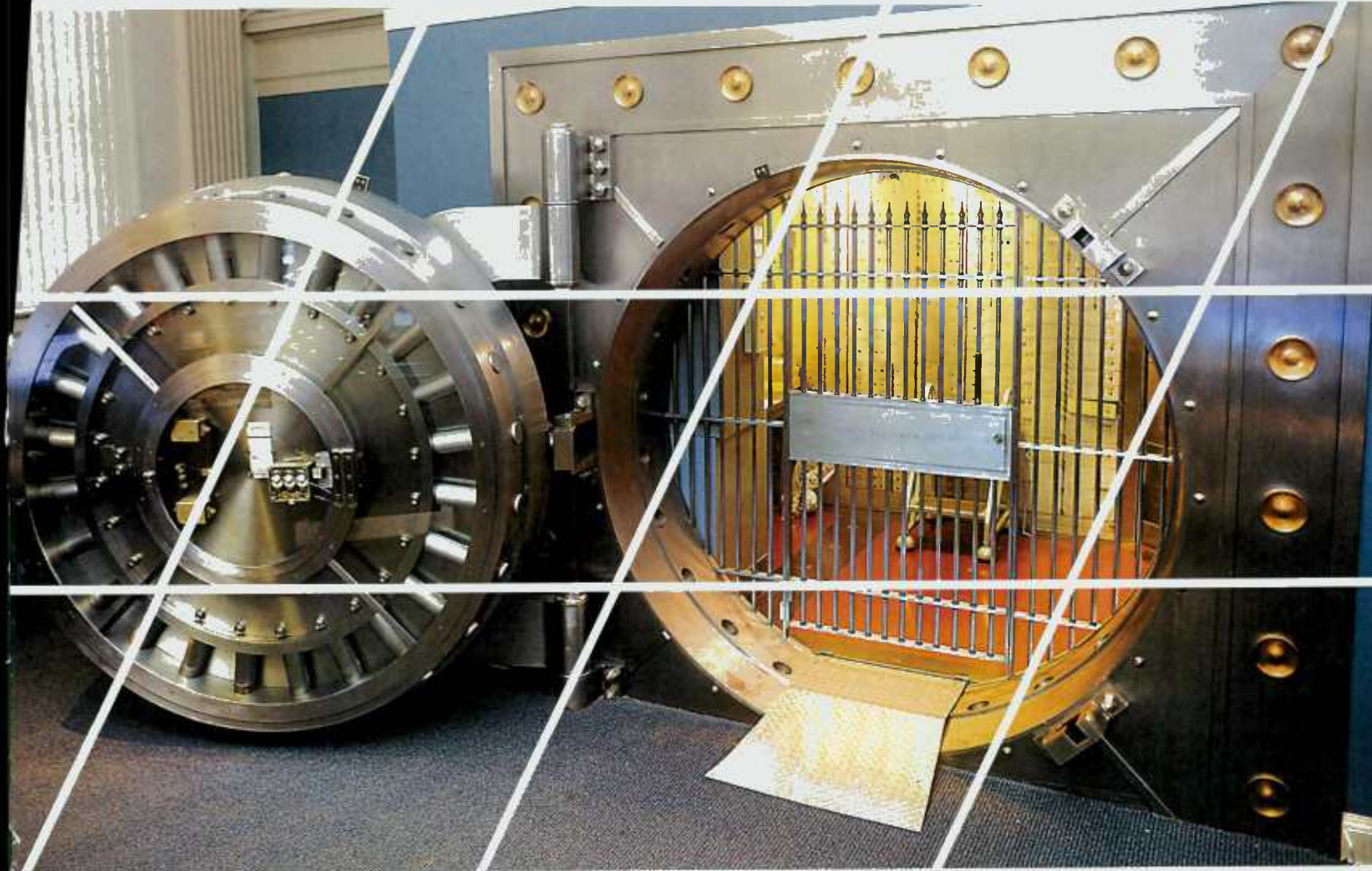


FIRST KEYSTONE CORPORATION



SAFETY

Security

Detail with attention to detail
ASSURANCE

ANNUAL REPORT 2016

888-759-2266 | www.fkc.bank

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data) **2016** 2015 2014 2013 2012

