

FIRST KEYSTONE CORP  
Form DEF 14A  
March 27, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  
 Filed by a Party other than the Registrant

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**FIRST KEYSTONE CORPORATION**  
(Exact name of registrant as specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than Registrant)

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**First Keystone Corporation**

111 West Front Street

Berwick, Pennsylvania 18603

March 27, 2019

Dear Fellow Shareholders of First Keystone Corporation:

It is my pleasure to invite you to attend the 2019 Annual Meeting of Shareholders of First Keystone Corporation (the "Corporation") to be held on Thursday, May 9, 2019, at 10:00 a.m., Eastern Daylight Time. The Annual Meeting this year will be held at the Berwick Golf Club, 473 Martzville Road, Berwick, Pennsylvania 18603.

The Notice of the Annual Meeting and the Proxy Statement on the following pages address the formal business of the meeting. The formal business schedule includes:

- The election of 3 Class B Directors;
- The ratification of the selection of Baker Tilly Virchow Krause, LLP, as the independent registered public accounting firm for the Corporation for the fiscal year ending December 31, 2019; and
- Other business which might come before the meeting.

At the meeting, members of the Corporation's management will review the Corporation's operations during the past year and will be available to respond to questions.

We strongly encourage you to vote your shares, whether or not you plan to attend the meeting. It is very important that you sign, date and return your proxy card as soon as possible. The execution and delivery of your proxy does not affect your right to vote in person if you attend the meeting. You may revoke your proxy any time prior to its exercise, and you may attend the meeting and vote in person, even if you have previously returned your proxy.

Thank you for your continued support. I look forward to seeing you at the Annual Meeting if you are able to attend.

Sincerely,

/s/ Elaine A. Woodland  
Elaine A. Woodland  
President and Chief Executive Officer

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FIRST KEYSTONE CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 9, 2019

TO THE SHAREHOLDERS OF FIRST KEYSTONE CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders (the “Annual Meeting”) of First Keystone Corporation (the “Corporation”) will be held at 10:00 a.m., Eastern Daylight Time, on Thursday, May 9, 2019, at the Berwick Golf Club, 473 Martzville Road, Berwick, Pennsylvania 18603, for the following purposes:

1. To elect 3 Class B Directors to serve for a three-year term and until their successors are properly elected and qualified;
2. To ratify the selection of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm for the Corporation for the fiscal year ending December 31, 2019; and
3. To transact any other business as may properly come before the Annual Meeting and any adjournment or postponement of the meeting.

In accordance with the bylaws of the Corporation and action of the Board of Directors, the Corporation is giving notice of the Annual Meeting only to those shareholders on the Corporation’s records as of the close of business on March 15, 2019, and only those shareholders may vote at the Annual Meeting and any adjournment or postponement of the Annual Meeting.

A copy of the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 may be obtained, at no cost, by contacting Cheryl Wynings, Investor Relations, First Keystone Corporation, 111 West Front Street, P.O. Box 289, Berwick, PA 18603, telephone: (570) 752-3671, extension 1175.

**Important Notice Regarding the Availability of Proxy Materials**

**for the Annual Meeting of Shareholders to be Held on May 9, 2019:**

**The 2019 Proxy Statement, the proxy card, the Notice of Annual Meeting of Shareholders and the 2018 Annual Report on Form 10-K are also available at: [www.fkyscorp.com](http://www.fkyscorp.com).**

Whether or not you expect to attend the Annual Meeting in person, we ask you to complete, sign, date and promptly return your proxy card. By so doing, you will ensure your proper representation at the meeting. The prompt return of your signed proxy card will also save the Corporation the expense of additional proxy solicitation. The execution and delivery of your proxy card does not affect your right to vote in person if you attend the meeting.

By Order of the Board of Directors,

/s/ Elaine A. Woodland  
Elaine A. Woodland  
President and Chief Executive Officer

Berwick, Pennsylvania

March 27, 2019



PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS

OF FIRST KEYSTONE CORPORATION TO BE HELD ON MAY 9, 2019

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**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS  
OF FIRST KEYSTONE CORPORATION TO BE HELD ON MAY 9, 2019**

**GENERAL INFORMATION**

**Introduction, Date, Time and Place of Annual Meeting**

First Keystone Corporation (the “Corporation”), a Pennsylvania business corporation and registered bank holding company, furnishes this Proxy Statement in connection with the solicitation, by its Board of Directors, of proxies to be voted at the Annual Meeting of Shareholders (the “Annual Meeting”) and at any adjournment or postponement of the Annual Meeting. The Corporation will hold the meeting on Thursday, May 9, 2019, at 10:00 a.m., Eastern Daylight Time, at the Berwick Golf Club, 473 Martzville Road, Berwick, Pennsylvania 18603.

The principal executive office of the Corporation is located at First Keystone Community Bank (the “Bank”), 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603. The Bank is the sole, wholly-owned subsidiary of the Corporation. The telephone number for the Corporation and the Bank is (570) 752-3671. All inquiries should be directed to Elaine A. Woodland, President and Chief Executive Officer of the Corporation and the Bank.

When we say “we”, “us”, “our” or the “Company”, we mean the Corporation on a consolidated basis with the Bank.

**Solicitation and Voting of Proxies**

By properly completing and returning your proxy card, a shareholder is appointing the proxy holders to vote his or her shares as the shareholder specifies on the proxy. If a shareholder signs the proxy but does not make any selection, the proxy holders will vote the proxy:

- **FOR** the election of the nominees for Class B Director named in this Proxy Statement; and **FOR** the ratification of the selection of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm for the Corporation for the year ending December 31, 2019.

Although the Board of Directors (the “Board”) knows of no other business to be presented at the Annual Meeting, in the event that any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board.

The execution and return of your proxy card will not affect your right to attend the Annual Meeting and vote in person.

The Corporation will pay the cost of preparing, assembling, printing, mailing and soliciting proxies and any additional material that the Corporation may furnish shareholders in connection with the Annual Meeting. In addition to the use of the mail, directors, officers and employees of the Corporation and the Bank may solicit proxies personally, by telephone, or other electronic means. The Corporation will not pay any additional compensation for the solicitation. The Corporation will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners and will reimburse them for their reasonable forwarding expenses.

### **Revocability of Proxy**

A shareholder who returns a proxy may revoke the proxy at any time before it is voted only:

- By executing a later-dated proxy; or
- By attending the Annual Meeting and voting in person.

### **Voting Securities, Record Date and Quorum**

At the close of business on March 15, 2019, the Corporation had 5,764,710 shares of common stock outstanding, par value \$2.00 per share. Our common stock is the Corporation's only issued and outstanding class of stock. The Corporation also had 231,612 shares held in treasury, as issued but not outstanding shares on that date. The Corporation's Articles of Incorporation authorize the issuance of up to 20,000,000 shares of common stock and 1,000,000 shares of preferred stock. No shares of preferred stock are issued or outstanding.

Only shareholders of record as of the close of business on March 15, 2019, may vote at the Annual Meeting. Cumulative voting rights do not exist with respect to the election of directors. On all matters to come before the Annual Meeting, each shareholder is entitled to one vote for each share of common stock held on the record date.

