FIRST KEYSTONE CORP
Form S-4/A
September 12, 2007

As filed with the Securities and Exchange Commission on September 12, 2007

Registration No. 333-145658

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Amendment No. 1
to

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIRST KEYSTONE CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**6021**	**23-2249083**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	I.R.S. Employer Identification No.)

111 West Front Street
P.O. Box 289
Berwick, PA 18603
570-752-3671

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

J. Gerald Bazewicz
President and Chief Executive Officer
First Keystone Corporation
111 West Front Street
P.O. Box 289
Berwick, PA 18603
570-752-3671

(Name, address, including zip code, and telephone number, Including area code, of agent for service)

Copies of all communications to:

Erik Gerhard, Esquire
Nicholas Bybel, Jr., Esquire
BYBEL RUTLEDGE LLP
1017 Mumma Road, Suite 302
Lemoyne, PA 17043
(717) 731-1700

John B. Lampi, Esquire
Suzanne C. Hixenbaugh, Esquire
SAIDIS FLOWER & LINDSAY
26 West High Street
Carlisle, PA 17013
(717) 243-6222

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this Registration Statement and upon completion of the merger of Pocono Community Bank with and into the Registrant.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file an amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

[Subject to Completion Dated September 12, 2007]

The information in this proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Merger Proposal Your Vote Is Very Important

To: The shareholders of Pocono Community Bank

This proxy statement/prospectus relates to the proposed merger of First Keystone Corporation and Pocono Community Bank. This document is a combined proxy statement/prospectus that is being distributed by Pocono to you in connection with a special meeting of shareholders that has been called to vote on the merger. It contains important information about the merger and you should read it carefully. As a result of the merger, each share of Pocono common stock held by you will be converted into the right to receive either 0.8944 shares of First Keystone Corporation common stock or $16.10 in cash, as each Pocono shareholder elects, subject to limitations described in this document and the merger agreement. Each outstanding option and warrant representing the right to purchase Pocono common stock will be cancelled and instead will represent the right only to receive in cash the difference between the exercise price of the option or warrant and $16.10. If a Pocono shareholder does not elect whether to receive cash or stock, that shareholder will lose the right to elect and will receive either First Keystone Corporation common stock or cash as set forth on page 56. Based on the closing price of First Keystone Corporation common stock on May 10, 2007 of $18.75 per share, the market value of 0.8944 shares of First Keystone Corporation common stock would be $16.77, and based on the closing price of First Keystone Corporation common stock on September 7, 2007 of $18.25 per share, the market value of 0.8944 shares of First Keystone Corporation common stock would be $16.32.

The actual aggregate merger consideration value payable to the Pocono shareholders depends upon the market value of First Keystone Corporation common stock on the date of the merger and how many shares of Pocono common stock are converted into First Keystone Corporation common stock versus cash. Any cash a Pocono shareholder receives will generally be taxable to the extent of any gain realized in the transaction, but a Pocono shareholder will not recognize gain or loss to the extent a Pocono shareholder receives First Keystone Corporation common stock in exchange for Pocono common stock. For a more complete description of the tax consequences associated with the merger, see Certain Federal Income Tax Consequences beginning on page 68.

First Keystone Corporation and Pocono have agreed that approximately 937,277 shares of First Keystone Corporation common stock will be exchanged for Pocono common stock. Therefore, the cash or First Keystone Corporation common stock that you actually receive may be different from your election, based on the choices made by other Pocono shareholders.

You have dissenters rights as described beginning on page 73.

First Keystone Corporation common stock trades on the OTCBB under the symbol FKYS.OB. As of the date of this proxy statement/prospectus, we cannot complete the merger unless the merger agreement is approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Pocono common stock entitled to vote at the special meeting of shareholders. Certain Pocono directors, who collectively hold approximately 56% of the outstanding shares of Pocono common stock, have agreed in writing to vote in favor of the merger agreement. **Please complete, sign, date and promptly return the enclosed proxy card in the enclosed postage-paid envelope.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this proxy statement/prospectus is accurate or inadequate. Any representation to the contrary is a criminal offense.

The shares of First Keystone Corporation common stock that First Keystone Corporation is offering through this document are not savings or deposit accounts or other obligations of any bank or savings association, and they are not insured by the FDIC or any other governmental agency.

For a description of the risk factors associated with the merger, see Risk Factors beginning on page 18.

Proxy statement/prospectus dated September 12, 2007

This document was first mailed to shareholders of Pocono on or about September 14, 2007.

How to Obtain More Information

First Keystone Corporation has historically provided its shareholders with quarterly and annual reports. You can obtain free copies of this information through the SEC website at http://www.sec.gov or by writing or calling:

J. Gerald Bazewicz
President & Chief Executive Officer
First Keystone Corporation
111 West Front Street
P.O. Box 289
Berwick, PA 18603
570-752-3671

Pocono has historically provided its shareholders with annual reports. You can obtain free copies of this information by writing or calling:

John G. Gerlach
President and Chief Executive Officer
Pocono Community Bank
559 Main Street
Stroudsburg, PA 18360
570-424-9700

In order to obtain timely delivery of the documents, you must request the information no later than October 9, 2007.

559 Main Street
Stroudsburg, PA 18360

Notice of Special Meeting of Shareholders

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Pocono Community Bank will be held at 10 a.m., local time, on Tuesday, October 16, 2007 at the main banking house of Pocono, 559 Main Street, Stroudsburg, Pennsylvania, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of May 10, 2007 among First Keystone Corporation, First Keystone National Bank and Pocono Community Bank, and the consummation of the transactions contemplated thereby, which provides, among other things, for the merger of Pocono Community Bank with and into First Keystone National Bank upon the terms and subject to the conditions set forth in the merger agreement and the receipt by the Pocono shareholders of the right to receive either 0.8944 shares of First Keystone Corporation common stock or $16.10 in cash, for each share of Pocono common stock;

2. To consider and vote upon a proposal to extend the final exercise date for outstanding warrants for one year;

3. To consider and vote upon a proposal to adjourn or postpone the special meeting, if more time is needed, to allow Pocono Community Bank time to solicit additional votes in favor of the merger agreement; and

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Abstentions and broker non-votes will be counted as shares present for purpose of determining a quorum if present. However, abstentions and broker non-votes will not be counted against the merger but will have the affect of a vote against the merger. Pocono shareholders have the right under Pennsylvania law to dissent from the merger agreement and the transactions contemplated thereby.

The Pocono board of directors has fixed the close of business on August 31, 2007, as the record date for determining shareholders entitled to notice of, and to vote at, the special meeting. The Pocono board of directors recommends that you vote FOR approval and adoption of the merger agreement, approval of the warrant extension, and approval of the adjournment or postponement proposal. Certain directors of Pocono, who collectively hold approximately 56% of the outstanding shares of Pocono common stock, have agreed in writing to vote in favor of the merger.

Your vote is important regardless of the number of shares you own. The affirmative vote of the holders of at least two-thirds of the outstanding shares of Pocono common stock entitled to vote is required to approve and adopt the merger agreement.

Whether or not you plan to attend the special meeting, the Pocono board of directors urges you to complete, sign, date and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope. This will not prevent you from voting in person at the special meeting, but will assure that your vote is counted, if you are unable to attend. If you are a shareholder whose shares are registered in street name , you will need additional documentation from your broker in order to vote personally at the special meeting.

By Order of the Board of Directors,

John G. Gerlach
President and Chief Executive Officer

Stroudsburg, Pennsylvania
September 12, 2007

Table of Contents

Questions and Answers About the Merger

Q-1: Why am I receiving this document?

A: You are receiving this document because First Keystone Corporation, First Keystone National Bank and Pocono Community Bank signed an Agreement and Plan of Merger, dated as of May 10, 2007 which provides, among other things, for the merger of Pocono with and into First Keystone National Bank and the conversion of each share of Pocono common stock outstanding immediately prior to the consummation of the merger into the right to receive either $16.10, in cash, or 0.8944 shares of First Keystone Corporation common stock.

Q-2: What is the purpose of this document?

A: This document serves as both a proxy statement of Pocono and a prospectus of First Keystone Corporation. As a proxy statement, it is provided to you because the Pocono board of directors is soliciting your proxy for use at the Pocono special meeting of shareholders called to consider and vote on the merger agreement. As a prospectus, it is provided to you because First Keystone Corporation is offering to exchange shares of its common stock and/or cash for shares of Pocono common stock in the merger.

Q-3: Why are First Keystone Corporation and Pocono proposing to merge?

A: The boards of directors of First Keystone Corporation and Pocono believe that a combination of the two companies will create a stronger and more capable entity than either First Keystone Corporation or Pocono is likely to be alone. Each board of directors believes the merger provides an opportunity for each company to capitalize on its assets in the short-term and strengthen their prospects for the continued growth over the long-term. The merger also involves certain risks, which are described under Risk Factors beginning on page 18.

Q-4: What does the Pocono Board of Directors recommend?

A: The Pocono board of directors has approved the merger and the merger agreement and believes that the merger is in the best interests of Pocono. Accordingly, the Pocono board of directors recommends that its shareholders vote FOR approval and adoption of the merger agreement and the merger.

The Pocono board of directors also recommends that its shareholders vote FOR approval of the extension of the warrants and approval of the adjournment or postponement proposal.

Q-5: When do we expect the merger to be completed?

A: We expect to complete the merger on or about November 1, 2007, provided that all of the conditions to the merger are fulfilled, including obtaining the approval of shareholders and applicable regulatory agencies. There is no assurance that we will obtain the necessary shareholder approval or that the other conditions precedent to the merger can or will be satisfied.

Q-6: What will I receive in the merger?

A: You have the ability to receive, at your election, either 0.8944 shares of First Keystone Corporation common stock, $16.10 in cash, or a combination of both stock and cash, for your shares of Pocono common stock. Notwithstanding such an election the total number of shares of First Keystone Corporation common stock that will be exchanged for Pocono common stock will be approximately 937,277. Therefore, if too many or too few Pocono shareholders elect to receive First Keystone Corporation common stock, Pocono shareholders will have their stock elections either increased or

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reduced according to a *pro rata* formula such that approximately 937,277 shares of First Keystone Corporation will be issued in the merger.

First Keystone Corporation will not issue any fractional shares of common stock. Rather, First Keystone Corporation will pay cash (without interest) for any fractional share interest that you would otherwise be entitled to receive in the merger. See The Merger Terms of the Merger What You Will Receive, beginning at page 53.

Q-7: How do I make an election to receive stock or cash for my stock?

A: Approximately, four to six weeks prior to completion of the merger, First Keystone National Bank, First Keystone Corporation s exchange agent, will mail to you an election form and other transmittal materials, which include instructions and the deadline date for making your election as to the form of consideration you prefer to receive in the merger. The election form permits you to elect to receive First Keystone Corporation common stock, cash, or a combination of First Keystone Corporation common stock and cash for your shares of Pocono common stock. We urge you to pay special attention to these materials since failure to follow the instructions may mean that you will not receive the consideration you desire. An election will be properly made only if the exchange agent receives a properly executed transmittal form by the deadline date.

Q-8: What happens if I fail to make an election to receive First Keystone Corporation common stock or cash?

A: If you fail to make a timely election, you will receive First Keystone Corporation common stock, cash or a combination of common stock and cash, depending on the elections made by other Pocono shareholders.

Q-9: What happens if I fail to submit a properly completed and executed election form?

A: If you fail to submit a properly completed and executed election form, you will receive First Keystone Corporation common stock, cash or a combination of common stock and cash, depending on the elections made by other Pocono shareholders.

Q-10: Are there regulatory or other conditions to the merger occurring?

A: Yes. The Office of the Comptroller of the Currency, Federal Reserve Board and the Pennsylvania Department of Banking must approve the merger.

As of the date of this document, appropriate applications for approval have been filed with the OCC and the Pennsylvania Department of Banking.

Completion of the merger is also subject to certain other conditions as described in The Merger Terms of the Merger Conditions to the Merger beginning at page 61.

Q-11: What vote is required to approve and adopt the merger?

A: The merger must be approved and adopted by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Pocono common stock who are entitled to vote on the merger agreement.

Q-12: What is the purpose of the one year warrant exercise extension proposal?

A: In connection with the formation of Pocono, stock purchase warrants were issued to the organizing shareholders. Currently, those warrants expire November 21, 2007. Under the merger agreement, First Keystone Corporation will pay each warrant holder $11.55 in cash for each outstanding

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warrant. Although, we anticipate the merger will be consummated prior to the expiration of the warrants, we cannot know for sure. Therefore, in order to assure First Keystone Corporation and the warrant holders that they will be able to cash out these warrants at the closing date, we propose to extend the warrant exercise date by one year or until November 21, 2008.

Q-13: Do I have rights to dissent from the merger?

A: Yes. Under national banking law, you have the right to dissent from the merger agreement and the merger and to receive a payment in cash value of the shares of your shares of Pocono common stock, as determined by committee of three people. To perfect your dissenters rights, you must precisely follow the required statutory procedures as explained in The Merger Rights of Dissenting Shareholders beginning at page 73 and the information attached at **Annex D** or you will lose your dissenters rights. You are also encouraged to consult with your own legal advisor as to your appraisal rights under national banking law.

Q-14: What do I need to do now?

A: After you have carefully read these materials, indicate on the attached proxy card how you want your shares to be voted, then sign, date and mail the proxy card in the enclosed postage-paid envelope as soon as possible so that your shares may be represented and voted at the Pocono special meeting.

At a later time, you will need to complete the election form that will be mailed by First Keystone Corporation s exchange agent. If you do not return the election form by the deadline you will lose the right to choose the type of consideration you will receive and will receive First Keystone Corporation common stock, cash or a combination of common stock and cash, depending on the elections of other Pocono shareholders as described on page 56 of this proxy statement/prospectus.

Q-15: Should I send in my stock certificates now?

A: No. You should not send in you stock certificates at this time. You will receive instructions from First Keystone Corporation s exchange agent at a later time. See The Merger Terms of the Merger Election and Exchange Procedures on page 56.

Please do not send any stock certificates to Pocono, First Keystone Corporation or First Keystone Corporation s exchange agent until you receive instructions.

Q-16: Can I change my vote after I have mailed my signed proxy card?

A: Yes. There are three ways for you to revoke your proxy and change your vote. First, you may send a later-dated, signed proxy card before Pocono s special meeting. Second, you may revoke your proxy by written notice (which you could personally deliver at the special meeting) delivered at any time prior to the vote on the merger. You should deliver this notice to the President of Pocono, John G. Gerlach. Third, you may attend the Pocono special meeting and vote in person. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q-17: What are the tax consequences of the merger to Pocono shareholders?

A: In general, for United States federal income tax purposes, you are not expected to recognize a gain or loss on the exchange of your Pocono stock for First Keystone Corporation common stock. If you receive only cash in exchange for your Pocono common stock, you will recognize gain or loss on the transaction, and if you receive a combination of cash and First Keystone Corporation common

stock in exchange for your Pocono common stock, you will typically recognize gain (but not loss) on the transaction. Furthermore, you will have to recognize a gain in connection with cash received in lieu of fractional shares of First Keystone Corporation common stock.

Pocono shareholders are urged to consult their tax advisor for a full understanding of the tax consequences of the merger to them since tax matters are very complicated and in many cases, tax consequences of the merger will depend on your particular facts and circumstances. See The Merger Certain Federal Income Tax Consequences beginning at page 68.

Q-18: What happens if my Pocono stock certificates are held by my broker?

A: If you do not have stock certificates but hold shares of Pocono common stock in street name, you should contact your broker. Your broker will vote your shares on the proposal to approve and adopt the merger agreement and the merger, the warrant expiration date proposal and the adjournment or postponement proposal only if you provide instructions on how to vote. You should follow the directions provided by your broker to vote your shares.

Q-19: Whom should I call with questions or to obtain additional copies of this document?

A: If you have questions about the special meeting or if you need additional copies of this document, you should contact:

John G. Gerlach
President and Chief Executive Officer
Pocono Community Bank
559 Main Street
Stroudsburg, PA 18360
570-424-9700

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Summary

This summary highlights selected information from this document. It does not contain all of the information that may be important to you. You should carefully read this entire document before you decide how to vote. It will give you a more complete description of the transaction we are proposing. We have included page references in this summary to direct you to more complete descriptions of the topics provided elsewhere in these materials.

The Special Meeting

Special Meeting to be held Tuesday, October 16, 2007 (see page 24).

Pocono will hold a special meeting of shareholders on *Tuesday, October 16, 2007*, at 10:00 a.m., local time, at the main banking house of Pocono at 559 Main Street, Stroudsburg, Pennsylvania. The Pocono board of directors has set the close of business on August 31, 2007 as the record date for determining shareholders entitled to notice of, and to vote at, the special meeting. On the record date, there were 1,745,950 shares of Pocono common stock outstanding.

Matters to be Considered at the Special Meeting (see page 24).

At the meeting, you will be asked to vote on a proposal to approve and adopt the merger agreement providing for the merger of Pocono with and into First Keystone National Bank, a proposal to extend the date by which Pocono warrants may be exercised by one year, and on a proposal to adjourn or postpone the meeting to solicit additional proxies, if necessary, in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement and any other business that properly arises during the special meeting or any adjournment or postponement thereof.

Organization and Operation after the Merger

Under the terms of the merger agreement, First Keystone Corporation will acquire Pocono by merging Pocono with and into its wholly-owned subsidiary, First Keystone National Bank. Pocono will cease to exist as a separate entity. A copy of the merger agreement, as amended, is attached to this document as **Annex A**.

The Companies *(see page 75 for First Keystone Corporation and page 109 for Pocono).*

First Keystone Corporation
111 West Front Street
P.O. Box 289
Berwick, PA 18603
Telephone: (570)752-3671
www.firstkeystonenational.com

First Keystone Corporation is a Pennsylvania business corporation and a registered bank holding company headquartered in Berwick, Pennsylvania. First Keystone National Bank, formerly known as The First National Bank of Berwick, was founded in 1864. First Keystone Corporation became the bank holding company for First Keystone National Bank on June 1, 1984 with First Keystone National Bank becoming the wholly-owned subsidiary of First Keystone Corporation.

As of June 30, 2007, First Keystone Corporation had consolidated assets, deposits and shareholders equity of approximately $534.6 million, $397.5 million and $50.3 million, respectively.

Through its banking subsidiary, First Keystone Corporation is engaged in commercial banking as authorized by the National Bank Act. This involves accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans. Additionally, First Keystone

National Bank also provides personal and corporate trust and agency services to individuals, corporations, and others, including trust investment accounts, investment advisory services, mutual funds, estate planning, and management of pension and profit sharing plans.

First Keystone Corporation common stock is listed and traded on the OTCBB under the symbol FKYS.OB .

Pocono Community Bank
559 Main Street
Stroudsburg, PA 18360
Telephone: 570-424-9700
www.poconocommunitybank.com

Pocono is a Pennsylvania chartered commercial banking institution organized in 1996 and is headquartered in Stroudsburg, Pennsylvania.

As of June 30, 2007, Pocono had consolidated assets, deposits and shareholders equity of approximately $137.0 million, $117.6 million and $15.0 million, respectively.

Pocono is engaged in the commercial and retail banking business. Pocono provides checking and savings accounts, time deposits, personal, business, residential mortgage, educational loans, and safe deposit facilities.

Pocono common stock is not listed or traded on any market or exchange.

You May Elect to Receive Cash, Shares of First Keystone Corporation Common Stock or a Combination of Cash and Stock (see page 56).

You may choose to exchange some or all of your shares for cash and some or all of your shares for First Keystone Corporation common stock, subject to the limitations described below. An election form will be sent separately from this proxy statement/prospectus, which will ask your preference for cash and/or stock. You will have until the deadline specified in the election form, which will be 5:00 p.m. 30 days after the election form was mailed, to make your election and return your election form.

If you do not return a properly completed and executed election form by the election deadline, your shares will be deemed undesignated and the consideration you receive will be based upon what the other shareholders have elected. Complete information on the election procedure can be found in the section entitled The Merger Terms of the Merger Election and Exchange Procedures on page 56. You should note that, in general, if and to the extent that you receive cash, the value of the consideration you will receive is fixed at $16.10 per share of Pocono common stock. However, if you receive First Keystone Corporation common stock as consideration, the value of the shares you receive will not be determined until just prior to closing and may be higher or lower than $16.10 per share.

In addition, 937,277 shares of First Keystone Corporation common stock will be exchanged for the outstanding shares of Pocono common stock. In the event that the holders of Pocono common stock elect to receive stock in excess of 937,277 shares of First Keystone Corporation common stock, those persons will receive a portion of their merger consideration in the form of cash. Conversely, in the event that the holders of Pocono common stock elect to receive cash so that less than 937,277 shares of First Keystone Corporation common stock will be issued, those persons will receive a portion of their merger consideration in the form of First Keystone Corporation common stock.

Thus, you may not receive exactly the form of consideration that you elect, and you may receive a *pro rata* amount of cash and First Keystone Corporation common stock even if you elect to receive all cash or all stock. See The Merger Terms of the Merger Election and Exchange Procedures and The

Merger Terms of the Merger Allocation of First Keystone Corporation Common Stock and Cash, on pages 56 and 58, respectively.

The federal income tax consequences of the merger to you will be dependent upon the type of merger consideration received.

The federal income tax consequences of the transaction to you will depend upon the merger consideration you receive. In general, if you exchange your shares of Pocono common stock solely for cash, you will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash you receive and your adjusted tax basis in your Pocono common stock. If you receive solely First Keystone Corporation common stock in exchange for your Pocono common stock, you generally will not recognize any gain or loss for federal income tax purposes. However, you generally will have to recognize gain or loss in connection with cash received in lieu of fractional shares of First Keystone Corporation common stock. In addition, generally you will have to recognize gain or loss in connection with the cash received from the cancellation of the warrants and options. If you receive a combination of cash and First Keystone Corporation common stock in the transaction, you generally will not recognize loss but will recognize gain, if any, to the extent of any cash received. For a more detailed discussion of the federal income tax consequences of the transaction to you, see The Merger Certain Federal Income Tax Consequences, on page 68.

The Pocono Board of Directors Recommend Shareholder Approval (see page 30).

The Pocono board of directors believes that the merger is in the best interests of Pocono and recommends that you vote FOR approval and adoption of the merger.

Consideration is Fair from a Financial Point of View According to Pocono s Financial Advisor (see page 30).

Boenning & Scattergood, Inc. delivered a written opinion, to the Pocono board of directors that, as of May 10, 2007, and subject to the qualifications and limitations on the review by Boenning & Scattergood, Inc. in rendering its opinion, the consideration for which shares of Pocono common stock will be exchanged in the merger is fair from a financial point of view to Pocono shareholders. Boenning & Scattergood, Inc. has updated its opinion as of September 7, 2007. The opinion is attached to this document as **Annex B**. You should read the entire opinion carefully in connection with your consideration of the proposed merger. Pursuant to an engagement letter, Pocono has agreed to pay Boenning & Scattergood, Inc. an aggregate advisory fee in an amount equal to $372,000 upon completion of the merger. The initial non-refundable retainer fee was $10,000 upon execution of the engagement letter. Pocono has also agreed to reimburse certain of Boenning & Scattergood, Inc. s reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Boenning & Scattergood, Inc. against certain liabilities arising out of rendering its opinion. The opinion is directed at Pocono s board of directors and does not constitute a recommendation to any holder of Pocono common stock as to how any shareholder should vote on any of the proposals to be considered at the special meeting.

Consideration is Fair from a Financial Point of View According to First Keystone Corporation s Financial Advisor (see page 41).

