



1K First
Keystone
Corporation

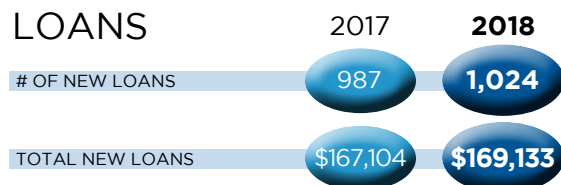
ANNUAL
Report
2018

FINANCIAL HIGHLIGHTS

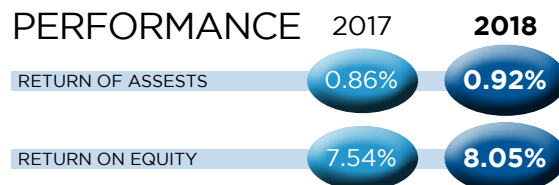
(Dollars in thousands, except per share data)

	2018	2017	2016	2015	2014
SUMMARY OF OPERATIONS					
Interest income	\$ 35,573	\$ 32,268	\$ 31,643	\$ 31,711	\$ 31,019
Interest expense	8,620	6,548	5,282	4,966	4,452
Net interest income	26,953	25,720	26,361	26,745	26,567
Provision for loan losses	200	267	2,083	2,277	433
Net income	9,211	8,648	9,472	9,172	10,211
PER COMMON SHARE DATA					
Net income	\$ 1.60	\$ 1.52	\$ 1.68	\$ 1.64	\$ 1.84
Dividends	1.08	1.08	1.08	1.08	1.05
BALANCE SHEET DATA					
Total assets	\$1,012,000	\$990,121	\$984,283	\$983,489	\$912,353
Total investment securities	317,614	350,218	379,641	385,267	348,722
Net loans	599,647	551,910	515,025	509,871	481,071
Total deposits	671,553	778,146	725,982	720,598	661,562
Total stockholders' equity	116,756	116,719	109,685	108,438	106,271
PERFORMANCE RATIOS					
Return on average assets	0.92%	0.86%	0.96%	0.96%	1.13%
Return on average equity	8.05%	7.54%	8.23%	8.43%	9.90%
Dividend payout	67.26%	71.05%	64.30%	65.79%	56.95%
Average equity to average assets	11.39%	11.45%	11.68%	11.40%	11.45%

LOANS



PERFORMANCE



2018 LOAN PORTFOLIO BREAKDOWN



Dollars in thousands

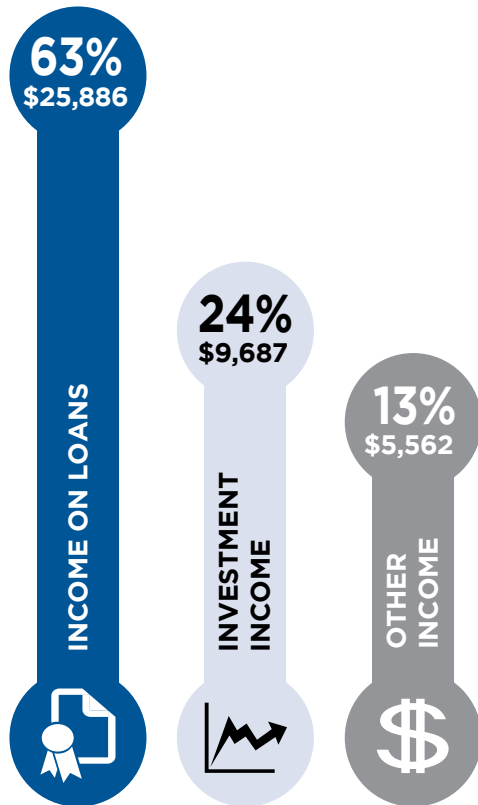
2018 INITIATIVES

- Opened a Loan Production office at 559 Main St., Bethlehem, PA in May
- Installed in-branch TVs for consistent marketing messaging and sharing of bank information, and advertisement of community events
- Employee Education: Provided 2,770 hours of training to our employees in areas of Keystone Banker & Career Pathing for frontline employees, Compliance, Frauds & Scams, Information Security and Leadership Skills