Pennsylvania law and the bylaws of the Corporation require the presence of a quorum for each matter that shareholders will vote on at the Annual Meeting. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast constitutes a quorum for the transaction of business at the Annual Meeting. The Corporation will count votes withheld and abstentions in determining the presence of a quorum for a particular matter. The Corporation will not count broker non-votes in determining the presence of a quorum for a particular matter. A broker non-vote occurs when a broker nominee, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item, and has not received instructions from the beneficial owner. Those shareholders present, in person or by proxy, may adjourn the meeting to another time and place if a quorum is lacking.

### **Vote Required for Approval of Proposals**

Assuming the presence of a quorum, the 3 nominees for director receiving the highest number of votes cast by shareholders will be elected. Votes withheld from a nominee and broker non-votes will not be cast for the nominee.

Assuming the presence of a quorum, ratification of the selection of Baker Tilly Virchow Krause, LLP requires the affirmative vote of a majority of all votes cast by shareholders, in person or by proxy, on the matter. Abstentions and broker non-votes are not votes cast and do not count either for or against ratification. Abstentions and broker non-votes have the practical effect of reducing the number of affirmative votes required to obtain a majority vote for each matter by reducing the total number of shares voted from which the majority is calculated.

### **Advisory Vote on Executive Compensation**

At the Corporation's 2017 Annual Meeting, the shareholders approved, on an advisory basis, the compensation of the named executive officers, as disclosed in the Corporation's Proxy Statement for the 2017 Annual Meeting pursuant to the compensation disclosure rules of the Securities and Exchange Commission (the "SEC"), including the 2016 Summary Compensation Table and the other related tables and disclosures. At the Corporation's 2017 Annual Meeting, the shareholders also voted to conduct an advisory vote on the Corporation's executive compensation for named executive officers every three years.

Accordingly, the Board has determined that the next shareholder advisory vote on executive compensation will take place at the Corporation's 2020 Annual Meeting, and the next shareholder advisory vote on the frequency by which shareholders will vote on executive compensation will take place at the 2023 Annual Meeting.

## **GOVERNANCE OF THE COMPANY**

Our Board of Directors believes that the purpose of corporate governance is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to corporate governance practices which the Board and senior management believe promote this purpose, are sound, and represent best practices.

### **Board Leadership Structure**

The Corporation separates the roles of Chief Executive Officer ("CEO") and Chairman of the Board (the "Chairman") in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Corporation and the day to day operation and performance of the Corporation, while the Chairman provides guidance to the CEO, sets the agenda for Board meetings and presides over meetings of the Board. Mr. Robert A. Bull, our Chairman, has been a director for 12 years, and was selected as Chairman in 2017. The Board believes the separated roles of CEO and Chairman are in the best interest of shareholders because it promotes both strategic development and facilitates information flow between management and the Board, both essential for effective governance.

The Corporation's Board oversees all business, property and affairs of the Corporation. The Chairman and the Corporation's officers keep the members of the Board informed of the Corporation's business through discussions at Board meetings and by providing them with reports and other materials. The directors of the Corporation also serve as the directors of the Corporation's wholly-owned bank subsidiary, First Keystone Community Bank, upon election by the Corporation.

Currently, our Board has ten members. Based on the qualifications for independence established under the SEC and NASDAQ standards for independence, Don E. Bower, Joseph B. Conahan, Jr., Michael L. Jezewski, Nancy J. Marr, William E. Rinehart, and David R. Saracino meet the standards for independence. Only independent directors serve on our Audit Committee.

In determining the Directors' independence, the Board considered loan transactions between the Bank and the directors, their family members and businesses with whom they are associated, as well as any contributions made to non-profit organizations with whom they are associated.

### **Risk Management**

The Board's role in the Corporation's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Corporation, including operational, financial, legal and regulatory, and strategic and reputational risks. The Board receives reports from the various committees of the Board. When a committee presents a report to the full Board, the Chairman of the relevant committee leads the discussion. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of its charter, the Audit Committee discusses the policies with respect to risk assessment and management.



## **Diversity**

In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by shareholders, the Board has determined that the nominees must have the right diversity. The Board seeks nominees with a broad diversity of experience, professions, skills, geographic representation and backgrounds. This includes the candidate's integrity, business acumen, age, experience, commitment, diligence, conflicts of interest and the ability to act in the interests of all shareholders. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis protected by law.

## **CODE OF ETHICS**

As required by law and regulation, in 2003 the Corporation adopted the Directors and Senior Management Code of Ethics (the "Code of Ethics") to be applicable to our directors and senior management. The Code of Ethics is posted on our website at [www.firstkeystonecorporation.com](http://www.firstkeystonecorporation.com), and was filed with the SEC as exhibit 99.1 on Form 8-K on August 27, 2013.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

The Corporation's Board of Directors has, at present, an Audit Committee.

**Audit Committee.** Members of the Audit Committee, during 2018, were David R. Saracino, Chairman, Don E. Bower, Nancy J. Marr, and William E. Rinehart, each of whom the Board has determined satisfies the SEC and NASDAQ independence and audit committee qualification standards. The Audit Committee met six times during 2018.

The principal duties of the Audit Committee are set forth in its charter which is available on our website at [www.firstkeystonecorporation.com](http://www.firstkeystonecorporation.com) under the governance documents menu. The duties include reviewing significant audit and accounting principles, policies and practices, reviewing performance of internal auditing procedures, reviewing reports of examination received from regulatory authorities and recommending annually, to the Board, the engagement of an independent registered public accounting firm.

The Board has determined that Nancy J. Marr and David R. Saracino are “audit committee financial experts” and “independent” as defined under applicable SEC and NASDAQ rules. The Board deemed Ms. Marr and Mr. Saracino “financial experts” as they possess the following attributes:

- An understanding of financial statements;
- Proficiency in assessing the general utilization of such principles in connection with accounting for estimates, accruals and reserves;
- Lengthy experience preparing, auditing, analyzing and evaluating financial statements;
- Understanding of internal controls and procedures for financial reporting; and
- Understanding of audit committee functions.

### **Oversight of Executive Compensation and Director Nominations**

During 2018, the Corporation did not have formal nominating or compensation committees. The Board determined that it is appropriate for the Corporation not to have a nominating or compensation committee in view of the Corporation’s relative size, stability of the Corporation’s Board, and the historic involvement of the entire Board in the director selection process and in the compensation process. Because there is no formal nominating or compensation committee, the Corporation does not have a formal charter for such committees.

**COMMITTEES OF THE BANK**

The Bank's Board maintains standing committees: trust, asset/liability management, marketing, loan administration, human resources, executive and building. The composition of these committees is described below:

| <b>Name</b>                     | <b>Trust</b>   | <b>ALCO</b>    | <b>Marketing</b> | <b>Loan Administration</b> | <b>Human Resources</b> | <b>Executive</b> | <b>Building</b> |
|---------------------------------|----------------|----------------|------------------|----------------------------|------------------------|------------------|-----------------|
| John E. Arndt                   | X              | X <sup>1</sup> | X <sup>1</sup>   |                            |                        | X                | X               |
| Don E. Bower                    | X              | X              |                  |                            |                        | X                | X <sup>1</sup>  |
| Robert A. Bull                  | X              | X              | X                | X                          | X                      | X <sup>1</sup>   | X               |
| Robert E. Bull                  | X              | X              |                  |                            | X                      | X                |                 |
| Joseph B. Conahan, Jr.          | X <sup>1</sup> |                | X                | X                          | X                      | X                |                 |
| Michael L. Jezewski             | X              | X              | X                | X                          |                        |                  | X               |
| Nancy J. Marr                   |                | X              | X                | X <sup>1</sup>             | X                      |                  | X               |
| William E. Rinehart             | X              | X              | X                | X                          |                        |                  |                 |
| David R. Saracino               |                | X              | X                | X                          | X <sup>1</sup>         | X                | X               |
| Elaine A. Woodland              | X              | X              | X                | X                          | X                      |                  | X               |
| Number of Meetings Held in 2018 | 12             | 4              | 4                | 4                          | 1                      | 4                | 0               |

<sup>1</sup>Denotes Chairman of the Respective Committee.