Curtis Securities, LLC delivered a written opinion, to the First Keystone Corporation board of directors that, as of May 10, 2007, and subject to the qualifications and limitations on the review by Curtis Securities, LLC in rendering its opinion, the consideration to be paid in exchange for Pocono common stock is fair from a financial point of view to First Keystone Corporation shareholders. The opinion is attached to this document as **Annex C**. The opinion is directed at First Keystone Corporation s board of directors and does not constitute a recommendation to any holder of Pocono common stock as to how any shareholder should vote on any of the proposals to be considered at the special meeting.

The Affirmative Vote of at least two-thirds of the Outstanding Shares of Pocono Common Stock on the Record Date, August 31, 2007 is Required for Approval and Adoption of the Merger (see page 25).

The affirmative vote of at least two-thirds of the outstanding shares of Pocono common stock on the record date, August 31, 2007 is required for approval and adoption of the merger (see page 25). Each holder of shares of Pocono common stock outstanding on the record date will be entitled to one vote for each share held of record. The vote required for approval and adoption of the merger is a percentage of all outstanding shares of Pocono common stock. Therefore, abstentions and broker non-votes will have the same effect as a vote against the merger agreement and the merger.

Approval of at Least a Majority of the Issued and Outstanding Shares of Pocono Common Stock on the Record Date, August 31, 2007, is Required for the Warrant Exercise Extension.

Approval of at least a majority of the issued and outstanding shares of Pocono common stock on the Record Date, August 31, 2007, is required for the warrant exercise extension.

The Affirmative Vote of a Majority of the Shares Voted at the Special Meeting is Required to Approve the Adjournment or Postponement of the Meeting to Solicit Additional Proxies.

The affirmative vote of a majority of the shares voted at the special meeting is required to approve the adjournment or postponement of the meeting to solicit additional proxies.

Certain Pocono Directors have Agreed to Vote in Favor of the Merger (see page 25).

Directors of Pocono had sole or shared voting power over 1,127,593 shares of Pocono common stock, or approximately 65% of the shares of Pocono common stock outstanding. Certain Pocono directors with sole or shared voting power over 983,689 shares of Pocono common stock, or approximately 56% of the shares of Pocono common stock outstanding, have agreed, in writing, to vote all shares of Pocono common stock for which they have sole voting power and their proportionate interest, if they have shared voting power on the record date, in favor of approval and adoption of the merger agreement and the merger.

Pocono Directors and Management may have Interests in the Merger that Differ from your Interests (see page 66).

The directors and executive officers of Pocono have interests in the merger as directors and employees that are different from yours as a Pocono shareholder. These interests include, among others, provisions in the merger agreement regarding two board positions on the First Keystone Corporation and First Keystone National Bank boards and the Pocono Advisory Board positions after completion of the merger, as well as indemnification, insurance, and eligibility to participate in various First Keystone Corporation employee benefit plans.

Mr. Gerlach has an employment agreement which provides him with benefits if the merger is completed. Mr. Gerlach has signed a release agreement releasing his rights under the employment agreement for which he will receive payments. Additionally, under the merger agreement, Mr. Gerlach was required to enter into an employment agreement and consulting agreement with First Keystone Corporation and First Keystone National Bank, under which he will receive payments.

Pocono s board of directors was aware of these interests and considered them in approving and recommending the merger.

Regulatory Approval Must be Obtained and Other Conditions Must be Satisfied Before the Merger Will be Completed (see page 61).

First Keystone Corporation s and Pocono s obligations to complete the merger are subject to various conditions that are usual and customary for this kind of transaction, including obtaining approval from the Comptroller of the Currency and the Pennsylvania Department of Banking. As of the date of this document, appropriate applications for approval have been filed. In addition to the required regulatory approvals, the merger will only be completed if certain conditions, including the following, are met:

- Pocono shareholders approve and adopt the merger at the special meeting;
- Each party receives opinions from its counsel or independent certified public accountants that the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code; and
- Neither party has breached any of its representations or obligations under the merger agreement.

The merger agreement, as amended, attached to this document as **Annex A** describes other conditions that must be met before the merger may be completed.

Amendment or Termination of the Merger Agreement is Possible (see page 62).

Pocono and First Keystone Corporation can agree to amend the merger agreement in any way, except that, after approval and adoption by Pocono shareholders at the special meeting, the consideration you will receive in the transaction cannot be decreased.

Pocono and First Keystone Corporation may agree to terminate the merger agreement and not complete the merger at any time before the merger is completed. Each company also may unilaterally terminate the merger agreement in certain circumstances including:

- The transaction is not completed on or prior to April 30, 2008, if the failure to complete the transaction by that date is not due to a breach of the merger agreement by the party seeking to terminate it.
- A final denial of a required regulatory approval, if the failure to obtain regulatory approval is not due to a breach of the merger agreement by the party seeking to terminate it.
- A party has materially breached any representation or warranty in the merger agreement and such breach would have a material adverse effect on the breaching party, and such breach cannot be remedied within 30 days after written notice of such breach, if the breach was not by the terminating party.
- If Pocono s shareholders do not approve and adopt the merger agreement at their respective special meetings.

Pocono may terminate the merger agreement:

- If the average final price of First Keystone Corporation common stock for the twenty (20) consecutive trading days ending five business days immediately prior to the receipt of the last regulatory approval and Pocono shareholder approval is less than $16.20 and the decline in First Keystone Corporation s common stock is at least 10% more than the decline during the same period in a peer group index.
- If Pocono enters into any definitive term sheet, letter of intent, agreement or similar type agreement with a view to being acquired by, or effecting a business combination with, any other person other than First Keystone Corporation; or any agreement to merge, consolidate, to combine or to sell a material portion of its assets or to be acquired in any other manner by any other person or to acquire a material amount of assets or a material equity position in any other person, whether

financial or otherwise after receipt of written advice of counsel that failure to do so shall constitute a breach of fiduciary duty of Pocono s directors under the laws of the Commonwealth of Pennsylvania.

First Keystone Corporation may terminate the merger agreement:

- If Pocono enters into any definitive term sheet, letter of intent, agreement or similar type agreement with a view to being acquired by, or effecting a business combination, with any other person other than First Keystone Corporation; or any agreement to merge, consolidate, to combine or to sell a material portion of its assets or to be acquired in any other manner by any other person or to acquire a material amount of assets or a material equity position in any other person, whether financial or otherwise.

- If the Pocono board of directors withdraws, changes, or modifies its recommendation of the transaction to Pocono shareholders.

- If more than 20,000 shares are issued to non-directors or non-officers of Pocono who exercise their options or warrants or if any board member of Pocono exercises his or her options or warrants.

- The amount of goodwill to be recorded in the transaction under the accounting principles generally accepted in the United States would make First Keystone Corporation not maintaining well-capitalized status for regulatory purposes.

Generally, the company seeking to terminate cannot itself be in violation of the merger agreement.

First Keystone Corporation and Pocono can agree to amend the merger agreement in any way. Either company can waive any of the requirements of the other company in the merger agreement, except that neither company can waive any required regulatory approval.

Pocono Must Pay a Termination Fee to First Keystone Corporation if the Merger Agreement is Terminated Under Certain Circumstances.

Pocono must pay First Keystone Corporation a termination fee in the amount of $1,200,000 if the merger agreement is terminated:

- By First Keystone Corporation because Pocono failed to recommend or hold the special meeting of shareholders;

- By Pocono because it received a superior proposal to be acquired;

- By any other section of the merger agreement because of a tender offer or exchange for 25% or more of the outstanding Pocono common stock and the board has not stated that it recommends a rejection of the tender offer to shareholders; or

- Within 12 months of the termination, Pocono agrees to be acquired by a third party, a substantial portion of its assets are acquired by a third party, or 50% of Pocono common stock is acquired by a third party.

See The Merger Terms of the Merger Termination Fee beginning on page 64.

Rights of First Keystone Corporation Shareholders Differ from those of Pocono Shareholders (see pages 138).

When the merger is completed, Pocono shareholders who receive First Keystone Corporation common stock as consideration in the merger will become First Keystone Corporation shareholders. The rights of First Keystone Corporation shareholders differ from the rights of Pocono shareholders in certain important ways. Many of these have to do with provisions in First Keystone Corporation s articles of incorporation and bylaws that differ from those of Pocono. Some of these provisions are intended to make

a takeover of First Keystone Corporation more difficult if First Keystone Corporation s board of directors does not approve it.

You Will Have Dissenters Rights.

You will be entitled to receive cash payment of the fair value of your shares if the reorganization is completed if you:

- Do not vote in favor of the Agreement and Plan of Merger; and
- Comply with the requirements of law concerning dissenters rights of appraisal.

Because Pocono will merge with and into First Keystone National Bank, as required by the national banking laws, any shareholder of Pocono who has voted against the Agreement and Plan of Merger at the special meeting or has given written notice at or prior to the annual meeting to the President of Pocono that he or she dissents from the Agreement and Plan of Merger, will be entitled to receive the value of his or her shares of common stock of Pocono held by him at the time the reorganization is approved by the Office of Comptroller of Currency upon written request made to Pocono at any time before thirty (30) days after the date of consummation of the reorganization, accompanied by the surrender of his share certificates.

Please also refer to Special Meeting of Shareholders Voting your Shares; Abstentions; Broker Non-Votes for information about how to vote on the merger. In particular, you may find the information on page 25 about how to revoke your proxy, useful if you decide that you wish to claim dissenters rights of appraisal but have already executed a proxy marked in favor of the reorganization. For information about the number of shares owned by management, which are likely to be voted in favor of the merger, please refer to Information with Respect to Pocono Community Bank Stock Ownership of Principal Shareholders and Management. This information may provide you with an indication of the likelihood that the merger proposal will be approved.

Market Price and Dividend Information

First Keystone Corporation common stock is listed and trades on the OTCBB under the symbol FKYS.OB. As of August 31, 2007, there were 4,518,873 shares of First Keystone Corporation common stock outstanding, which were held by approximately 670 holders of record and outstanding options that were exercisable on that date (or within 60 days of that date) for 51,383 additional shares of First Keystone Corporation common stock.

Pocono common stock is not listed or traded on any market or exchange. Pocono common stock is traded in a local over-the-counter market and privately negotiated transactions. As of August 31, 2007, there were 1,745,950 shares of Pocono common stock outstanding, which were held by approximately 286 holders of record. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

The following table shows, for the indicated periods, the high and low sales prices per share of First Keystone Corporation common stock, as reported on the OTCBB, and for Pocono common stock, as reported by Pocono s management, and dividends declared per share of First Keystone Corporation. The high and low sales prices per share for Pocono set forth in the table below are based on trades known to Pocono and Pocono has not declared any cash dividends to date.

	First Keystone Corporation			Pocono Community Bank		
	High	Low	Dividend Declared	High	Low	Dividend Declared
2007						
First Quarter	$ 19.00	$ 17.50	$ 0.22	$ 16.75	$ 16.75	$ N/A
Second Quarter	21.75	17.90	0.22	16.75	16.75	N/A
Third Quarter (through September 7, 2007)	19.25	17.00	0.22	16.75	16.75	N/A
2006						
First Quarter	$ 19.91	$ 18.57	$ 0.21	$ 16.75	$ 16.75	$ N/A
Second Quarter	19.05	17.43	0.21	N/A	N/A	N/A
Third Quarter	19.33	16.81	0.21	N/A	N/A	N/A
Fourth Quarter	19.20	17.29	0.22	16.75	16.50	N/A
2005						
First Quarter	$ 22.76	$ 20.48	$ 0.19	$ 15.25	$ 15.25	$ N/A
Second Quarter	20.95	18.81	0.19	15.50	15.25	N/A
Third Quarter	21.67	19.14	0.19	16.00	15.50	N/A
Fourth Quarter	20.81	19.05	0.21	16.25	16.00	N/A

On May 10, 2007, the last full trading day before the public announcement of the execution of the merger agreement, and on September 7, 2007 the latest practicable trading day before the date of this document, the high, low and closing sales prices for Pocono common stock were as follows:

	May 10, 2007			September 7, 2007		
	High	Low	Closing	High	Low	Closing
Pocono Common Stock	$ 16.75	$ 16.75	$ 16.75	$ 16.75	$ 16.75	$ 16.75

On May 10, 2007, the last full trading day before the public announcement of the execution of the merger agreement, and on September 7, 2007 the latest practicable trading day before the date of this document, the high, low and closing sales prices for First Keystone Corporation common stock were as follows:

	May 10, 2007			September 7, 2007		
	High	Low	Closing	High	Low	Closing
First Keystone Corporation Common Stock	$ 18.75	$ 18.75	$ 18.75	$ 19.25	$ 17.00	$ 18.25

Market Value of Securities

The following table sets forth the market value per share of First Keystone Corporation common stock, the market value per share of Pocono common stock and the equivalent market value per share of Pocono common stock on May 10, 2007 (the last business day preceding public announcement of the merger) and September 7, 2007 (the latest practicable trading day before the date of this document). The equivalent market value per share of Pocono common stock indicated in the table is shown assuming both a cash election and a stock election. The equivalent market value per share of stock elections is based upon an assumed exchange ratio of 0.8944 shares of First Keystone Corporation common stock multiplied by the closing sales price of First Keystone Corporation common stock on the specified date. The equivalent market value per share of Pocono common stock for cash elections is the fixed cash consideration of $16.10 per share. See The Merger Terms of the Merger What You Will Receive.

The historical market values per share of First Keystone Corporation common stock and the historical market value of First Keystone Corporation common stock used to determine the equivalent market value per share of Pocono common stock are the per share closing sales prices on May 10, 2007, and September 7, 2007 respectively, as reported on the OTCBB with respect to First Keystone Corporation common stock.

	First Keystone Corporation Historical	Pocono Pocono Historical	Equivalent Market Value for Stock Election	Equivalent Market Value of Cash Election
May 10, 2007	$ 18.75	$ 16.75	$ 16.77	$ 16.10
September 7, 2007	$ 18.25	$ 16.75	$ 16.32	$ 16.10

Selected Historical Financial Data of First Keystone Corporation

The following is a summary of consolidated financial information with respect to First Keystone Corporation as of and for the six months ended June 30, 2007 and 2006, and as of and for the fiscal years ended December 31, 2006, 2005, 2004, 2003, and 2002. The results for the six months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year. This information is derived from, and should be read in conjunction with, First Keystone Corporation s consolidated financial statements and the accompanying notes and Information with Respect to First Keystone Corporation-Management s Discussion and Analysis of Financial Condition and Results of Operations of First Keystone Corporation, both of which can be found elsewhere in this proxy statement/prospectus. In the opinion of management of First Keystone Corporation, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

Results of Operations	**2006**	**2005**	**2004**	**2003**	**2002**	**For the Six Months Ended June 30 2007 (Unaudited)**	**2006**
	(000 Omitted)						
Interest income	$ 28,577	$ 26,382	$ 25,036	$ 25,063	$ 25,862	$ 14,957	$ 13,909
Interest expense	$ 14,972	$ 11,621	$ 10,006	$ 10,200	$ 11,342	$ 8,261	$ 6,969
Provision for loan losses	$ 500	$ 750	$ 1,750	$ 500	$ 550	$ 125	$ 300
Net interest income after provision for loan losses	$ 13,105	$ 14,011	$ 13,280	$ 14,363	$ 13,970	$ 6,571	$ 6,640
Other operating income	$ 3,788	$ 3,782	$ 4,596	$ 3,275	$ 2,285	$ 1,995	$ 1,768
Other operating expense	$ 9,515	$ 9,583	$ 9,426	$ 8,370	$ 7,811	$ 5,160	$ 4,855
Income before income taxes	$ 7,378	$ 8,210	$ 8,450	$ 9,267	$ 8,444	$ 3,406	$ 3,553
Applicable income tax	$ 1,188	$ 1,363	$ 1,663	$ 1,950	$ 1,857	$ 588	$ 528
Net Income	$ 6,190	$ 6,847	$ 6,787	$ 7,317	$ 6,587	$ 2,818	$ 3,025
Per Share Data* **							
Basic earnings	$ 1.35	$ 1.48	$ 1.48	$ 1.58	$ 1.41	$ 0.62	$ 0.66
Diluted earnings	$ 1.35	$ 1.48	$ 1.47	$ 1.58	$ 1.41	$ 0.62	$ 0.66
Cash dividends declared	$ 0.85	$ 0.78	$ 0.70	$ 0.62	$ 0.54	$ 0.44	$ 0.42
Book value	$ 11.79	$ 11.61	$ 11.56	$ 11.15	$ 10.54	$ 11.12	$ 11.40
Average weighted shares outstanding	4,571,156	4,612,984	4,607,907	4,637,462	4,681,231	4,520,250	4,593,107
Average diluted shares outstanding	4,577,793	4,622,130	4,624,405	4,650,374	4,685,233	4,526,243	4,600,319
Balance Sheet Figures							
Total assets	$ 525,920	$ 512,399	$ 497,615	$ 481,840	$ 439,526	$ 534,560	$ 515,634
Net loans	$ 248,086	$ 230,917	$ 229,972	$ 225,549	$ 198,343	$ 251,225	$ 242,421
Total investment securities	$ 243,938	$ 251,536	$ 239,053	$ 231,272	$ 215,755	$ 247,920	$ 240,949
Total deposits	$ 384,020	$ 362,796	$ 357,956	$ 343,020	$ 330,745	$ 397,480	$ 373,379
Borrowed funds	$ 85,714	$ 93,686	$ 82,422	$ 74,689	$ 54,817	$ 83,843	$ 88,485
Total shareholders equity	$ 53,387	$ 53,443	$ 53,312	$ 51,351	$ 49,096	$ 50,273	$ 49,811
Ratios							
Average equity/average assets	10.19 %	10.69 %	10.76 %	11.00 %	10.66 %	10.30 %	10.09 %
Return on average equity	11.76 %	12.65 %	12.76 %	14.27 %	14.93 %	10.34 %	11.60 %
Return on average assets	1.20 %	1.35 %	1.37 %	1.57 %	1.59 %	1.07 %	1.18 %
Dividend payout ratio	62.63 %	52.61 %	47.41 %	39.41 %	38.33 %	70.57 %	63.67 %
Net interest margin	3.16 %	3.46 %	3.52 %	3.67 %	3.96 %	2.97 %	3.22 %
Effeciency ratio	56.30 %	53.90 %	52.70 %	47.50 %	48.10 %	60.20 %	57.70 %
Net loans to total assets	47.20 %	45.10 %	46.20 %	46.80 %	45.10 %	47.00 %	47.00 %
Allowance for loan losses to total loans outstanding	1.46 %	1.57 %	1.64 %	1.54 %	1.58 %	1.47 %	1.49 %
Non-accrual loans to total loans outstanding	0.68 %	0.88 %	1.46 %	0.32 %	0.23 %	0.60 %	1.03 %
Net charge offs to loans outstanding	0.21 %	0.39 %	0.62 %	0.07 %	0.15 %	0.02 %	0.13 %

*** Adjusted for a 5% stock dividend declated October 24, 2006 to shareholders of record November 14, 2006 distributed December 5, 2006 and 3 for 2 stock split in the form of a 50% stock dividend declared April 13, 2004 to shareholder of record April 27, 2004 distributed May 11, 2004.

Selected Historical Financial Data of Pocono Community Bank

The following is a summary of consolidated financial information with respect to Pocono as of and for the six months ended June 30, 2007 and 2006, and as of and for the fiscal years ended December 31, 2006, 2005, 2004, 2003, and 2002. The results for the six months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year. This information is derived from, and should be read in conjunction with, Pocono s consolidated financial statements and the accompanying notes and Information with Respect to Pocono-Management s Discussion and Analysis of Financial Condition and Results of Operations of Pocono, both of which can be found elsewhere in this proxy statement/prospectus. In the opinion of management of Pocono, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

Results of Operations	2006	2005	2004	2003	2002	For the Six Months Ended June 30 2007 (Unaudited)	2006
	(000 omitted)						
Interest income	$ 7,257	$ 6,616	$ 6,184	$ 5,944	$ 5,529	$ 3,891	$ 3,480
Interest expense	$ 3,033	$ 2,181	$ 1,890	$ 1,966	$ 2,035	$ 1,835	$ 1,342
Provision for loan losses	$ 80	$ 101	$ 24	$ 161	$ 218	$ 39	$ 45
Net interest income after provision for loan losses	$ 4,144	$ 4,334	$ 4,270	$ 3,817	$ 3,276	$ 2,017	$ 2,093
Other operating income	$ 457	$ 436	$ 309	$ 323	$ 259	$ 250	$ 248
Other operating expense	$ 3,215	$ 2,875	$ 2,627	$ 2,394	$ 2,237	$ 1,725	$ 1,580
Income before income taxes	$ 1,386	$ 1,895	$ 1,952	$ 1,746	$ 1,298	$ 542	$ 761
Applicable income tax	$ 382	$ 594	$ 648	$ 596	$ 441	$ 169	$ 214
Net Income	$ 1,004	$ 1,301	$ 1,304	$ 1,150	$ 857	$ 373	$ 547
Per Share Data							
Basic earnings	$ 0.60	$ 0.78	$ 0.78	$ 0.69	$ 0.51	$ 0.21	$ 0.32
Diluted earnings	$ 0.49	$ 0.64	$ 0.64	$ 0.59	$ 0.43	$ 0.18	$ 0.27
Cash dividends declared	$	$	$	$	$	$	$
Book value	$ 8.52	$ 7.88	$ 7.25	$ 7.55	$ 5.91	$ 8.57	$ 8.15
Average weighted shares outstanding	1,671,782	1,664,674	1,663,827	1,652,509	1,651,170	1,684,078	1,770,798
Average diluted shares outstanding	2,035,086	2,018,731	1,999,972	1,953,213	1,959,536	2,045,865	2,039,729
Balance Sheet Figures							
Total assets	$ 138,527	$ 131,632	$ 127,352	$ 118,304	$ 108,183	$ 136,823	$ 129,256
Net loans	$ 99,121	$ 92,971	$ 81,880	$ 82,827	$ 71,833	$ 102,720	$ 98,452
Total investment securities	$ 16,871	$ 21,240	$ 26,107	$ 15,530	$ 11,920	$ 14,742	$ 18,732
Total deposits	$ 113,724	$ 108,383	$ 103,211	$ 102,380	$ 90,189	$ 117,592	$ 111,364
Borrowed funds	$ 9,000	$ 9,000	$ 11,000	$ 4,000	$ 4,000	$ 3,000	$ 3,000
Total shareholders equity	$ 14,354	$ 13,123	$ 12,064	$ 10,896	$ 9,751	$ 14,968	$ 13,604
Ratios							
Average equity/average assets	10.73 %	10.09 %	9.65 %	9.37 %	9.64 %	11.12 %	10.72 %
Return on average equity	7.31 %	10.28 %	11.27 %	11.05 %	9.37 %	5.09 %	8.12 %
Return on average assets	0.79 %	1.04 %	1.08 %	1.04 %	0.90 %	0.57 %	0.87 %
Dividend payout ratio	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Net interest margin	3.54 %	3.73 %	3.70 %	3.67 %	3.79 %	3.34 %	3.65 %
Effeciency ratio	68.69 %	59.04 %	57.08 %	55.66 %	59.60 %	74.79 %	66.22 %
Net loans to total assets	71.55 %	70.63 %	64.29 %	70.01 %	66.40 %	75.07 %	76.17 %
Allowance for loan losses to total loans outstanding	1.22 %	1.23 %	1.28 %	1.29 %	1.26 %	1.22 %	1.21 %
Non-accrual loans to total loans outstanding	0.12 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.13 %
Net Charge offs to loans outstanding	0.010 %	0.004 %	0.051 %	0.00 %	0.00 %	0.003 %	0.002 %

Selected Unaudited *Pro Forma* Combined Financial Data

The following table shows information about the financial condition and results of operations, including per share data and financial ratios, after giving effect to the merger. This information is called unaudited *pro forma* financial information in this document. The information under Combined income statement in the table below gives effect to the *pro forma* results for the six months ended June 30, 2007. The information under Selected combined balance sheet items in the table below assumes the merger was completed on June 30, 2007. The *pro forma* financial information assumes that the merger is accounted for using the purchase method of accounting and represents a current estimate based on available financial information of First Keystone Corporation and Pocono Community Bank. See The Merger Accounting Treatment on page 68.

