



ANNUAL REPORT 2015

INVESTMENTS Family
SAVINGS COLLEGE
Business RETIREMENT
MORTGAGE Future
GOALS Budget

FIRST KEYSTONE CORPORATION



FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data) 2015 2014 2013 2012 2011

SUMMARY OF OPERATIONS

Interest income	\$ 31,711	\$ 31,019	\$ 30,961	\$ 34,936	\$ 37,028
Interest expense	4,966	4,452	4,954	6,514	9,405
Net interest income	26,745	26,567	26,007	28,422	27,623
Provision for loan losses	2,277	433	1,372	1,600	1,900
Net investment securities gains	2,131	2,756	2,900	813	111
Net income	9,172	10,211	10,273	10,170	9,907

PER COMMON SHARE DATA

Net income	\$ 1.64	\$ 1.84	\$ 1.87	\$ 1.86	\$ 1.82
Dividends	1.08	1.05	1.04	1.01	0.97

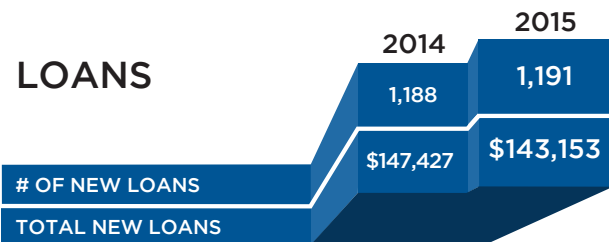
BALANCE SHEET DATA

Total assets	\$983,489	\$912,353	\$901,514	\$819,966	\$818,546
Total investment securities	385,267	348,722	354,770	298,873	331,429
Net loans	509,871	481,071	439,999	427,124	410,066
Total deposits	720,598	661,562	690,075	608,834	624,349
Total stockholders' equity	108,438	106,271	96,351	103,330	93,092

PERFORMANCE RATIOS

Return on average assets	0.96%	1.13%	1.23%	1.25%	1.21%
Return on average equity	8.43%	9.90%	10.12%	10.19%	11.57%
Dividend payout	65.79%	56.95%	55.64%	54.18%	53.31%
Average equity to average assets	11.40%	11.45%	12.10%	12.28%	10.43%

LOANS



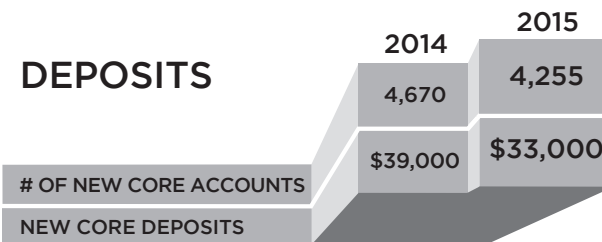
LOAN BREAKDOWN



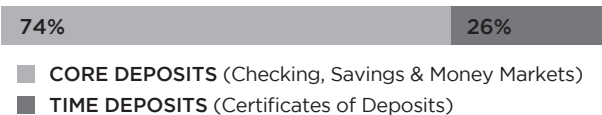
NEW INITIATIVES

- Launched EMV Chip-enabled Debit cards
- Introduced New Web address: www.fkc.bank
- Implemented Enhanced Employee Training Initiative

DEPOSITS



DEPOSIT BREAKDOWN



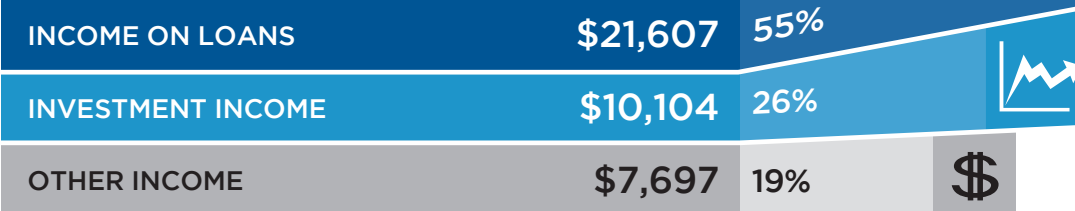
COMMUNITY OFFICES

- Hanover Township Community Office Remodeled
- Danville Community Office Remodeled