Trust Committee - This committee ensures that all trust activities of the Bank are performed in a manner that is consistent with the legal instrument governing the account, prudent trust administration practices and approved trust policy.

Asset/Liability Committee ("ALCO") - This committee reviews asset/liability committee reports and provides support and discretion in managing the Bank's net interest income, liquidity and interest rate sensitivity positions.

Marketing Committee - This committee provides guidance to management in formulating marketing/sales plans and programs to assist in evaluating the performance of the Bank relative to these plans.

Loan Administration Committee - This committee monitors loan review and compliance activities. Also, the committee ensures that loans are made and administered in accordance with the Board's loan policy.

Human Resources Committee - This committee helps ensure that a sound human resources management system is developed and maintained. This committee determines compensation for non-executive officers and employees. The entire Board acts as the Compensation Committee for the Corporation and determines compensation for the executive officers.

Executive Committee - This committee exercises the authority of the Board of Directors in the management of the business of the Bank between the dates of regular Board meetings if necessary.

*Building Committee* - This committee makes recommendations to the Board relating to the Bank's physical assets, including both current and proposed physical assets.

### **Board Meetings and Attendance**

The members of the Board of the Corporation also serve as members of the Board of Directors of the Bank. During 2018, the Corporation's Board held 11 meetings. Each of the directors attended at least 75% of the combined total number of meetings of the Corporation's Board and the committees of which he or she is a member. Although there is no formal policy, all directors are expected to attend the Annual Meeting. All Directors attended the 2018 Annual Meeting.

### **SHAREHOLDER OR INTERESTED PARTY COMMUNICATIONS**

The Board does not have a formal process for shareholders or interested parties to send communications to the Board. Due to the infrequency of shareholder or interested party communications to the Board, the Board does not believe that a formal process is necessary. Any shareholders or interested party may communicate with the Board by sending a letter to: First Keystone Corporation, Board of Directors, c/o Corporate Secretary, 111 West Front Street, P.O. Box 289, Berwick, PA 18603. All communications so received from shareholders or other interested parties will be forwarded to the members of the Board or to the applicable director or directors if so designated by such communication.

Shareholders or interested parties who have concerns regarding accounting, improper use of Corporation assets, or ethical improprieties may report these concerns to the Audit Committee by sending an email to David R. Saracino, Audit Committee Chairman, at [auditcommitteechairman@fkc.bank](mailto:auditcommitteechairman@fkc.bank).

### **SHAREHOLDER PROPOSALS AND NOMINATIONS**

If a shareholder wants us to include a proposal in the Proxy Statement for presentation at our 2020 Annual Meeting, the proposal must be received at our principal executive office at 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603, no later than November 27, 2019. Any proposal must comply with SEC regulations regarding the inclusion of shareholder proposals in Corporation-sponsored proxy materials. If a shareholder proposal is submitted to the Corporation after November 27, 2019, it is considered untimely; and, although the proposal may be considered at the Annual Meeting, the Corporation is not obligated to include it in the 2020 Proxy Statement.

The Corporation's Board nominates individuals for the position of director. Neither the Corporation nor the Bank has a nominating committee. A shareholder who desires to propose an individual for consideration by the Board as a nominee for director, should submit a proposal in writing to the Secretary of the Corporation in accordance with Section 10.1 of the Corporation's bylaws. Any shareholder who intends to recommend nomination of any candidate for election to the Board must notify the Secretary of the Corporation in writing not less than 45 days prior to the date of any meeting of shareholders called for the election of directors and must provide the specific information listed in Section 10.1 of the bylaws. You may obtain a copy of the Corporation's bylaws by writing to David R. Saracino, Secretary, First Keystone Corporation, 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603. Specifically, a shareholder who recommends a director candidate for consideration to the Board must provide the candidate's name, biographical data, and qualifications. A written statement from the candidate, consenting to be named as a candidate, and to serve as a director if nominated and elected, should accompany any such recommendation.

The process that the Board uses for identifying and evaluating nominees for director is as follows. When there is a vacancy on the Board, either through the retirement of a director or the Board's determination that the size of the Board should be increased, nominations to fill that vacancy are made by current directors on the Board. The name of any individual recommended by the directors is provided to Chairman Robert A. Bull, who contacts the prospective director nominee and generally meets with him or her. The members of the Board then may meet with the prospective director nominee. If a nominee is qualified and the Board believes the nominee will make a positive addition to the Board at that time, the Board then nominates the candidate.

### **PROPOSAL NO. 1: ELECTION OF CLASS B DIRECTORS**

The Corporation's bylaws provide that its Board will manage the Corporation's business. Sections 10.2 and 10.3 of the bylaws provide that the number of directors on the Board will not be less than 7 nor more than 25 and that the Board will be classified into 3 classes, each class to be elected for a term of 3 years. Within the foregoing limits, the Board may, from time to time, fix the number of directors and their classifications. No person 75 years or older may be elected or reelected as director, with the exception of Mr. Robert E. Bull. Section 11.1 of the bylaws require that a majority of the remaining members of the Board, even if less than a quorum, will select and appoint directors to fill vacancies on the Board, and each person so appointed will serve as director until the expiration of the term of office of the class of directors to which he or she was appointed.

Section 10.3 of the bylaws provides for a classified Board with staggered three-year terms of office. Accordingly, at the 2019 Annual Meeting, three Class B Directors will be elected to serve for a three-year term and until their successors are properly elected and qualified. The Board of the Corporation has nominated the current eligible Class B Directors to serve as Class B Directors for the next three-year term of office. The nominees for election this year are:

¶ John E. Arndt, director since 1995;  
¶ Robert E. Bull, director since 1983; and  
¶ Nancy J. Marr, director since 2017.

The nominees have consented to serve a three-year term of office and until their successors are elected and qualified.

Unless otherwise instructed, the proxy holders will vote the proxies for the election of the three director nominees. If any nominee should become unavailable for any reason, proxies will be voted in favor of a substitute nominee named by the Board of the Corporation. A majority of the directors of the Corporation, in office, may appoint a new director to fill any vacancy occurring on the Board for any reason, and the new directors will serve until the expiration of the term of the class of directors to which he or she was appointed.

The Corporation's Articles of Incorporation provide that cumulative voting rights do not exist with respect to the election of directors. Accordingly, each share of common stock entitles its owner to cast one vote for each nominee. For example, if a shareholder owns 10 shares of common stock, he or she may cast up to 10 votes for each director to be elected.

The Board of Directors recommends that shareholders vote **FOR** the election of the above-named director nominees.