The unaudited *pro forma* combined financial information includes adjustments to reflect the assets and liabilities of Pocono Community Bank at their estimated fair values at or near June 30, 2007. Such adjustments are subject to further adjustment as additional information becomes available and as additional analyses are performed. The *pro forma* financial information is presented for illustrative purposes only and does *not* include any assumptions regarding the possible impact of revenue enhancements, asset dispositions or share repurchases.

The information presented below should be read together with the historical consolidated financial statements of First Keystone Corporation and Pocono Community Bank, including the related the related notes, found elsewhere in this proxy statement/prospectus and together with the consolidated historical financial data for First Keystone Corporation and Pocono Community Bank and the other *pro forma* financial information, including the related notes, appearing elsewhere in this document, *Pro Forma* Combined Financial Information beginning on page F-80. The *pro forma* financial data are not necessarily indicative of results that actually would have occurred had the merger been completed on the dates indicated or that may be obtained in the future.

In addition, as explained in more detail in the accompanying notes to the unaudited pro forma financial information found elsewhere in this proxy statement/prospectus, the allocation of the purchase price reflected in the Selected Unaudited *Pro Forma* Combined Financial Data is subject to adjustment and will vary from the actual purchase price allocation that will be recorded upon completion of the merger based upon changes in the balance sheet including fair value estimates.

	As of or for the Six Months Ended June 30, 2007 (in thousands)
Combined income statement:	
Total interest income	$ 18,508
Total interest expense	10,096
Net interest income	8,412
Provision for loan losses	164
Net interest income after provision for loan losses	8,248
Non-interest income	2,245
Non-interest expense	(6,750)
Income before income taxes	3,743
Income tax expense	719
Net income	$ 3,024
Selected combined balance sheet items:	
Investment securities	$ 257,887
Total loans	358,965
Total assets	673,988
Total deposits	515,072
Borrowings	86,843
Stockholders equity	67,846

Comparative Per Share Data

The First Keystone Corporation and Pocono Community Bank historical and the unaudited *pro forma* combined First Keystone Corporation and Pocono Community Bank equivalent per share financial data for the six months ended June 30, 2007 is presented below. This information should be considered together with the financial statements and related notes of First Keystone Corporation and Pocono Community Bank and with the unaudited *pro forma* combined financial data included under *Pro Forma* Combined Financial Information found elsewhere in this proxy statement/prospectus.

	As of or for the Six Months Ended June 30, 2007
First Keystone Corporation Common Stock	
Book value per share	
Historical	$ 11.12
Pro forma combined	$ 12.45
Cash dividends declared per share	
Historical	$ 0.44
Pro forma combined(1)	$ 0.44
Basic net income per share	
Historical	$ 0.62
Pro forma combined	$ 0.55
Diluted net income per share	
Historical	$ 0.62
Pro forma combined	$ 0.55
Pocono Community Bank Common Stock	
Book value per share	
Historical	$ 8.57
Pro forma equivalent(2)	$ 11.13
Cash dividends declared per share	
Historical	$
Pro forma equivalent(2)	$ 0.39
Basic net income per share	
Historical	$ 0.21
Pro forma equivalent(2)	$ 0.49
Diluted net income per share	
Historical	$ 0.18
Pro forma equivalent(2)	$ 0.49

(1) The First Keystone Corporation *pro forma* combined cash dividends declared per share represent historical dividends per share for First Keystone Corporation.

(2) The Pocono Community Bank *pro forma* equivalent per share amounts are calculated by multiplying the First Keystone Corporation *pro forma* combined per share amounts by the exchange ratio of .8944.

Risk Factors

In considering whether to approve and adopt the merger and, for Pocono shareholders, whether to invest or elect to convert your shares of Pocono into cash versus First Keystone Corporation common stock, you should consider carefully the risks we describe below. In addition to the other information included in this document, including the matters addressed in A Warning About Forward-Looking Information, on page 24, you should carefully consider the matters described below in determining whether to approve the merger agreement.

Risk factors related to the Merger in general.

If the merger is not completed, Pocono will have incurred substantial expenses without realizing the expected benefits.

Pocono has incurred substantial expenses in connection with the merger. The completion of the merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals. We cannot guarantee that these conditions will be met. If the merger is not completed, these expenses could have a material adverse impact on the financial condition of Pocono because it would not have realized the expected benefits.

The merger must be approved by multiple governmental agencies.

Before the merger may be completed, various approvals or consents must be obtained from the Office of the Comptroller of Currency and various domestic bank regulatory, antitrust and other authorities. These governmental entities, including the Office of the Comptroller of Currency, may impose conditions on the completion of the merger or require changes to the terms of the merger. Although First Keystone Corporation and Pocono do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of First Keystone Corporation following the merger, any of which might have a material adverse effect on First Keystone Corporation following the merger. First Keystone Corporation is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any conditions or restrictions that, in the aggregate, would reasonably be expected to have a material adverse effect on First Keystone Corporation or Pocono, measured relative to Pocono, but First Keystone Corporation could choose to waive this condition.

First Keystone Corporation may fail to realize all of the anticipated benefits of the merger.

The success of the merger will depend, in part, on First Keystone Corporation s ability to realize the anticipated benefits and cost savings from combining the businesses of First Keystone Corporation and Pocono. However, to realize these anticipated benefits and cost savings, First Keystone Corporation must successfully combine the businesses of First Keystone Corporation and Pocono. If First Keystone Corporation is not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected.

First Keystone Corporation and Pocono have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect First Keystone Corporation s ability to maintain its relationships with their respective clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies may, to some extent, also divert management attention and resources. These integration matters could have an adverse effect on each of First Keystone Corporation and Pocono during such transition period.

Risk Factors related to First Keystone Corporation s Business

First Keystone Corporation s business is subject to interest rate risk and variations in interest rates may negatively affect its financial performance.

Changes in the interest rate environment may reduce profits. The primary source of income for First Keystone Corporation is the differential or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. As prevailing interest rates change, net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. An increase in the general level of interest rates may also adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially adversely affect First Keystone Corporation s net interest spread, asset quality, loan origination volume and overall profitability.

First Keystone Corporation s ability to pay dividends depends primarily on dividends from its banking subsidiary, which is subject to regulatory limits.

First Keystone Corporation is a bank holding company and its operations are conducted by First Keystone National Bank. First Keystone Corporation s ability to pay dividends depends on its receipt of dividends from First Keystone National Bank. Dividend payments from its banking subsidiary are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of First Keystone National Bank to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. At June 30, 2007, approximately $5,908,984 was available without the need for regulatory approval for the payment of dividends to First Keystone Corporation from First Keystone National Bank. There is no assurance that First Keystone National Bank will be able to pay dividends in the future or that First Keystone Corporation will generate adequate cash flow to pay dividends in the future. First Keystone Corporation s failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

First Keystone Corporation s future acquisitions could dilute your ownership of First Keystone Corporation and may cause First Keystone Corporation to become more susceptible to adverse economic events.

First Keystone Corporation may use its common stock to acquire other companies and intends to acquire or make investments in banks and other complementary businesses with its common stock in the future. First Keystone Corporation may issue additional shares of common stock to pay for future acquisitions, which would dilute your ownership interest in First Keystone Corporation. Future business acquisitions could be material to First Keystone Corporation, and the degree of success achieved in acquiring and integrating these businesses into First Keystone Corporation could have a material effect on the value of First Keystone Corporation common stock. In addition, any acquisition could require First Keystone Corporation to use substantial cash or other liquid assets or to incur debt. In those events, First Keystone Corporation could become more susceptible to economic downturns and competitive pressures.

Competition from other financial institutions may adversely affect First Keystone Corporation s profitability.

First Keystone Corporation s banking subsidiary faces substantial competition in originating, both commercial and consumer loans. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of First Keystone Corporation s competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce First Keystone Corporation s net income by decreasing the number and size of loans that its banking subsidiary originate and the interest rates they may charge on these loans.

In attracting business and consumer deposits, First Keystone Corporation s banking subsidiary faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of First Keystone Corporation s competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more convenient branch locations. These competitors may offer higher interest rates than First Keystone Corporation, which could decrease the deposits that First Keystone Corporation attracts or require First Keystone Corporation to increase its rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect First Keystone Corporation s ability to generate the funds necessary for lending operations. As a result, First Keystone Corporation may need to seek other sources of funds that may be more expensive to obtain and could increase First Keystone Corporation s cost of funds.

First Keystone Corporation s banking subsidiary also competes with non-bank providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance agencies and governmental organizations which may offer more favorable terms. Some of First Keystone Corporation s non-bank competitors are not subject to the same extensive regulations that govern its banking operations. As a result, such non-bank competitors may have advantages over First Keystone Corporation s banking subsidiary in providing certain products and services. This competition may reduce or limit First Keystone Corporation s margins on banking services, reduce its market share and adversely affect its earnings and financial condition.

Future governmental regulation and legislation could limit First Keystone Corporation s future growth.

First Keystone Corporation is a registered bank holding company, and its subsidiary bank is a depository institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and is regulated by the OCC. As a result, First Keystone Corporation and First Keystone National Bank are subject to various regulations and examinations by various regulatory authorities. In general, statutes establish the corporate governance and eligible business activities for First Keystone Corporation, certain acquisition and merger restrictions, limitations on inter-company transactions such as loans and dividends, and capital adequacy requirements, requirements for anti-money laundering programs and other compliance matters, among other regulations. First Keystone Corporation is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors and customers, federal deposit insurance funds and the banking system as a whole. Compliance with these statutes and regulations is important to First Keystone Corporation s ability to engage in new activities and to consummate additional acquisitions.

In addition, First Keystone Corporation is subject to changes in federal and state tax laws as well as changes in banking and credit regulations, accounting principles and governmental economic and monetary policies. First Keystone Corporation cannot predict whether any of these changes may adversely and materially affect it. Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on First Keystone Corporation s activities that could have a material adverse effect on its business and profitability. While these statutes are generally designed to minimize potential loss to depositors and the FDIC insurance funds, they do not eliminate risk, and compliance with such statutes increases First Keystone Corporation s expense, requires management s attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors.

The long-term economic effects of terrorist attacks on the United States, the war with Iraq and an economic slowdown could negatively affect financial condition.

The long-term economic impact of the September 11, 2001 terrorist attacks in New York City and the Washington, D.C. area and the Iraqi war has yet to be determined, and the ultimate cost associated with these events and related incidents may place significant burdens on the United States economy as a whole. If these events or additional terrorist attacks or other factors cause or worsen an overall economic decline, the financial condition and operating results of First Keystone Corporation could be materially adversely affected. The long-term economic impact of the Iraqi war upon the financial markets in general could be negative. In addition, events such as the ones referred to could cause or contribute to a general decline in equity valuations, which in turn could reduce the market value of your investment in First Keystone Corporation stock.

Risk Factors as they relate to Pocono shareholders.

Pocono s directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Pocono shareholders.

In considering these facts and the other information contained in this document, you should be aware that Pocono s directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Pocono shareholders. The Pocono directors who collectively hold approximately 56% of the outstanding Pocono stock have agreed to vote in favor of the merger proposal. In addition, this agreement may have the effect of discouraging persons from making a proposal to acquire Pocono. In addition, First Keystone Corporation has agreed to cash out all the Pocono stock options and warrants for the difference between the exercise price and $16.10. Pocono directors hold a total of 40,095 stock options and 192,875 warrants. Upon the effective date, the directors will receive approximately $2,551,411.00 in cash for the stock options and warrants. Further, Mr. Gerlach has entered into employment and consulting agreements with First Keystone Corporation in connection with the merger. Under these agreements, Mr. Gerlach may receive, in total, payments of approximately $945,500 (in total, not taking into consideration tax withholdings). First Keystone Corporation has also agreed to increase the size of First Keystone Corporation s board of directors to include two persons selected by Pocono and approved by First Keystone Corporation. These and certain other additional interests of Pocono s directors and executive officers are described in detail in The Merger Financial Interests of Directors, Officers and Others in the Merger, beginning on page 66 of this document. These circumstances may cause some of Pocono directors and executive officers to view the proposed transaction differently than you view it.

Some shareholders may not receive the form of merger consideration they elect.

Depending on the elections made by all Pocono shareholders, certain Pocono shareholders who elect to receive cash consideration may receive shares of First Keystone Corporation common stock for a portion of their shares of Pocono common stock. Similarly, certain Pocono shareholders who elect to receive shares of First Keystone Corporation common stock consideration may receive cash for a portion of their shares of Pocono common stock.

In the event that Pocono shareholders oversubscribe for the available shares of First Keystone Corporation common stock, those Pocono shareholders electing to receive First Keystone Corporation common stock will have the amount of stock they selected reduced on a *pro rata* basis and will receive a portion of their consideration in the form of cash. In the event that Pocono shareholders undersubscribe for the available shares of First Keystone Corporation common stock, those Pocono shareholders electing to receive cash will have the amount of cash they selected reduced on a *pro rata* basis and will receive a portion of their consideration in the form of First Keystone Corporation common stock. The *pro rata* allocation process will be administered by First Keystone Corporation s exchange agent according to a formula. Accordingly, at the time Pocono shareholders vote on the proposal to approve and adopt the merger agreement, they will not know the form of merger consideration that they will receive, regardless of their election prior to the merger. In addition, a Pocono shareholder may receive a *pro rata* amount of First Keystone Corporation common stock or cash even if he or she has elected to receive all common stock or all cash. Further, to the extent that Pocono shareholders receive a portion of the merger consideration in a form that they did not elect, they also will not know at the time of their election the complete tax consequences that will result upon the exchange of their shares of Pocono common stock. See The Merger Certain Federal Income Tax Consequences, on page 68.

Because the market price of First Keystone Corporation common stock will fluctuate, Pocono shareholders cannot be sure of the market value of the First Keystone Corporation common stock that they will receive in the merger.

Under the terms of the merger agreement, and subject to certain exceptions, as described elsewhere in this document, the exchange ratio for the stock consideration to be issued in connection with the merger will be 0.8944 shares of First Keystone Corporation common stock for each share of Pocono common stock. The closing price of First Keystone Corporation common stock, adjusted for stock dividends and stock splits, as reported on the OTCBB, was $18.75 on May 10, 2007, the trading day immediately preceding the day on which the merger was publicly announced. As of September 7, 2007, the closing price of First Keystone Corporation common stock, as reported on the OTCBB, was $18.25. The high and low closing prices of First Keystone Corporation common stock for the twelve month period between April 1, 2006, and April 1, 2007, were $20.30, on September 22, 2006, and $17.40 on December 26, 2006, adjusted to reflect cash and stock dividends paid. The market price of First Keystone Corporation common stock may vary from these prices, and may also vary from the price on the date that this document is mailed to Pocono shareholders or on the date of the special meeting of Pocono shareholders. See Market Price and Dividend Information, beginning on page 12.

The market price of First Keystone Corporation common stock may change as a result of a variety of factors, including general market and economic conditions, changes in its business, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of First Keystone Corporation and are not necessarily related to a change in the financial performance or condition of First Keystone Corporation. As a result of the fluctuating stock price of First Keystone Corporation, the market value of shares of First Keystone Corporation common stock that a Pocono shareholder receives in the merger will decline correspondingly with declines in the market price of First Keystone Corporation common stock prior to and as of the date the merger consideration is exchanged.

There can be no assurance that the value of the First Keystone Corporation common stock that Pocono shareholders receive in the merger will be substantially equivalent to the cash merger consideration of $16.10 per share, or that it will be substantially equivalent to the market price of First Keystone Corporation common stock at the time Pocono shareholders vote to approve the merger agreement. We urge you to obtain current market quotations for First Keystone Corporation common stock.

The value of the stock consideration you receive could be less than $16.10 per share of Pocono common stock if the Pocono board of directors does not exercise its right to terminate the merger agreement upon the occurrence of certain events.

If the merger closes at a time when the 20 day average closing price of First Keystone Corporation common stock is below $16.20 and the decline in First Keystone Corporation s common stock is at least 10% more than the decline in a peer group index, the value of First Keystone Corporation common stock Pocono shareholders receive in exchange for their shares of Pocono common stock would be less than $16.20 per share of Pocono common stock. Pocono has the option, but is not required, to terminate the merger agreement if the 20 day average closing price of First Keystone Corporation common stock is below $16.20 and the decline in the average closing price of First Keystone Corporation common stock, since May 10, 2007, is at least 10% more than the change during the same period of a peer group index. See Section 8.1(h) of the merger agreement, attached to this proxy statement/prospectus as **Annex A**. Pocono cannot predict whether or not the Pocono board of directors would exercise its right to terminate the merger agreement if these conditions were met. **The merger agreement does not provide for a resolicitation of Pocono shareholders in the event that the conditions are met and the Pocono board nevertheless chooses to complete the transaction. Pocono s board of directors has made no decision as to whether it would exercise its right to terminate the merger agreement.** In considering whether to exercise its right to terminate the merger agreement, Pocono s board of directors would take into account all the relevant facts and circumstances that exist at the time and would consult with its financial advisor and legal counsel.

The merger agreement limits Pocono s ability to pursue alternative transactions to the merger and requires Pocono to pay a termination fee if it does.

The merger agreement prohibits Pocono and its directors, officers, representatives and agents from soliciting, authorizing the solicitation of or subject to very narrow exceptions, entering into discussions with any third party regarding alternative acquisition proposals. The prohibition limits Pocono s ability to pursue offers that may be superior from a financial point of view from other possible acquirers. If Pocono receives an unsolicited proposal from a third party that is superior from a financial point of view to that made by First Keystone Corporation and the merger agreement is terminated, Pocono would be required to pay a $1,200,000 termination fee. This fee makes it less likely that a third party will make an alternative acquisition proposal.

First Keystone Corporation and Pocono may choose not to proceed with the Merger if it is not completed by April 30, 2008.

Either First Keystone Corporation or Pocono may terminate the merger agreement if the merger has not been completed by April 30, 2008. See The Merger Terms of the Merger Termination and Termination Fee, beginning at page 64. There can be no assurance that all conditions to the merger will have been satisfied by April 30, 2008. See The Merger Terms of the Merger Conditions to the Merger, beginning at page 61.

After the merger is completed, Pocono shareholders who receive First Keystone Corporation common stock for some or all of their shares of Pocono common stock will become First Keystone Corporation shareholders and will have different rights that may be less advantageous than their current rights.

Upon completion of the merger, Pocono shareholders who receive First Keystone Corporation common stock for some or all of their shares of Pocono common stock will become First Keystone Corporation shareholders. Differences in Pocono s articles of incorporation and bylaws and First Keystone Corporation s articles of incorporation and bylaws will result in changes to the rights of Pocono shareholders who become First Keystone Corporation shareholders. For more information, see Comparison of the Shareholders Rights, beginning on page 138 of this document. A shareholder of Pocono may conclude that his, her or its current rights under Pocono s articles of incorporation and bylaws are more advantageous than the rights they may have as a First Keystone Corporation shareholder under First Keystone Corporation s articles of incorporation and bylaws.

A Warning About Forward-Looking Information

This document, including information incorporated by reference in this document, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of operations and business of each of First Keystone Corporation, First Keystone National Bank, and Pocono. These include statements relating to revenues, cost savings and anticipated benefits resulting from the merger. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, projects or similar words or expressions.

These forward-looking statements involve substantial risks and uncertainties. There are many factors that may cause actual results to differ materially from those contemplated by these forward-looking statements. See Risk Factors, beginning on page 18 of this document.

Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by these statements. We caution Pocono shareholders not to place undue reliance on these statements. These statements speak only as of the date of this document or, if made in any document incorporated by reference, as of the date of that document.

All written or oral forward-looking statements attributable to First Keystone Corporation or Pocono or any person acting on their behalf made after the date of this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Neither First Keystone Corporation nor Pocono undertakes any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Special Meeting of Shareholders

When and Where the Special Meeting will be Held

Pocono will hold a special meeting of its shareholders at the main banking house of Pocono, 559 Main Street, Stroudsburg, Pennsylvania at 10:00 a.m., local time, on Tuesday, October 16, 2007.

What will be Voted on at the Special Meeting.

At the special meeting, Pocono shareholders will consider and vote on proposals to:

- Approve and adopt the merger agreement, between First Keystone Corporation, First Keystone National Bank and Pocono, and the consummation of the transactions contemplated thereby, which provides, among other things, for the merger of Pocono with and into First Keystone National Bank, upon the terms and subject to the conditions set forth in the merger agreement and the right of the Pocono shareholders to receive either 0.8944 shares of First Keystone Corporation common stock or $16.10 in cash for each share of Pocono common stock;

- Extend the final exercise date of the warrants for one year;

- Adjourn the special meeting if more time is needed to solicit additional votes in favor of the merger agreement; and

- Transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The Pocono board of directors recommends that you vote FOR approval and adoption of the merger agreement.

Shareholders Entitled to Vote

The Pocono board of directors has fixed the close of business on August 31, 2007, as the record date for determining shareholders entitled to notice of, and to vote, at the special meeting. As of the record date, there were 1,745,950 shares of Pocono common stock outstanding and entitled to be voted at the special meeting, held by approximately 285 shareholders of record. Each holder of shares of Pocono common stock outstanding on the record date will be entitled to one vote for each share of Pocono common stock held of record.

Number of Shares that Must be Represented for a Vote to be Taken

In order to have a quorum, a majority of the total outstanding shares of Pocono common stock entitled to vote at the special meeting must be represented at the meeting in person or by proxy.

We will count as present at the special meeting, for purposes of determining the presence or absence of a quorum:

- Shares of Pocono common stock held by persons attending the Pocono special meeting, whether or not they are voting.

- Shares of Pocono common stock for which Pocono has received proxies, including proxies properly executed with respect to which holders of those shares have abstained from voting.

- Shares of Pocono common stock represented by proxies from a broker that are voted on any issue other than a procedural motion.

Vote Required; Voting Agreements

The affirmative vote of the holders of at least two-thirds of the outstanding shares of Pocono common stock entitled to vote at the special meeting is required to approve and adopt the merger agreement. The affirmative vote of a majority of the issued and outstanding shares of Pocono common stock is required to approve the extension of the warrant exercise date by one year. The affirmative vote of a majority of those shares present at the special meeting is required to approve the adjournment or postponement of the special meeting.

Certain directors of Pocono, who collectively hold approximately 56% of the outstanding Pocono stock have agreed in writing to vote all shares of Pocono common stock for which they have sole voting power, and their proportionate interest if they have shared voting power, on the record date, in favor of the merger agreement and the merger. The voting agreements may have the effect of discouraging persons from making an acquisition proposal involving Pocono.