SUMMARY OF OPERATIONS

Interest income	\$ 31,643	\$ 31,711	\$ 31,019	\$ 30,961	\$ 34,936
Interest expense	5,282	4,966	4,452	4,954	6,514
Net interest income	26,361	26,745	26,567	26,007	28,422
Provision for loan losses	2,083	2,277	433	1,372	1,600
Net investment securities gains	1,764	2,131	2,756	2,900	813
Net income	9,472	9,172	10,211	10,273	10,170

PER COMMON SHARE DATA

Net income	\$ 1.68	\$ 1.64	\$ 1.84	\$ 1.87	\$ 1.86
Dividends	1.08	1.08	1.05	1.04	1.01

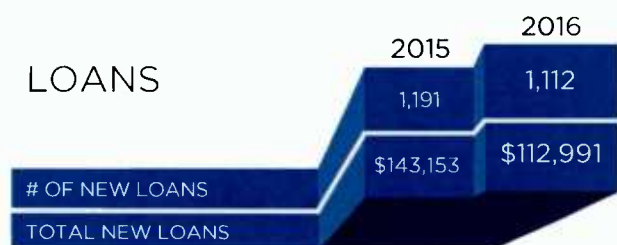
BALANCE SHEET DATA

Total assets	\$ 984,283	\$983,489	\$912,353	\$901,514	\$819,966
Total investment securities	379,641	385,267	348,722	354,770	298,873
Net loans	515,025	509,871	481,071	439,999	427,124
Total deposits	725,982	720,598	661,562	690,075	608,834
Total stockholders' equity	109,685	108,438	106,271	96,351	103,330

PERFORMANCE RATIOS

Return on average assets	0.96%	0.96%	1.13%	1.23%	1.25%
Return on average equity	8.23%	8.43%	9.90%	10.12%	10.19%
Dividend payout	64.30%	65.79%	56.95%	55.64%	54.18%
Average equity to average assets	11.68%	11.40%	11.45%	12.10%	12.28%

LOANS



LOAN BREAKDOWN



- COMMERCIAL
- HOME EQUITY
- MORTGAGES
- CONSUMER & OTHER

DEPOSITS



DEPOSIT BREAKDOWN



- CORE DEPOSITS (Checking, Savings & Money Markets)
- TIME DEPOSITS (Certificates of Deposits)

NEW INITIATIVES

- Introduced New Web address: www.fkc.bank
- Introduced Card Valet

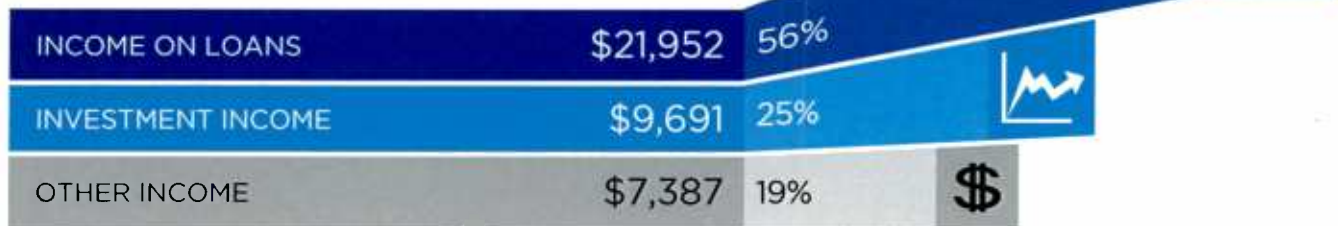
COMMUNITY OFFICES

- Mifflinville Community Office Branch Remodeled
- Launched "Banking for Your Future" financial literacy program