COMMUNITY OUTREACH

- Employees volunteered 2,030 hours throughout our communities by supporting non-profit agencies, attending school board and municipal meetings, participating in parades, civic clubs, home shows, etc.
- Through Denim day fundraisers employees donated \$3,853 to community non-profit agencies
- \$4,000 and over 1,800 cans of food, clothing and cleaning supplies were donated to community non-profit agencies through CONNECT For Kindness

How we generated
\$41,135 in income:



INCOME STATEMENT IN GRAPHIC FORM

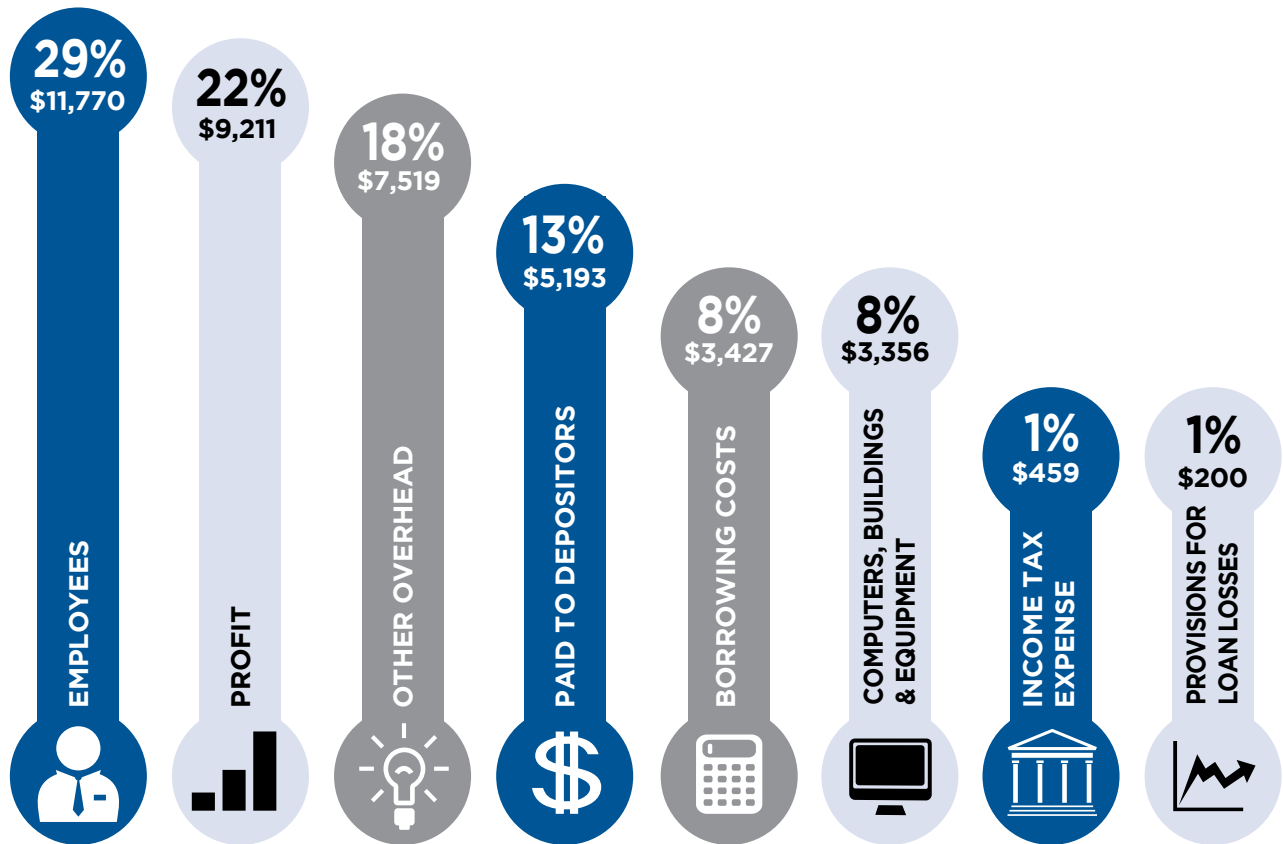
COMPONENTS OF OTHER INCOME

OTHER NON-INTEREST INCOME ITEMS

	2017	2018
SERVICE CHARGES & FEES	\$1,803	\$2,059
TRUST DEPARTMENT INCOME	\$880	\$943
ATM FEES & DEBIT CARD INCOME	\$1,396	\$1,567

Dollars in thousands

How we used our \$41,135 in income:



Dollars in thousands

TO OUR SHAREHOLDERS

Making Connections: Community, Customers, Coworkers, Oneself

When I became President and CEO of First Keystone Community Bank in September 2018, the typical discussion about goals centered around loan volume, deposit accounts, compliance requirements, and increasing shareholder value. While these elements are absolutely critical to the bank's success, there was one other factor on my radar that was important. I'm also focused on how we connect with each other, treat each other, and take care of people, whether coworkers or customers. I promised our employees that over the next year, we are going to focus on how to connect. The center pages of this year's Annual Report to shareholders outlines our Connect Initiatives in more detail.

Financial Highlights:

For the fiscal year ended December 31, 2018 First Keystone Corporation reported earnings of \$9,211,000, as compared to \$8,648,000 for 2017, an increase of \$563,000 or 6.5%. Net income per share increased to \$1.60 in 2018 as compared to \$1.52 in 2017. Dividends per share remained consistent at \$1.08. The increase in net income in 2018 was primarily the result of higher interest and fees on loans and a lower federal income tax rate.