No separate consideration was paid to any of the directors for entering into the voting agreements, however, such persons have interests in the merger as directors, executive officers, and employees that are different from those of other Pocono shareholders. First Keystone Corporation required that such agreements be executed as a condition to First Keystone Corporation entering into the merger agreement. See The Merger Financial Interests of Directors, Officers and Others in the Merger Voting Agreements.

Voting your Shares; Abstentions; Broker Non-Votes

The Pocono board of directors is soliciting proxies from the Pocono shareholders. This will give you an opportunity to vote at the Pocono special meeting. When you deliver a valid proxy, the shares represented by that proxy will be voted by a named agent in accordance with your instructions. If you do not vote by proxy or by attending the Pocono special meeting and voting in person, it will have the same effect as voting against the merger. If you sign your proxy card but make no specification on your proxy card regarding the proposals, the agent will vote all your shares FOR approval and adoption of the merger agreement and the merger, the extension of the expiration of the warrant exercise date for one year and the adjournment or postponement proposal.

If you abstain from voting on any proposal considered at the special meeting, we will not count the abstention as a vote for or against such proposal. Under rules relating to how brokers vote shares held in brokerage accounts, brokers who hold your shares in street name can not give a proxy to vote your shares without receiving specific instructions from you.

Broker non-votes and any abstentions will be counted as shares present for purposes of determining a quorum. However, broker non-votes and abstentions will not be counted as votes for or against the merger agreement. Broker non-votes and abstentions will therefore have the effect of a vote against the merger agreement.

We cannot complete the merger unless the merger agreement is approved and adopted by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Pocono common stock entitled to vote on the merger agreement.

Abstentions and broker non-votes will not affect the vote on approval of the adjournment proposal. Approval of this proposal requires the affirmative vote the holders of a majority of the votes cast at the special meeting by shareholders entitled to vote.

Changing your Vote

Any Pocono shareholder may revoke a proxy at any time before or at the special meeting in one or more of the following ways:

- Delivering a written notice of revocation, bearing a later date than the proxy, at any time prior to the vote at the special meeting to John G. Gerlach, President of Pocono;
- Submitting a later-dated proxy; or
- Attending the special meeting and voting in person.

You should send any written notice of revocation or subsequent proxy to Pocono Community Bank, Attention: John G. Gerlach, President, 559 Main Street, Stroudsburg, PA 18360 or hand deliver the notice of revocation or subsequent proxy to John G. Gerlach before the taking of the vote at the special meeting. Attendance at the special meeting will not by itself constitute a revocation of a proxy.

Solicitation of Proxies and Costs

Pocono will pay the costs of soliciting proxies from Pocono shareholders. In addition to solicitation by mail, directors, officers and employees acting on behalf of Pocono may solicit proxies for the special meeting in person or by telephone, email, facsimile or other means of communication. Pocono will not pay any additional compensation to these directors, officers or employees for these activities, but may reimburse them for reasonable out-of-pocket expenses. Pocono will make arrangements with brokerage houses, custodians, nominees and fiduciaries for forwarding of proxy solicitation materials to beneficial owners of shares held of record by these brokerage houses, custodians, nominees and fiduciaries, and Pocono will reimburse these brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in connection with the solicitation.

Proposal No. 1:

The Merger

The following information describes the material terms and provisions of the merger. This description is not complete. We qualify this discussion in its entirety by reference to the merger agreement, as amended, which we incorporate by reference in this proxy statement/prospectus. A copy of the merger agreement is attached to this document as Annex A to provide information regarding the terms of the proposed merger. Except for its status as the contractual document between the parties with respect to the merger described therein, it is not intended to provide factual information about the parties. The representation and warranties contained in the merger agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed to by the contracting parties, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Accordingly, they should not be relied on by investors as statements of factual information. We urge you to read the full text of the merger agreement carefully.

General

The merger agreement provides that:

- Pocono will merge into First Keystone National Bank, the wholly-owned subsidiary of First Keystone Corporation, with First Keystone National Bank as the surviving bank.

- If you are a shareholder of Pocono, at your election, you will receive either 0.8944 shares of First Keystone Corporation common stock or $16.10 in cash for each share of Pocono common stock you own. In addition, each option and warrant will be cancelled and instead represent the right only to receive in cash the difference between the exercise price of the option or warrant and $16.10. Your election may specify that you receive all First Keystone Corporation common stock, all cash, or a mix of First Keystone Corporation common stock and cash, subject, however, to allocation procedures assuring that 937,277 shares of First Keystone Corporation common stock is exchanged for Pocono common stock. Accordingly, after Pocono shareholder elections have been tabulated, the elected amounts of stock and cash may be subject to adjustment to assure that 937,277 shares of First Keystone Corporation common stock are issued. Therefore, the amount of cash or stock that Pocono shareholders receive in the merger may vary substantially from the consideration they elect to receive.

- W. Peter Ahnert and John G. Gerlach will be appointed as members of the First Keystone Corporation board of directors.

- Pocono will continue to be operated as a separate division of First Keystone National Bank under the name Pocono Community Bank, a Division of First Keystone National Bank for at least two years after the merger effective date.

- The current directors of Pocono, may continue to serve as the directors of an advisory board for the Pocono Community Bank division of First Keystone National Bank for at least two years after the merger effective date if they choose.

Background of the Merger

From time to time, Pocono s directors have held discussions to review Pocono s business plan, the developing market in which Pocono competes, and its strategic alternatives. Over the past three years, the directors have specifically reviewed:

- the entry of several banking organizations into Pocono s market, all of which are bigger than Pocono and offer a variety of financial products and services to their customers that Pocono does not have the resources to offer;

- the ability of Pocono to continue to finance more branch offices without creating an adverse impact on earnings;

- the interest-rate environment as it impacts banks that rely primarily on spread income, such as Pocono;

- succession planning to replace John G. Gerlach, the President and Chief Executive Officer, who has expressed a desire to retire; and

- the occasional receipt of informal unsolicited indications of interest by other banking organizations to partner with Pocono.

As a result of all of the above, in late August 2006, John G. Gerlach suggested to the board of directors that it would be advisable to engage an investment banking firm to assist the directors in a review of any unsolicited offer to acquire Pocono and of other strategies to enhance shareholder value and create a more competitive banking alternative to customers in Pocono s market. The board of directors requested Mr. Gerlach to interview representatives of several investment banking firms.

On September 26, 2006, Mr. Gerlach interviewed Charles K. Hull of Boenning & Scattergood, Inc., and they had a subsequent meeting on November 1, 2006.

On November 20, 2006, Boenning & Scattergood, Inc. made a presentation to the Pocono board of directors describing its experience in the Mid-Atlantic banking market and advising the directors on a course of action that could result in the selection of a banking partner for Pocono.

On December 1, 2006, Mr. Gerlach informed Boenning & Scattergood, Inc. that the Pocono board of directors selected Boenning & Scattergood, Inc. to be its investment banker and wanted Boenning & Scattergood, Inc. to assist the board of directors in finding a suitable banking partner.

On December 11, 2006, Pocono and Boenning & Scattergood, Inc. entered into an engagement letter for Boenning & Scattergood, Inc. to act as Pocono s exclusive financial advisor in connection with the possible sale, merger or other combination of Pocono with another financial institution. As a part of this engagement, Boenning & Scattergood, Inc. prepared a confidential memorandum describing Pocono s history, business, operations and financial results, to be delivered to interested financial institutions, and, with the assistance of Pocono s management assembled a list of potential transaction partners.

After such list was reviewed by Mr. Gerlach on January 30, 2007, Boenning & Scattergood, Inc. representatives made inquiries to the management of those institutions on such list to ascertain whether they had any interest in reviewing the confidential memorandum and subsequently submitting a letter of interest to pursue a transaction. This process commenced on February 15, 2007.

On March 8, 2007, the Pocono board of directors held a special meeting to review Boenning & Scattergood, Inc. s presentation of the process to receive indications of interest. At this meeting, Boenning & Scattergood, Inc. representatives described the process that led to the receipt of indications of interest from six financial institutions. Boenning & Scattergood, Inc. presented the board of directors with an analysis of each of these institutions and the terms and conditions associated with each indication of interest to acquire Pocono. Moreover, Boenning & Scattergood, Inc. reviewed comparable bank deals and indicated to the Pocono board of directors that the potential merger consideration contained in at least three of the six indications of interest was well in excess of the average price to earnings received by other similar selling banking institutions. Furthermore, Boenning & Scattergood, Inc. suggested that the board of directors select at least two of these six institutions to continue discussions to lead to a definitive written offer to partner with Pocono. After discussion on the merits and disadvantages to each indication of interest, the Pocono board of directors selected First Keystone Corporation and one other banking institution to continue with discussions.

Soon after the meeting on March 8, 2007, the other selected financial institution withdrew its indication of interest. However, one of the remaining original six interested banking institutions persisted in its interest and Pocono management decided to allow that institution to make a more definitive offer.

On April 11, 2007, the Pocono board of directors held a special meeting to review two firm offers that had been received, one of which was from First Keystone Corporation. Boenning & Scattergood, Inc. representatives described both of these offers in detail. Pocono directors inquired about the federal tax consequences for each offer with respect to shareholders; the impact on Pocono s employees and customers if one of these institutions acquired Pocono; the dividend payout history of these two offerors; the market for these offerors stock; price protection mechanisms in a possible merger agreement for Pocono shareholders for the exchange of their stock; the development of Pocono s market with respect to the entries of other financial institution competitors; the historical financial performance of these two offerors; and the potential to offer Pocono s customers a wider array of banking products and services, trust services and investment products.

After discussion on these matters, the Pocono board of directors directed Boenning & Scattergood, Inc. and Pocono legal counsel to negotiate with appropriate agents and representatives of First Keystone Corporation a definitive written acquisition agreement based upon the terms and conditions contained in the written offer of First Keystone Corporation.

On April 20, 2007, Pocono management and Boenning & Scattergood, Inc. representatives conducted an on-site due diligence investigation of First Keystone Corporation and First Keystone National Bank.

On May 9, 2007, the Pocono board of directors held a special meeting to review with Boenning & Scattergood, Inc. and legal counsel the merger agreement and its annexes attached as **Annex A** to this proxy statement/prospectus. Legal counsel reviewed the terms and conditions of the merger agreement, copies of which were delivered to the members of the board of directors prior to this meeting.

Also, at this special meeting, Boenning & Scattergood, Inc. representatives submitted their fairness opinion, a copy of which is attached to this proxy statement/prospectus as **Annex B**. Moreover, Boenning & Scattergood, Inc. representatives presented information regarding an overview of the merger which included valuation consideration and pro forma financial data; the findings from Boenning & Scattergood, Inc. s and Pocono s due diligence investigation of First Keystone Corporation; the 5-year historical performance of Pocono; comparable mergers and acquisitions; and comparable market value of this merger. Boenning & Scattergood, Inc. related that the financial terms for this merger transaction were in excess of comparable bank deals.

At this meeting on May 9, 2007, the Pocono board of directors approved this merger agreement with First Keystone Corporation and directed Pocono management to take those steps that would be necessary, including holding a special meeting of shareholders, to consummate the merger.

On May 10, 2007, the First Keystone Corporation board of directors approved the merger agreement. Pocono and First Keystone Corporation publicly announced the transaction before markets opened on May 11, 2007.

Recommendation of the Pocono Board of Directors

The Pocono board of directors has approved the merger and the merger agreement, and believes that the proposed merger is in the best interests of Pocono and its shareholders. Accordingly, the Pocono board of directors recommends that Pocono shareholders vote FOR approval and adoption of the merger agreement and the merger.

Opinion of Pocono s Financial Advisor

Pursuant to an engagement letter dated as of December 7, 2006, Pocono retained Boenning & Scattergood, Inc. to act as its exclusive financial advisor in connection with its consideration of a possible business combination. In connection with the merger with First Keystone Corporation, the Pocono board requested Boenning & Scattergood, Inc. to render its opinion as to the fairness of the merger consideration to the holders of Pocono common stock from a financial point of view. At the May 9, 2007, meeting at which Pocono s board considered the merger agreement, Boenning & Scattergood, Inc. rendered its opinion to the board that, based upon and subject to the various considerations set forth therein, as of May 9, 2007, the merger consideration was fair to the holders of Pocono common stock from a financial point of view. Boenning & Scattergood, Inc. has updated its opinion as of September 7, 2007.

The full text of Boenning & Scattergood, Inc. s opinion, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as **Annex B** to this proxy statement/prospectus, is incorporated herein by reference, and should be read in its entirety in connection with this document. The summary of the opinion of Boenning & Scattergood, Inc. set forth below is qualified in its entirety by reference to the full text of the opinion attached as **Annex B** to this document.

Boenning & Scattergood, Inc. was selected to act as Pocono s financial advisor in connection with the merger with First Keystone Corporation based upon its qualifications, expertise, reputation and experience. Boenning & Scattergood, Inc. has knowledge of, and experience with the Pennsylvania and surrounding banking markets, as well as banking organizations operating in those markets, and was selected by Pocono because of its knowledge of, experience with, and reputation in the financial services industry. Boenning & Scattergood, Inc., as part of its investment banking business, is engaged regularly in the valuation of assets, securities and companies in connection with various types of asset and securities transactions, including mergers, acquisitions, public offerings, private placements, and valuations for various other purposes and in the determination of adequate consideration in such transactions. In the ordinary course of its business as a broker-dealer, Boenning & Scattergood, Inc. may, from time to time, purchase securities from, and sell securities to, Pocono and First Keystone Corporation. In the ordinary course of business, Boenning & Scattergood, Inc. may actively trade the securities of Pocono and First Keystone Corporation for its own account and for the accounts of customers and accordingly may at any time hold a long or short position in such securities. Boenning & Scattergood, Inc. serves as a market maker in First Keystone Corporation s common stock.

On May 9, 2007, a majority of the members of Pocono s board of directors approved and executed the merger agreement. Prior to the approval, Boenning & Scattergood, Inc. delivered its opinion to Pocono s board of directors stating that, as of such date, the merger consideration pursuant to the merger agreement was fair to the shareholders of Pocono from a financial point of view. Boenning & Scattergood, Inc. has updated its opinion as of September 7, 2007. The full text of the opinion which sets forth assumptions made, matters considered and limits on the review undertaken is attached as **Annex B** to this document.

No limitations were imposed by Pocono s board of directors upon Boenning & Scattergood, Inc. with respect to the investigations made or procedures followed by Boenning & Scattergood, Inc. in rendering the opinion.

In arriving at its opinion, Boenning & Scattergood, Inc., among other things:

- reviewed the merger agreement;
- reviewed and analyzed the stock market performance of Pocono and First Keystone Corporation;
- studied and analyzed the consolidated financial and operating data of Pocono and First Keystone Corporation;
- considered the terms and conditions of the merger between Pocono and First Keystone Corporation as compared with the terms and conditions of bank, bank holding company, and financial holding company mergers and acquisitions which Boenning & Scattergood, Inc. deemed comparable;
- met and/or communicated with certain members of Pocono s and First Keystone Corporation s senior management to discuss their respective operations, historical financial statements, and future prospects;
- reviewed a draft of this registration statement (in the case of the proxy opinion);
- compared the financial performance of Pocono and First Keystone Corporation and the prices and trading activity of the stocks of Pocono and First Keystone Corporation with those of certain other publicly-traded banks, bank holding companies, and financial holding companies and their securities which Boenning & Scattergood, Inc. deemed comparable;
- discussed the strategic objectives of the merger and the plans for the combined company with senior executives of Pocono and First Keystone Corporation, including estimates of the cost savings and other synergies projected by First Keystone Corporation for the combined company;
- participated in discussions and negotiations among representatives of Pocono and First Keystone Corporation and their advisors; and
- conducted such other financial analyses, studies and investigations as it deemed appropriate.

In connection with rendering its opinion, Boenning & Scattergood, Inc. assumed that in the course of obtaining the necessary regulatory and governmental approvals for the merger, no restriction will be imposed on First Keystone Corporation or Pocono that would have a material adverse effect on the contemplated benefits of the merger. Boenning & Scattergood, Inc. also assumed that no change in applicable law or regulation will occur that would cause a material adverse change in the prospects or operations of First Keystone Corporation after the merger.

Boenning & Scattergood, Inc. relied, without independent verification, upon the accuracy and completeness of all of the financial and other information reviewed by and discussed with it for purposes of its opinion. With respect to Pocono s and First Keystone Corporation s financial forecasts and other information reviewed by Boenning & Scattergood, Inc. in rendering its opinion, Boenning & Scattergood, Inc. assumed that such information was reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Pocono and First Keystone Corporation as to their most likely future performance and the cost savings and other potential synergies (including the amount, timing and achievability thereof) anticipated to result from the merger. Boenning & Scattergood, Inc. did not make an independent evaluation or appraisal of the assets (including loans) or liabilities of Pocono or First Keystone Corporation nor was it furnished with any such appraisal. Boenning & Scattergood, Inc. also did not independently verify, and has relied on and assumed, that all allowances for loan and lease losses set forth in the balance sheets of Pocono and First Keystone Corporation were adequate and complied fully with applicable law, regulatory policy and sound banking practice as of the date of such financial statements. In addition, Boenning & Scattergood, Inc. did not review credit files of either Pocono or First Keystone Corporation.

The following is a summary of the material analyses prepared by Boenning & Scattergood, Inc. and presented to Pocono s board of directors in connection with the opinion and analyzed by Boenning & Scattergood, Inc. in connection with the opinion. In connection with delivering its opinion, Boenning & Scattergood, Inc. updated certain analyses described below to reflect current market conditions and events occurring since the date of the opinion. The reviews and updates led Boenning & Scattergood, Inc. to conclude that it was not necessary to change the conclusions it had reached in connection with rendering the opinion. Additionally, none of the analyses prepared by Boenning & Scattergood, Inc. in connection with the issuance of the opinion failed to support Boenning & Scattergood, Inc. s conclusion that the merger consideration was fair to the holders of Pocono common stock from a financial point of view.

Summary of Transaction

Boenning & Scattergood, Inc. calculated the implied pricing and valuation multiples based upon the offer price of $16.10 in cash and the implied offer price per share in common stock of $16.77. The offer price in stock was derived by multiplying the exchange ratio of .8944 by the last reported per share sale price of First Keystone Corporation of $18.75 as of May 7, 2007. In addition, Boenning & Scattergood, Inc. calculated the value of the difference between the cash offer price and the respective strike prices of outstanding warrants and stock options to purchase Pocono common stock. A summary of the implied pricing is provided below.

Price Per Share Offered in Cash	$	16.10		
Fixed Exchange Ratio Offered for Stock	.8944			
First Keystone Stock Price on May 7, 2007	$	18.75		
Implied Price Offered for Stock	$	16.77		
Average Price Per Share for Pocono Shareholders	$	16.50		
Shares of First Keystone Stock Issued to Pocono	932,277			
Aggregate Implied Consideration for Stock	$	17,480,194	*52*	%
Aggregate Value of Cash Consideration for Stock	$	11,280,013	*33*	%
Total to Common Shareholders	$	28,760,207	*85*	%
Total Economic Value Offered to Warrant Holders	$	4,609,062	*14*	%
Total Economic Value Offered to Option Holders	$	466,043	*1*	%
Total Aggregate Consideration to Pocono	$	33,835,312	*100*	%

Based on Pocono s last twelve months net income for the period ended March 31, 2007 of $.9 million, common shareholders equity of $14.6 million and common shareholders tangible equity of $14.6 million as of March 31, 2007, respectively, Boenning & Scattergood, Inc. calculated certain standard industry valuation statistics. The values were as follows:

Aggregate Consideration / Last Twelve Months Reported Net Income	37.8x	
Aggregate Consideration / Common Shareholders Equity	232.9	%
Aggregate Consideration / Tangible Common Shareholders Equity	232.9	%

Comparable Companies Analysis

Boenning & Scattergood, Inc. compared selected publicly available financial, operating and stock market data for Pocono with those of a peer group in order to compare Pocono s historical financial and operating performance with the peers and examine the Merger consideration offered by First Keystone Corporation relative to the market valuations of the peers. The financial and operating data is as of December 31, 2006, or, if not available, September 30, 2006, and the stock market data is as of May 7, 2007. The peers consisted of banks with assets between $100 million and $175 million headquartered in Pennsylvania.

The companies in the peer group were:

- Lawrence Keister & Co., Scottdale, PA;
- Fleetwood Bank Corporation, Fleetwood, PA;
- Enterprise Financial Services Group, Inc., Allison Park, PA;
- Union Bancorp, Inc., Pottsville, PA;
- Allegiance Bank of North America, Bala Cynwyd, PA;
- Mercersburg Financial Corporation, Mercersburg, PA;
- Landmark Community Bank, Pittston, PA;
- First Perry Bancorp, Inc., Marysville, PA;
- GNB Financial Services, Inc., Gratz, PA;
- JTNB Bancorp, Inc., Jim Thorpe, PA;
- Apollo Bancorp, Inc., Apollo, PA; and
- UNB Corporation, Mount Carmel, PA.

The results of these comparisons, based on December 31, 2006, or, if not available, September 30, 2006, financial information and stock price data as of May 7, 2007, are set forth in the following table.

	Pocono	Peer Median
	($s In Millions)	
Assets	$ 138.5	$ 129.8
Common Equity Capital / Assets	10.4 %	10.4 %
Loans / Deposits	88.2 %	77.4 %
Nonperforming Assets(1) / Assets	0.09 %	0.10 %
Return on Average Assets	0.79 %	0.63 %
Return on Average Common Equity	7.40 %	6.09 %
Non-Interest Income / Average Assets	0.40 %	0.52 %
Non-Interest Expense / Average Assets	2.51 %	2.85 %
Efficiency Ratio(2)	68.7 %	74.9 %
Net Interest Margin	3.46 %	3.55 %
Four Year Average Results:		
Return on Average Assets	0.97 %	0.70 %
Return on Average Common Equity	9.91 %	6.96 %
Efficiency Ratio(2)	60.0 %	67.7 %
Net Interest Margin	3.64 %	3.70 %
Compound Annual Growth Rate(3):		
Assets	7.1 %	4.0 %
Loans	7.9 %	8.5 %
Deposits	6.0 %	4.1 %
Common Equity Market Capitalization	$ 27.8	$ 17.1
Price / 52 Week High Price	N/A %	92.5 %
Price to:		
Book Value Per Common Share	193.7 %	121.6 %
Tangible Book Value Per Common Share	193.7 %	121.6 %
LTM(4) Earnings Per Common Share	37.7x	25.9x
LTM(4) Dividend Payout Ratio	0.0 %	7.9 %
Avg. Weekly Volume / Common Shares Outstanding	N/A %	0.06 %

(1) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.

(2) Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.

(3) Reflects the compound annual growth rate from fiscal year 2002 to most recent quarter.

(4) LTM stands for the latest twelve months.

Boenning & Scattergood, Inc. also compared selected publicly available financial, operating and stock market data for First Keystone Corporation with a peer group of SEC reporting banks with assets between $450 million and $650 million headquartered in Pennsylvania. This analysis was performed in order to compare First Keystone Corporation s historical financial and operating performance with comparable institutions and to examine its market valuation relative to its peer group. The financial and operating data is as of March 31, 2007, or, if not available, December 31, 2006, and the stock market data is as of March 7, 2007.