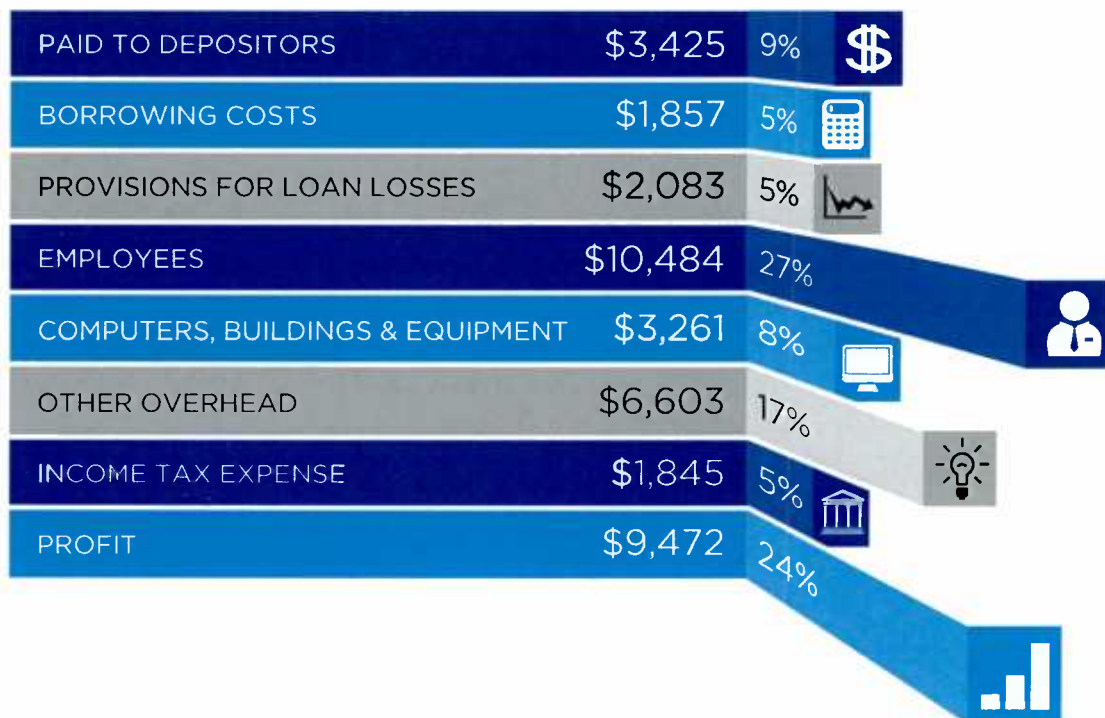
Dollars in thousands

INCOME STATEMENT IN GRAPHIC FORM

How we generated \$39,030 in income:



How we used our \$39,030 in income:



COMPONENTS OF OTHER INCOME

	2015	2016
OTHER NON-INTEREST INCOME ITEMS	\$1,773	\$1,786
SERVICE CHARGES & FEES	\$548	\$358
GAINS ON SALES OF MORTGAGES	\$1,224	\$1,304
ATM FEES & DEBIT CARD INCOME		

Dollars in thousands

TO OUR SHAREHOLDERS

Do You Feel Safe?

First Keystone Community Bank is committed to providing security for your most valued assets, not just your hard-earned money, but your personal and financial information. In addition to your cash, savings, and investments, you also entrust us to protect your valuable personal data. We pledge to protect these assets from theft, either physical or digital. The cover of this Annual Report to Shareholders shows the massive and ornate vault in our Nescopeck Office. We started business in that branch in 1960 and in those days, a strong vault was the best way to protect our customers' financial future. Today, the greater threat comes from cyber-criminals. The article in the center of this year's Annual Report, *At the Forefront: Securing our Future*, tells the story of how First Keystone is working to protect you from those who would try to steal your valuable information. These are just a few of the ways we are meeting our commitment to you: Security, Safety, Peace of Mind... First Keystone Community Bank.

Financial Highlights

During the fiscal year ended December 31, 2016, First Keystone Corporation had net income of \$9,472,000 compared to income of \$9,172,000 for the same period in 2015. This represents a 3.3% increase in net income and is attributable to lower overhead costs, reduced taxes and continued strength in net interest income. Earnings, on a per share basis, were \$1.68 in 2016 as compared to \$1.64 in 2015. Dividends per share were \$1.08.