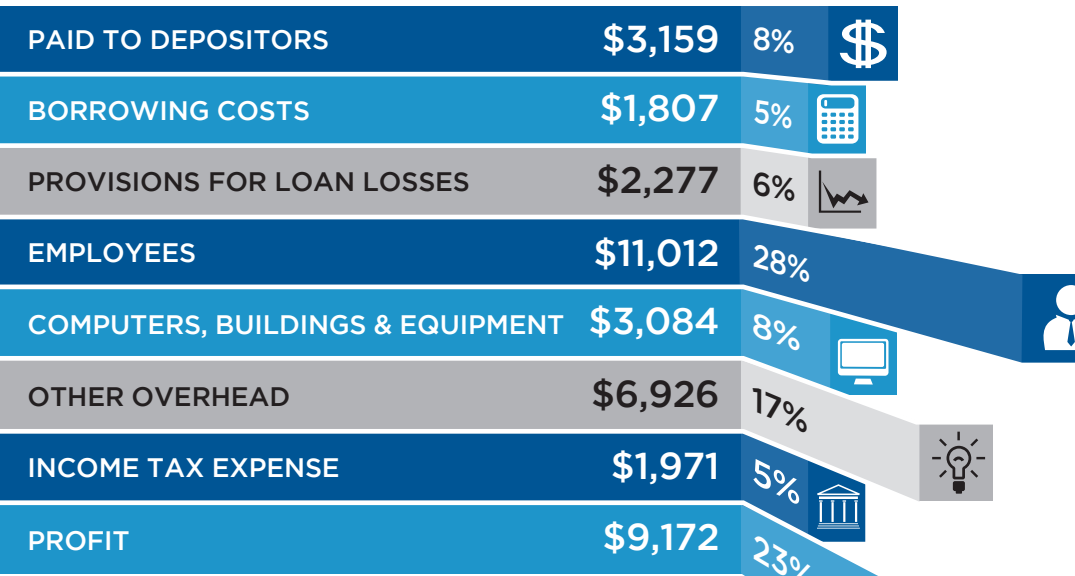
Dollars in thousands

INCOME STATEMENT IN GRAPHIC FORM

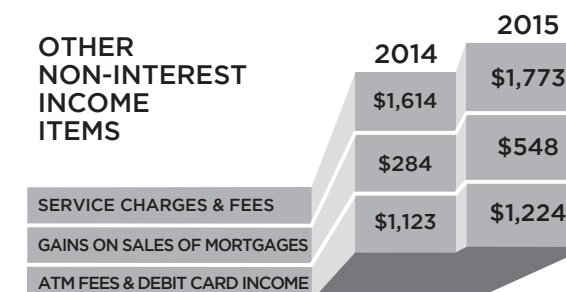
How we generated **\$39,408** in income:



How we used our **\$39,408** in income:



COMPONENTS OF OTHER INCOME



Dollars in thousands

TO OUR SHAREHOLDERS

The cover of this year's Annual Report to Shareholders features some of the Bank's customers and employees with their families. Also, there is a list of life events on the cover. The words and pictures convey a message: First Keystone Community Bank provides financial services for a lifetime of needs. Young people are concerned about saving for the future. As we form our own families, borrowing needs become important. And as we get older, assets accumulate and investment management becomes essential. Throughout our lifetimes, safety, cost and convenience are key. The employees of First Keystone Community Bank can provide the products and services to meet your financial needs throughout your lifetime.

This year's Annual Report to Shareholders highlights the full range of products and services the Bank offers to its customers. Whether using your debit card to buy groceries, transferring funds to your savings account with online banking, consulting with our residential mortgage lenders about buying a new home, or getting a free life insurance checkup from our financial services group, First Keystone Community Bank provides superior service with a full range of products to meet your banking needs.