The companies in the peer group were:

- QNB Corporation, Quakertown, PA;
- Ephrata National Bank, Ephrata, PA;
- FNB Bancorp, Inc., Newtown, PA;
- Penns Woods Bancorp, Inc., Williamsport, PA;
- Codorus Valley Bancorp, Inc., York, PA;
- Tower Bancorp, Inc., Greencastle, PA;
- Penesco Financial Services Corporation, Scranton, PA;
- Citizens Financial Services, Inc., Mansfield, PA;
- Fidelity D&D Bancorp, Inc., Dunmore, PA;
- Comm Bancorp, Inc., Clarks Summit, PA;
- DNB Financial Corporation, Downingtown, PA;
- Union National Financial Corporation, Lancaster, PA;
- American Bank Incorporated, Allentown, PA;
- Mid Penn Bancorp, Inc., Millersburg, PA;
- Norwood Financial Corp., Honesdale, PA, and;
- East Penn Financial Corporation, Emmaus, PA.

The results of these comparisons, based on March 31, 2007, or, if not available, December 31, 2006, financial information and stock price data as of May 7, 2007, are set forth in the following table.

	First Keystone Corporation ($s In Millions)		Peer Median		
Assets	$ 523.8		$ 565.5		$
Common Equity Capital / Assets	10.4	%	8.7	%	
Loans / Deposits	64.3	%	88.6	%	
Nonperforming Assets(1) / Assets	0.63	%	0.52	%	
Return on Average Assets	1.16	%	1.05	%	
Return on Average Common Equity	11.34	%	10.60	%	
Non-Interest Income / Average Assets	.73	%	0.80	%	
Non-Interest Expense / Average Assets	1.90	%	2.84	%	
Efficiency Ratio(2)	58.3	%	65.3	%	
Net Interest Margin	2.96	%	3.73	%	
Four Year Average Results:					
Return on Average Assets	1.42	%	1.06	%	
Return on Average Common Equity	13.27	%	11.56	%	
Efficiency Ratio(2)	46.4	%	62.0	%	
Net Interest Margin	3.55	%	3.89	%	
Compound Annual Growth Rate(3):					
Assets	4.2	%	6.0	%	
Loans	5.4	%	10.7	%	
Deposits	4.1	%	5.3	%	
Common Equity Market Capitalization	$ 84.7		$ 78.9		
Price / 52 Week High Price	93.8	%	92.3	%	
Price to:					
Book Value Per Common Share	155.7	%	156.8	%	
Tangible Book Value Per Common Share	159.6	%	161.6	%	
LTM(4) Earnings Per Common Share	14.2x		15.2x		
LTM(4) Dividend Payout Ratio	65.1	%	42.9	%	
Avg. Weekly Volume / Common Shares Outstanding	0.18	%	0.17	%	

(1) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.

(2) Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.

(3) Reflects that compound annual growth rate from fiscal year 2002 to most recent quarter.

(4) LTM stands for latest twelve months.

No company, however, used in this analysis is identical to Pocono, First Keystone or the transaction. Accordingly, an analysis of the result of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that would affect the public trading values of the companies or company to which they are being compared.

Discounted Dividend Analysis

Using a discounted dividend analysis, Boenning & Scattergood, Inc. estimated the present value of the future cash flows that would accrue to a holder of a share of Pocono common stock over a five-year period. This analysis was performed in order to compare the merger consideration offered by First Keystone Corporation to a range of estimated implied values for Pocono common stock based on projected future cash flows. This stand-alone analysis was based on several assumptions, including a range of price to earnings multiples of 13.0x to 17.0x to Pocono s terminal year common earnings per share, a range of EPS growth rates based upon Pocono management s five year projected earnings per share growth rate of 14% to 18%, and Pocono s current common stock cash dividend payout ratio of 0%. The range of multiples applied to Pocono s estimated five-year earnings per share value reflected a variety of scenarios regarding the growth and profitability prospects of Pocono and valuation for banking securities in general. The terminal values were then discounted to present value using a discount rate of 10%. This discount rate was used in order to reflect an expected rate of return required by holders or prospective buyers of Pocono s common stock. The analysis indicated that, based upon the aforementioned assumptions, the per common share value of the present value of Pocono s common stock, on a stand-alone basis, ranged from $7.87 $12.13 with a median value of $9.86.

The table below summarizes the results under different assumption scenarios.

	Terminal Multiple				
	13.0x	**14.0x**	**15.0x**	**16.0x**	**17.0x**
EPS Growth Rate (%)					
13.9	$ 7.87	$ 8.46	$ 9.04	$ 9.62	$ 10.21
14.9	8.83	8.83	9.44	10.05	10.66
15.9	8.59	9.23	9.86	10.50	11.13
16.9	8.97	9.63	10.30	10.96	11.62
17.9	9.36	10.05	10.74	11.44	12.13

In connection with the discounted dividend analysis performed, Boenning & Scattergood, Inc. considered and discussed with Pocono s board how the present value analysis would be affected by changes in the underlying assumptions, including variations with respect to the growth rate of assets, net interest spread, non-interest income, non-interest expenses and dividend payout ratio. Boenning & Scattergood, Inc. noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the assumptions that must be made, and the results of this analysis, are not necessarily indicative of actual values or future results.

Comparable Transactions Analysis

Boenning & Scattergood, Inc. also compared the per share values to Pocono common shareholders implied by the exchange ratio offered by First Keystone Corporation of latest twelve months earnings, book value, tangible book value, assets and deposits with the price per common share implied by the multiples paid in recent acquisitions of banks, bank holding companies, and financial holding companies that Boenning & Scattergood, Inc. deemed comparable. The transactions deemed comparable by Boenning & Scattergood, Inc. included both interstate and intrastate bank, bank holding company, and financial holding company acquisitions announced after January 1, 2005, in which the selling institution s assets were between $100 million and $150 million as of the most recent period publicly available prior to announcement. Boenning & Scattergood, Inc. compared this national group as a whole as well as certain of its subgroups, including a regional group, a performance group, and a recent group, with the Pocono/First Keystone Corporation transaction. The regional group included transactions involving banks, bank holding companies, and financial holding companies in which the acquired company was located in the Mid-Atlantic region. The performance group included transactions involving banks, bank *holding companies, and financial holding companies which had an equity to assets ratio between 5% and 15% and a return on average assets ratio of less than 2%. In addition to the national, regional, and performance groups, Boenning & Scattergood, Inc. also compared transactions involving recent banking companies that were announced after September 1, 2006.*

The results of these comparisons are set forth in the following table.

	First Keystone Corporation/ Pocono		National Median		Regional Median		Performance Median		Recent Median	
Number of Transactions	N/A		109		8		10		29	
Seller Information:										
Assets	$ 133.6		$ 131.4		$ 144.9		$ 136.5		$ 128.5	
Common Equity Capital / Assets	10.9	%	9.4	%	10.6	%	9.8	%	9.7	%
LTM(1) Return on Average Assets	.55	%	.99	%	.74	%	1.25	%	1.18	%
LTM(1) Return on Average Common Equity	5.13	%	9.54	%	6.80	%	13.41	%	11.90	%
NPAs(2) / Assets	.09	%	.33	%	0.82	%	.94	%	.32	%
Transaction Consideration to:										
Book Value	232.9	%	221.0	%	215.0	%	219.3	%	222.6	%
Tangible Book Value	232.9	%	221.3	%	226.4	%	230.7	%	230.7	%
LTM(1) Net Income	37.8x		22.9x		31.6x		19.9x		23.9x	
Deposits	29.5	%	24.7	%	26.9	%	27.8	%	27.0	%
Assets	25.3	%	21.2	%	21.3	%	20.8	%	20.8	%

(1) LTM stands for latest twelve months.

(2) Defined as total nonaccrual loans and other real estate owned.

No company or transaction, however, used in this analysis is identical to Pocono, First Keystone or the transaction. Accordingly, an analysis of the result of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that would affect the public trading values of the companies or company to which they are being compared.

Contribution Analysis

Boenning & Scattergood, Inc. analyzed the contribution that Pocono and First Keystone Corporation would have made to the combined company s assets, loans, deposits and equity as of March 31, 2007. In addition, Boenning & Scattergood, Inc. analyzed the contribution Pocono and First Keystone would have made to the combined company s estimated net income for the projected first full year of combined operations. This analysis was conducted in order to compare the amount of these categories Pocono is contributing to the pro forma entity versus the proportionate amount of value its shareholders are receiving. Boenning & Scattergood, Inc. has not expressed any opinion as to the actual value of First Keystone Corporation common stock when issued in the merger or the price at which First Keystone Corporation common stock will trade after the merger. The analysis indicated the following information as March 31, 2007 and the first full projected year of combined operations:

	First Keystone Corporation	Pocono
Contribution of:		
Assets	80 %	20 %
Common Equity	79 %	21 %
Loans	71 %	29 %
Deposits	77 %	23 %
Net Income(1)	87 %	13 %
Market Value(2)	72 %	28 %

(1) Reflects estimated results prior to any potential synergies.

(2) Market value consists of total cash consideration and the implied value of stock consideration to be received by Pocono based on First Keystone Corporation s closing price on May 7, 2007.

Hurdle Rate Analysis

Using a range of discount rates and a range of terminal price to earnings per common share multiples, Boenning & Scattergood, Inc. estimated a range of compound annual earnings per common share growth rates required over a five year period for Pocono to obtain an implied per common share stand alone market price comparable to the value implied by the merger consideration offered by First Keystone Corporation on a present value basis. This analysis was performed in order to examine the required earnings per common share growth rates that would be required to offer shareholders similar value to that implied by the merger consideration. Boenning & Scattergood, Inc. calculated a range of future values of the per common share implied value of the First Keystone Corporation transaction over a five-year period based on a range of discount rates from 10.0% to 14.0%. The range of discount rates reflected the expected rate of return required by holders or prospective buyers of Pocono common stock. Using a range of price to earnings per common share multiples of 13.5x to 17.5x to reflect the growth and profitability prospects of Pocono as well as general market valuations for comparable banking companies, Boenning & Scattergood, Inc. calculated Pocono s potential earnings per common share at the end of five years by dividing the price to common earnings per share multiples into the range of future values. The annual growth rate was calculated based on the potential earnings per common share values at the end of five years and Pocono s fully diluted earnings per common share value of $.49 for the twelve months ended March 31, 2007. Boenning & Scattergood, Inc. then compared the resulting earnings growth rates with Pocono s historical and estimated future earnings per common share growth rates.

In connection with the hurdle rate analysis performed, Boenning & Scattergood, Inc. considered and discussed with Pocono s board how the analysis would be affected by changes in the underlying assumptions, including variations with respect to the range of discount rates and price per common share earnings multiples used. The table below summarizes the results under different assumption scenarios.

Projected 5 Year EPS Annual Growth Rates

	Discount Rate		
Terminal Multiple	**10.0%**	**12.0%**	**14.0%**
13.5x	32.1 %	34.5 %	36.9 %
14.5x	30.2 %	32.6 %	34.9 %
15.5x	28.5 %	30.8 %	33.1 %
16.5x	26.9 %	29.2 %	31.5 %
17.5x	25.4 %	27.7 %	29.9 %

In connection with rendering its opinion, Boenning & Scattergood, Inc. performed what it deemed were the material financial analyses. Although the evaluation of the fairness, from a financial point of view, of the merger consideration in the Merger was to some extent a subjective one based on the experience and judgment of Boenning & Scattergood, Inc. and not merely the result of mathematical analysis of financial data, Boenning & Scattergood, Inc. principally relied on the previously discussed financial valuation methodologies in its determinations. Boenning & Scattergood, Inc. believes its analyses must be considered as a whole and that selecting portions of such analyses and factors considered by Boenning & Scattergood, Inc. without considering all such analyses and factors could create an incomplete view of the process underlying Boenning & Scattergood, Inc. s opinion. In its analyses, Boenning & Scattergood, Inc. made numerous assumptions with respect to business, market, monetary and economic conditions, industry performance and other matters, many of which are beyond Pocono and First Keystone Corporation s control. Any estimates contained in Boenning & Scattergood, Inc. s analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates.

In reaching its opinion as to fairness, none of the analyses or factors considered by Boenning & Scattergood, Inc. was assigned any particular weighting by Boenning & Scattergood, Inc.. As a result of its consideration of the aggregate of all factors present and analyses performed, Boenning & Scattergood, Inc. reached the conclusion, and opined, that the merger consideration pursuant to the merger agreement was fair to the shareholders of Pocono from a financial point of view.

Boenning & Scattergood, Inc. s opinion was based solely upon the information available to it and the economic, market and other circumstances as they existed as of the date its opinion was delivered; events occurring after the date of its opinion could materially affect the assumptions used in preparing its opinion. Boenning has not undertaken to reaffirm and revise its opinion or otherwise comment upon any events occurring after the date of the opinion.

The full text of the Boenning & Scattergood, Inc. opinion, updated as of September 7, 2007, which sets forth assumptions made and matters considered, is attached as **Annex B** to this document. Pocono s shareholders are urged to read the opinion in its entirety. Boenning & Scattergood, Inc. s opinion is directed only to the merger consideration pursuant to the merger agreement from a financial point of view, is for the information of the board of directors of Pocono, and does not address any other aspect of the merger nor does it constitute a recommendation to any holder of Pocono common stock as to how such holder should vote at the Pocono annual meeting.

The foregoing provides only a summary of the analyses performed in the opinion of Boenning and is qualified in its entirety by reference to the full text of that opinion, which is set forth in **Annex B** to this document.

Compensation of Boenning & Scattergood, Inc.

Pocono and Boenning & Scattergood, Inc. entered into an agreement relating to the services to be provided by Boenning & Scattergood, Inc. in connection with the merger. Pocono agreed to pay Boenning & Scattergood, Inc. a cash fee of $10,000 upon execution of the engagement letter. In addition, concurrently with the execution of a definitive agreement, Pocono agreed to pay Boenning & Scattergood, Inc. a cash fee equal to 1% of the market value of the aggregate consideration offered in exchange for the outstanding shares of Pocono common stock and common stock equivalents in the merger. Based on the merger consideration payable in the merger and the number of shares of Pocono common stock and common stock equivalents outstanding on the record date for the annual meeting, this fee will amount to approximately $362,000. Pursuant to the Boenning & Scattergood, Inc. engagement, Pocono also agreed to reimburse Boenning & Scattergood, Inc. for reasonable out-of-pocket expenses incurred in connection with its retention and to indemnify it against certain liabilities.

Opinion of First Keystone Corporation s Financial Advisor

In a letter agreement dated March 14, 2007, First Keystone Corporation retained Curtis Securities, LLC to act as its financial advisor in connection with a possible business combination with Pocono. Curtis Securities, LLC is a regional investment banking firm with particular experience in the financial services industry. Curtis Securities, LLC, and its affiliates, as part of its investment banking business, is engaged in the valuation of securities and companies for a variety of purposes and in connection with various types of transactions including mergers and acquisitions. Curtis Securities, LLC was selected by First Keystone Corporation because of its knowledge of, expertise with and reputation in the financial services industry. No limitations were imposed by the First Keystone Corporation board of directors upon Curtis Securities, LLC with respect to the investigation made or procedures followed by it in arriving at its opinion. In rendering its opinion, Curtis Securities, LLC does not admit that it is an expert within the meaning of the term expert as used within the Securities Act of 1933 and the rules and regulations promulgated thereunder, or that its opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act of 1933 and the rules and regulations promulgated thereunder.

Curtis Securities, LLC acted as financial advisor to First Keystone Corporation in connection with the proposed transaction and participated in certain of the negotiations leading to the acquisition agreement, but the terms and conditions of the acquisition, including pricing, were determined through arm s length negotiations between Pocono and First Keystone Corporation. At the May 10, 2007 meeting of the board of directors of First Keystone Corporation at which the board considered and approved the acquisition agreement, Curtis Securities, LLC delivered to the board its written opinion that, as of such date, the merger consideration paid to Pocono shareholders was fair to the holders of First Keystone Corporation from a financial point of view. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Curtis Securities, LLC in rendering its opinion. The description of the opinion dated May 10, 2007 set forth below is qualified in its entirety by reference to the opinion. Curtis Securities, LLC urges First Keystone Corporation shareholders to read the entire opinion carefully in connection with their consideration of the proposed acquisition.

Curtis Securities, LLC s opinion was directed to the First Keystone Corporation board of directors and is directed only to the fairness, from a financial point of view, to the First Keystone Corporation shareholders of the merger consideration paid to the Pocono shareholders as of May 10, 2007. It does not address the underlying business decision of First Keystone Corporation to engage in the acquisition or any other aspect of the acquisition and is not a recommendation to any First Keystone Corporation shareholder as to how that shareholder should vote at the special meeting with respect to the acquisition, or any other matter.

In connection with rendering its opinion, Curtis Securities, LLC has, among other things:

(i) reviewed the historical financial performance, recent financial position and general prospects of First Keystone Corporation and Pocono using publicly available information;

(ii) reviewed certain internal financial statements and other financial and operating data concerning First Keystone Corporation and Pocono prepared by each bank s management team;

(iii) reviewed certain financial forecasts and other forward looking financial information prepared by each bank s management team;

(iv) held discussions with the senior managements of each bank concerning the business, past and current operations, financial condition and future prospects of First Keystone Corporation and Pocono;

(v) reviewed the financial terms and conditions set forth in the acquisition agreement;

(vi) compared the financial and stock market performance of First Keystone Corporation and Pocono with that of certain other publicly traded companies Curtis Securities, LLC deemed similar to those banks;

(vii) compared the financial terms of the acquisition with the financial terms, to the extent publicly available, of other transactions that Curtis Securities, LLC deemed relevant;

(viii) reviewed the relative contribution of assets, liabilities, equity and earnings of each bank to First Keystone Corporation on a pro forma basis and the relative pro forma ownership of the shareholders of each bank in First Keystone Corporation;

(ix) prepared discounted dividend analysis of each bank using data and projections supplied by each bank s management;

(x) participated in discussions and negotiations among representatives of First Keystone Corporation and Pocono and their financial and legal advisors;

(xi) reviewed the acquisition agreement dated May 10, 2007;

(xii) reviewed a draft of this proxy statement/prospectus; and

(xiii) made such inquiries and took into account such other matters as Curtis Securities, LLC deemed relevant, including Curtis Securities, LLC s assessment of general economic, market and monetary conditions.

In its review and analysis, and in arriving at its opinion, Curtis Securities, LLC assumed and relied upon the accuracy and completeness of all of the financial and other information provided to it (including information furnished to it orally or otherwise discussed with it by management of the banks as well as information provided by recognized independent sources) or publicly available and neither attempted to verify, nor assumed responsibility for verifying, any of that information. Curtis Securities, LLC relied upon the assurances of First Keystone Corporation s and Pocono s management that they are not aware of any facts that would make such information inaccurate or misleading. Furthermore, Curtis Securities, LLC did not obtain or make, or assume any responsibility for obtaining or making, any independent evaluation or appraisal of the properties, assets (including loans) or liabilities (contingent or otherwise) of either bank, nor was Curtis Securities, LLC furnished with any such evaluation or appraisal. Curtis Securities, LLC did not make any independent evaluation of the adequacy of the allowance for loan losses of either bank nor did it review any individual credit files. Curtis Securities, LLC assumed, with First Keystone Corporation s consent, that First Keystone Corporation s and Pocono s allowances for loan losses are adequate to cover such losses.

With respect to the status of the banks financial forecasts and projections (and the assumptions and basis therefore) that Curtis Securities, LLC reviewed, upon the advice of management of each bank, Curtis Securities, LLC assumed that such forecasts and projections have been reasonably prepared in good faith on the basis of reasonable assumptions and reflect the best currently available estimates and judgments as to the future financial condition and performance of First Keystone Corporation and Pocono, and Curtis Securities, LLC has further assumed that those projections and forecasts will be realized in the amounts and in the time periods currently estimated. Curtis Securities, LLC assumed that the acquisition will be consummated upon the terms set forth in the acquisition agreement without material alteration thereof and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the acquisition, no delay, limitation, restriction or condition will be imposed that would have a material adverse effect on First Keystone Corporation and Pocono or the contemplated benefits of the acquisition. Curtis Securities, LLC assumed that all of the representations and warranties contained in the acquisition agreement are true and correct and that First Keystone Corporation and Pocono will each perform the covenants required by the acquisition agreement. In addition, Curtis Securities, LLC has assumed that the historical financial statements of First Keystone Corporation and Pocono reviewed by it have been prepared and fairly presented in accordance with U.S. generally accepted accounting principles consistently applied. Curtis Securities, LLC also assumed, with the consent of First Keystone Corporation, that the acquisition will be treated as a tax-free reorganization for federal income tax purposes. Finally, with First Keystone Corporation s consent, Curtis Securities, LLC relied upon the advice First Keystone Corporation has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the acquisition and the other transactions contemplated by the acquisition agreement.

In performing its analyses, Curtis Securities, LLC also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of First Keystone Corporation, Pocono and Curtis Securities, LLC. The analyses performed by Curtis Securities, LLC are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by the analyses. Curtis Securities, LLC prepared its analyses solely for purposes of rendering its opinion and provided its analyses to the First Keystone Corporation board at the board of director s meeting on May 10, 2007. Estimates of the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Curtis Securities, LLC s analyses do not necessarily reflect the value of First Keystone Corporation common stock or Pocono common stock or the prices at which First Keystone Corporation common stock or Pocono common stock may be sold at any time.

Curtis Securities, LLC also relied, without independent verification, upon the estimates and judgments of the management of First Keystone Corporation and Pocono as to the potential cost savings and other potential synergies (including the amount, timing and achievability thereof) anticipated to result from the acquisition. The financial projections, estimates of transaction costs, purchase accounting adjustments and expected cost savings discussed with Curtis Securities, LLC were prepared by the respective management teams of Pocono and First Keystone Corporation. Senior executives of Pocono and First Keystone Corporation confirmed to Curtis Securities, LLC that such projections, estimates, adjustments and savings reflected the best currently available estimates and judgments of Pocono s and First Keystone Corporation s respective management teams. Curtis Securities, LLC expressed no opinion as to such projections, estimates, adjustments and savings in its opinion. Pocono and First Keystone Corporation do not publicly disclose internal management projections of the type discussed with Curtis Securities, LLC in connection with the review of the merger. Such projections were not prepared with a view towards public disclosure. The public disclosure of such projections could be misleading since the projections were based on numerous variables and assumptions which are inherently uncertain and accordingly, actual results could vary materially from those set forth in such projections.

In rendering its opinion, Curtis Securities, LLC performed a variety of financial analyses. The following is a summary of the material analyses performed by Curtis Securities, LLC, but is not a complete description of all the analyses underlying Curtis Securities, LLC s opinion. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving numerous subjective judgments relating to the most relevant and / or appropriate methods of corporate and financial analysis and the application of those methods and analysis to the subject circumstances. The process, therefore, is not necessarily susceptible to partial analysis or summary description. Curtis Securities, LLC believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Curtis Securities, LLC s comparative analyses described below is identical to First Keystone Corporation or Pocono and no transaction is identical to the acquisition. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of First Keystone Corporation or Pocono and the companies to which they are being compared.

Summary of Transaction. Curtis Securities, LLC reviewed the financial terms of the proposed transaction. Based upon financial information for First Keystone Corporation as of or for the twelve-month period ended March 31, 2007, Curtis Securities, LLC calculated the following ratios with respect to the transaction value per share of Pocono common stock:

Transaction Ratios	**Including** Options	**Excluding Options**
Transaction value/Last twelve month s earnings per share	37.4 x	31.8 x
Transaction value/Book value	227.0 %	196.1 %
Transaction price/Tangible book value	228.0 %	197.1 %

The aggregate transaction value was approximately $33.7 million based upon 1,745,950 million shares of Pocono common stock outstanding plus the intrinsic value of outstanding options to purchase an aggregate of 64,105 shares of Pocono common stock having a weighted average exercise price of $8.83 and warrants to purchase an aggregate of 396,134 of Pocono common stock having a weighted average exercise price of $4.55.