At December 31, 2016, the Corporation's total assets were \$984,283,000, which was very similar to 2015. Net loans increased from \$509,871,000 at December 31, 2015 to \$515,025,000 at the end of 2016. This was an increase of 1.0%. Loan growth did not meet our target in 2016 due to continued lagging demand, coupled with several large payoffs in the Commercial Real Estate Portfolio. Residential mortgage loans made up a larger share of total loans at the end of 2016 as compared to the same period in 2015. Investment securities declined slightly at year-end, but on average were \$19,637,000 higher during 2016 as compared to 2015.

As of December 31, 2016, deposits were \$725,982,000 as compared to \$720,598,000 as of December 31, 2015. However, average deposits for the year 2016 were \$720,534,000, while for the same period in 2015 deposit balances averaged \$684,419,000, an increase of \$36,115,000 or 5.3%. Non-interest bearing deposits at year-end were \$110,314,000, an increase of 2.7% compared to year-end 2015. Long-term borrowings increased by \$4,884,000, while short-term borrowings fell by \$11,249,000. Long-term borrowings were increased in 2016 in order to help protect against rising short-term interest rates.

Stockholder's equity rose by 1.2% to \$109,685,000. The bank retained \$3,382,000 in profits during 2016, and, through its dividend reinvestment program, increased capital by \$1,319,000, while accumulated other comprehensive income decreased by \$3,454,000. This is a result of higher interest rates at December 31, 2016. Higher rates generally cause the market value of investment securities to drop as compared to book value. First Keystone Corporation continues to be well capitalized by every regulatory measure, and we remain in a position to grow as our local economy improves.

Net interest income declined slightly in 2016. Total interest expense, paid to our depositors and to our lenders, rose while interest and dividends on investment securities fell. Net interest income was \$26,361,000 through December 31, 2016 as compared to \$26,745,000 for the same period in 2015. Interest and fees on loans increased by \$345,000, while interest on deposits increased by \$266,000. Net interest margin declined from 3.27% in 2015 to 3.16% in 2016.

The provision for loan losses in 2016 was \$2,083,000. This was a reduction from the \$2,277,000 added to the allowance for loan losses in 2015. During the third quarter of 2016, the bank charged-off a portion of one large real estate loan. We believe the remaining principal and interest on that loan is fully collectable. Based upon our analysis of the overall loan portfolio, management believes that there is no significant deterioration in the overall credit quality.

Non-interest income declined in 2016. Trust department income and gains on sales of residential mortgage loans were both lower. Service charges and fees and ATM and debit card income both increased. Net investment securities gains were lower and the bank received a one-time gain from proceeds of life insurance. In all, non-interest income was \$7,387,000 in 2016 as compared to \$7,697,000 in 2015, a decline of \$310,000, or 4.0%.

Non-interest expense declined by \$674,000, or 3.2%. Salaries and benefits make up the largest component of our non-interest expense. These expenses were reduced by \$528,000 or 4.8% in 2016. The bank continued to pursue efficiencies in staffing, which lead to the decline. Hospital insurance costs were also lower due to a healthier workforce in 2016. Occupancy and equipment expenses were lower by \$113,000, or 4.7%, and FDIC Insurance declined by \$50,000, or 9.4%.

Income tax expense for the year ended December 31, 2016 was lower than the prior year by \$126,000, or 6.4%, 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 16.3% in 2016 as compared to 17.7% in 2015.

During 2016, we paid a dividend of \$1.08 per share, the same as in 2015. Based upon the closing share price on December 31, 2016 of \$24.60, this produced a dividend yield of 4.4%. One dollar invested in the Corporation's stock on December 31, 2006, with dividends reinvested, would have been worth \$2.21 as of December 31, 2016.

It was another year of consistent growth and profitability at First Keystone Corporation. We continue our commitment to our shareholders, customers, employees and communities. Our goal, in addition to providing sustainable growth for all, is to protect the valuable assets each of you entrust to us. Come in and speak with our staff today. Let them explain to you how we are striving to provide you with deposit, loan and investment services that will help your finances grow, safely.