Interest income for 2018 increased \$3,305,000, or 10.2%, to \$35,573,000 in 2018 as compared to \$32,268,000 in 2017. Interest income rose as a result of an increase in loan balances, primarily in commercial loans, and higher yields on the investment portfolio. At December 31, 2018 total loans were \$606,392,000, an increase of \$46,995,000 or 8.4%. Loan growth was centered in commercial real estate loans, while residential mortgage loans declined slightly. The investment portfolio declined to \$316,054,000 but many lower yielding securities were replaced with higher yielding securities during 2018. We will continue our emphasis on loan growth in 2019 as a primary driver of net interest income.

Four increases in federal funds rates by the Federal Reserve throughout 2018 and increased reliance on short-term borrowings resulted in a higher interest expense related to deposits and short-term borrowings for the Corporation in 2018. Total deposits decreased by \$106,563,000 or 13.7% in 2018 as compared to 2017. Non-interest bearing deposits grew by \$4,946,000 or 4.1%. In order to reduce our dependence on short-term borrowings, which are sensitive to rising interest rates, our primary focus will be on the growth of core deposits in 2019.

Non-interest income, excluding net investment securities gains, increased \$394,000, or 7.5%, to \$5,627,000 in 2018. Trust department income increased by \$63,000 and service charges and fees increased by \$256,000. ATM and debit card income also increased by \$171,000 due to the Keystone Rewards program criteria and other increases in card transactions in 2018. Non-interest expense increased by 5.2% to \$22,645,000 in 2018. Higher salaries

and employee benefits were primarily the result of the hiring of additional lending sales staff, an increase in employee profit sharing contributions, as well as a 5.8% increase in medical insurance for employees. There was also an increase in professional service fees related to newly adopted accounting pronouncements and additional SEC filings.

Income tax expense was \$459,000 for 2018 as compared to \$1,455,000 for 2017, making the effective tax rate 4.7% in 2018 as compared to 14.4% in 2017. Income tax expense was lower due to the Tax Cuts and Jobs Act of 2017 which reduced the company's tax rate from 34% to 21% effective January 1, 2018. The Corporation continues to have tax-exempt income from investments in tax-exempt bonds in the securities portfolio, tax-free loans, and tax credits from investments in low-income housing partnerships to reduce our effective tax rate in 2019.