During 2015, First Keystone Community Bank continued to enhance its product line. In October, we launched new EMV Chip-enabled Debit Cards. These new cards utilize the latest technology to guard your account from fraudulent charges. Also during the year, we changed our web address to www.fkc.bank. By using this new address to log into your accounts through online banking, you can help ensure that your account information and online transactions will remain safe and secure.

These enhanced and secure services are available for customers who opt for using these latest technologies. For those that prefer visiting the Bank, working face-to-face with our professional staff and receiving world-class personal service, we continue to welcome you at each of our 18 local community office locations.

FINANCIAL HIGHLIGHTS

During the fiscal year ended December 31, 2015, the Corporation had net income of \$9,172,000. Net income during 2014 was \$1,039,000 higher. The decrease in net income is related to one large commercial real estate loan that was placed on non-accrual status and, after appraisal, resulted in a charge-off of a significant portion of the balance of the loan. Earnings, on a per share basis, were \$1.64 in 2015 while dividends per share were \$1.08.

At December 31, 2015, the Corporation's total assets were \$983,489,000, which was an increase over 2014 of \$71,136,000 or 7.8%. The growth in assets was propelled by a 6.0% increase in net loans and a 10.5% increase in investment securities. The respective increases were \$28,800,000 and \$36,545,000. Commercial and industrial loans increased during the year by \$20,418,000 or 31.6%. Municipal and corporate debt securities both increased during 2015 and were responsible for the largest share of the increase in investment securities.

Funding for the increase in total assets came from three sources. First, and largest, the deposits increased by \$59,036,000, or 8.9% for the year ended December 31, 2015. A major part of the increase came from higher balances carried by a large municipal depositor. Second, borrowings, primarily from the Federal Home Loan Bank of Pittsburgh, increased by \$12,309,000 or 8.9%. Long-term borrowing was increased in 2015 to help protect against rising short-term interest rates. Finally, a portion of the funding for the increase in assets came from an increase in stockholders' equity. Stockholders' equity rose as a result of the retention of a portion of 2015 earnings and the issuance of common stock through the dividend reinvestment program. Accumulated other comprehensive income decreased as a result of higher long-term interest rates at December 31, 2015. This caused the market value of investment securities to drop slightly as compared to its book value. We continue to be well capitalized by every regulatory measure, and we remain in a position to grow as our local economy improves.

Net interest income rose in 2015 even as net interest margin continued to decline. The decline in net interest margin, from 3.43% in 2014 to 3.27% in 2015, was caused primarily by a decrease in yields on average loan and investment security balances. The Corporation still has legacy assets (loans and investments) with higher than current market yields. As these assets reprice, mature or are otherwise repaid, they are often replaced with lower current market yielding assets. Funding costs, as measured by yields on balances due to depositors and the Corporation's lenders, increased only slightly in 2015. With the recent increase in short-term rates by the Fed, some borrowing costs have begun to rise. Overall, margin compression in 2015 was offset by the growth in the Corporation's assets.

The provision for loan losses increased significantly in 2015 as compared to the prior year. The provision in 2015 was \$2,277,000 as compared to \$433,000 in 2014. Management does not believe the increase in the provision reflects a significant deterioration in the credit quality of the loan portfolio. Underwriting standards and procedures have not changed in any material way and 2014 represented a low point in net charge-offs over the past 5 years.

Non-interest income, not including net investment security gains, increased by \$420,000 or 8.2% in 2015. Service charges and fees increased as a result of a re-evaluation of our fee structure in relation to our local competitors. ATM and debit card income increased as a result of increased usage of our debit cards, driven in large part by the success of our Free Rewards Checking line of products. Finally, gains on the sale of mortgage loans increased significantly as a result of our efforts to originate residential mortgage loans throughout our four county market. Net investment security gains decreased by \$625,000 or 22.7%.

Non-interest expense declined by \$186,000 or 0.9%. The largest component of our non-interest expense is salaries and employee benefits. These expenses were reduced by \$463,000 or 4.0% in 2015 even as the Corporation experienced a 13.2% increase in the cost of medical insurance for the employees. Staffing levels throughout the organization were re-evaluated to achieve optimal efficiency, resulting in the decline in expense. Occupancy and advertising expenses were also lower in 2015 as compared to 2014.