Matthew P. Prosseda
President & Chief Executive Officer



AT THE FOREFRONT: SECURING OUR FUTURE

There was a time when security in banking meant a safe walk from the parking lot to the teller window or making sure the cash vault was locked up tight overnight. Jump ahead to the 21st century and the term 'security' takes on a whole new meaning. Enter the days of passwords, firewalls, and cybersecurity. Criminals are constantly finding creative new ways to obtain money from banks and customers through fraud and deception because it's become more profitable to steal money from a bank using a computer than a handgun.



At First Keystone Community Bank, we are dedicated to protecting customer's sensitive information and cybersecurity remains a top priority.

Over the past 12 months, the bank has taken many steps toward securing its customer's assets and personal data. By implementing sophisticated technology, ongoing monitoring techniques, complex firewalls, and customer education initiatives, First Keystone remains at the forefront of cybersecurity protection.

In January, the Bank migrated all of its websites and email addresses from fkcbank.com to the fkc.bank (dot.bank) domain name. If our customers or shareholders receive an email from First Keystone, it will come from this new trusted dot bank domain name. This change makes it much more difficult for hackers and thieves to spoof this domain name, thereby ensuring the communication comes from a legitimate source.

In another important development, the bank introduced Card Valet, which allows our customers to manage their debit card usage through a mobile device such as a smartphone or tablet. This simple application allows the cardholder to define when, where and how the debit card is used. A menu of safety features protects financial information by allowing the user to turn the card on or off, establish transaction limits, and receive alerts when the card is used.

In the wake of large-scale global data breaches and increasing rates of counterfeit card fraud, First Keystone Community Bank was one of the first banks in the area to introduce the EMV chip technology for its debit cards. Cards equipped with an EMV computer chip contain technology that authenticates



transactions, adding an extra layer of protection for merchants and consumers.

Even though First Keystone employs many of the latest security measures that remain invisible to the user, such as multifactor authentication, data encryption, privacy policies, and a dedicated and well-trained IT Department, the bank's information security efforts are only half the story. We continue to educate and encourage our customers to be aware of their own information security practices. The only sure way to protect sensitive information is a joint effort between the technological advances implemented by the bank and encouraging our customers to remain diligent and take steps to protect themselves in the electronic world.

Beyond the physical and electronic safety measures, First Keystone takes a proactive position in educating consumers about financial services, products, and protections. And that process starts early. During 2016, the Bank developed an outreach program for local high school students that included lively classroom discussions on ID theft, fraud trends, and managing financial data. The program will continue to be offered to schools in our region during 2017 and into the foreseeable future so that as many students as possible will be impacted. By making our next generation of customers better aware of the risks through outreach education, we are preparing them for the financial future ahead.

Guiding all of our efforts, federal and state cybersecurity regulations comprise directives that safeguard information technology and computer systems with the purpose of requiring financial institutions to protect their systems and information from cyber-attacks. A strong and proactive compliance program and a well-educated Information Security Department, both of which are in place at First Keystone, are the two most important tools in the Bank's cybersecurity program.

Whether it's on the internet or in the lobby, we are committed to providing banking services to our customers that are both safe and convenient. A significant element of tomorrow's vision at First Keystone Community Bank is safeguarding the personal information of our customers, shareholders, and the business communities we serve.



“AT FIRST KEYSTONE COMMUNITY BANK, WE ARE DEDICATED TO PROTECTING CUSTOMER'S SENSITIVE INFORMATION AND CYBERSECURITY REMAINS A TOP PRIORITY.”



