

1K FIRST KEYSTONE CORPORATION



ANNUAL REPORT **2019**

888-759-2266 | www.fkc.bank

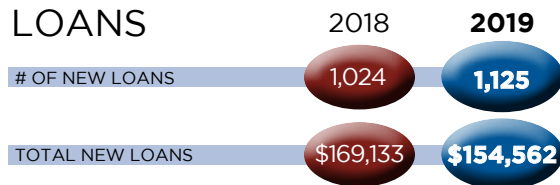
FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

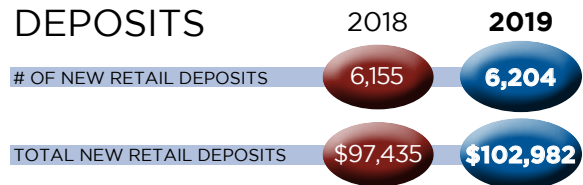
	2019	2018	2017	2016	2015
SUMMARY OF OPERATIONS					
Interest income	\$ 38,527	\$ 35,573	\$ 32,268	\$ 31,643	\$ 31,711
Interest expense	10,243	8,620	6,548	5,282	4,966
Net interest income	28,284	26,953	25,720	26,361	26,745
Provision for loan losses	450	200	267	2,083	2,277
Net income	10,227	9,211	8,648	9,472	9,172
PER COMMON SHARE DATA					
Net income	\$ 1.77	\$ 1.60	\$ 1.52	\$ 1.68	\$ 1.64
Dividends	1.08	1.08	1.08	1.08	1.08
BALANCE SHEET DATA					
Total assets	\$1,007,226	\$1,012,000	\$990,121	\$984,283	\$983,489
Total securities	279,861	317,614	350,218	379,641	385,267
Net loans	640,727	599,647	551,910	515,025	509,871
Total deposits	761,628	671,553	778,146	725,982	720,598
Total stockholders' equity	128,752	116,756	116,719	109,685	108,438
PERFORMANCE RATIOS					
Return on average assets	1.02%	0.92%	0.86%	0.96%	0.96%
Return on average equity	8.17%	8.05%	7.54%	8.23%	8.43%
Dividend payout	61.08%	67.26%	71.05%	64.30%	65.79%
Average equity to average assets	12.42%	11.39%	11.45%	11.68%	11.40%

Dollars in thousands

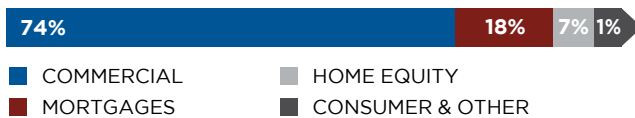
LOANS



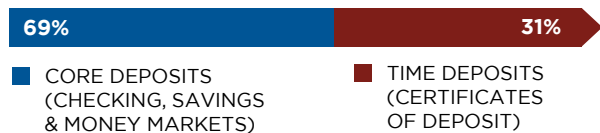
DEPOSITS



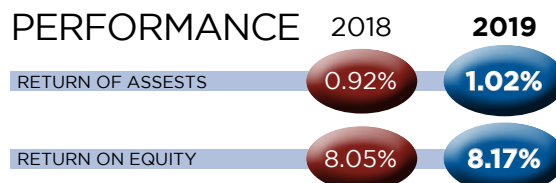
2019 LOAN PORTFOLIO BREAKDOWN



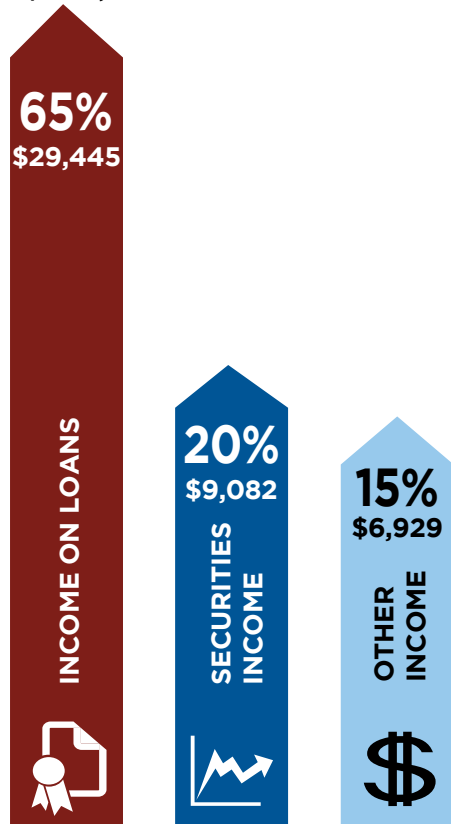
2019 DEPOSIT BREAKDOWN



PERFORMANCE



How we generated
\$45,456 in income:



INCOME STATEMENT IN GRAPHIC FORM

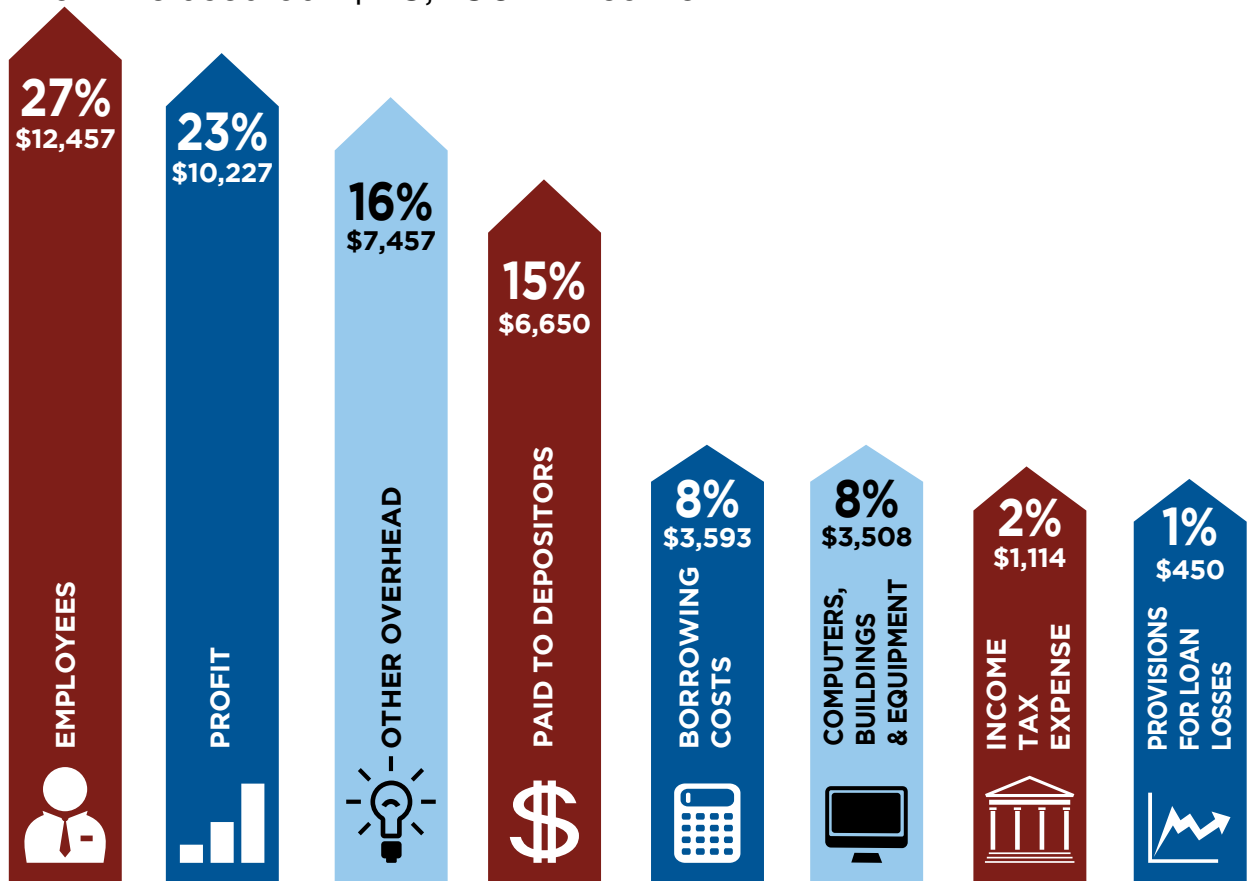
COMPONENTS OF OTHER INCOME

OTHER NON-INTEREST INCOME ITEMS

	2018	2019
SERVICE CHARGES & FEES	\$2,059	\$2,224
GAINS ON SALES OF MORTGAGE LOANS	\$188	\$277
ATM FEES & DEBIT CARD INCOME	\$1,567	\$1,650

Dollars in thousands

How we used our \$45,456 in income:



Dollars in thousands

TO OUR SHAREHOLDERS

Making Connections and Corporate Culture

There's been a lot written about the concept of corporate culture, and at First Keystone we are committed to connecting with each other and building a culture that will benefit our employees, customers, communities and shareholders. We are focused on meeting the challenges of increasing revenue from core operating functions and reducing expenses, all while improving our day-to-day interactions and increasing productivity. We are renewing our efforts to provide quality customer service and promoting the benefits of banking with our bank. I am happy to report the progress we made in 2019 and highlight what we believe is our Keystone Advantage.