Stock Trading History. Curtis Securities, LLC reviewed the history of the reported trading prices and volume of First Keystone Corporation common stock and Pocono common stock for the previous one year period. Curtis Securities, LLC also compared the trading price performance of each bank with the SNL Bank Index, a nationally recognized industry information service index.

During the one-year period ending May 10, 2007, First Keystone Corporation common stock generally underperformed the index to which it was compared. During the one-year period ending May 10, 2007, Pocono common stock exhibited minimal trading activity in an illiquid market for the stock.

Contribution Analysis. Curtis Securities, LLC reviewed the relative contributions to be made by First Keystone Corporation and Pocono to the combined institution based on financial information of both banks as of or for the one-year period ended March 31, 2007. This analysis indicated that the implied contributions to the combined entity were as follows:

Contribution Analysis (1)	**First Keystone Corporation**	**Pocono**
Loans, net	71.2 %	28.8 %
Total assets	79.7 %	20.3 %
Deposits	77.4 %	22.6 %
Total equity	78.6 %	21.4 %
Last twelve months net income	87.1 %	12.9 %
Last twelve months pre-tax income	85.5 %	14.5 %
Projected 2007 Net Income	85.4 %	14.6 %
LTM Net Interest Income	76.8 %	23.2 %
LTM Non-interest Income	86.8 %	13.2 %
Pro forma ownership	83.0 %	17.0 %
Directorship	81.8 %	18.2 %

(1) Excluding purchase accounting adjustment and potential synergies.

Comparable Company Analysis. Curtis Securities, LLC used publicly available information to compare selected financial, operating and market trading information for First Keystone Corporation and Pocono and groups of commercial banking institutions selected by Curtis Securities, LLC.

The peer group for Pocono consisted of the following publicly traded commercial banks headquartered in Pennsylvania with total assets between $80 million and $200 million:

Allegiance Bank of North America

Canton Bancorp, Inc.

First National Bank of Port Allegany

First Perry Bancorp, Inc.

Fleetwood Bank Corporation

FNBM Financial Corporation

GNB Financial Services, Inc.

JTNB Bancorp, Inc.

Landmark Community Bank

Luzerne National Bank Corporation

Mercersburg Financial Corp.

Muncy Bank Financial, Inc.

Peoples Limited

UNB Corporation

Union Bancorp, Inc.

The analysis compared publicly available financial, operating and market trading information for Pocono and the data for the peer group as of and for the twelve-month period ended March 31, 2007. The table below compares the data for Pocono and the peer group.

Comparable Group Analysis

	Peer Group Minimum		Peer Group Median		Peer Group Maximum		Pocono	
Total assets *(in millions)*	$ 82.1		$ 129.9		$ 187.5		$ 133.6	
Equity/assets	7.0	%	10.1	%	16.6	%	10.9	%
Tangible equity/assets	6.9	%	10.1	%	16.6	%	10.9	%
Gross Loans/Total Deposits	51.6	%	79.2	%	121.3	%	87.7	%
NCOs/ Avg Loans	-0.05	%	0.1	%	1.24	%	0.1	%
NPAs+ 90 day past due /Total Assets	0.00	%	.64	%	1.29	%	0.09	%
Loan Loss Reserves/ NPAs	73.9	%	146.2	%	393.4	%	1,000.8	%
Three year CAGR in Loans	0.5	%	10.1	%	27.6	%	6.2	%
Three year CAGR in Deposits	-0.5	%	2.6	%	15.6	%	3.6	%
Three year CAGR in Assets	0.2	%	2.9	%	24.4	%	5.4	%
LTM Return on average assets	-.25	%	.70	%	1.23	%	.79	%
LTM Return on average equity	-1.37	%	7.23	%	12.74	%	7.33	%
Net Interest Margin	2.56	%	3.40	%	5.18	%	3.49	%
Efficiency Ratio	48.53	%	75.14	%	96.31	%	68.68	%
Three year avg Return on average assets	.02	%	.67	%	1.40	%	.97	%
Three year avg Return on average equity	.33	%	6.54	%	11.49	%	10.02	%
Three year avg Net Interest Margin	2.61	%	3.83	%	5.23	%	3.54	%
Three year avg Efficiency Ratio	44.96	%	72.54	%	102.02	%	60.79	%
Price/Book Value	76.2	%	125.4	%	252.7	%	193.2	%
Price/Tangible book value	76.2	%	125.4	%	252.7	%	194.0	%
Price/LTM earnings per share	12.8	x	19.3	x	46.3	x	37.9	x
Dividend Yield	0.00	%	2.12	%	3.08	%	0.00	%

NM = not meaningful

The peer group for First Keystone Corporation consisted of the following publicly traded commercial banks headquartered in Pennsylvania with total assets between $400 million and $700 million:

American Bank Incorporated

Citizens Financial Services, Inc.

Codorus Valley Bancorp, Inc.

Comm Bancorp, Inc.

Dimeco, Inc.

DNB Financial Corporation

East Penn Financial Corporation

Ephrata National Bank

Fidelity D&D Bancorp, Inc.

FNB Bancorp, Inc.

Juniata Valley Financial Corp.

Mid Penn Bancorp, Inc.

Norwood Financial Corp.

Penns Woods Bancorp, Inc.

Penseco Financial Services Corporation

Peoples Financial Services Corp.

QNB Corp.

Somerset Trust Holding Company

Tower Bancorp, Inc.

Union National Financial Corp.

The analysis compared publicly available financial, operating and market trading information for First Keystone Corporation and the data for the peer group as of and for the twelve-month period ended March 31, 2007. The table below compares the data for First Keystone Corporation and the peer group.

Comparable Group Analysis

	Peer Group Minimum		Peer Group Median		Peer Group Maximum		First Keystone Corporation	
Total assets *(in millions)*	$ 405.0		$ 532.8		$ 619.3		$ 523.8	
Equity/assets	5.6	%	9.0	%	14.4	%	10.4	%
Tangible equity/assets	5.6	%	8.9	%	13.2	%	10.3	%
Gross Loans/Total Deposits	63.05	%	88.3	%	108.9	%	64.3	%
NCOs/ Avg Loans	-0.81	%	0.07	%	1.20	%	0.01	%
NPAs+ 90 day past due/Total Assets	0.01	%	0.46	%	1.87	%	0.55	%
Loan Loss Reserves/NPAs	32.1	%	201.7	%	5,017.1	%	210.4	%
Three year CAGR in Loans	2.7	%	10.9	%	22.1	%	3.1	%
Three year CAGR in Deposits	-1.4	%	5.3	%	28.1	%	3.2	%
Three year CAGR in Assets	-0.5	%	5.1	%	24.1	%	1.9	%
LTM Return on average assets	.27	%	1.05	%	1.63	%	1.16	%
LTM Return on average equity	4.65	%	11.39	%	17.25	%	11.52	%
Net Interest Margin	1.90	%	3.64	%	4.50	%	3.00	%
Efficiency Ratio	49.98	%	63.89	%	90.29	%	52.69	%
Three year avg Return on average assets	.28	%	1.05	%	1.86	%	1.27	%
Three year avg Return on average equity	4.75	%	10.94	%	15.51	%	12.15	%
Three year avg Net Interest Margin	1.96	%	3.84	%	4.37	%	3.32	%
Three year avg Efficiency Ratio	52.02	%	61.83	%	85.12	%	49.81	%
Price/Book Value	117.8	%	160.7	%	212.9	%	155.7	%
Price/Tangible book value	117.8	%	163.5	%	220.0	%	159.6	%
Price/LTM earnings per share	10.7	x	15.3	x	31.0	x	14.2	x
Dividend Yield	1.49	%	2.75	%	5.12	%	4.69	%

NM = not meaningful

Analysis of Selected Merger Transactions. Curtis Securities, LLC reviewed three sets of merger transactions it deemed comparable to the proposed acquisition. Importantly, no transaction or group of transactions is the same as the proposed acquisition. The first group of transactions involved target banks located in Pennsylvania, New Jersey, Maryland, Virginia, New York, Connecticut, and Washington, D.C. with assets less than $200 million where the transaction was announced since January 1, 2004 (the Mid-Atlantic transactions , 41 transactions). The second group of transactions involved target banks which were Pennsylvania banks where the transaction was announced since January 1, 2004 (the Pennsylvania transactions , 26 transactions). The third group of transactions involved the acquired banks included in the Mid-Atlantic transactions, which had return on average equity between 5.0% and 10.0% (the Performance transactions , 13 transactions).

Transaction Multiples

	Mid-Atlantic Transactions Maximum	Median	Minimum	PA Transactions Maximum	Median	Minimum
Transaction price/LTM EPS	64.6 x	26.7 x	16.4 x	40.0 x	24.3 x	15.9 x
Transaction price/Book value	337.8 %	194.8 %	72.1 %	373.9 %	202.7 %	151.0 %
Transaction price/Tangible book value	337.8 %	194.8 %	72.1 %	404.2 %	232.1 %	152.1 %
Premium to market	111.5 %	36.3 %	-14.6 %	105.8 %	30.6 %	12.9 %

Transaction Multiples

	Performance Transactions Maximum	Median	Minimum
Transaction price/LTM EPS	42.9 x	30.1 x	20.1 x
Transaction price/Book value	307.3 %	210.9 %	140.0 %
Transaction price/Tangible book value	307.3 %	221.3 %	140.1 %
Premium to market	55.7 %	26.1 %	(14.6)%

Discounted Dividend Analysis. Curtis Securities, LLC performed an analysis that estimated the future stream of after-tax dividend flows of Pocono through December 31, 2011 under various circumstances, assuming Pocono performed in accordance with the earnings estimates for 2007 through 2009 provided by its senior management. For periods after 2009, Curtis Securities, LLC assumed Pocono would achieve earnings that would correspond to a return on average assets of 0.95% to 1.15%. To approximate the terminal value of Pocono common stock at December 31, 2011, Curtis Securities, LLC applied price/earnings multiples ranging from 24x to 28x. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 10% to 15% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Pocono common stock.

	ROAA 1.05%					ROAA 1.15%				
Discount Rate	**24x**	**25x**	**26x**	**27x**	**28x**	**24x**	**25x**	**26x**	**27x**	**28x**
10.0%	$ 15.86	$ 16.51	$ 17.16	$ 17.80	$ 18.45	$ 17.37	$ 18.08	$ 18.79	$ 19.50	$ 20.21
11.0%	$ 15.16	$ 15.78	$ 16.40	$ 17.02	$ 17.64	$ 16.61	$ 17.28	$ 17.96	$ 18.64	$ 19.32
12.0%	$ 14.50	$ 15.09	$ 15.68	$ 16.27	$ 16.87	$ 15.88	$ 16.53	$ 17.18	$ 17.82	$ 18.47
13.0%	$ 13.87	$ 14.44	$ 15.00	$ 15.57	$ 16.13	$ 15.19	$ 15.81	$ 16.43	$ 17.05	$ 17.67
14.0%	$ 13.27	$ 13.82	$ 14.36	$ 14.90	$ 15.44	$ 14.54	$ 15.13	$ 15.72	$ 16.32	$ 16.91
15.0%	$ 12.71	$ 13.23	$ 13.74	$ 14.26	$ 14.78	$ 13.92	$ 14.49	$ 15.05	$ 15.62	$ 16.19

Curtis Securities, LLC performed a similar analysis that estimated the future stream of after-tax dividend flows of First Keystone Corporation through December 31, 2011 under various circumstances, assuming First Keystone Corporation performed in accordance with the earnings estimates for 2007 provided by its senior management. For periods after 2007, Curtis Securities, LLC assumed annual growth rates of earnings per share of 2% to 6%. To approximate the terminal value of First Keystone Corporation s common stock at December 31, 2011, Curtis Securities, LLC applied price/earnings multiples ranging from 11x to 19x. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 10% to 15% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of First Keystone Corporation common stock.

	4% Growth					6% Growth				
Discount Rate	**11x**	**13x**	**15x**	**17x**	**19x**	**11x**	**13x**	**15x**	**17x**	**19x**
10%	$ 14.86	$ 16.91	$ 18.95	$ 21.00	$ 23.05	$ 15.88	$ 18.09	$ 20.30	$ 22.52	$ 24.73
11%	$ 14.27	$ 16.22	$ 18.18	$ 20.14	$ 22.10	$ 15.25	$ 17.36	$ 19.47	$ 21.59	$ 23.70
12%	$ 13.70	$ 15.58	$ 17.45	$ 19.32	$ 21.19	$ 14.64	$ 16.66	$ 18.69	$ 20.71	$ 22.73
13%	$ 13.17	$ 14.96	$ 16.75	$ 18.55	$ 20.34	$ 14.07	$ 16.00	$ 17.94	$ 19.87	$ 21.80
14%	$ 12.67	$ 14.38	$ 16.09	$ 17.81	$ 19.52	$ 13.53	$ 15.38	$ 17.23	$ 19.08	$ 20.93
15%	$ 12.18	$ 13.83	$ 15.47	$ 17.11	$ 18.75	$ 13.01	$ 14.78	$ 16.55	$ 18.32	$ 20.09

In connection with its analyses, Curtis Securities, LLC considered and discussed with the First Keystone Corporation board of directors how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Curtis Securities, LLC noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis. Curtis Securities, LLC analyzed certain potential pro forma effects of the acquisition, using numerous assumptions including the following: (i) shares of Pocono common stock are exchanged for First Keystone Corporation s common stock at an exchange ratio of 1 for .8944 assuming 51% stock/49% cash aggregate consideration, (ii) financial projections for First Keystone Corporation and Pocono which were consistent with those discussed with the senior management of First Keystone Corporation and Pocono, (iii) purchase accounting adjustments, charges and transaction costs associated with the acquisition and estimated cost savings determined by the senior management of First Keystone Corporation (iv) options and warrants to purchase shares of Pocono common stock are treated in accordance with the conversion features specified in the Merger Agreement and (v) the transaction was completed on January 1, 2008. The analysis indicated that for the year ending December 31, 2008, the acquisition would have had a dilutive effect of approximately 2.7% on First Keystone Corporation s projected cash earnings per share and a 4.1% dilutive effect on reported earnings per share. With respect to pro forma capital adequacy, the analysis indicated that First Keystone Corporation s capital ratios all would remain above regulatory minimums for well-capitalized institutions. This analysis does not include the impact of any potential revenue enhancements available to the combined entity.

Compensation of Curtis Securities, LLC

First Keystone Corporation has agreed to pay Curtis Securities, LLC a transaction fee in connection with the acquisition of $210,000, $160,000 of which is contingent, and payable, upon closing of the acquisition. First Keystone Corporation has also agreed to reimburse Curtis Securities, LLC for reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Curtis Securities, LLC and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

Reasons for the Merger: Pocono s Board of Directors

At its meeting on May 9, 2007, the Pocono board of directors determined that the terms of the merger agreement and the merger transaction with First Keystone Corporation were in the best interests of Pocono. In making this determination, the board of directors concluded that the transaction with First Keystone was superior to the other alternatives available to Pocono and to the prospects of continuing to operate Pocono as an independent, community-focused banking company.

In the course of reaching its decision to approve the merger agreement, the Pocono board of directors consulted with Boenning & Scattergood, Inc., its financial advisor, and John B. Lampi, Esquire, of the firm

of Saidis, Flower & Lindsay, its legal counsel. The board of directors considered, among other things, the factors described above and the following:

- The terms and transactions contemplated by the merger agreement and the historical trading ranges for First Keystone Corporation common stock and the consideration to be received by Pocono shareholders in the merger transaction.

- The fact that the merger agreement requires that up to 49% of the merger consideration be composed of cash at $16.10 per share, thereby permitting those Pocono shareholders who wish to receive cash rather than First Keystone Corporation common stock to elect an all cash exchange or an exchange composed of part First Keystone Corporation common stock and part cash. (The Pocono board of directors realized that if more than 49% of the issued and outstanding Pocono common stock elected to receive cash, certain shareholders, desiring cash, would be required to receive a portion of the merger consideration in First Keystone Corporation common stock, as opposed to cash.)

- The opinion of Boenning & Scattergood, Inc. that the consideration in the merger was fair to Pocono s shareholders from a financial point of view.

- The board of directors familiarity with and review of First Keystone Corporation s business prospects and financial condition, including its future prospects.

- First Keystone Corporation s operating philosophy as a community-oriented financial services company with a customer service focus, which is consistent with Pocono s approach.

- The effects of market pressures and Pocono s limited economies of scale on Pocono s ability to compete.

- First Keystone Corporation s agreement to maintain a Pocono-area advisory board and to market Pocono s branches as Pocono Community Bank, a division of First Keystone National Bank for at least two years after the merger is consummated.

- First Keystone Corporation s agreement that two directors from Pocono s board of directors would be appointed to the First Keystone Corporation board of directors and to First Keystone National Bank s board of directors to serve for a minimum of two years.

- First Keystone Corporation s agreement that Pocono employees, who do not continue as First Keystone Corporation employees, may be eligible to receive up to two weeks of severance pay for each year of service at Pocono and medical benefits during such severance payment period, depending upon the position held with Pocono.

- A determination that a business combination with First Keystone Corporation would expand Pocono s lending capabilities and increase the range of financial products and services available to Pocono s customers.

- The prices, multiples of earnings per share and premiums over book value and market value paid in other recent comparable acquisitions of financial institutions.

- The business, resources and prospects of First Keystone Corporation, and the fact that First Keystone Corporation does not have a substantial presence in Pocono s traditional market areas.

- The possible negative impact the transaction with First Keystone Corporation would have on various constituencies served by Pocono, including potential job loss among Pennsylvania employees.

- The expectation that the transaction will be tax deferred with regard to Pocono shareholders receiving First Keystone Corporation common stock.

- The alternatives of Pocono continuing as an independent community-focused banking company or combining with other potential merger partners, as compared to the effect of Pocono combining with First Keystone Corporation pursuant to the merger agreement, and the determination that the merger transaction with First Keystone Corporation presented the best opportunity for maximizing shareholder value and serving the banking needs of the communities in which Pocono operates.

- The expectation that Pocono shareholders receiving First Keystone Corporation common stock would have the ability to continue to participate in the growth of the combined company on a tax-deferred basis and also would benefit as a result of the greater liquidity of the trading market for First Keystone Corporation common stock and that Pocono shareholders who desire immediate liquidity could elect to receive cash, noting that the receipt of cash could be taxable to such shareholders.

- The provisions permitting the Pocono board of directors to terminate the merger agreement, if the value of First Keystone Corporation common stock immediately prior to the closing date of the merger is less than $16.20 per share and its stock price falls by 10% or more, as compared to an index of peer banking companies.

- The factor that the termination fee provision in the merger agreement could have the effect of discouraging superior proposals for a business combination between Pocono and a third party.

- Pocono shareholders who receive First Keystone Corporation shares will begin to receive, for the first time since investing in Pocono common stock, cash dividends on their First Keystone Corporation shares.

The foregoing discussion of the information and factors considered by the Pocono board of directors is not intended to be exhaustive but is believed to include all material factors considered by the Pocono board of directors. In reaching its determination to approve and recommend the transaction, the Pocono board of directors did not assign any relative or specific weights to the foregoing or other factors. Rather, the directors based their recommendation on the totality of the information presented to them. In addition, individual directors may have given differing weights to different factors.

After deliberating with respect to the merger transaction with First Keystone Corporation, considering, among other things, the matters discussed above and the opinion of Boenning & Scattergood, Inc. referred to above, the Pocono board of directors approved and adopted the merger agreement and the merger with First Keystone.

There can be no certainty that the benefits of the merger anticipated by the Pocono board of directors will occur. Actual results may vary materially from those anticipated. For more information on the factors that could offset actual results, see A Warning About Forward-Looking Information, at page 24 and Risk Factors, at page 18 of this proxy statement/prospectus.

Reasons for the Merger: First Keystone Corporation s Board of Directors

In evaluating their strategic plan and the opportunity presented to First Keystone Corporation in a high growth market, First Keystone Corporation decided to enhance the organization with a strategic acquisition.

In approving the merger agreement, First Keystone Corporation s board of directors considered the following factors as generally supporting its decision to enter into the merger agreement:

- its understanding of First Keystone Corporation s business, operations, financial condition, earnings and prospects and of Pocono s business, operations, financial condition, earnings and prospects, including our geographic position in northeastern Pennsylvania;

- its understanding of the current and prospective environment in which First Keystone Corporation and Pocono operate, including regional and local economic conditions, the competitive environment for financial institutions generally and continuing consolidation in the financial services industry, and the likely effect of these factors on First Keystone Corporation in light of, and in absence of, the proposed merger;

- the merger with Pocono will expand First Keystone Corporation s franchise to several new markets in northeastern Pennsylvania that have recently experienced faster economic growth than First Keystone Corporation s current markets;

- the review by the First Keystone Corporation board of directors with its legal counsel of the structure and terms of the merger, including the exchange ratio, the expectation of First Keystone Corporation s legal advisors that the merger will qualify as tax-free 368(a) transaction for United States federal income tax purposes;

- the complementary nature of the respective customer bases, business products and skills of First Keystone Corporation and Pocono could result in opportunities to obtain synergies as products are cross-marketed and distributed over broader customer bases and best practices are compared and applied across businesses;

- the proposed board and management arrangements which would position the combined company with stronger leadership and experienced operating management;

- the likelihood that the regulatory approvals needed to complete the transaction will be obtained;

- the historical and current market prices of First Keystone Corporation common stock and Pocono common stock; and

- the long term positive impact that the transaction may have to First Keystone Corporation shareholders.

The First Keystone Corporation board of directors also considered the fact that the combined institution will result in a combined entity with assets of approximately $657 million. The future growth prospects of the Pocono market area are expected to provide sustained business development opportunities by enabling First Keystone Corporation to capitalize on a its banking franchise to compete in northeastern Pennsylvania markets.

The foregoing discussion of the factors considered by the First Keystone Corporation board in evaluating the merger agreement is not intended to be exhaustive, but, rather, includes all material factors considered by the First Keystone Corporation board. In reaching its decision to approve the merger agreement and the merger, the First Keystone Corporation board did not quantify or assign relative rights to the factors considered, and individual directors may have given different weights to different factors. The First Keystone Corporation board considered all of the above factors as a whole, and on an overall basis considered them to be favorable to, and support, its determination to enter into the merger agreement.

Terms of the Merger

Effect of the Merger

Upon completion of the merger, Pocono will be merged with and into First Keystone National Bank, the wholly-owned subsidiary of First Keystone Corporation, and the separate legal existence of Pocono will cease. All property, rights, powers, duties, obligations, debts and liabilities of Pocono will automatically be deemed transferred to First Keystone National Bank, as the surviving bank in the merger. First Keystone Corporation and First Keystone National Bank will continue to be governed by their articles of incorporation and bylaws as in effect immediately prior to the merger.

What You Will Receive

Each share of Pocono stock that you hold at the effective time of the merger will automatically be exchanged into the right to receive either $16.10 in cash or 0.8944 shares of First Keystone Corporation common stock. Any warrants or options that you may hold will be cancelled and instead represent the right only to receive in cash the difference between the exercise price of the option or warrant and $16.10. The market value of the First Keystone Corporation common stock that you receive will be equal to the product of (1) the number of shares of Pocono common stock you owned, *multiplied* by (2) 0.8944 *multiplied* by (3) the market value of a share of First Keystone Corporation common stock on the effective date. You will not know the value of the First Keystone Corporation common stock that you will receive until the effective date.