Income tax expense for the year ended December 31, 2015 was lower than the prior year by \$646,000, or 24.7%, as a result of an increase in tax-exempt income earned from investments in state and local units of government. The Corporation's effective tax rate was 17.7% in 2015 as compared to 20.4% in 2014.

During 2015, we paid a dividend of \$1.08 per share, an increase of 2.86% from 2014. Based upon the closing share price on December 31, 2015 of \$25.49, this produced a dividend yield of 4.2%. One dollar invested in the Corporation's stock on December 31, 2010, with dividends reinvested, would have been worth \$1.81 as of December 31, 2015.

Our goal at First Keystone Corporation is to provide our shareholders with consistent, safe and reliable returns on the funds you have invested in the company. For our customers, we pledge to provide trusted advice to help meet financial goals through convenient, secure and valuable products and services. To the communities we serve, we will continue to contribute our time and our resources to keep them strong and healthy. And for our employees, we promise an exciting, rewarding and family sustaining work experience.

Come in and speak with our staff today. Let them put together the products and services that will address all your banking needs to reach your financial goals.



Matthew P. Prosseda
President & Chief Executive Officer



THE TOTAL FINANCIAL PICTURE



First Keystone Community Bank has been helping generations of local families and businesses reach their financial goals since 1864. The financial life cycle of the average consumer may be filled with many milestones and challenges, but the goal of First Keystone is to help its customers with the innovative products and professional guidance needed to navigate today's rapidly changing banking environment. Whether you are a student opening your first checking account, a couple buying your first home and starting a family, or planning your retirement, banking with First Keystone, your local community bank, is always the best choice.



No matter what stage of life you may find yourself, one of the most important elements for a prosperous future is security. First Keystone has you covered on several fronts. We became the first local community bank to implement the .bank (dot bank) website address. By using this designation (instead of .com or .net), an added layer of security is provided to online transactions.

In addition, First Keystone Community Bank rolled out its new EMV Chip-enabled debit card which supports the most advanced level of information security available today. As more

merchants are able to process EMV transactions, our customers will have a new tool to combat identity theft and eliminate unauthorized access to their bank accounts.

As the world becomes more mobile and more reliant on handheld devices, First Keystone introduced a mobile remote deposit capture service which allows customers to snap a photo of a check with their smartphone and forward the image to the bank for crediting. This type of technology, which was unheard of just ten years ago, is changing the way we do banking and improving the process at the same time. Using mobile remote deposit, in conjunction with the bank's fully functional online banking services, provides the 24/7 access to your bank accounts and financial records that will help to keep you and your budget on track.

When it comes time to buy that first home, First Keystone's Mortgage Loan Consultants are just a phone call away and ready to assist with the daunting amount of details that are required to put you in a new home. If you already own your home, there are many viable options available to refinance your existing mortgage loan or establish a home equity line of credit. With competitive rates, local decision-making, and an online application channel, First Keystone is ready to help you select the right mortgage loan for your situation.

As retirement nears, the need for sound investment advice is crucial. The staff in First Keystone's Trust and Financial Services Department stands ready to assist with the critical decisions on IRAs, pensions, 401(k) Plans, and much more. The Trust Department also lends a hand with estate planning, which allows First Keystone to take on broader responsibilities that can benefit you now and continue to help your family in the future. You can count on First Keystone Community Bank's estate-planning experts to help tailor a plan that meets the needs of any family situation.

By offering a wide array of accounts and services, and by providing friendly hometown customer service, First Keystone Community Bank remains committed to helping to meet the needs of each individual person, family or business in Columbia, Luzerne, Monroe and Montour counties.

First Keystone Community Bank: Yesterday's Traditions, Tomorrow's Vision. Here to help you every step of the way.