FIRST KEYSTONE CORPORATION BOARD OF DIRECTORS



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

MATTHEW P. PROSEDA
President & CEO
First Keystone Community Bank

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

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

ROBERT A. BULL
Attorney
Bull & Bull LLP

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

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

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

JOHN ARNDT
Owner
Arndt Insurance Agency

DR. JOSEPH B. CONAHAN, JR.
Ophthalmologist

OFFICERS

ROBERT E. BULL
Chairman

J. GERALD BAZEWCZ
Vice Chairman

MATTHEW P. PROSEDA
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. PROSEDA
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

SENIOR VICE PRESIDENT

JAMES T. GORMAN
Commercial Services Officer/
Senior Market Manager

VICE PRESIDENT

GABRIEL D. ALESSI
Mortgage Services Manager

JODI L. ALLEY
Loan Operations Manager

LESA A. ANGELL
Retail Banking & Sales Manager

CARMELITA A. CLEAVER
Retail Operations Officer

EDGAR A. GOWER, JR.
Commercial Services Officer

BRENDA L. GRASLEY
Consumer Loan Manager

TINA M. GRAY
Community Office Manager

LEE A. HESS
Commercial Services Officer/
Security Officer

JUNE GEORGE
Consumer Loan Underwriter/
Processor

DONNA J. KEEFER
Training/Systems Support Manager

KEVIN KRIEGER
Compliance Officer & BSA Officer

JONATHAN LITTLEWOOD
Commercial Services Officer

MARISOL LOPEZ
Regional Branch Administrator

EUGENE W. MORRISON
Commercial Services Officer

MARILYNN PALMER
Community Office Manager

JEFFREY T. WOZNAK
Senior IT Manager/
Information Security Officer

LINDA K. YERGES
Human Resource Manager

ROBERT A. YOUNG
Loan Review Officer

ASSISTANT VICE PRESIDENT

MARCIA H. DOBEY
Mortgage Loan Underwriter

ELIZABETH GOLL
Assistant Community Office Manager

REBECCA A. HOOPER
Trust Officer

KATHLEEN M. JARSKI
Community Office Manager

THERESA E. JOHNSON
Community Office Manager

BRIAN M. KLINEFELTER
Credit Department Manager

LINDA M. MESHINSKI
Community Office Manager

KIM R. MURREN
Community Office Manager

MARY E. PASCUCCI
Training Director

FRANCES I. SEWARD
Community Office Manager

KIMBERLY S. SHINER
Community Office Manager

SHERRI A. SITLER
Deposit Review Officer

LEIGHTON B. WALSH
Mortgage Loan Consultant

ASSISTANT CASHIER

SANDRA L. COLE
Community Office Manager

LESLIE COTE
Credit Analyst

JOHN DOUGHERTY
Community Office Manager

LAUREN DUANE
Business Deposit Specialist

JILLIAN GUENTHER
Fraud Analyst

HERBERT HARMON, JR.
Facilities Manager

HOLLY M. HARTLEY
Community Office Manager

LILIANA HENRICKSON
Community Office Manager

ASSISTANT CASHIER

JASON P. HOLLOWAY
Commercial Services Officer

AMANDA JARSKI
Credit Analyst

RACHEL JENNINGS
Post-Closing Document Specialist

STEVEN M. KOTCH
Collector

MICHELLE E. KOZAK
Marketing Manager

MARTIN B. LEANDRI
Financial Consultant

ANGELA MACKERT
Community Office Manager

KRISTI A. MCCLINTOCK
Commercial Loan Document Specialist

BONNIE NEVEL
Trainer

LAURIE NUDO
Community Office Manager

MELISSA PHILLIPS
Credit Analyst

NATALIE J. STACKHOUSE
Accounting Manager

KIMBERLY A. VOLKEL
Community Office Manager

CHERYL L. WYNINGS
Executive Administrative Assistant/
Assistant Secretary

CHRISTOPHER ZLOBIK
Assistant IT Manager

*Officers as of December 31, 2016

ADVISORY BOARDS

COLUMBIA-MONTOUR

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

WYOMING VALLEY

Timothy Connolly
Daniel Fierman
Michael Jezewski
James Mangan
Steven 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 2017 Annual Meeting of Shareholders will be held at 10:00 a.m., Eastern Daylight Time, on Thursday, May 4, 2017 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

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

133 W. Third 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



*Security – your mind is at ease and
you feel good about your future.*

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Keystone
COMMUNITY BANK

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