Financial Highlights:

For the fiscal year ended December 31, 2019, First Keystone Corporation reported earnings of \$10,227,000, as compared to \$9,211,000 for 2018, an increase of \$1,016,000 or 11.0%. Net income per share increased to \$1.77 in 2019 as compared to \$1.60 in 2018. Annual dividends per share remained consistent at \$1.08. The increase in net income in 2019 was primarily the result of higher interest and fees on loans.

Interest income for 2019 was \$38,527,000, an increase of \$2,954,000 or 8.3% as compared to \$35,573,000 in 2018. Interest income was higher in 2019 due to positive loan portfolio growth, primarily in commercial loans, and higher yields on those loan balances. At December 31, 2019 total loans were \$647,732,000, an increase of \$41,340,000 or 6.8%. Loan growth was centered in commercial real estate loans, while residential mortgage loans declined slightly. The securities portfolio decreased in 2019 to \$277,928,000 due to a strategic movement by the Corporation to sell underperforming securities to fund loan growth and replace the remainder with better performing securities in various rate scenarios while having a balanced approach to interest rate risk. We will continue our emphasis on loan growth in 2020 as a primary driver of net interest income.

An increase in deposit balances resulted in higher interest expense for the Corporation in 2019. Total deposits increased by \$90,075,000 or 13.4% in 2019 as compared to 2018. Interest bearing deposits increased by \$81,788,000 or 15.0%. Throughout 2019, the Federal Reserve decreased the federal-funds rate three times, resulting in a target range of 1.50% - 1.75% at year-end. The Corporation is actively monitoring and restructuring its portfolios, which includes scenarios for a rates-down environment, and continued strategies for deposit growth.

Non-interest income, excluding net securities gains, was \$391,000, or 7.0%, higher for the year ended December 31, 2019 as compared to 2018. Service charges and fees on deposits and ATM and debit card income increased by \$248,000 in 2019. Gains on sales of mortgage loans provided income of \$277,000 in 2019 as compared to \$188,000 in 2018, an increase of \$89,000. Non-interest expense amounted to \$23,422,000, an increase of \$777,000, or 3.4% in 2019. Expenses associated with employees (salaries and employee benefits) continue to be the largest non-interest expenditure. The increase in 2019 was due to performance salaries increases, an increase in commissions

and referral fees associated with loan growth and retail non-deposit activity, as well as a 12.4% increase in medical insurance for employees. There was also an increase in expenses associated with foreclosed assets held for resale mainly due to a write down to the agreed upon lead bank repurchase price of a foreclosed asset in 2019.

Income tax expense was \$1,114,000 for 2019 as compared to \$459,000 for 2018, making the effective tax rate 9.8% in 2019 as compared to 4.7% in 2018. The increase in the effective tax rate for 2019 was due to the sale of some underperforming tax-exempt securities and a decrease in loans to state and local units of government. The Corporation continues to maintain a portfolio of tax-exempt bonds in the securities portfolio and tax-free loans, while receiving tax credits from investments in low-income housing partnerships to maintain our effective tax rate in 2020.

Total assets decreased to \$1,007,226,000 in 2019 from \$1,012,000,000 in 2018. As noted above, total loans increased 6.8% with much of the growth in commercial real estate loans. Stockholders' Equity at year-end 2019 was \$128,752,000. Our financial condition remains strong as evidenced by a total risk-based capital ratio of 14.53% and a tier 1 leverage capital ratio of 9.42% at year-end 2019. 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 2019 Form 10-K.

In conclusion, the solid year we experienced in 2019 makes me optimistic that we can continue that trend in 2020. 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



KEYSTONE ADVANTAGE MESSAGE

First Keystone Community Bank

Setting yourself apart isn't easy in the complex world of banking, especially for local community banks. The wide variety of competitors both large and small, plus a heavily regulated environment, make it harder to stand out from the crowd. It's one thing to say you offer a certain financial product or service, but it's another thing altogether to do it well.

In the not so distant past, community banks relied on their branch locations and a standard product menu to measure their success. But thanks to shifting demographics, the introduction of electronic banking options, and a greater emphasis on maintaining customer loyalty, it just makes sense to move forward and enter the next decade with the customer in first place.