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## INFORMATION AS TO DIRECTORS AND NOMINEES

The following selected biographical information about the directors and nominees for director is accurate as of March 1, 2019, and includes each person's business experience for at least the past 5 years and the experience, qualifications and attributes or skills that led the Board to conclude that the person should serve as a director. Currently, the Board of Directors is in the process of developing its succession plan which includes identifying and evaluating qualified candidates to serve on the Board of Directors.

### CURRENT CLASS B DIRECTOR WHOSE TERM EXPIRES IN 2019

### AND NOMINEES FOR CLASS B DIRECTOR WHOSE TERM WILL EXPIRE IN 2022

*John E. Arndt* Mr. Arndt (age 57), is an insurance broker and the owner of Arndt Insurance Agency in Berwick, Pennsylvania. He has served as the Vice Chairman of the Board of the Corporation and the Bank since 2017. He has served as a director of the Corporation and the Bank since 1995. Mr. Arndt has over 37 years of experience in the insurance field, including 29 years overseeing the management of his own insurance agency.

*Robert E. Bull* Mr. Bull (age 96), now retired, practiced as an attorney at the law firm Bull & Bull, LLP, of which he remains a partner. He was the Chairman of the Board of the Corporation from 1983 to 2017 and of the Bank from 1981 to 2017. He has served as a director of the Corporation since 1983 and of the Bank since 1956.  
(1) Mr. Bull has a strong understanding of our customer base and products which he acquired over six decades of service on our Board.

*Nancy J. Marr* Ms. Marr (age 56), a Certified Public Accountant, is the President and owner of Marr Development Companies, a boutique real estate developer in Bloomsburg, Pennsylvania. Ms. Marr was appointed to the Board in February 2017. Ms. Marr's background and experience in local real estate adds valuable perspective to the Board. She has excellent accounting skills and has been deemed one of our "financial experts" on the Audit Committee of the Corporation.

### CURRENT CLASS B DIRECTOR WHOSE TERM EXPIRES IN 2019

*Joseph B. Conahan, Jr.* Dr. Conahan (age 75), is an Ophthalmologist. Dr. Conahan has been a director of the Corporation and the Bank since 2007. Previously, he was a director at Pocono Community Bank since 1998. Dr. Conahan has strong management skills and has served on the Board of Directors of a regional medical center.



**CLASS C DIRECTORS WHOSE TERM EXPIRES IN 2020**

*Don E. Bower* Mr. Bower (age 70), is the President and owner of Don E. Bower, Inc., an excavation contracting corporation located in Berwick, Pennsylvania. He has been a director of the Corporation and the Bank since 2001. Mr. Bower has successfully developed his business over 44 years and has strong executive leadership and management experience.

*Robert A. Bull* <sup>(1)</sup> Mr. Bull (age 66), is an attorney and partner at the law firm Bull & Bull, LLP. He has been the Chairman of the Board of the Corporation and the Bank since 2017. Mr. Bull has been a director of the Corporation and the Bank since 2006. He has been an attorney for 42 years and has become knowledgeable in banking since his law firm functions as the Corporation's solicitor.

*Elaine A. Woodland* Ms. Woodland (age 60), serves as the President and Chief Executive Officer of the Corporation and the Bank, a position she has held since September 2018. She has served as a director of the Corporation and the Bank since September 2018. Previously, Ms. Woodland was Treasurer of the Corporation and Chief Operating Officer of the Bank from 2014 to 2018. Prior to that date, Ms. Woodland served as Director of Lending from 2010 until 2014.

**CLASS A DIRECTORS WHOSE TERM EXPIRES IN 2021**

*Michael L. Jezewski* Mr. Jezewski (age 61), has been the President and owner of Delta Electrical Systems, Inc., located in Nanticoke, Pennsylvania, for 34 years and Eastern Capital Holdings, LLC, located in Nanticoke, Pennsylvania for 11 years. Mr. Jezewski has extensive experience in electrical contracting and real estate development spanning over 34 years. Mr. Jezewski's business background and real estate experience provides valuable knowledge and insight for the Board as it relates to business management and real estate lending in the Bank's market area. Mr. Jezewski was appointed to the Board in May 2018.

*William E. Rinehart* Mr. Rinehart (age 69) is the President and owner of Gray Chrysler Dodge Jeep Ram and Gray Chevrolet, located in Stroudsburg, Pennsylvania. His experience in the retail automobile business spans 46 years. Previously, Mr. Rinehart served as a director of Pocono Community Bank and served on several bank committees. Due to Mr. Rinehart's background and business experience in automobile sales and financing and previous bank board service, he provides the Board with insight regarding lending, finance, human resources, business management and the Bank's market area. Mr. Rinehart was appointed to the Board in May 2018.

*David R. Saracino* Mr. Saracino (age 74), is the former Vice President, Cashier, and Chief Financial Officer of First Keystone Community Bank. He has been Secretary of the Board of the Corporation and the Bank since 2017. Mr. Saracino has served as a director of the Corporation and the Bank since 2006. Mr. Saracino has 47 years of banking experience. He has excellent accounting skills and has been deemed one of our "financial experts" on the Audit Committee of the Corporation.

<sup>(1)</sup>Robert E. Bull is the father of Robert A. Bull.

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**SHARE OWNERSHIP****Principal Owners**

As of March 1, 2019, the Board knows of no person or entity who owns of record or who is known to be the beneficial owner of more than 5% of the Corporation's outstanding common stock.

**Beneficial Ownership by Officers, Directors and Nominees**

The following table sets forth, as of March 1, 2019, the amount and percentage of the outstanding common stock beneficially owned by each director, nominee for director, and other named executive officers of the Corporation. The table also indicates the total number of shares owned by all directors, the nominee for director, and named executive officers of the Corporation and the Bank as a group.

| <b>Name</b>  | <b>Number of<br/>Shares Owned<sup>1,2</sup></b> |    | <b>Percentage<sup>3</sup></b> |   |
|--|---|----|-------------------------------|---|
| Nominees for Class B Director<br>(to serve until 2022) |   |    |                               |   |
| John E. Arndt  | 117,049   | 4  | 2.03                          | % |
| Robert E. Bull   | 127,568   | 5  | 2.21                          | % |
| Nancy J. Marr  | 7,938   | 6  |                               | % |
| Current Class B Director                               |   |    |                               |   |
| Joseph B. Conahan, Jr.                                 | 62,533  | 7  | 1.08                          | % |
| Class C Directors (to serve until 2020)                |   |    |                               |   |
| Don E. Bower   | 128,171   | 8  | 2.22                          | % |
| Robert A. Bull   | 122,932   | 9  | 2.13                          | % |
| Elaine A. Woodland                                     | 4,049   | 10 |                               | % |
| Class A Directors (to serve until 2021)                |   |    |                               |   |
| Michael L. Jezewski                                    | 21,298  | 11 |                               | % |
| William E. Rinehart                                    | 135,912   | 12 | 2.36                          | % |
| David R. Saracino                                      | 8,825   | 13 |                               | % |
| Director Emeriti                                       |   |    |                               |   |
| Jerome F. Fabian                                       | 59,063  | 14 | 1.02                          | % |

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|   |         |       |   |
|---|---------|-------|---|
| John G. Gerlach   | 9,477   | 15    | % |
| Named Executive Officers  |         |       |   |
| Diane C.A. Rosler   | 3,030   | 16    | % |
| Matthew W. Mensinger  | 30      | 17    | % |
| Mark McDonald   | 1,031   | 18    | % |
| All Directors and Named Executive Officers as a Group (15 Persons in Total) |         |       |   |
|   | 808,906 | 14.03 | % |

<sup>1</sup>The securities “beneficially owned” by an individual are determined in accordance with the definitions of “beneficial ownership” set forth in the General Rules and Regulations of the SEC and may include securities owned by or for the individual’s spouse and minor children and any other relative who has the same home, as well as securities to which the individual has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days after March 1, 2019. Beneficial ownership may be disclaimed as to certain of the securities.