Total assets increased to \$1,012,000,000 in 2018 from \$990,121,000 in 2017. As noted above, total loans increased 8.4% with much of the growth in commercial real estate loans. Stockholders' Equity at year-end 2018 was \$116,756,000. Our financial condition remains strong as evidenced by a total risk-based capital ratio of 13.87% and a tier 1 leverage capital ratio of 9.01% at year-end 2018. These key ratios are well above that which federal regulators require for a financial institution to be "well capitalized". Additional details and related financial information may be found in the Management's Discussion and Analysis and Financial Statements and Notes sections of the 2018 Form 10-K.

In conclusion, with the solid year we experienced in 2018, I am optimistic that we may continue that trend in 2019. I believe we are well positioned for continued financial performance in future years as an independent, community bank financial services provider. We thank and recognize our employees, officers and Board of Directors for their outstanding efforts. We also thank you, our shareholders and customers, for your continued support and confidence.



Elaine A. Woodland

President and Chief Executive Officer



Making a **CONNECTION** at First Keystone Community Bank



The phrase ‘making a connection’ is not one that easily finds its way into financial services discussions, but at First Keystone Community Bank we’re making sure the idea of ‘connecting’ is a priority beginning in 2018 and continuing throughout 2019 and beyond. Connecting with customers, connecting with colleagues, connecting with our communities, and connecting with oneself - it’s all part of enhancing the community banking experience.



Building on a foundation of the bank’s core values, the first of four planned projects was called “CONNECT For Kindness.” The goal was to build a new culture of kindness and ensure it became part of everyone’s daily function going forward. Each week, CONNECT For Kindness started with the simple objective of performing four deliberate acts of kindness. To assist with tracking our progress, everyone at First Keystone was provided with a journal to record their efforts and a wristband to remind them to think about how they could reach out to their coworkers, customers, and communities.



From the teller line to the Board room, the response to this first initiative was overwhelmingly positive. Everyone was eager to participate with tons of great ideas that were as varied as they were creative. There was enough cooperation, enthusiasm and encouragement to exceed the goals that were set for many of the projects. By leaving unexpected treats on a coworker’s desk, posting positive messages on the restroom mirrors, collecting clothing and cleaning supplies for the local Beyond Violence chapter, or collecting winter items for local kids in need, the awareness of how we treat each other was front and center at FKCB.

Thanks to each and every one of our employees and our Board of Directors, we even raised enough money to donate \$1,000 checks to four local food banks throughout our market area: The Salvation Army in Berwick, The Mountain Top Area Food Bank, Christ Episcopal Church Food Pantry

in Stroudsburg, and New Bethany Ministries in Bethlehem.

One of the more popular initiatives revolved around a canned food drive that quickly turned into a friendly competition between two departments at the Bank. At the end of the two weeks, over 1,800 non-perishable food items were collected and delivered to The Hope Center in Nescopeck. While the winning team received bragging rights and the satisfaction of a job well-done, the second place team (seems unfair to call them losers!) received a whipped cream pie in the face! A \$2 donation was collected at the door to watch the pie-toss, with the money being forwarded to the Animal Resource Center.

While everyone is already looking forward to the next project, Woodland summed up the CONNECT experience this way: “Whether the acts of kindness were performed in a big way or quietly and confidentially, we all contributed to making someone’s day just a little bit better. We connected to each other and that’s what really counts. Along the way, we learned some valuable lessons regarding the importance of kindness in all aspects of our lives.

By completing four deliberate acts of kindness each week, we began to develop a habit of kindness that will have a significant impact on our performance. Along with being a successful business and community partner, this new tradition has led First Keystone Community Bank to embrace a CULTURE of kindness.

