461

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Commercial and Industrial and Commercial Real Estate include loans categorized as tax-free loans in the amounts of \$45,868,000 and \$3,191,000, respectively at March 31, 2015 and \$30,334,000 and \$3,235,000 at December 31, 2014. Loans held for sale amount to \$1,263,000 at March 31, 2015 and \$2,201,000 at December 31, 2014.

The activity in the allowance for loan losses, by loan segment, is summarized below for the periods indicated.

(Dollars in thousands)

	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the three month period ended March 31, 2015:						
Allowance for Loan Losses:						
Beginning balance	\$ 542	\$ 3,176	\$ 1,928	\$ 107	\$ 637	\$6,390
Charge-offs	(2)	(43)	(59)	(14)		(118)
Recoveries				1		1
Provision	147	(114)	(17)	(4)	200	212
Ending Balance	\$ 687	\$ 3,019	\$ 1,852	\$ 90	\$ 837	\$6,485
Ending balance: individually evaluated for impairment	\$	\$ 26	\$ 66	\$	\$	\$92
Ending balance: collectively evaluated for impairment	\$ 687	\$ 2,993	\$ 1,786	\$ 90	\$ 837	\$6,393
Loan Receivables:						
Ending Balance	\$ 81,047	\$ 259,836	\$ 161,705	\$ 5,066	\$	\$507,654
Ending balance: individually evaluated for impairment	\$ 418	\$ 9,228	\$ 1,249	\$ 3	\$	\$10,898
Ending balance: collectively evaluated for impairment	\$ 80,629	\$ 250,608	\$ 160,456	\$ 5,063	\$	\$496,756

(Dollars in thousands)

	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the three month period ended March 31, 2014:						
Allowance for Loan Losses:						
Beginning balance	\$ 776	\$ 3,320	\$ 1,565	\$ 53	\$ 805	\$6,519
Charge-offs	(7)	(141)	(30)	(8)		(186)
Recoveries	2		9			11
Provision	54	119	23	7	(70)	133
Ending Balance	\$ 825	\$ 3,298	\$ 1,567	\$ 52	\$ 735	\$6,477
Ending balance: individually evaluated for impairment	\$	\$	\$	\$	\$	\$
Ending balance: collectively evaluated for impairment	\$ 825	\$ 3,298	\$ 1,567	\$ 52	\$ 735	\$6,477
Loan Receivables:						
Ending Balance	\$ 64,741	\$ 229,285	\$ 156,450	\$ 5,435	\$	\$455,911
Ending balance: individually evaluated for impairment	\$ 36	\$ 5,230	\$ 991	\$ 7	\$	\$6,264

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Ending balance: collectively evaluated for impairment	\$ 64,705	\$ 224,055	\$ 155,459	\$ 5,428	\$	\$449,647
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<i>(Dollars in thousands)</i>	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of December 31, 2014:						
Allowance for Loan Losses:						
Ending Balance	\$ 542	\$ 3,176	\$ 1,928	\$ 107	\$ 637	\$6,390
Ending balance: individually evaluated for impairment	\$	\$ 38	\$ 81	\$	\$	\$ 119
Ending balance: collectively evaluated for impairment	\$ 542	\$ 3,138	\$ 1,847	\$ 107	\$ 637	\$6,271
Loan Receivables:						
Ending Balance	\$ 64,656	\$ 253,922	\$ 163,553	\$ 5,330	\$	\$487,461
Ending balance: individually evaluated for impairment	\$ 399	\$ 5,350	\$ 1,291	\$ 4	\$	\$7,044
Ending balance: collectively evaluated for impairment	\$ 64,257	\$ 248,572	\$ 162,262	\$ 5,326	\$	\$480,417

At March 31, 2015 and December 31, 2014, the \$55,000 in foreclosed assets held for resale was secured entirely by commercial real estate; there were no residential real estate properties held in foreclosed assets as a result of obtaining physical possession. Consumer mortgage loans secured by residential real estate for which the Bank has entered into formal foreclosure proceedings but for which physical possession has yet to be obtained amounted to \$217,000 at March 31, 2015 and \$118,000 at December 31, 2014. These balances were not included in foreclosed assets held for resale at March 31, 2015 or December 31, 2014.