<sup>2</sup>Information furnished by the directors and the Corporation.

<sup>3</sup>Less than 1% unless otherwise indicated. Based on 5,764,710 shares outstanding as of March 1, 2019.

<sup>4</sup>Includes 113,935 shares held individually by Mr. Arndt, 2,026 shares held individually by his spouse, and 1,088 shares held as custodian for his children.

<sup>5</sup>Includes 36,895 shares held individually by Mr. R.E. Bull, 7,003 shares held by Bull & Bull, LLP, a law firm of which Mr. Bull is a partner and 83,670 shares held by the Sara E. Bull Decedent Estate Trust of which Mr. Bull is the trustee.

<sup>6</sup>Includes 7,938 shares held individually by Ms. Marr.

<sup>7</sup>Includes 41,449 shares held individually by Dr. Conahan and 21,084 shares held jointly with his spouse.

<sup>8</sup>Includes 124,429 shares held individually by Mr. Bower, 2,408 shares held jointly with his spouse, and 1,334 shares held as custodian for his grandchildren. Includes 43,703 pledged shares.

<sup>9</sup>Includes 45,847 shares held individually by Mr. R.A. Bull, 7,003 shares held by Bull & Bull, LLP, a law firm of which Mr. Bull is a partner, 65,584 shares held jointly with his spouse, and 4,498 shares held individually by his spouse.

<sup>10</sup>Includes 1,336 shares held individually by Ms. Woodland, 129 shares held jointly with her spouse, and 2,584 shares held in her Bank 401(k) plan.

<sup>11</sup>Includes 21,082 shares held individually by Mr. Jezewski and 216 shares held as custodian for his son.

<sup>12</sup>Includes 131,012 shares held jointly by Mr. Rinehart and his spouse, 4,000 shares by the Elmer and Wilita Rinehart GTR of which Mr. Rinehart is Trustee, and 900 shares held by the Wilita S. Rinehart Irrevocable Trust of which Mr. Rinehart is Trustee.

<sup>13</sup>Includes 8,825 shares held individually by Mr. Saracino.

<sup>14</sup>Includes 721 shares held individually by Mr. Fabian, 21,672 shares by the Jerome F. Fabian Trust Under Agreement for which Mr. Fabian exercises dispositive power, and 36,670 shares held jointly with his spouse.

<sup>15</sup>Includes 1,250 shares held individually by Mr. Gerlach and 8,227 shares held jointly with his spouse.

<sup>16</sup>Includes 1,986 shares held individually by Ms. Rosler and 1,045 shares held in her Bank 401(k) plan.

<sup>17</sup>Includes 30 shares held in Mr. Mensinger's Bank 401(k) plan.

<sup>18</sup>Includes 250 shares held individually by Mr. McDonald and 781 shares held in his Bank 401(k) plan.



**DIRECTORS' COMPENSATION TABLE**

| Name                          | Fees Earned<br>or Paid in<br>Cash<br>(\$) | Stock<br>Awards | Option<br>Awards | Non-Equity<br>Incentive<br>Plan<br>Compen-<br>sation | Non-qualified<br>Deferred<br>Compen-<br>sation<br>Earnings<br>(\$) | All<br>Other<br>Compen-<br>sation<br>(\$) | Total<br>(\$)       |
|-------------------------------|---|-----------------|------------------|--|--|---|---------------------|
| John E. Arndt                 | 40,800                                    |                 |                  |  |  |   | 40,800              |
| Don E. Bower                  | 40,200                                    |                 |                  |  |  |   | 40,200              |
| Robert A. Bull                | 43,300                                    |                 |                  |  |  |   | 43,300              |
| Robert E. Bull                | 40,200                                    |                 |                  |  |  |   | 40,200              |
| Joseph B. Conahan, Jr.        | 39,800                                    |                 |                  |  |  |   | 39,800              |
| Jerome F. Fabian <sup>1</sup> | 16,325                                    |                 |                  |  |  |   | 16,325              |
| John G. Gerlach <sup>1</sup>  | 16,325                                    |                 |                  |  |  |   | 16,325              |
| Michael L. Jezewski           | 22,675                                    |                 |                  |  |  |   | 22,675              |
| Nancy J. Marr                 | 39,400                                    |                 |                  |  |  |   | 39,400              |
| William E. Rinehart           | 23,075                                    | —               | —                | —  | —  | —   | 23,075              |
| David R. Saracino             | 41,600                                    |                 |                  |  | 9,664  | <sup>2</sup> 28,872                       | <sup>3</sup> 80,136 |

<sup>1</sup>Messrs. Fabian and Gerlach retired from the Board effective May 8, 2018. Total fees earned represents amount earned through their retirement date.

<sup>2</sup>Represents \$9,664 in increased liability portion of non-qualified deferred compensation earnings as part of the director's salary continuation agreement.

<sup>3</sup>Includes deferred compensation payments, made under a salary continuation agreement, of \$28,000, which was established when the director was a key employee of the Bank, and bank owned life insurance imputed income of \$872.

**Compensation of Directors**

During 2018, each member of the Corporation's Board received \$800 for his attendance at the Annual Meeting. Other corporate Board meetings met concurrently with the Bank's Board, and directors received no additional compensation. The Bank's directors received \$35,000 in 2018 and includes regularly scheduled Board Meetings, Committee Meetings and a yearly Retainer Fee to be distributed in equal monthly payments. Each additional Board Meeting called was compensated at \$800.00 and each additional Committee Meeting was compensated at \$400.00. Chairman Bull received an annual stipend of \$1,500, Vice Chairman Arndt received an annual stipend of \$1,000, and Secretary Saracino received an annual stipend of \$1,000. Each director is also entitled to reimbursement for out-of-pocket expenses to attend various bank related training and meetings. In the aggregate, the Board was paid \$374,500 for all

Board meetings and committee meetings attended in 2018, including all fees and stipends paid to all directors.

Mr. Saracino is party to a salary continuation agreement which was entered into when he was a key employee of the Bank. The agreement vested upon his retirement after age 60. Mr. Saracino receives benefits for a total of twenty years in the amount disclosed in the table above.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Corporation's financial reporting process on behalf of the Board. In that connection, the committee, along with the Board, has formally adopted an audit committee charter setting forth its responsibilities.

Management has the primary responsibility for the financial statements and the reporting process including the systems of internal control. In fulfilling its oversight responsibilities, the committee reviewed the audited financial statements in the Annual Report on Form 10-K with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The committee reviewed with Baker Tilly Virchow Krause, LLP, the Corporation's independent registered public accounting firm, who are responsible for expressing an opinion on the Corporation's financial statements, their judgments as to the quality, not just the acceptability, of the Corporation's accounting principles and such other matters as are required to be discussed with the committee in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB). In addition, the committee has discussed with Baker Tilly Virchow Krause, LLP, the matters required to be discussed by PCAOB Auditing Standard 1301 "Communications with Audit Committees". We have also received from Baker Tilly Virchow Krause, LLP, written disclosures and a letter concerning the firm's independence with respect to the Corporation, as required by Rule 3520 of the PCAOB.