“OUR GOAL IS TO BE:
FIRST KEYSTONE COMMUNITY BANK
THE BANK FOR YOUR COMMUNITY”



FIRST KEYSTONE CORPORATION BOARD OF DIRECTORS



ROBERT A. BULL
Chairman
Attorney -
Bull & Bull LLP



JOHN E. ARNDT
Vice Chairman
Owner -
Arndt Insurance Agency



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



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



ROBERT E. BULL
Retired Attorney -
Bull & Bull LLP



DR. JOSEPH B. CONAHAN, JR.
Ophthalmologist



MICHAEL L. JEZEWSKI
President/Owner -
Delta Electrical
Systems, Inc.



NANCY J. MARR
Owner/President -
Marr Development
Companies



WILLIAM E. RINEHART
President/Owner -
Gray Chrysler Dodge Jeep Ram
and Gray Chevrolet



ELAINE A. WOODLAND
President & Chief Executive
Officer of First Keystone
Community Bank

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



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

OFFICERS

ROBERT A. BULL
Chairman

ELAINE A. WOODLAND
President &
Chief Executive Officer

JOHN E. ARNDT
Vice Chairman

DIANE C.A. ROSLER
Chief Financial Officer/Treasurer

DAVID R. SARACINO
Secretary

CHERYL L. WYNINGS
Assistant Secretary

FIRST KEYSTONE COMMUNITY BANK OFFICERS*

ROBERT A. BULL
Chairman of the Board

JOHN E. ARNDT
Vice Chairman

DAVID R. SARACINO
Secretary

EXECUTIVE OFFICERS

ELAINE A. WOODLAND
President
Chief Executive Officer

MATTHEW W. MENSINGER
Senior Vice President
Director of Lending

MARK J. MCDONALD
Senior Vice President
Chief Credit Officer

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

JEFFREY T. WOZNIAK
Senior Vice President
Senior IT Manager & Information Security Officer

OFFICERS

VICE PRESIDENT

JODI L. ALLEY
Loan Operations Manager
STACIA L. ARNAUD
Commercial Services Officer
ANTHONY P. CARTIGLIA
Commercial Services Officer
CARMELITA A. CLEAVER
Retail Operations Officer
JUNE GEORGE
Branch Administrator
EDGAR A. GOWER, JR.
Commercial Services Officer
BRENDA L. GRASLEY
Consumer Loan Manager
TINA M. GRAY
Regional Branch Administrator

LEE A. HESS
Loan Review Officer & Security Officer
JASON P. HOLLOWAY
Commercial Services Officer
REBECCA A. HOOPER
Senior Trust Officer
DONNA KEEFER
Training/Systems Support Manager
BRIAN M. KLINEFELTER
Credit Department Manager
KEVIN KRIEGER
Compliance Officer & CRA Officer
JONATHAN LITTLEWOOD
Commercial Services Officer
MARISOL LOPEZ
Regional Branch Administrator

LINDA M. MESHINSKI
Regional Branch Administrator
EUGENE W. MORRISON
Commercial Services Officer
MICHAEL REIS
Commercial Services Officer
MICHAEL C. SANTIAGO
Commercial Services Officer
LEIGHTON B. WALSH
Mortgage Services Manager
LINDA K. YERGES
Human Resource Manager
CHRISTOPHER ZLOBIK
Deposit Operations Officer

ASSISTANT VICE PRESIDENT

LAUREN DUANE
Business Deposit Specialist
LAURIE GRADY
Community Office Manager
JILLIAN GUENTHER
Fraud Manager & BSA Officer
KATHLEEN M. JARSKI
Community Office Manager
KRISTI A. MCCLINTOCK
Commercial Loan Document Specialist

THOMAS MCGRATH
Commercial Services Officer
KIM R. MURREN
Community Office Manager
LAURIE NUDO
Community Office Manager
MARY E. PASCUCCI
Training Director
FRANCES I. SEWARD
Regional Branch Administrator