In addition, First Keystone Corporation will not issue fractional shares of First Keystone Corporation common stock to Pocono shareholders. If you are otherwise entitled to receive a fractional share of First Keystone Corporation common stock under the exchange procedure described above, you will instead have the right to receive cash, without interest, in an amount equal to the product of the fraction of a share that would otherwise be due to you and the average final price of First Keystone Corporation common stock over 20 consecutive trading days ending five days prior to the merger effective date.

Under the terms of the merger agreement, 937,277 shares of First Keystone Corporation common stock will be exchanged for Pocono common stock and the remainder of Pocono shares will be exchanged for cash. In the event that the holders of Pocono common stock elect to receive more or less than 937,277 shares of First Keystone common stock, the number of shares that you elected to exchange for shares or cash (if any) will be reduced or increased through an allocation formula until the total number of shares of First Keystone Corporation common stock exchanged for Pocono common stock will equal 937,277.

Accordingly, after Pocono shareholder elections have been tabulated, the elected amounts of stock or cash may be adjusted to achieve a mix of consideration to Pocono security holders that ensures 937,277 shares of First Keystone Corporation common stock will be issued. Therefore, the amount of cash or stock that you receive in the merger may vary substantially from the consideration you elect to receive.

If you do not make a valid election, you will be deemed to have made no election. No election shares will be converted into either stock and/or cash consideration based on the election of all other shareholders.

You may receive significantly less cash or more shares of First Keystone Corporation common stock than you elect. For more information about the allocation rules and the potential effects of the allocation procedures described above see the sections entitled The Merger Terms of the Merger Election and Exchange Procedures and The Merger Terms of the Merger Allocation of First Keystone Corporation Common Stock and Cash, on pages 56 and 58, respectively.

Illustrations of Exchange Ratio Application; Value to Be Received and Allocation Procedures

As a result of the merger, Pocono will be merged with and into First Keystone National Bank, the wholly-owned subsidiary of First Keystone Corporation. Each share of Pocono common stock will then be converted into either 0.8944 shares of First Keystone Corporation common stock or $16.10 in cash as each Pocono shareholder elects, subject to the limitations described in this proxy statement/prospectus. Specifically, 937,277 shares of First Keystone Corporation common stock will be exchanged for Pocono common stock and the remainder of Pocono common stock will be exchanged for cash. Depending on the elections of other Pocono shareholders, your election may be adjusted according to a proration formula to receive more cash or more stock to ensure that a total of 937,277 shares of First Keystone Corporation common stock will be exchanged for Pocono common stock.

If, based on the elections of Pocono shareholders, the number of shares of First Keystone Corporation common stock to be issued in the merger is less than 937,277, then:

- All Pocono shares that elected to receive First Keystone Corporation common stock will be deemed to have elected to receive First Keystone Corporation common stock; and

- The exchange agent shall convert Pocono shares for which no election was made on a pro rata basis as is necessary to ensure approximately 937,277 shares of First Keystone Corporation common stock will be issued in the merger; and

- If the number of shares of First Keystone Corporation common stock to be issued in the merger is still less than approximately 937,277 after all no election shares have been converted to stock election shares, then the number of Pocono shares that elected to receive First Keystone Corporation common stock will receive a portion of his or her shares in stock and a portion in shares according to the following formulas:

- The number of shares to be converted into cash will equal the result of multiplying the number of shares for which the shareholder elected to receive stock by one minus a fraction, the numerator of which is 1,047,939 minus the number of Pocono shares for which stock elections were made and all no election shares and the denominator of which is the aggregate number of shares for which Pocono shareholders elected to receive cash.

If, based on the elections of Pocono shareholders, the number of shares of First Keystone Corporation common stock to be issued in the merger is more than 937,277, then:

- All Pocono shares that elected to receive cash and all Pocono shares for which no election was made will be deemed to have elected to receive cash; and

- The number of Pocono shares that elected to receive First Keystone Corporation common stock will receive a portion of his or her shares in stock and a portion in shares according to the following formulas:

- The number of shares to be converted into First Keystone Corporation common stock will equal the result of multiplying the number of shares for which the shareholder elected to receive stock by a fraction, the numerator of which is 937,277 and the denominator of which is the aggregate number of shares for which Pocono shareholders elected to receive stock multiplied by 0.8944; and

- The number of shares to be converted into cash will equal the result of multiplying the number of shares for which the shareholder elected to receive stock by one minus a fraction, the numerator of which is 937,277 and the denominator of which is the aggregate number of shares for which Pocono shareholders elected to receive stock multiplied by 0.8944.

No fractional shares of First Keystone Corporation common stock will be issued. Any Pocono shareholder who would otherwise be entitled to receive a fraction of a share of First Keystone Corporation common stock will instead receive cash in an amount equal to the fraction of the share of the First Keystone Corporation common stock that the shareholder would otherwise be entitled to receive multiplied by the average price per share of First Keystone Corporation common stock for a certain period prior to the closing of the merger.

Examples

The following table illustrates the allocation rules described above. The table is only for illustration purposes and does not necessarily reflect what you will receive for your Pocono shares. In all of these examples, assume that there are 1,684,515 shares of Pocono common stock outstanding, which means that no more than 1,047,939 Pocono shares will be converted into the right to receive First Keystone Corporation common stock (to ensure that approximately 937,277 shares of First Keystone Corporation common stock will be issued in connection with the merger). The examples do not include the cash Pocono shareholders will receive for fractional shares of First Keystone Corporation common stock.

The table assumes you own 100 shares of Pocono common stock and illustrates how your decision can effect your merger consideration under three scenarios. If you elect all cash, all stock or make no election. The first column of the table shows the number of Pocono common stock shares that elected to receive stock. The table also assumes that all other shareholders choose cash.

Election of Other Pocono shareholders for stock	You elect cash for all 100 shares	You elect stock for all 100 shares	You make no election for all 100 shares
1,000,000 shares of Pocono common stock elect to receive First Keystone Corporation common stock	You will receive 6 shares of First Keystone Corporation common stock and $1,497.30.	You will receive 89 shares of First Keystone Corporation common stock.	You will receive 89 shares of First Keystone Corporation common stock.
1,100,000 shares of Pocono common stock elect to receive First Keystone Corporation common stock	You will receive $1,610.00.	You will receive 85 shares of First Keystone Corporation common stock and $80.50.	You will receive $1,610.00.
1,047,939 shares of Pocono common stock elect to receive First Keystone Corporation common stock	You will receive $1,610.00.	You will receive 89 shares of First Keystone Corporation common stock.	You will receive $1,610.00.

Approximately four to six weeks prior to completion of the merger, Pocono shareholders will receive an election form and other transmittal materials, which include instructions and the deadline date for making their election as to the form of consideration they prefer to receive in the merger. If a Pocono shareholder does not properly complete and return an election form along with the applicable stock certificates, a guarantee of delivery for the shares of Pocono common stock covered by the election form or a completed lost or destroyed certificate affidavit and indemnity bond by the Pocono special meeting, then that shareholder will receive cash and First Keystone Corporation common stock as set forth above, depending upon the elections submitted by other Pocono shareholders.

Election and Exchange Procedures

Subject to the allocation process described in the next section, each Pocono shareholder may elect to receive with respect to his or her shares of Pocono common stock, all First Keystone Corporation common stock, all cash or a combination of First Keystone Corporation common stock and cash.

Stock Election Shares. Pocono shareholders who validly elect to receive 0.8944 shares of First Keystone Corporation common stock for some or all of their shares will receive the per share stock consideration for that portion of the shareholder s shares of Pocono common stock equal to the shareholder s stock election. In our discussion below, we refer to shares held by shareholders who have made stock elections as stock election shares.

Cash Election Shares. Pocono shareholders who validly elect to receive cash for some or all of their shares will receive $16.10 in cash per share for that portion of the shareholder s shares of Pocono common stock equal to the shareholder s cash election, subject to the allocation process described below. In our discussion below, we refer to shares held by Pocono shareholders who have made cash elections as cash election shares.

No-Election Shares. Shares held by Pocono shareholders (i) who indicate that they have no preference as to whether they receive First Keystone Corporation common stock or cash, (ii) who do not make a valid election, or (iii) who fail to properly perfect dissenters rights will be deemed to be no election shares. No election shares will be deemed undesignated and the consideration you receive will be based upon the other Pocono shareholders who have elected. See The Merger Allocation of First Keystone Corporation Common Stock and Cash below.

A limited amount of First Keystone Corporation common stock will be paid to Pocono shareholders, as described above. Accordingly, there is no assurance that a Pocono shareholder will receive the form of merger consideration that shareholder elects to receive with respect to any or all of his or her shares of Pocono common stock. If the stock consideration elections of Pocono shareholders would exceed the specified limits, then the procedures for allocating First Keystone Corporation common stock and cash to be received by Pocono shareholders will be followed by First Keystone Corporation s exchange agent. See The Merger Allocation of First Keystone Corporation Common Stock and Cash below.

Election Form. At least 40 days before the anticipated date of completion of the merger, First Keystone Corporation s exchange agent will mail to Pocono shareholders an election form with instructions on electing to receive First Keystone Corporation common stock or cash or a combination of stock and cash for your Pocono stock. The deadline for making your election will be 5:00 p.m. on the day that is 30 days after the materials are first mailed. You must carefully follow the instructions from First Keystone Corporation s exchange agent. Your election will be properly made only if by the deadline date, you have submitted to First Keystone Corporation s exchange agent at its designated office, a properly completed and signed election form that is accompanied by your Pocono stock certificate. The Pocono stock certificate must be in a form that is acceptable for transfer (as explained in the election form). If your election is not properly made, your shares of Pocono stock will be treated as no election shares and you will receive common stock consideration in exchange for your shares of Pocono common stock. Neither First Keystone Corporation nor its exchange agent will be under any obligation to notify any person of any defects in an election form.

As soon as reasonably practicable after the effective date of the merger, First Keystone Corporation s exchange agent will mail certificates representing shares of First Keystone Corporation common stock and/or checks representing the merger consideration for shares of Pocono common stock, together with cash in lieu of fractional share interests, to former shareholders of Pocono who have timely submitted an effective election form along with their Pocono stock certificates.

If you do not timely submit an election form along with your certificates of Pocono common stock, First Keystone Corporation s exchange agent will mail to you as soon as reasonably practicable after completion of the merger, a letter of transmittal with instructions for submitting your Pocono stock certificate in exchange for First Keystone Corporation common stock or the cash consideration of $16.10 per share. At that time, you will need to carefully review the instructions, complete the materials enclosed with the instructions and return the materials along with your Pocono stock certificate(s). Whether you will receive First Keystone Corporation common stock and/or cash will depend on the election of other Pocono shareholders. (See The Merger Allocation of First Keystone Corporation Common Stock and Cash, below.) As soon as reasonably practicable after receipt of the properly completed letter of transmittal and your Pocono stock certificate(s), First Keystone Corporation s exchange agent will mail a certificate representing shares of First Keystone Corporation common stock or a check (or a combination of stock certificate and check) for the merger consideration. No interest will be paid on any cash payment.

Certificates representing shares of First Keystone Corporation common stock will be dated the effective date of the merger and will entitle the holders to dividends, distributions and all other rights and privileges of a First Keystone Corporation shareholder from the effective date. Until the certificates representing Pocono common stock are surrendered for exchange after completion of the merger, holders of such certificates will not receive the cash and/or stock consideration or dividends or distributions on the First Keystone Corporation common stock into which such shares have been converted. When the certificates are surrendered to the exchange agent, any unpaid dividends or other distributions will be paid without interest. First Keystone Corporation has the right to withhold dividends or any other distributions on its shares until the Pocono stock certificates are surrendered for exchange.

Until surrendered, each Pocono stock certificate, following the effective date of the merger, is evidence solely of the right to receive the merger consideration. In no event will either First Keystone Corporation or Pocono be liable to any former Pocono shareholder for any amount paid in good faith to a public official or agency pursuant to any applicable abandoned property, escheat or similar law.

First Keystone Corporation will not issue any fractions of a share of common stock. Rather, First Keystone Corporation will pay cash for any fractional share interest any Pocono shareholder would otherwise be entitled to receive in the merger. For each fractional share that would otherwise be issued, First Keystone Corporation will pay by check an amount equal to the fractional share interest to which the holder would otherwise be entitled multiplied by the average final price of First Keystone Corporation common stock on the determination date. Shares of Pocono common stock issued and held by Pocono as treasury shares as of the effective date of the merger, if any, will be canceled.

Pocono Board of Directors Price Termination Right

Pocono has the option, but is not required, to terminate at closing the merger agreement if the 20 day average closing price of First Keystone Corporation common stock is below $16.20 and the decline in the average closing price of First Keystone Corporation common stock, since May 10, 2007, is at least 10% more than the change during the same period on an index based on the stock price of an index ratio, based on a similar peer group index. The bank holding companies comprising the peer group index are listed on Exhibit 1 to the merger agreement, attached to this proxy statement/prospectus as **Annex A**. Pocono cannot predict whether or not the Pocono board of directors would exercise its right to termination the merger agreement if these conditions were met.

The merger agreement does not provide for a resolicitation of Pocono shareholders in the event that the conditions are met and the Pocono board of directors nevertheless chooses to complete the transaction. Pocono s board of directors has made no decision as to whether it would exercise its right to terminate the merger agreement. In considering whether to exercise its right to terminate the merger

agreement, Pocono s board of directors would take into account all the relevant facts and circumstances that exist at the time and would consult with its financial advisor and legal counsel.

If the merger closes at a time when the conditions above are present, then the economic value received by Pocono shareholders who receive First Keystone Corporation common stock in exchange for their shares of Pocono common stock would be less than $14.49 per share of Pocono common stock.

Allocation of First Keystone Corporation Common Stock and Cash

Notwithstanding the election of Pocono shareholders to receive cash, First Keystone Corporation common stock or a combination of stock and cash in the merger (i) the number of shares of First Keystone Corporation common stock that will be exchanged for Pocono common stock will be approximately equal to 937,277 and (ii) the remainder of Pocono common stock will be exchanged for $16.10 in cash per share.

Stock Consideration equals 937,277 shares. If the aggregate number of shares of First Keystone Corporation to be issued as a result of Pocono shareholder elections equals 937,277, then:

- All stock election shares will be converted into the right to receive First Keystone common stock at a rate of 0.8944 per share; and

- All cash election shares and all no election shares will be converted into the right to receive cash at a rate of $16.10 per share.

Under-election of the Stock Consideration. If the aggregate number of stock election shares results in less than 937,277 shares of First Keystone Corporation common stock to be issued, then:

- All stock election shares will be converted into the right to receive First Keystone Corporation common stock at a rate of 0.8944 per share;

- No election shares will be converted at a *pro rata* rate into the right to receive First Keystone Corporation common stock until the aggregate number of First Keystone Corporation common stock to be issued equals approximately 937,277;

- If necessary, some cash election shares will be converted pursuant to a proration formula rate into the right to receive First Keystone Corporation common stock until the aggregate number of First Keystone Corporation common stock to be issued equals approximately 937,277; and

- The remaining cash election shares will be converted into the right to receive $16.10 in cash per share.

Over-election of the Stock Consideration. If the aggregate number of stock election shares results in more than 937,277 shares of First Keystone Corporation common stock to be issued, then:

- All cash election shares and no election shares will be converted into the right to receive First Keystone Corporation common stock at a rate of $16.10 per share;

- Some stock election shares will be converted pursuant to a proration formula rate into the right to receive cash until the aggregate number of First Keystone Corporation common stock to be issued equals approximately 937,277; and

- The remaining stock election shares will be converted into the right to receive First Keystone Corporation common stock at a rate of 0.8944 per share.

Because the United States federal income tax consequences of receiving First Keystone Corporation common stock, cash, or both First Keystone Corporation common stock and cash will differ, Pocono shareholders are urged to read carefully the information included under the caption Certain Federal Income Tax Consequences and to consult their tax advisors for a full understanding of the merger s tax

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consequences to them. In addition, because First Keystone Corporation common stock can fluctuate in value during the election period, the economic value per share received by Pocono shareholders who receive stock may, as of the date of receipt by them, be more or less than the $16.10 cash per share received by Pocono shareholders who receive cash.

First Keystone Corporation Common Stock

Each share of First Keystone Corporation common stock outstanding immediately prior to completion of the merger will remain outstanding and unchanged by the merger.

Pocono Options and Warrants

At the effective time of the merger, each option and warrant will be cancelled and instead represent the right only to receive in cash the difference between the exercise price of the option or warrant and $16.10. As a condition to close and before any option or warrant holder receives the cash consideration for each option and warrant, he or she will be required to execute an option cancellation form or a warrant cancellation form.

Effective Date

The merger will take effect when all conditions, including obtaining shareholder and regulatory approval, have been fulfilled or waived, or as soon as practicable thereafter as First Keystone Corporation and Pocono may mutually select. Regulatory approval cannot be waived. We presently expect to close the merger during the fourth quarter of 2007. See The Merger Conditions to the Merger and The Merger Regulatory Approvals, beginning at pages 61 and 65, respectively.

Representations and Warranties

The merger agreement contains customary representations and warranties relating to, among other things:

- Organization of First Keystone Corporation and Pocono and their respective subsidiaries.
- Capital structures of First Keystone Corporation and Pocono.
- Valid corporate power and authority to conduct current business and enter into the merger agreement and related obligations.
- Consents or approvals of regulatory authorities or third parties necessary to complete the merger.
- Consistency and accuracy of financial statements with accounting principles generally accepted in the United States and the rules and regulations of any other applicable regulatory authority.
- Absence of undisclosed material pending or threatened litigation.
- Absence of regulatory orders and timeliness of all regulatory filings.
- Compliance with applicable laws and regulations.
- Disclosure of material contracts.
- Absence of undisclosed brokers or finders fees.
- Disclosure of retirement and other employee plans and matters relating to the Employee Retirement Income Security Act of 1974.

- Absence of labor agreements or disputes.

- Absence of material environmental violations, actions or liabilities.
- Filing of tax returns and payment of taxes.
- Qualification as a reorganization under Section 368(a) of the Internal Revenue Code.
- Absence of certain risk management instruments.
- Proper servicing and enforceability of loans and absence of undisclosed problem loans.
- Quality of title to properties.
- Disclosure of intellectual property rights.
- Proper administration of fiduciary accounts.
- Accuracy of books and records.
- Maintenance of adequate insurance and disclosure of insurance contracts.
- Establishment and maintenance of the allowance for loan loss.
- Absence of restrictions on investment securities.
- Receipt of fairness opinion.
- Absence of material adverse changes, since December 31, 2006.
- Absence of untrue or omission of material facts.

Conduct of Business Pending the Merger

In the merger agreement, Pocono agreed to use its reasonable good faith efforts to preserve its business organizations intact, to maintain good relationships with employees, and to preserve the goodwill of customers and others with whom they do business.

In addition, Pocono agreed to conduct its business and to engage in transactions only in the ordinary course of business, consistent with past practice, except as otherwise required by the merger agreement or consented to by First Keystone Corporation. Pocono also agreed in the merger agreement that Pocono will not, without the written consent of First Keystone Corporation:

- Issue, sell or authorize additional stock or issue or grant options or similar rights with respect to its capital stock or any securities convertible into its capital stock.
- Declare, set aside or pay any dividend or other distribution in respect of its capital stock.
- Enter into, amend or renew any employment, consulting, change in control, severance or similar agreements with any director, officer or employee of Pocono or grant any wage increases or increase to employee benefits except for in the ordinary course of business or otherwise previously disclosed to First Keystone Corporation.
- Establish any new or make contributions to any benefit plans except as required by law or under the terms of the plans.

- Sell, transfer, mortgage, encumber or otherwise dispose of any assets, deposits, business or properties except in the ordinary course of business.

- Acquire assets, business, deposits or properties of any other entity except in the ordinary course of business.

- Make capital expenditures in excess of $5,000 individually or $20,000 in the aggregate except for construction of a branch.

- Change its articles of incorporation or bylaws.

- Change accounting methods except as required by law or generally accepted accounting principles.

- Enter into or modify any material contracts.

- Settle any law suits in an amount in excess of $5,000 or would materially restrict Pocono s business.

- Change its business lines.

- Incur or prepay any indebtedness except in the ordinary course of business.

- Acquire or restructure any debt or investment securities except in the ordinary course of business.

- Except as disclosed, make, renew or modify any loan in excess of $250,000 to any one person or $500,000 in the aggregate.

- Invest in any real estate other than through foreclosure.

- Take any action that would preclude the treatment of the merger as a reorganization under Section 368 of the Internal Revenue Code of 1986.

- Take any action that would result in any representation or warranty from becoming untrue, prevent any of the closing conditions from occurring, or result in a material violation of the agreement.

- Take any action that would adversely affect or materially delay the ability of either First Keystone Corporation or Pocono from obtaining any regulatory approvals or to perform their covenants or agreements under the merger agreement.

- Agree to do any of the foregoing.

First Keystone Corporation also agreed in the merger agreement that it will not, without the written consent of Pocono:

- Take any action that would preclude the treatment of the merger as a reorganization under Section 368 of the Internal Revenue Code of 1986.

- Take any action that would result in any representation or warranty from becoming untrue, prevent any of the closing conditions from occurring, or result in a material violation of the agreement.

- Take any action that would adversely affect or materially delay the ability of either First Keystone Corporation or Pocono from obtaining any regulatory approvals or to perform their covenants or agreements under the merger agreement.

- Agree to do any of the foregoing.

Conditions to the Merger

Obligations to complete the merger are subject to various conditions, including the following:

- The merger agreement shall have been duly approved and adopted by the Pocono shareholders.

- All necessary governmental approvals for the merger shall have been obtained, and all statutory waiting periods shall have expired, and no such approvals shall contain terms that First Keystone Corporation s board of directors believe would reduce the benefit of the transaction.

- There shall not be any order, decree or injunction in effect preventing the completion of the merger or related transactions.

- An effective registration statement shall be on file with the SEC.

In addition to the foregoing, Pocono s and First Keystone Corporation s obligations to close the merger are each conditioned on:

- The accuracy in all material respects, as of May 10, 2007 and as of the merger effective date, of the representations and warranties of each company.

- Each company s performance in all material respects of all obligations required to be performed under the merger agreement.

- Each company receiving a tax opinion that the merger will constitute a tax free reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

- Other conditions that are customary for transactions of the type contemplated by the merger agreement.

First Keystone Corporation s obligations to close the merger are conditioned on, among other things, the following:

- Receipt of an acknowledgment and release, employment agreement, and consulting agreement from Mr. Gerlach.

- Receipt from each director of an affiliate letter, a voting agreement, a noncompetition and nonsolicitation agreement, a stock option and warrant cancellation agreement, and a stock option and warrant standstill agreement.

- Options and warrants for not more than 20,000 shares of Pocono common stock are exercised before the merger effective date.

- Receipt of acceptable environmental reports on Pocono s properties.

- Not more than 7% of Pocono s shares elect to engage in dissenters valuation proceedings.

- No material adverse changes to Pocono s business.

Amendment; Waiver

The merger agreement may be amended or modified or any condition waived by the written agreement of the parties, except when the approval of the shareholders of Pocono is required by law.

Termination

The merger agreement may be terminated at any time prior to the effective date of the merger by the mutual consent of First Keystone Corporation and Pocono.