The committee discussed the overall scope and plans for their audits with the Corporation's internal auditors and Baker Tilly Virchow Krause, LLP. The committee met with the internal auditors and Baker Tilly Virchow Krause, LLP, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation's internal controls and the overall quality of the Corporation's financial reporting. The committee held six meetings during fiscal year 2018.

With respect to the Corporation's Independent Accountants, the committee, among other things, discussed with Baker Tilly Virchow Krause, LLP matters relating to its independence, including the written disclosures made to the committee by the Independent Accountants and the letter from the Independent Accountants as required by applicable requirements of the Public Company Accounting Oversight Board regarding the Independent Accountant's communications with the Audit Committee concerning independence.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended

December 31, 2018 for filing with the Securities and Exchange Commission.

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Aggregate fees billed to the Corporation and the Bank by both Baker Tilly Virchow Krause, LLP and BDO USA, LLP, the Corporation's former independent public accounting firm, for services rendered during the year ended December 31, 2018 and BDO USA, LLP, during the year ended December 31, 2017 were as follows:

|                         | <b>Year Ended December 31,</b> |             |
|-------------------------|--------------------------------|-------------|
|                         | <b>2018</b>                    | <b>2017</b> |
| Audit fees <sup>1</sup> | \$ 224,805                     | \$ 185,772  |
| Tax fees <sup>2</sup>   | 18,598                         | 16,000      |
| Total                   | \$ 243,403                     | \$ 201,772  |

<sup>1</sup>Audit Fees include fees billed for professional services rendered for the audit of the Corporation's annual consolidated financial statements, audit of internal control in accordance with Section 404 of the Sarbanes-Oxley Act, and review of consolidated financial statements included in the Quarterly Reports on Form 10-Q, including out of pocket expenses provided by Baker Tilly Virchow Krause, LLP in 2018 and by BDO USA, LLP in 2017. Audit fees in 2018 also include \$80,140 in fees billed for form S-3 consents and the consent to file the 2018 10K, including out of pocket expenses provided by BDO USA, LLP.

<sup>2</sup> Tax Fees include fees billed for professional services rendered by both Baker Tilly Virchow Krause, LLP and BDO USA, LLP in 2018 and by BDO USA, LLP in 2017 for tax compliance. These services include preparation of Federal and State Annual Tax Returns for the Corporation and the Bank.

#### **Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services**

The Audit Committee pre-approves all audit and permissible non-audit services provided to the Corporation. Baker Tilly Virchow Krause, LLP served as the Corporation's independent registered public accounting firm for the year 2018. These services may include audit services, audit related services, tax services, and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific Board approved budget. In addition, the Audit Committee may also pre-approve particular services on a case by case basis. For each proposed service, the independent registered public accounting firm is required to provide a detailed engagement letter.

The committee is comprised of four directors, all of whom are considered “independent” as defined by SEC Rules and NASDAQ listing standards. The Board has determined that no member of the committee has a relationship with the Corporation that should interfere with his independence from the Corporation or its management.

The foregoing report has been furnished by the current members of the committee.

**Members of the Audit Committee**

David R. Saracino, Chairman

Don E. Bower

Nancy J. Marr

William E. Rinehart

## **EXECUTIVE COMPENSATION**

The Board serves as the Compensation Committee for the Bank and develops the Bank's and the Corporation's executive compensation policy. The compensation programs are designed to provide an incentive to the named executive officers on both a short-term and long-term basis. Because there is no formal compensation committee, the Corporation does not have a formal charter for such committee.

### **Executive Officers' Role in Determining Compensation**

The Board also determines the named executive officers' individual compensation. The Board, acting as the Compensation Committee, considers information provided by the Chief Executive Officer in determining the appropriate level of compensation for other named executive officers. Individual performance objectives are set by the Chief Executive Officer and a year-end appraisal on each named executive officer prepared by the Chief Executive Officer is reviewed by the Board. No named executive officer attends those portions of the Board meetings during which his or her performance is evaluated or his or her compensation is being determined. The Chief Executive Officer is present during the discussions regarding other named executive officers' performance and compensation, but is not present during the discussion of her performance and compensation.

### **Compensation Consultant**

In 2018, a compensation consultant did not play a role in setting compensation or advising on specific compensation. The Compensation Committee reviewed the L.R. Webber Associates, Inc.'s 2018 Salary/Benefits for Financial Institutions Survey ("the Survey") to acquaint itself with current trends and practices in compensation. The survey includes general compensation information for executives of financial institutions throughout Pennsylvania.

During the beginning of 2018, the Board conducted a risk assessment of the Bank's compensation program. The Board concluded that the program is balanced, does not motivate imprudent risk taking, and is not reasonably likely to have a material adverse effect on the Bank.

The following table shows information concerning the annual and long-term compensation for services rendered in all capacities to the Corporation and the Bank for the fiscal year ended December 31, 2018 of those persons who were:

- all individuals who served as the Principal Executive Officer and Principal Financial Officer during 2018; and
- the other 2 most highly compensated named executive officers of the Corporation and the Bank at December 31, 2018 whose total compensation exceeded \$100,000.



**SUMMARY COMPENSATION TABLE**

| Name and Principal Position                           | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|------|-------------|------------|-------------------|--------------------|--|-----------------------------|------------|
| Elaine A. Woodland<br>Chief Executive Officer         | 2018 | 185,000     | 35,294     |                   |                    | 21,841   | 19,015                      | 1 261,150  |
|   | 2017 | 168,750     |            |                   |                    | 20,573   | 13,555                      | 1 202,878  |
| Matthew P. Prosseda<br>Former Chief Executive Officer | 2018 | 84,981      |            |                   |                    |  | 294,242                     | 2 379,223  |
|   | 2017 | 239,500     |            |                   |                    | 37,566   | 43,795                      | 2 320,861  |
| Diane C.A. Rosler<br>Chief Financial Officer          | 2018 | 125,250     | 10,197     |                   |                    |  | 10,055                      | 3 145,502  |
|   | 2017 | 122,000     |            |                   |                    |  | 8,897                       | 3 130,897  |
| Matthew W. Mensinger<br>Director of Lending           | 2018 | 135,250     | 5,148      |                   |                    |  | 5,812                       | 4 146,210  |
|   | 2017 | 131,250     |            |                   |                    |  | 4,194                       | 4 135,444  |
| Mark J. McDonald<br>Chief Credit Officer              | 2018 | 116,500     | 5,148      |                   |                    |  | 10,272                      | 5 131,920  |
|   | 2017 | 113,000     |            |                   |                    |  | 8,396                       | 5 121,396  |

<sup>1</sup>Amounts shown for Ms. Woodland in 2018 include \$8,004 401(k) matching contribution, \$8,004 401(k) profit sharing award, \$1,939 personal use of company car and \$1,068 taxable life benefit and in 2017 include \$6,750 401(k) matching contribution, \$5,063 401(k) profit sharing award and \$1,742 taxable life benefit.