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where the modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR").

The outstanding balance of TDRs as of March 31, 2015 and December 31, 2014 was \$8,785,000 and \$4,708,000, respectively. The increase in TDRs was attributable to deterioration in the respective borrowers' financial position, and in some cases a declining collateral value, along with the Bank's proactive monitoring of the loan portfolio. As of March 31, 2015 and December 31, 2014, there were no unfunded commitments on any TDRs.

During the three months ended March 31, 2015, two loans with a combined post modification balance of \$4,249,000 were classified as TDRs, as compared to the same period in 2014, when five loans with a combined post modification balance of \$445,000 were classified as TDRs. The loan modifications for the three months ended March 31, 2015 consisted of one term modification and one payment modification. The loan modifications for the three months ended March 31, 2014 consisted of one term modification and four payment modifications.

The following table presents the unpaid balance of TDRs at the dates indicated:

(Dollars in thousands)

	March 31, 2015	December 31, 2014
Non-accrual TDRs	\$ 1,635	\$ 1,638
Accruing TDRs	7,150	3,070
Total	\$ 8,785	\$ 4,708

At March 31, 2015, six Commercial Real Estate loans classified as TDRs with a combined recorded investment of \$2,108,000 were not in compliance with the terms of their restructure, compared to March 31, 2014 when six Commercial Real Estate loans classified as TDRs with a combined recorded investment of \$2,153,000 were not in compliance with the terms of their restructure.

The following table presents information regarding the loan modifications categorized as TDRs during the three months ended March 31, 2015 and March 31, 2014:

(Dollars in thousands, except number of contracts)

	Three Months Ended March 31, 2015				
	Pre-Modification		Post-Modification		Recorded
	Number of Contracts	Investment	Number of Contracts	Investment	
Commercial and Industrial	1	\$ 23		\$ 23	\$ 23
Commercial Real Estate	1	4,226		4,226	4,226
Consumer					
Total	2	\$ 4,249		\$ 4,249	\$ 4,249

(Dollars in thousands, except number of contracts)

	Three Months Ended March 31, 2014				
	Pre-Modification		Post-Modification		Recorded
	Number of Contracts	Investment	Number of Contracts	Investment	
Commercial and Industrial	1	\$ 18		\$ 18	\$ 18
Commercial Real Estate	3	420		420	32
Consumer	1	7		7	7
Total	5	\$ 445		\$ 445	\$ 57

The following table provides detail regarding the types of loan modifications made for loans categorized as TDRs during the three months ended March 31, 2015 and March 31, 2014 with the total number of each type of modification performed.

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014				
	Rate Modification	Term Modification	Payment Modification	Number Modified	Rate Modification	Term Modification	Payment Modification	Number Modified
Commercial and Industrial		1		1			1	1
Commercial Real Estate			1	1	1		2	3

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Consumer					1	1
Total	1	1	2	1	4	5

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The recorded investment, unpaid principal balance, and the related allowance of the Corporation's impaired loans are summarized below for the periods ended March 31, 2015 and December 31, 2014.

<i>(Dollars in thousands)</i>	March 31, 2015			December 31, 2014		
	Unpaid		Related	Unpaid		Related
	Recorded Investment	Principal Balance		Allowance	Recorded Investment	
With no related allowance recorded:						
Commercial and Industrial	\$418	\$564	\$	\$399	\$545	\$
Commercial Real Estate	8,970	9,200		4,828	5,278	
Residential Real Estate	700	865		727	892	
Consumer	3	3		4	4	
With an allowance recorded:						
Commercial and Industrial						
Commercial Real Estate	258	258	26	522	522	38
Residential Real Estate	549	554	66	564	569	81
Consumer						
Total	\$10,898	\$11,444	\$ 92	\$7,044	\$7,810	\$ 119
Total consists of:						
Commercial and Industrial	\$418	\$564	\$	\$399	\$545	\$
Commercial Real Estate	\$9,228	\$9,458	\$ 26	\$5,350	\$5,800	\$ 38
Residential Real Estate	\$1,249	\$1,419	\$ 66	\$1,291	\$1,461	\$ 81
Consumer	\$3	\$3	\$	\$4	\$4	\$

At March 31, 2015 and December 31, 2014, \$8,785,000 and \$4,708,000 of loans classified as TDRs were included in impaired loans with a total allocated allowance of \$19,000 and \$27,000, respectively. The recorded investment represents the loan balance reflected on the Consolidated Balance Sheets net of any charge-offs. The unpaid balance is equal to the gross amount due on the loan.