KIMBERLY S. SHINER
Community Office Manager
SHERRI A. SITLER
Deposit Review Officer
NATALIE J. STACKHOUSE
Accounting Manager
KIMBERLY A. VOLKEL
Community Office Manager
CHERYL L. WYNINGS
Executive Administrative Assistant

ASSISTANT CASHIER

TIFFANY BIENKOWSKI
Credit Analyst
SANDRA L. COLE
Community Office Manager
SHANE DAVIS
Accountant I & Systems Administrator
JOHN DOUGHERTY
Community Office Manager
STACY GORDNER
Accounting Reporting Analyst
HERBERT HARMON, JR.
Facilities Manager

LILIANA HENRICKSON
Community Office Manager
AMANDA JARSKI
Credit Analyst
RACHEL JENNINGS
Post-Closing Document Specialist
STEVEN M. KOTCH
Loan Workout Officer
MICHELLE E. KOZAK
Marketing Manager
MARTIN B. LEANDRI
Financial Consultant

ANGELA MACKERT
Community Office Manager
ASHLEY MILLOWAY
Mortgage Loan Consultant
BONNIE NEVEL
Trainer
TERRI ROMANOWSKI
Assistant Community Office Manager
CINDY THORNE
Assistant Trust Officer
DAVID WARHO
Technology Systems Manager

*Officers as of December 31, 2018

ADVISORY BOARDS

COLUMBIA-MONTOUR
Michael E. Boone
Adam Bowman
Dan W. Hartman
Michael H. Kuziak

WYOMING VALLEY
Timothy Connolly
Daniel Fierman
Edward H. Poggi, III
James V. Reino, Jr.

POCONO COMMUNITY
Richard Berkowitz
Darell Covington, MD
Richard L. Price, Jr.
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, Monroe and Northampton Counties. The Bank engages in general banking business and also provides fiduciary services.

CORPORATE HEADQUARTERS

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

NOTICE OF ANNUAL MEETING

The 2019 Annual Meeting of Shareholders will be held at 10:00 a.m., Eastern Daylight Time, on Thursday, May 9, 2019 at:

Berwick Golf Club
473 Martzville Road
Berwick, PA 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 writing to:

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

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
Regular Mail:
P.O. Box 505000
Louisville, KY 40233-5000
Telephone: 1-800-368-5948
Website: computershare.com/investor

Overnight Delivery:
462 South 4th Street, Suite 1600
Louisville, KY 40202

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

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 505000
Louisville, KY 40233-5000
Telephone: 1-800-368-5948

INVESTOR INFORMATION

Information regarding First Keystone Corporation is available online at www.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 LISTING

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

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., 800-679-5446
Boenning & Scattergood, Inc., 800-883-1212

INDEPENDENT PUBLIC ACCOUNTANTS

Baker Tilly Virchow Krause, LLP
1000 Commerce Park Drive, Suite 430
Williamsport, PA 17701
Telephone: 570-323-6023

OFFICE LOCATIONS



FIRST KEYSTONE COMMUNITY BANK

MAIN OFFICE

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

NESCOPECK OFFICE

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

SALEM TOWNSHIP OFFICE

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

FREAS AVENUE OFFICE

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

SCOTT TOWNSHIP OFFICE

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

MIFFLINVILLE OFFICE

133 West Third Street
Mifflinville, PA 18631
570-752-5750

HANOVER TOWNSHIP OFFICE

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

DANVILLE OFFICE

1049 Bloom Road
Danville, PA 17821
570-275-8000

BRIAR CREEK OFFICE

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

KINGSTON OFFICE

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

STROUDSBURG OFFICE

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

MOUNTAINHOME OFFICE

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

BRODHEADSVILLE OFFICE

2022 Route 209
Brodheads ville, PA 18322
570-402-2008

SWIFTWATER OFFICE

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

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

LOAN PROCESSING OFFICE

559 Main Street, Suite 114
Bethlehem, PA 18018
Telephone: 610-419-1412

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