<sup>2</sup>Matthew Prosseda served as the Chief Executive Officer until his resignation on April 25, 2018. Under the terms of Mr. Prosseda's settlement agreement there was a forfeiture of nonqualified deferred compensation in the amount of \$305,122 in 2018. Other compensation amounts shown for Mr. Prosseda in 2018 include \$290,000 severance pay, \$3,399 401(k) matching contribution, \$608 personal use of company car and \$235 taxable life benefit and in 2017 \$22,400 in director fees, \$9,580 401(k) matching contribution, \$7,185 401(k) profit sharing award, \$2,622 personal use of company car and \$2,008 taxable life benefit.

<sup>3</sup>Amounts shown for Ms. Rosler in 2018 include \$4,807 401(k) matching contribution, \$5,014 401(k) profit sharing award and \$234 taxable life benefit and in 2017 include \$4,692 401(k) matching contribution, \$3,660 401(k) profit sharing award and \$545 taxable life benefit.

<sup>4</sup>Amounts shown for Mr. Mensinger in 2018 include \$5,414 401(k) profit sharing award and \$398 taxable life benefit and in 2017 include \$3,938 401(k) profit sharing award and \$256 taxable life benefit.

<sup>5</sup>Amounts shown for Mr. McDonald in 2018 include 4,664 401(k) matching contribution, \$4,664 401(k) profit sharing award and \$944 taxable life benefit and in 2017 include \$4,520 401(k) matching contribution, \$3,390 401(k) profit sharing award and \$486 taxable life benefit.

### **Supplemental Employee Retirement Plan**

The Corporation currently maintains a Supplemental Employee Retirement Plan (“SERP”) covering Elaine A. Woodland. The SERP, which is a salary continuation agreement, provides that if the executive officer continues to serve as an officer of the Bank until a stated retirement age of 63 years for Ms. Woodland, the Bank will pay 180 guaranteed consecutive monthly payments for Ms. Woodland commencing on the first day of the month following the officer’s 63<sup>d</sup> birthday and the termination of employment in the amount indicated below. The established retirement benefit under the SERP for Ms. Woodland will be \$2,083 per month and is not subject to change.

If the executive officer attains her stated retirement age, but dies before receiving all of the guaranteed monthly payments, then the Bank will make the remaining payments to the officer's beneficiary. In the event the officer dies while serving as an officer, prior to her stated retirement age, the Bank will remit the guaranteed monthly payment to the officer's beneficiary commencing the month following the executive's death. In the event of a change of control and the termination of the officer's employment, the guaranteed monthly payments will commence the month following the executive's termination of service. Generally, no benefit will be paid if the executive officer voluntarily terminates employment prior to attaining the stated retirement age or is terminated for cause.

The SERP allows the executive officer to achieve a retirement income percentage that is more consistent with her experience and years of service to the Bank. The plan objective is to provide the executive officer with a final wage replacement ratio of approximately 75% of projected final salary including projected benefits from the Bank 401(k) Plan, social security, and salary continuation provided through the agreement.

#### **401(k) Plan**

The Bank maintains a 401k Plan which has a combined tax qualified savings feature and profit sharing feature for the benefit of its employees. Effective January 1, 2014, the plan became a Safe Harbor Plan and provides matching benefits to employees who are 21 years of age upon their entry date into the plan after completing three months of service. Under the savings feature, the Bank makes safe harbor matching contributions of 100% of the first 3% of compensation an employee contributes to the plan and 50% of the next 2% of compensation an employee contributes to the plan.

Additionally, the Bank may make a discretionary profit sharing contribution annually to the plan. Contributions made by the Bank to the plan are allocated to participants, who are aged 21 and have completed at least one year of service, in the same portion that each participant's compensation bears to the aggregate compensation of all participants. Each participant in the plan is 100% vested at all times. Benefits are payable under the plan upon termination of employment, disability, death or retirement.

Of the \$595,882 in total expenses during 2018, \$43,970 was credited among the individual accounts of the 5 named executive officers of the Bank: Ms. Woodland with \$16,008, Mr. Prosseda with \$3,399, Ms. Rosler with \$9,821, Mr. Mensinger with \$5,414 and Mr. McDonald with \$9,328. Ms. Woodland has been a member of the plan for 12 years, Mr. Prosseda for 12 years, Ms. Rosler for 28 years, Mr. Mensinger for 19 years and Mr. McDonald for 12 years.

#### **Health and Welfare Plans**

Group life insurance, group disability, vision and dental benefits and health insurance are available to all employees, as well as an IRS Section 125 plan. Such plans are standard in the industry and in the geographic area for all industries and necessary to compete for talented employees at all levels of the Corporation. Named executive officers participate in these plans under the same terms and conditions as other employees.

Under the group life insurance, Ms. Woodland's beneficiary would be entitled to a death benefit of two times her base salary capped at \$300,000, and each of the other named executive officers' beneficiaries would be entitled to a death benefit of two times his or her base salary.

### **Related Person Transactions**

There have been no material transactions between the Corporation or the Bank, nor any material transactions proposed, with any director, director nominee or executive officer of the Corporation or the Bank, or any associate of these persons. The Corporation and the Bank have engaged in and intend to continue to engage in banking and financial transactions in the ordinary course of business with directors and officers of the Corporation and the Bank and their associates on terms and with similar interest rates as those prevailing from time to time for other customers of the Corporation and the Bank.

Total loans outstanding and commitments from the Corporation and the Bank at December 31, 2018, to the Corporation's and the Bank's named executive officers and directors as a group and members of their immediate families and companies in which they had an ownership interest of 10% or more was \$24,906,000, or approximately 21.3% of the total equity capital. Loans to such persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the lender, and did not involve more than the normal risk of collectability or present other unfavorable features. All loans are current and being paid as agreed. The largest aggregate amount of indebtedness outstanding at any time during fiscal year 2018 to the named executive officers and directors of the Corporation and the Bank, and their affiliates as a group was \$27,481,000. The aggregate amount of outstanding indebtedness as of the latest practicable date, March 1, 2019, to the above described group was \$24,531,000.

## PRINCIPAL OFFICERS OF THE BANK AND THE CORPORATION

The following table presents selected information as of March 1, 2019, about the executive officers of the Bank and Corporation, each of whom is elected by the Board and each of whom holds office at the discretion of the Board:

| <b>Name</b>        | <b>Age as of<br/>March 1, 2019</b> | <b>Office and Position<br/>with the Bank</b> | <b>Office and Position<br/>with the Corporation</b> |
|--------------------|------------------------------------|--|---|
| Robert A. Bull     | 66                                 | Chairman of the Board since 2017             | Chairman of the Board since 2017                    |
| John E. Arndt      | 57                                 | Vice Chairman of the Board since 2017        | Vice Chairman of the Board since 2017               |
| Elaine A. Woodland | 60                                 | President and CEO since 2018                 | President and CEO since 2018                        |
| David R. Saracino  | 74                                 | Secretary since 2017                         | Secretary since 2017                                |
| Diane C.A. Rosler  | 54                                 | Chief Financial Officer since 2007           | Chief Financial Officer since 2007                  |

## LEGAL PROCEEDINGS

In the opinion of the management of the Corporation and its banking subsidiary, there are no proceedings pending to which the Corporation or the Bank is a party to, or which their property is subject, which, if determined adversely to the Corporation or the Bank, would have a material effect on their undivided profits or financial condition. There are no proceedings pending other than routine litigation incident to the business of the Corporation and the Bank. In addition, to the Board's knowledge, no government authorities have initiated, threatened to initiate, or contemplated any material proceedings against the Corporation or the Bank.