The average recorded investment and interest income recognized for the Corporation's impaired loans are summarized below for the three months ended March 31, 2015 and 2014.

<i>(Dollars in thousands)</i>	March 31, 2015		March 31, 2014	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded:				
Commercial and Industrial	\$408	\$ 4	\$37	\$

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Commercial Real Estate	6,941	106	5,298	21
Residential Real Estate	685		1,003	
Consumer	3		7	

With an allowance recorded:

Commercial and Industrial				
Commercial Real Estate	260			
Residential Real Estate	556			
Consumer				
Total	\$ 8,853	\$ 110	\$ 6,345	\$ 21

Total consists of:

Commercial and Industrial	\$ 408	\$ 4	\$ 37	\$
Commercial Real Estate	\$ 7,201	\$ 106	\$ 5,298	\$ 21
Residential Real Estate	\$ 1,241	\$	\$ 1,003	\$
Consumer	\$ 3	\$	\$ 7	\$

Of the \$110,000 and \$21,000 in interest income recognized on impaired loans for the three months ended March 31, 2015 and 2014, respectively, there was no interest income recognized in respect to non-accrual loans.

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Loan receivables on non-accrual status, foreclosed assets held for resale and loans past-due 90 days or more and still accruing, as of March 31, 2015 and December 31, 2014 were as follows:

(Dollars in thousands)

	March 31, 2015	December 31, 2014
Commercial and Industrial	\$ 3	\$ 5
Commercial Real Estate	2,496	2,678
Residential Real Estate	1,249	1,291
Total non-accrual loans	3,748	3,974
Foreclosed assets held for resale	55	55
Loans past-due 90 days or more and still accruing	298	10
Total non-performing assets	\$ 4,101	\$ 4,039

The following tables present the classes of the loan portfolio summarized by the past-due status at March 31, 2015 and December 31, 2014:

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days Or Greater Past Due and Still Accruing
March 31, 2015:							
Commercial and Industrial	\$ 38	\$ 24	\$ 3	\$ 65	\$80,982	\$81,047	\$
Commercial Real Estate	1,361	981	2,427	4,769	255,067	259,836	153
Residential Real Estate	1,543	273	1,179	2,995	158,710	161,705	145
Consumer	18	2		20	5,046	5,066	
Total	\$ 2,960	\$ 1,280	\$ 3,609	\$ 7,849	\$499,805	\$507,654	\$ 298

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days Or Greater Past Due and Still Accruing
December 31, 2014:							
Commercial and Industrial	\$ 72	\$ 28	\$ 5	\$ 105	\$64,551	\$64,656	\$
Commercial Real Estate	1,657	613	2,375	4,645	249,277	253,922	

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Residential Real Estate	1,998	224	1,220	3,442	160,111	163,553	10
Consumer	27	8	.	35	5,295	5,330	.
Total	\$ 3,754	\$ 873	\$ 3,600	\$ 8,227	\$479,234	\$487,461	\$ 10

At March 31, 2015 and December 31, 2014, there were no commitments to lend additional funds with respect to impaired loans.

NOTE 5 — BORROWINGS

Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, Federal Discount Window, and Federal Home Loan Bank (“FHLB”) advances, which generally represent overnight or less than 30-day borrowings.

Securities Sold Under Agreements to Repurchase (“Repurchase Agreements”)

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Corporation’s Consolidated Balance Sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty’s custodial account. The counterparty has the right to sell or pledge the investment securities.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreements as of March 31, 2015 and December 31, 2014.