"...HELPING GENERATIONS OF LOCAL FAMILIES AND BUSINESSES REACH THEIR FINANCIAL GOALS SINCE 1864"



FIRST KEYSTONE CORPORATION BOARD OF DIRECTORS



ROBERT E. BULL
Chairman
Retired Attorney
Bull, Bull & McDonald, LLP



J. GERALD BAZEWCZ
Vice Chairman
Retired President & CEO
First Keystone Community Bank



JOHN ARNDT
Owner
Arndt Insurance Agency



DON E. BOWER
President
Don E. Bower, Inc.



ROBERT A. BULL
Attorney
Bull, Bull & McDonald, LLP



DR. JOSEPH B. CONAHAN, JR.
Ophthalmologist/Managing Partner
Pocono Ambulatory Surgery Center



JEROME F. FABIAN
Owner/President
Tile Distributors of America, Inc.



JOHN G. GERLACH
Retired President
First Keystone Community Bank,
Pocono Division



MATTHEW P. PROSSEDA
President & CEO
First Keystone Community Bank



DAVID R. SARACINO
Retired Vice President & CFO
First Keystone Community Bank

OFFICERS

ROBERT E. BULL
Chairman

J. GERALD BAZEWCZ
Vice Chairman

MATTHEW P. PROSSEDA
President & Chief Executive Officer

DIANE C.A. ROSLER
Chief Financial Officer

JOHN ARNDT
Secretary

CHERYL L. WYNINGS
Assistant Secretary

ELAINE A. WOODLAND
Treasurer

FIRST KEYSTONE COMMUNITY BANK OFFICERS*

ROBERT E. BULL
Chairman of the Board

J. GERALD BAZEWCZ
Vice Chairman

JOHN ARNDT
Secretary

EXECUTIVE MANAGEMENT

MATTHEW P. PROSSEDA
President
Chief Executive Officer

ELAINE A. WOODLAND
Executive Vice President
Chief Operating Officer
Treasurer

MATTHEW W. MENSINGER
Senior Vice President
Director of Lending

DIANE C.A. ROSLER
Senior Vice President
Chief Financial Officer &
Cashier

BARBARA J. ROBBINS
Senior Vice President
Deposit Operations
Manager

MARK J. MCDONALD
Senior Vice President
Chief Credit Officer

JOHN J. O'REILLY
Vice President
Senior Trust Officer

GABRIEL D. ALESSI
Vice President,
Mortgage Services Manager

JODI L. ALLEY
Vice President,
Loan Operations Manager

LESA A. ANGELL
Vice President, Retail
Banking & Sales Manager

WENDY L. BACHER
Asst. Trust Officer,
IRA Manager

PATRICIA BUCCIERI
Asst. Vice President,
Asst. Community Office
Manager

ANTHONY P. CARTIGLIA
Vice President,
Commercial Services Officer

CARMELITA A. CLEAVER
Vice President,
Retail Operations Officer

SANDRA L. COLE
Asst. Cashier,
Asst. Community Office
Manager

LESLIE COTE
Asst. Cashier,
Mortgage Loan Consultant

BEVERLY A. CRUIKSHANK
Vice President,
Community Office Manager

MARCIA H. DOBEY
Asst. Vice President,
Mortgage Underwriter

ANDREW S. FAYTKO
Vice President,
Commercial Services Officer

ELIZABETH GOLL
Asst. Vice President,
Asst. Community Office
Manager

JAMES T. GORMAN
Sr. Vice President,
Commercial Services Officer-
Sr. Market Manager