At First Keystone Community Bank, we are renewing our focus on the basics of quality customer service and promoting the benefits of banking with a local billion-dollar institution. This is where the "Keystone Advantage" comes in. By concentrating on a specific set of core fundamentals, the goal at First Keystone is to raise the customer experience to new levels.

Keystone Rewards Programs

In 2017, we introduced our highly successful suite of products designed to reward our customers with higher interest rates and cashback options for doing the things they already do: using a debit card, accessing online banking, and receiving e-statements instead of paper statements. Our Rewards accounts are among the most popular products offered at FKCB.

Great Rates

It's no secret that deposit rates and loan rates can be unpredictable. But we are committed to offering competitive rates along with special custom products that include unique benefits, such as the 9-month "Keystone Advantage CD" that contains some special features to avoid withdrawal penalties. On the loan side, the Bank's rates reflect the current market and are designed to provide a range of terms and options to suit every borrower's needs.

Friendly, Knowledgeable Keystone Bankers

One of the latest trends in banking is the development of 'universal bankers' - specially-trained employees who are well-versed in a wide variety of financial skills and tasks. Customers are looking for seamless, efficient solutions when they walk into a branch and our team of "Keystone Bankers" stand ready to assist. Keystone Bankers are a hybrid of several traditional roles in the bank (such as teller and customer service rep), specializing in handling a wide array of financial business transactions from beginning to end. Exceptional customer service is just one example of 'yesterday's traditions' that we are committed to maintaining.

Convenient Mobile Services

While it may seem like the whole world is 'going mobile; banking on the run with First Keystone is continually evolving. With convenient services such as online banking and bill pay, banking apps available for your smartphone and tablet, and remote deposit services for both consumers and businesses, we are continuing to position the bank as a safe and secure financial partner.

Financial Services Professionals

For those who need assistance with a more complex solution for their financial picture, First Keystone's Financial Services Department features friendly and specialized advocates with access to the latest investment tools and trends. From asset distribution to more complex estate plans and trusts, our experts will help to tailor a plan that meets the needs of all types of customers.

Fast, Local Decision Making

'Local' is the keyword at First Keystone Community Bank. Having the ability to build relationships with our customers, analyzing their needs, and developing timely solutions to any financial request, provides an advantage that many of the regional and national competitors just can't promise. Turnaround times are shorter and the communication is personal, honest and accurate.

CONNECT Initiatives

Beginning in October 2018, we introduced a series of initiatives designed to improve the interactions that our employees have with their colleagues, their family and friends, and the community at large. Through dozens of projects, both large and small, we were able to instill a culture of personal growth and development throughout our entire staff.

After a rock-solid 156 years in business, we continue to be a one-stop solution for our customers and a prosperous investment for our shareholders. Just like a keystone is the final stone placed during construction that locks all the other stones into place, Keystone Advantage ties all your financial resources together and provides banking solutions that exceed the expectations of our customers and shareholders.

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



FIRST KEYSTONE CORPORATION BOARD OF DIRECTORS



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

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

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

JOHN E. ARNDT
Vice Chairman
Owner
Arndt Insurance Agency

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

ROBERT E. BULL
Retired Attorney
Bull & Bull LLP

ROBERT A. BULL
Chairman
Attorney
Bull & Bull LLP

NANCY J. MARR
Owner/President
Marr Development
Companies



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

DR. JOSEPH B. CONAHAN, JR.
Director Emeritus
Ophthalmologist

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. WOZNAK
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
FRANCES I. SEWARD
Regional Branch Administrator
LEIGHTON B. WALSH
Mortgage Services Manager
CHRISTOPHER ZLOBIK
Deposit Operations Officer

ASSISTANT VICE PRESIDENT

LAUREN DUANE
Business Deposit Specialist
JILLIAN GUENTHER
Fraud Manager & BSA Officer
KIMBERLY A. HELLER
Human Resource Manager
AMANDA JARSKI
Credit Analyst II
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
KIMBERLY S. SHINER
Community Office Manager
SHERRI A. SITLER
Deposit Review Officer

NATALIE J. STACKHOUSE
Accounting Manager
KIMBERLY A. VOLKEL
Community Office Manager
DAVID WARHO
Technology Systems Engineer
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
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
Trust Officer

*Officers as of December 31, 2019

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 2020 Annual Meeting of Shareholders will be held at 10:00 a.m., Eastern Daylight Time, on Thursday, May 7, 2020 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:

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
1-800-937-5449
www.astfinancial.com

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 1-800-937-5449.