<i>(Dollars in thousands)</i>		Gross Amounts Offset in the Consolidated Balance	Net Amounts of Liabilities Presented in the Consolidated Balance	Financial	Cash Collateral	Net
Gross Amounts of Recognized						

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	Liabilities	Sheet	Sheet	Instruments	Pledge	Amount
March 31, 2015						
Repurchase agreements (a)	\$ 19,308	\$	\$ 19,308	\$ (19,308)	\$	\$
December 31, 2014						
Repurchase agreements (a)	\$ 16,730	\$	\$ 16,730	\$ (16,730)	\$	\$

(a) As of March 31, 2015 and December 31, 2014, the fair value of securities pledged in connection with repurchase agreements was \$22,976,000 and \$26,094,000, respectively.

Long-term borrowings are comprised of advances from FHLB and a capital lease assumed as a result of the acquisition of Pocono Community Bank. Under terms of a blanket agreement, collateral for the FHLB loans is certain qualifying assets of the Corporation's banking subsidiary. The principal assets are real estate mortgages and certain investment securities.

NOTE 6 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various pending legal actions and proceedings that are not reflected in the consolidated financial statements. Management does not believe the outcome of these actions and proceedings will have a material effect on the consolidated financial position or results of operations of the Corporation.

NOTE 7 — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk.

The contract or notional amounts at March 31, 2015 and December 31, 2014, were as follows:

(Dollars in thousands)

	March 31, 2015	December 31, 2014
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 75,880	\$ 84,983
Financial standby letters of credit	\$ 460	\$ 471
Performance standby letters of credit	\$ 5,469	\$ 5,851

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses that may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the

Corporation upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, owner-occupied income-producing commercial properties, and residential real estate.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation may hold collateral to support standby letters of credit for which collateral is deemed necessary.

NOTE 8 — FAIR VALUE MEASUREMENTS

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes information on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with the fair value measurement and disclosure guidance.

This guidance clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own belief about the assumptions market participants would use in pricing the asset or liability based upon the best information available in the circumstances. Fair value measurement and disclosure guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Inputs: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Inputs: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth as follows.

Financial Assets Measured at Fair Value on a Recurring Basis

At March 31, 2015 and December 31, 2014, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

(Dollars in thousands)

March 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities:				
U.S. Treasury securities	\$	\$6,091	\$	\$6,091
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed		77,639		77,639
Other		34,900		34,900
Obligations of state and political subdivisions		166,795		166,795
Corporate debt securities		52,922		52,922
Marketable equity securities	2,001			2,001
Total	\$ 2,001	\$ 338,347	\$	\$ 340,348

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(Dollars in thousands)

December 31, 2014

	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities:				
U.S. Treasury securities	\$	\$11,378	\$	\$11,378
Obligations of U.S. Government Corporations and Agencies:				
Mortgaged-backed		112,714		112,714
Other		26,510		26,510
Obligations of state and political subdivisions		157,223		157,223
Corporate debt securities		37,786		37,786
Marketable equity securities	2,055			2,055
Total	\$2,055	\$345,611	\$	\$347,666

The estimated fair values of equity securities classified as Level 1 are derived from quoted market prices in active markets; these assets consist mainly of stocks held in other banks. The estimated fair values of all debt securities classified as Level 2 are obtained from nationally-recognized third-party pricing agencies. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Corporation (observable inputs), and are therefore classified as Level 2 within the fair value hierarchy. The Corporation does not have any Level 3 inputs for investments. There were no transfers between Level 1 and Level 2 during 2015 or 2014.

Financial Assets Measured at Fair Value on a Nonrecurring Basis

At March 31, 2015 and December 31, 2014, impaired loans measured at fair value on a non-recurring basis and the valuation methods used are as follows:

(Dollars in thousands)

	Level 1	Level 2	Level 3	Total
Assets at March 31, 2015				
Impaired loans:				
Commercial and Industrial	\$	\$	\$3	\$3
Commercial Real Estate			1,737	1,737
Residential Real Estate			856	856
Total impaired loans	\$	\$	\$2,596	\$2,596

(Dollars in thousands)