**PROPOSAL NO. 2: RATIFICATION OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

In 2018, all audit and tax fees associated with, Baker Tilly Virchow Krause, LLP's services were approved by the Audit Committee.

Baker Tilly Virchow Krause, LLP served as the Corporation's independent registered public accounting firm for the 2018 fiscal year, assisted the Corporation and the Bank with preparation of their federal and state annual tax returns, and provided assistance in connection with regulatory matters, charging the Bank for services at its customary hourly billing rates. Representatives of Baker Tilly Virchow Krause, LLP will attend the Annual Meeting of Shareholders, will have the opportunity to make a statement and are expected to be available to respond to any appropriate questions.

The Board has appointed Baker Tilly Virchow Krause, LLP, Certified Public Accountants, located at 1000 Commerce Park Drive, Suite 430, Williamsport, Pennsylvania 17701, as the Corporation's independent registered public accounting firm for its 2019 fiscal year. The Board proposes that shareholders ratify this selection. Baker Tilly Virchow Krause, LLP has advised the Corporation that none of its members has any financial interest in the Corporation. Ratification of Baker Tilly Virchow Krause, LLP will require the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting by Shareholders entitled to vote.

In the event that the shareholders do not ratify the selection of Baker Tilly Virchow Krause, LLP as the Corporation's independent registered public accounting firm for the 2019 fiscal year, another accounting firm may be chosen to provide independent audit services for the 2019 fiscal year.

The Board of Directors recommends that the shareholders vote **FOR** the ratification of the selection of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm for the Corporation for the year ending December 31, 2019.

**CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

On March 15, 2018, the Audit Committee and the Board of Directors of the Corporation appointed Baker Tilly Virchow Krause, LLP as the Corporation's new independent registered public accounting firm for and with respect to

the year ending December 31, 2018 and dismissed BDO USA, LLP from that role.

The reports of BDO USA, LLP on the Corporation's financial statements as of and for the years ended December 31, 2017 and 2016 did not contain an adverse opinion or a disclaimer of an opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except that BDO USA, LLP issued an adverse audit report on the effectiveness of the Corporation's Internal Control Over Financial Reporting in its Report of Independent Registered Public Accounting Firm as of December 31, 2016 identifying a material weakness regarding the Corporation's internal controls related to the review of specific reserves on impaired loans as of December 31, 2016 as disclosed in the Corporation's Form 10-K for the year ended December 31, 2016 as filed on March 17, 2017.

During the Corporation's fiscal year ended December 31, 2017 and the subsequent interim period preceding BDO USA, LLP's dismissal, there were: (i) no disagreements with BDO USA, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BDO USA, LLP, would have caused it to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements for the Corporation; and, (ii) no "reportable events", as such term is defined in Item 304(a)(1)(v) of Regulation S-K.

The Corporation provided BDO USA, LLP with a copy of the above disclosures prior to filing a Form 8-K with the U.S. Securities and Exchange Commission and requested to furnish to the Corporation a letter addressed to the SEC stating that it agrees with the statements made above. A copy of BDO USA, LLP's letter dated March 19, 2018 was attached as Exhibit 16.1 to the Form 8-K filed on March 19, 2018.

During the Corporation's fiscal year ended December 31, 2017 and through the date of the Corporation's appointment of Baker Tilly Virchow Krause, LLP, the Corporation did not consult with Baker Tilly Virchow Krause, LLP regarding: (i) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Corporation's consolidated financial statements, and no written or oral advice was provided by Baker Tilly Virchow Krause, LLP that was an important factor considered by the Corporation in reaching a decision as to accounting, auditing, or financial reporting issues; or, (ii) any matter that was either the subject of a disagreement or event, as set forth in Item 304(a)(1)(iv) or Item 304(a)(1)(v) of Regulation S-K.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's directors, executive officers and shareholders who own more than 10% of the Corporation's outstanding equity stock to file initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Corporation with the SEC. Based solely on its review of copies of Section 16(a) forms received by it, or written representations from reporting persons that no Forms 5 were required for those persons, the Corporation believes that during the period January 1, 2018 through December 31, 2018, its officers, directors and reporting shareholders were in compliance with all filing requirements applicable to them.

#### **INFORMATION REQUESTS**

A copy of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 may be obtained, at no cost, by contacting Cheryl Wynings, Investor Relations, First Keystone Corporation, 111 West Front Street, P.O. Box 289, Berwick, PA 18603, telephone: (570) 752-3671, extension 1175.

#### **OTHER MATTERS**

The Board does not know of any matters to be presented for consideration other than the matters described in the accompanying Notice of Annual Meeting of Shareholders, but if any matters are properly presented, the persons



named in the accompanying proxy intend to vote on the matters as they determine to be in the best interest of the Corporation.

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Your vote matters – here’s how to vote! You may vote online or by phone instead of mailing this card. Votes submitted electronically must be received by 1:00 a.m., Central Time, on May 9, 2019 Online Go to [www.investorvote.com/FKYS](http://www.investorvote.com/FKYS) or scan the QR code – login details are located in the shaded bar below. Phone Call toll free 1-800-652-VOTE (8683) within the USA, US territories and Canada Save paper, time and money! Using a black ink pen, mark your votes with an X as shown in this example. Sign up for electronic delivery at [www.investorvote.com/FKYS](http://www.investorvote.com/FKYS) Please do not write outside the designated areas. **VOTING BY MAIL, SIGN, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** A Proposals – The Board of Directors recommend a vote FOR all the nominees listed and FOR Proposals 2. 1. Election of Directors: For Withhold For Withhold For Withhold 01 - John E. Arndt •• 02 - Robert E. Bull •• 03 - Nancy J. Marr •• For Against Abstain 2. To Ratify the selection of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm for the Corporation for the year ending December 31, 2019. ••• 3. Other business which might come before the meeting. B Authorized Signatures – This section must be completed for your vote to count. Please date and sign below. Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title. Date (mm/dd/yyyy) – Please print date below. Signature 1 – Please keep signature within the box. Signature 2 – Please keep signature within the box. 3 1 D V 0302ZB

Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Shareholders. The material is available at: [www.investorvote.com/FKYS](http://www.investorvote.com/FKYS) Small steps make an impact. Help the environment by consenting to receive electronic delivery, sign up at [www.investorvote.com/FKYS](http://www.investorvote.com/FKYS) IF VOTING BY MAIL, SIGN, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Proxy – First Keystone Corporation Notice of 2019 Annual Meeting of Shareholders Proxy Solicited by Board of Directors for Annual Meeting – May 9, 2019 Carmelita Cleaver and Jason Holloway, or any of them, each with the power of substitution, are hereby authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of First Keystone Corporation to be held on May 9, 2019 or at any postponement or adjournment thereof. Shares represented by this proxy will be voted by the stockholder. If no such directions are indicated, the Proxies will have authority to vote FOR the Nominees Listed and FOR Proposal 2. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting. (Items to be voted appear on reverse side) C Non-Voting Items Change of Address – Please print new address below. Comments – Please print your comments below. Meeting Attendance Mark box to the right if you plan to attend the Annual Meeting. •