EDGAR A. GOWER, JR.
Vice President,
Commercial Services Officer

BRENDA L. GRASLEY
Vice President,
Consumer Loan Manager

TINA M. GRAY
Vice President,
Community Office Manager

HERBERT HARMON, JR.
Asst. Cashier,
Facilities Manager

HOLLY M. HARTLEY
Asst. Cashier,
Community Office Manager

LILIANA HENRICKSON
Asst. Cashier,
In Store Sales Manager

LEE A. HESS
Vice President,
Commercial Services Officer-
Security Officer

JASON P. HOLLOWAY
Asst. Cashier,
Commercial Services Officer

JUNE HONOROWSKI
Vice President,
Regional Branch Administrator

REBECCA A. HOOPER
Trust Officer
Asst. Vice President

KATHLEEN M. JARSKI
Asst. Vice President,
Community Office Manager

RACHEL JENNINGS
Asst. Cashier,
Post Closing Document
Specialist

THERESA E. JOHNSON
Asst. Cashier,
Community Office Manager

DONNA J. KEEFER
Vice President,
Training/Systems Support
Manager

BRIAN M. KLINEFELTER
Asst. Vice President,
Credit Department Manager

KEVIN KRIEGER
Vice President,
Compliance Officer &
BSA Officer

STEVEN M. KOTCH
Assistant Cashier,
Collector

MICHELLE E. KOZAK
Asst. Cashier,
Marketing Officer

MARTIN B. LEANDRI
Asst. Cashier,
Community Office Manager

JONATHAN LITTLEWOOD
Vice President,
Commercial Services Officer

KRISTI A. MCCLINTOCK
Asst. Cashier,
Commercial Loan Document
Specialist

LINDA M. MESHINSKI
Asst. Vice President,
Community Office Manager

EUGENE W. MORRISON
Vice President,
Commercial Services Officer

KIM R. MURREN
Asst. Cashier,
Community Office Manager

BONNIE NEVEL
Asst. Cashier,
Trainer

LAURIE NUDO
Asst. Cashier,
Customer Service Officer

DEBORAH C. ORENDI
Asst. Cashier,
Community Office Manager

MARILYNN PALMER
Vice President,
Community Office Manager

MARY E. PASCUCCI
Asst. Vice President,
Training Director

FRANCES I. SEWARD
Asst. Vice President,
Community Office Manager

KIMBERLY S. SHINER
Asst. Vice President,
Community Office Manager

SHERRI A. SITLER
Asst. Vice President,
Deposit Review Officer

NATALIE J. STACKHOUSE
Asst. Cashier,
Accounting Manager

KIMBERLY A. VOLKEL
Asst. Cashier,
Community Office Manager

LEIGHTON B. WALSH
Asst. Vice President,
Mortgage Loan Consultant

JEFFREY T. WOZNAK
Vice President,
IT Manager/Information
Security Officer

CHERYL L. WYNINGS
Asst. Cashier,
Exec. Administrative Asst. &
Asst. Secretary

LINDA K. YERGES
Vice President,
Human Resource Manager

ROBERT A. YOUNG
Vice President,
Loan Review Officer

CHRISTOPHER ZLOBIK
Asst. Cashier,
Asst. IT Manager

*Officers as of December 31, 2015

ADVISORY BOARDS

BLOOMSBURG/DANVILLE

Michael E. Boone
Walter Deacon
Dan W. Hartman
Michael H. Kuziak
Nancy Marr

WYOMING VALLEY

Timothy Connolly
Daniel Fierman
Michael Jezewski
James Mangan
Stephen Phillips
Edward H. Poggi, III
James V. Reino, Jr.

POCONO COMMUNITY

Richard W. Berkowitz
Richard L. Price, Jr.
William E. Rinehart
Joel D. Rossi
Jacob E. Seip, Jr.

CORPORATE INFORMATION

THE CORPORATION

First Keystone Corporation is a bank holding company incorporated under the Pennsylvania Business Corporation Laws. Its assets consist primarily of the assets of its wholly-owned subsidiary, First Keystone Community Bank.

First Keystone Community Bank serves Columbia, Montour, Luzerne, and Monroe Counties. The Bank engages in general banking business and also provides fiduciary services.

CORPORATE HEADQUARTERS

First Keystone Corporation
111 West Front Street
Berwick, Pennsylvania 18603
Telephone: 570-752-3671
Fax: 570-752-4022

NOTICE OF ANNUAL MEETING

The 2016 Annual Meeting of Shareholders will be held at 10:00 a.m., Eastern Daylight Time, on Thursday, May 5, 2016 at:

McBride Memorial Library, Community Room
500 Market Street
Berwick, Pennsylvania 18603

ANNUAL REPORT ON FORM 10-K

The Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained, without charge, by contacting:

Cheryl Wynings
Investor Relations
P.O. Box 289
Berwick, Pennsylvania 18603
Telephone: 1-888-759-2266, extension 1175
Locally: 570-752-3671, extension 1175

STOCK LISTING

First Keystone Corporation common stock is traded on OTC Pink under the symbol "FKYS".