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:

AST
Plan Administration Department
Wall Street Station
P.O.Box 922
New York, NY 10269-0560
1-800-937-5449
help@astfinancial.com

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

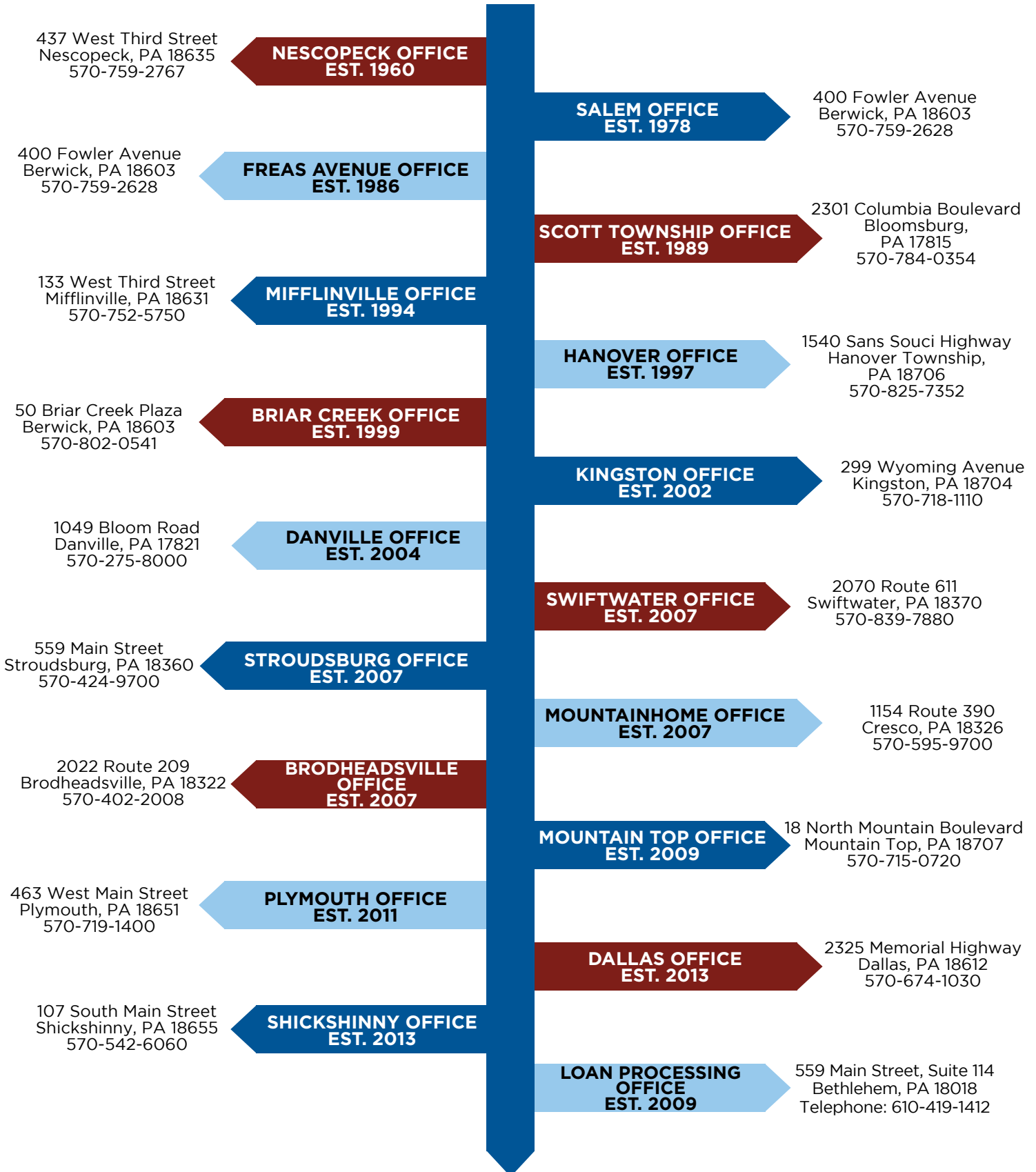
Baker Tilly Virchow Krause, LLP
1000 Commerce Park Drive, Suite 430
Williamsport, PA 17701
Telephone: 570-323-6023

OFFICE EVOLUTION

MAIN OFFICE

EST. 1864

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



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COMMUNITY BANK

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