TRANSFER AGENT AND REGISTRAR

To change or transfer registration of your stock, report a lost certificate, or other related inquiries, please contact our transfer agent at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 1-800-368-5948
Website: computershare.com/investor

DIRECT DEPOSIT

Shareholders may have their cash dividends deposited directly into the account of their choice at any banking institution, with no charge. Additional information and enrollment materials for direct deposit can be obtained by calling 1-800-368-5948.

DIVIDEND REINVESTMENT PLAN

The Plan, open to residents of Pennsylvania, provides the opportunity to have dividends automatically reinvested into First Keystone Corporation stock. Participants in the Plan may also elect to make cash contributions to purchase additional shares of common stock. For information regarding the Plan, contact the Plan Administrator at:

Computershare
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 1-800-368-5948

INVESTOR INFORMATION

Information regarding First Keystone Corporation is available online at firstkeystonecorporation.com. The website also includes additional information of interest to shareholders such as: historical stock prices, dividend declarations, press releases and governance documents.

Requests for information or assistance regarding the corporation should be directed to Shareholder Relations at: 1-888-759-2266, extension 1175
Locally: 570-752-3671, extension 1175

STOCK PURCHASE INQUIRIES

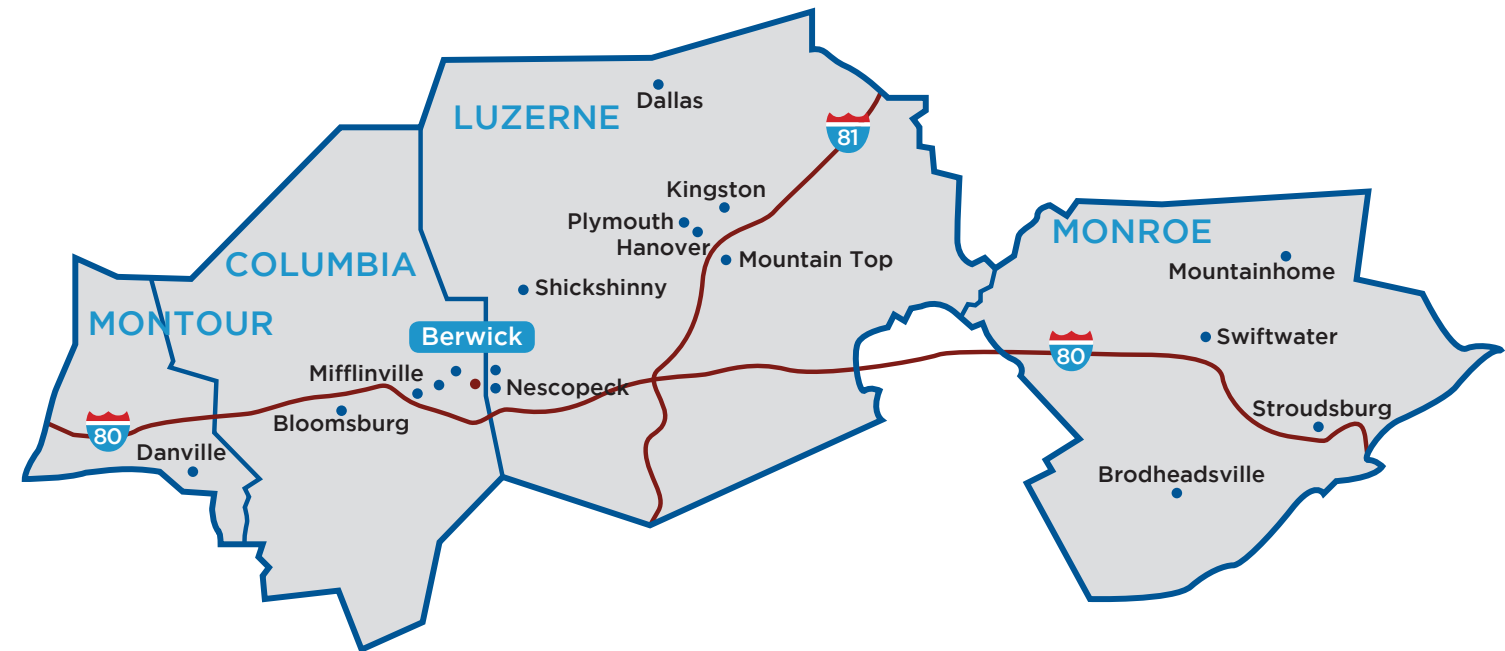
The following brokerage firms make a market in First Keystone Corporation common stock:

RBC Dain Rauscher, 800-223-4207
Janney Montgomery Scott LLC, 800-526-6397
Stifel Nicolaus & Co. Inc., 800-223-6807
Boenning & Scattergood, Inc., 800-883-1212
Monroe Securities, 312-327-2530

INDEPENDENT PUBLIC ACCOUNTANTS

BDO USA, LLP
945 East Park Drive, Suite 103
Harrisburg, Pennsylvania 17111
United States
Telephone: 717-233-8800

OFFICE LOCATIONS



FIRST KEYSTONE COMMUNITY BANK

MAIN OFFICE

111 West Front Street
Berwick, PA 18603
570-752-3671

SALEM TOWNSHIP OFFICE

400 Fowler Avenue
Berwick, PA 18603
570-759-2628

FREAS AVENUE OFFICE

701 Freas Avenue
Berwick, PA 18603
570-752-1244

BRIAR CREEK OFFICE

50 Briar Creek Plaza
Berwick, PA 18603
570-802-0541

NESCOPECK OFFICE

437 West Third Street
Nescopeck, PA 18635
570-759-2767

MIFFLINVILLE OFFICE

Third & Race Streets
Mifflinville, PA 18631
570-752-5750

SCOTT TOWNSHIP OFFICE

2301 Columbia Boulevard
Bloomsburg, PA 17815
570-784-0354

DANVILLE OFFICE

1519 Bloom Road
Danville, PA 17821
570-275-8000

HANOVER TOWNSHIP OFFICE

1540 Sans Souci Highway
Hanover Township, PA 18706
570-825-7352

KINGSTON OFFICE

299 Wyoming Avenue
Kingston, PA 18704
570-718-1110

MOUNTAIN TOP OFFICE

18 North Mountain Boulevard
Mountain Top, PA 18707
570-715-0720

PLYMOUTH OFFICE

463 West Main Street
Plymouth, PA 18651
570-719-1400

DALLAS OFFICE

2325 Memorial Highway
Dallas, PA 18612
570-674-1030

SHICKSHINNY OFFICE

107 South Main Street
Shickshinny, PA 18655
570-542-6060

STROUDSBURG OFFICE

559 Main Street
Stroudsburg, PA 18360
570-424-9700

MOUNTAINHOME OFFICE

1154 Route 390
Cresco, PA 18326
570-595-9700

SWIFTWATER OFFICE

2070 Route 611
Swiftwater, PA 18370
570-839-7880

BRODHEADSVILLE OFFICE

2022 Route 209
Brodheadsville, PA 18322
570-402-2008



Martz Technologies, Inc. is an industry leader in industrial automation systems including web handling, motion control, processing, SCADA and information systems. As pictured on our front cover, Lee & Greg Martz, along with their team of engineers and technicians, can take a project from conceptual design through project management, installation and commissioning...“Excellent People Producing Plant Level Solutions.”

As a lifelong customer of First Keystone Community Bank, Greg trusted the personal relationship he had established with the Bank to turn to us to also form his business relationship, with the founding of Martz Technologies, Inc., in 2003.

First Keystone Community Bank has always been a bank for the individuals, families and businesses that make up the community. As time passes we continue to build relationships with the customers of our community and strive to paint “The Total Financial Picture.”



888-759-2266 | www.fkc.bank