The merger agreement may also be terminated by either party if:

- The other party, in any material respect, breaches any representation, warranty, covenant or other obligation contained in the merger agreement, and the breach remains uncured 30 days after written notice of the breach is given to the breaching party and the breach would unreasonably be expected to be a material adverse effect on the other party;

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- The closing of the merger does not occur by April 30, 2008, unless this is due to the failure of the party seeking to terminate the merger agreement to perform or observe any covenants and agreements required to be performed by the party before closing;

- Any regulatory authority whose approval or consent is required for completion of the merger issues a final non-appealable denial or the application is permanently withdrawn at the request of a regulatory authority; or

- Pocono shareholders vote but do not approve the merger agreement at a special meeting called to approve the merger agreement.

In addition, the merger agreement contains a provision under which Pocono may terminate the merger agreement if the average final price of First Keystone Corporation common stock is less than $16.20 and the decline in the price of First Keystone Corporation common stock is at least 10% more than the decline during the period beginning May 10, 2006 in a peer group index. See Section 8.01(h) to the merger agreement, which is attached to this proxy statement/prospectus as **Annex A**. The bank holding companies comprising the peer group index are listed on Exhibit 1 to the merger agreement.

Pocono may terminate the merger agreement if it enters into a term sheet, letter of intent or agreement to merge after receiving written advice of counsel that failure to do so would breach the fiduciary duty of Pocono board of directors upon giving notice and allowing First Keystone Corporation to adjust its offer.

First Keystone Corporation may also terminate the merger agreement if:

- Pocono withdraws, changes, or modifies its recommendation to its shareholders to approve the merger agreement and the merger;

- Pocono issues more than 20,000 shares of common stock pursuant to the exercise of options and warrants to any non-directors or non-officers or any member of Pocono s board of directors exercises any options or warrants; or

- The goodwill to be recorded in the transaction under the accounting principles generally accepted in the United States would result in First Keystone Corporation not maintaining well-capitalized status for regulatory purposes.

Pocono s board of directors has made no decision as to whether it would exercise its right to terminate the merger agreement if the termination provision relating to the price of First Keystone Corporation common stock is triggered. In considering whether to exercise its right to terminate the merger agreement, Pocono s board of directors would, consistent with its fiduciary duties, take into account all relevant facts and circumstances that exist at the time and would consult with its financial advisors and legal counsel.

The fairness opinion received by Pocono from Boenning & Scattergood, Inc. is dated as of May 9, 2007 and subsequently updated as of September 7, 2007 and is based on conditions in effect on that date. Accordingly, the fairness opinion does not address the possibilities presented if the termination provision relating to the price of First Keystone Corporation common stock is triggered, including the possibility that Pocono s board of directors might elect to continue with the merger even if Pocono has the ability to terminate the merger agreement under that provision. See The Merger Opinion of Pocono s Financial Advisor, beginning at page 30.

Approval of the merger agreement by Pocono s shareholders will confer on Pocono s board of directors the power to complete the merger even if the price-related termination provision is triggered, without any further action by or re-solicitation of the votes of Pocono s shareholders.

Pocono s shareholders should be aware that the market price of First Keystone Corporation common stock will fluctuate and could possibly decline. Accordingly, the value of the First Keystone Corporation common stock actually received by holders of Pocono s common stock may be more or less than the value of First Keystone Corporation common stock used in applying the market price test or on the effective date of the merger.

Termination Fee

Pocono has agreed to pay a fee of $1,200,000.00 to First Keystone Corporation if Pocono fails to complete the merger and First Keystone Corporation is not in material breach of the merger agreement after the occurrence of any one of the following events:

- Pocono withdraws, changes, or modifies its recommendation to its shareholders to approve the merger agreement and the merger;

- Pocono terminates the merger agreement to enter into a term sheet, letter of intent or agreement to merge after receiving written advice of counsel that failure to do so would breach the fiduciary duty of Pocono board of directors upon giving notice and allowing First Keystone Corporation to adjust its offer;

- The termination of the merger agreement following the commencement of a tender offer of exchange offer for 25% or more of Pocono common stock and Pocono has not sent to its shareholders within 10 days after commencement of such offer, a statement that the board of directors recommends the rejection of such tender offer or exchange offer; or

- Within 12 months of termination of the agreement, Pocono enters into an agreement to merge with a third party, a substantial portion of its assets are acquired by a third party or a third party acquires more than 50% of Pocono common stock.

No Solicitation of Other Transactions

Pocono agreed that it will not, and will not allow others under its control to, directly or indirectly:

- Initiate, solicit, encourage or take any other action to facilitate, any acquisition proposals or inquiries with respect to, or the making of any acquisition proposal;

- Participate in any discussions or negotiations, furnish any information to, or approve recommend or enter into any agreement relating to any acquisition proposal; or

- Agree to or endorse any acquisition proposal or inquiry described above;

unless it believes, after receipt of written advice from its legal counsel, that failure to do so would violate the Pocono s board of directors fiduciary duties.

Pocono has also agreed to notify First Keystone Corporation promptly, if any acquisition proposal or inquiry described above is received by Pocono from any third party and permit First Keystone Corporation to have an opportunity to adjust its offer.

For a discussion of circumstances under which certain actions relating to a possible change in control involving Pocono could result in Pocono being required to pay the termination fee of $1,200,000.00. See The Merger Terms of the Merger Termination Fee, above.

Expenses

First Keystone Corporation and Pocono will each pay all costs and expenses incurred by it in connection with the transactions contemplated by the merger agreement, including fees and expenses of financial consultants, accountants and legal counsel.

Regulatory Approvals

Completion of the merger is subject to the prior receipt of all consents or approvals of, and the provision of all notices to federal and state authorities required to complete the merger of First Keystone Corporation and Pocono.

First Keystone Corporation and Pocono have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the merger. These approvals include approval from the Office of the Comptroller of the Currency and the Pennsylvania Department of Banking. The merger cannot proceed in the absence of these required regulatory approvals.

Applications. First Keystone Corporation has filed applications with the Office of the Comptroller of Currency and the Pennsylvania Department of Banking, requesting approval of the merger of Pocono with and into First Keystone National Bank. The applications describe the terms of the merger, the parties involved, and the activities to be conducted by the combined companies as a result of the transaction, and contain certain related financial and managerial information. Copies of the applications will be provided to the U.S. Department of Justice and other governmental agencies.

State Approvals and Notices. The merger is subject to the prior approval of the Pennsylvania Department of Banking under Section 115 of the Pennsylvania Banking Code. In determining whether to approve the merger, the Pennsylvania Department of Banking will consider, among other things, whether the purposes and probable effects of the merger would be consistent with the purposes of the Pennsylvania Banking Code, as set forth in Section 103 of the Banking Code, and whether the merger would be prejudicial to the interests of the depositors, creditors, beneficiaries of fiduciary accounts or shareholders of the institutions involved.

We are not aware of any material governmental approvals or actions that are required to complete the merger, except as described above. If any other approval or action is required, we will use our best efforts to obtain such approval or action.

Employment; Severance

Following the merger, First Keystone Corporation is not obligated to continue the employment of any Pocono employee. As a result of the merger, some Pocono positions, primarily in-house back office, support, processing and other operational activities and services, may be eliminated. However, First Keystone Corporation will endeavor to continue the employment of all non-management employees in positions that will contribute to the successful performance of the combined organization. First Keystone Corporation will give Pocono applicants consideration over applicants with similar experience. If a position is duplicative, First Keystone Corporation will attempt to reassign the individual to a needed position that uses the skills and abilities of the individual. If that is impracticable or First Keystone Corporation does not have available a comparable position, First Keystone Corporation will grant an eligible exempt employee who is terminated two weeks of severance pay for each year of service and medical benefits for the severance term or until enrolled in another health plan, whichever occurs first. Certain terminated key employees shall receive nine (9) months of their then current salary and medical benefits for nine (9) months or until enrolled in another health plan, whichever occurs first.

All employees of Pocono will be eligible for severance benefits, except that no employee of Pocono who shall receive any severance benefits as provided hereunder shall also be eligible for any payment or benefit pursuant to any change in control agreement, employment agreement, salary continuation agreement or similar plan or right. Each person eligible for severance benefits will remain eligible for such benefits if his or her employment is terminated, other than for cause, or voluntarily terminates his or her employment after being offered a position that is not comparable employment, within twelve months after the effective date of the agreement. Any person whose employment with First Keystone Corporation is terminated without cause after twelve months from the effective date of the merger shall receive such severance benefit from First Keystone Corporation as is provided for in First Keystone Corporation s general severance policy for such terminations (with full credit being given for each year of service).

Employee Benefits

The merger agreement provides that as of the effective date of the merger, each employee of Pocono who becomes an employee of First Keystone Corporation shall be entitled to participate in First Keystone Corporation s, or as appropriate First Keystone National Bank s employee benefit plans, programs, and policies and shall receive full credit for each year of service with Pocono for purposes of determining eligibility for participation and vesting, but not benefit accrual. First Keystone Corporation shall use the original date of hire by Pocono or a Pocono Subsidiary in making these determinations. After the effective date of the merger, First Keystone Corporation may discontinue, amend, convert to, or merge with, a First Keystone Corporation benefit plan any Pocono benefit plan, subject to the plan s provisions and applicable law.

Financial Interests of Directors, Officers and Others in the Merger.

Share Ownership

As of August 31, 2007, the record date for the special meeting of Pocono shareholders, the directors, executive officers and other significant shareholders of Pocono may be deemed to be the beneficial owners of 1,127,563 shares, representing 64.6% of the outstanding shares of Pocono common stock. See Information with Respect to Pocono Community Bank-Stock Ownership of Principal Shareholders and Management, beginning on page 127.

Stock Options and Warrants

As of August 31, 2007, the record date of the special meeting of Pocono shareholders, the directors and executive officers of Pocono held a total of 45,545 stock options and 192,875 warrants. First Keystone Corporation has agreed to cash out all the stock options and warrants at the effective date of the merger. As a result, the directors and executive officers of Pocono will receive a total of approximately $2,590,657 for their stock options and warrants.

Indemnification and Insurance

First Keystone Corporation has agreed for six years after the merger s effective date to indemnify the directors and officers of Pocono and its subsidiaries against all costs, expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities arising out of actions occurring prior to the merger s effective date, except for the transactions contemplated by the merger agreement, to the fullest extent permitted under First Keystone Corporation s articles of incorporation, bylaws, and applicable law.

First Keystone Corporation has also agreed that for six years after the merger s effective date, First Keystone Corporation will, at its expense, maintain directors and officers liability insurance for the former directors and officers of Pocono and its subsidiaries with respect to matters occurring at or prior to the merger s effective date.

The insurance coverage is to be on based on conditions and terms substantially comparable to the director and officer liability policy of Pocono as of the date of the merger agreement, so long as the policy can be obtained at a cost not in excess of 150% of the rate for such director and officer liability insurance tail policy, in effect as of the date of the merger agreement. In the event First Keystone Corporation is unable to obtain a director and officer liability insurance tail policy at a cost not in excess of 150% of such rate, First Keystone Corporation shall obtain a director and officer liability insurance tail policy with the maximum coverage reasonably available for a cost that is equal to 150% of the rate.

Board Positions and Compensation

Upon completion of the merger, W. Peter Ahnert and John G. Gerlach shall be appointed as First Keystone Corporation directors (subject to First Keystone Corporation s approval) and shall be entitled to compensation in such capacity on the same basis as other First Keystone Corporation directors.

Pocono Advisory Board

In addition, for two years following the merger, First Keystone Corporation has agreed that the current directors of Pocono who are not appointed to the First Keystone Corporation board may, if they so choose, continue as advisory board directors for the Pocono Community Bank division of First Keystone National Bank and shall be entitled to receive compensation for such service that is equal to the directors current levels of compensation paid by First Keystone National Bank to its advisory board members.

Gerlach Employment and Consulting Agreements

In connection with the merger agreement, Mr. Gerlach, First Keystone Corporation, First Keystone National Bank, and Pocono entered into an Acknowledgement and Release Agreement. Pursuant to the agreement, the parties have agreed to terminate Mr. Gerlach s employment agreement and their respective rights and obligations thereunder. Mr. Gerlach has also released First Keystone Corporation, First Keystone National Bank, and Pocono from all causes of actions which he may have had against them. In connection with the termination of this agreement, First Keystone Corporation and First Keystone National Bank have agreed to pay Mr. Gerlach $500,000.

In connection with the execution of the merger agreement, First Keystone Corporation and First Keystone National Bank have entered into an employment agreement and consulting agreement with Mr. Gerlach substantially in the form included as **Annex B** and **Annex C**, respectively, of the merger agreement. Each agreement is for a term of one year running consecutively. Mr. Gerlach shall receive as compensation $295,500 and $150,000 respectively. Each agreement also contains a noncompetition provision, which prohibits Mr. Gerlach for a period of three years from the effective date of the merger agreement from directly or indirectly (1) soliciting persons or entities who were customers of First Keystone Corporation, First Keystone National Bank, or Pocono to become a customer of a person or entity other than First Keystone Corporation, First Keystone National Bank, or Pocono; (2) solicit employees of First Keystone Corporation, First Keystone National Bank, or Pocono to work for anyone other than First Keystone Corporation, First Keystone National Bank, or Pocono; (3) provide assistance, financial or otherwise, to any person or entity engaged in any activity which First Keystone Corporation, First Keystone National Bank, or Pocono are engaged during the term of the agreement; or (4) be engaged as an employee or otherwise in the banking or financial services industry or any other industry which First Keystone Corporation, First Keystone National Bank, or Pocono is engaged in any county or contiguous county in which First Keystone Corporation, First Keystone National Bank, or Pocono has a branch or office.

Voting Agreements

As a condition to First Keystone Corporation entering into the merger agreement, certain directors of Pocono entered into an agreement with First Keystone Corporation, dated as of May 10, 2007, pursuant to which the director agreed to vote all of his or her shares of Pocono common stock in favor of the merger agreement. A form of voting agreement is **Annex E** to the merger agreement, which is attached to this document as **Annex A**. The voting agreements may have the effect of discouraging persons from making a proposal for an acquisition transaction involving Pocono. The following is a brief summary of the material provisions of the voting agreements.

Those directors of Pocono agreed, among other things, to vote, or cause to be voted, in person or by proxy, all of the Pocono common stock as to which the he or she has or shares voting power, or acts as trustee over a voting trust, individually or jointly with other persons, and will use his or her reasonable best efforts to cause any other shares of Pocono common stock over which he or she shares voting power to be voted for approval and adoption of the merger agreement and the transactions contemplated thereby and the extension of the warrant exercise dates at any meeting of the Pocono shareholders duly held for such purpose.

Those directors of Pocono agreed to not sell, transfer, or otherwise dispose of their Pocono common stock. Further, those directors agree not to exercise any options to purchase common stock or any warrants to purchase common stock except under certain conditions.

Non-Competition and Non-Solicitation Agreements

The directors of Pocono have agreed that for two years after the merger, they will not compete against Keystone or solicit Pocono s customers and employees. The directors agreed not to accept a position as a director or employee of any bank holding company or insured depository institution located in Monroe County or any contiguous county (Competitive Enterprise). Also, the directors will not directly or indirectly acquire an ownership interest (unless it is an indirect beneficial ownership of less than three percent (3%)) in any Competitive Enterprise which would enable the director to substantially control, direct, or influence the operations of the institution. The directors also agreed that they would not, for the purpose of selling any product or services that competes with Pocono, solicit, divert or entice any customer of Pocono to transfer business to a Competitive Enterprise, unless the director provided the service or product prior to Pocono entering into the merger agreement. The directors further agreed not to employ or assist in employing any present employee of Pocono with a Competitive Enterprise. The directors are prohibited from making any statement, comments or other communications that impugns or is intended to impugn, disparage or otherwise malign the reputation of Pocono or First Keystone or any of their current or former directors, officers, employees or customers. The directors shall also maintain the confidentiality of all information relating to the business of Pocono which has not been publicly released by Pocono and the director shall not use such information for his or her own benefit.

Accounting Treatment

First Keystone Corporation will account for the merger under the purchase method of accounting. First Keystone Corporation will record, at fair value, the acquired tangible and identifiable intangible assets and assumed liabilities of Pocono. Under generally accepted accounting principles, goodwill is not amortized, but is assessed annually for impairment with any resulting impairment losses included in net income. First Keystone Corporation will include in its results of operations the results of Pocono s operations only after completion of the merger.

Certain Federal Income Tax Consequences

The following discussion addresses the material United States federal income tax consequences of the merger to a Pocono shareholder who holds shares of Pocono common stock as a capital asset. This discussion is based upon the Internal Revenue Code of 1986, as amended, Treasury regulations promulgated under the Internal Revenue Code, judicial authorities, published positions of the Internal Revenue Service and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion does not address all aspects of United States federal income taxation that may be relevant to

Pocono shareholders in light of their particular circumstances and does not address aspects of United States federal income taxation that may be applicable to Pocono shareholders subject to special treatment under the Internal Revenue Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, Pocono shareholders who hold their shares of Pocono common stock as part of a hedge, straddle or conversion transaction, Pocono shareholders who acquired their shares of Pocono common stock pursuant to the exercise of employee stock options or otherwise as compensation, and Pocono shareholders who are not United States persons as defined in section 7701(a)(30) of the Internal Revenue Code). In addition, the discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the Internal Revenue Service would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

Pocono shareholders are urged to consult their tax advisors with respect to the particular United States federal, state, local and foreign tax consequences of the merger to them.

The closing of the merger is conditioned upon the receipt by First Keystone Corporation of the opinion of Bybel Rutledge LLP, special counsel to First Keystone Corporation, or another accounting or law firm and the receipt by Pocono of the opinion of Saul Ewing LLP, each dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in those opinions (including factual representations contained in certificates of officers of Pocono and First Keystone Corporation) which are consistent with the state of facts existing as of the effective date of the merger the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code.

The tax opinions to be delivered in connection with the merger are not binding on the Internal Revenue Service or the courts, and neither Pocono nor First Keystone Corporation intends to request a ruling from the Internal Revenue Service with respect to the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which the opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

Assuming that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the discussion below sets forth the material United States federal income tax consequences of the merger to Pocono shareholders. Such consequences generally will depend on whether Pocono shareholders exchange their Pocono common stock for cash, First Keystone Corporation common stock or a combination of cash and First Keystone Corporation common stock.

Exchange for First Keystone Corporation Common Stock

If, pursuant to the merger, a Pocono shareholder exchanges all of his or her shares of Pocono common stock solely for shares of First Keystone Corporation common stock, the holder will not recognize any gain or loss except in respect of cash received in lieu of any fractional share of First Keystone Corporation common stock (as discussed below). The aggregate adjusted tax basis of the shares of First Keystone Corporation common stock received in the merger will be equal to the aggregate adjusted tax basis of the shares of Pocono common stock surrendered for the First Keystone Corporation common stock (reduced by the tax basis allocable to any fractional share of First Keystone Corporation common stock for which cash is received), and the holding period of the First Keystone Corporation common stock will include the period during which the shares of Pocono common stock were held by the Pocono shareholder. If a Pocono shareholder has differing bases or holding periods in respect of his or her shares of Pocono common stock, the shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of First Keystone Corporation common stock received in the exchange.

Exchange Solely for Cash

In general, if, pursuant to the merger, a Pocono shareholder exchanges all of his or her shares of Pocono common stock solely for cash, such holder will recognize gain or loss equal to the difference between the amount of cash received and his or her adjusted tax basis in the shares of Pocono common stock surrendered, which gain or loss generally will be long-term capital gain or loss if the shareholder s holding period with respect to the Pocono common stock surrendered is more than one year. If, however, the Pocono shareholder owns (or is deemed for tax purposes to own) shares of First Keystone Corporation common stock after the merger, the cash received may be treated as a dividend under certain circumstances. See Possible treatment of cash as a dividend below.

Exchange for First Keystone Corporation Common Stock and Cash

If, pursuant to the merger, a Pocono shareholder exchanges all of his or her shares of Pocono common stock for a combination of First Keystone Corporation common stock and cash, the shareholder generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the First Keystone Corporation common stock received pursuant to the merger over such shareholder s adjusted tax basis in the shares of Pocono common stock surrendered) and (2) the amount of cash received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and loss realized on one block of shares may not be used to offset gain realized on another block of Pocono shares. Any recognized gain generally will be long-term capital gain if the Pocono shareholder s holding period with respect to the Pocono common stock surrendered is more than one year. However, the cash received may be treated as a dividend under certain circumstances. See Possible treatment of cash as a dividend below.

The aggregate tax basis of First Keystone Corporation common stock received by a Pocono shareholder that exchanges his or her shares of Pocono common stock for a combination of First Keystone Corporation common stock and cash pursuant to the merger will be equal to the aggregate adjusted tax basis of the shares of Pocono common stock surrendered for First Keystone Corporation common stock and cash, reduced by the amount of cash received by the Pocono shareholder pursuant to the merger, and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below), if any, recognized by the Pocono shareholder on the exchange. The holding period of the First Keystone Corporation common stock will include the holding period of the shares of Pocono common stock surrendered. If a Pocono shareholder has differing bases or holding periods in respect of his or her shares of Pocono common stock, such shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of First Keystone Corporation common stock received in the exchange.

Cash Received in Lieu of a Fractional Share

Cash received by a Pocono shareholder in lieu of a fractional share of First Keystone Corporation common stock generally will be treated as received in redemption of the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the proration of the shareholder s aggregate adjusted tax basis of the shares of Pocono common stock surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for the shares of Pocono common stock is more than one year. However, the cash received may be treated as a dividend under certain circumstances. See Possible treatment of cash as a dividend below.

Possible Treatment of Cash as a Dividend

Unless a Pocono shareholder owns actually or constructively, because of the constructive ownership rules, shares of First Keystone Corporation common stock prior to the exchange of the Pocono common stock either for cash or a combination of cash and First Keystone Corporation common stock in connection with the merger, this discussion is inapplicable. Under the constructive ownership rules, shares of stock owned, for example, by a spouse, parents, children and grandchildren as well as shares owned by certain entities, trusts and estates can be considered as owned by the Pocono shareholder. A Pocono shareholder receiving cash, in whole or in part, should discuss these rules with a tax advisor. If such a Pocono shareholder receives cash in whole or in part for the exchange of the Pocono common stock, to the extent of the cash only, the Pocono shareholder could be treated as receiving a dividend unless the transaction does not qualify as a substantially disproportionate redemption. For Federal income tax purposes, the Pocono shareholder is deemed to have received First Keystone Corporation common stock, and First Keystone Corporation is treated as redeeming the shares for the cash.

In order for the redemption to qualify as substantially disproportionate, the Pocono shareholder must (1) own actually or constructively less than 50% of the outstanding First Keystone Corporation common stock after the deemed redemption and (2) the percentage of First Keystone Corporation common stock owned, actually and constructively, immediately after the deemed redemption, must be reduced by more than 20% from the percentage of such common stock owned actually and constructively to have owned immediately before the deemed redemption occurs.

The Internal Revenue Service has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction even though the shareholder has a relatively minor reduction in such shareholder s percentage stock ownership under the above analysis. Accordingly, few if any Pocono shareholders should be impacted by these rules. However, as these rules are complex and dependent upon a Pocono shareholder s specific circumstances, each shareholder that may be subject to these rules should consult a tax advisor.

If the redemption does not qualify as substantially disproportionate and the Internal Revenue Service ruling, noted above, does not apply, the tax consequence to an individual Pocono shareholder is that the dividend will be taxed at the 15% tax rate but, unlike a long-term capital gain, the dividend is not reduced by the Pocono shareholder s basis in the Pocono common stock.

Backup Withholding

A Pocono shareholder receiving cash in the merger may be subject to backup withholding at a rate of 28% if the shareholder is a non-corporate United States person and (1) fails to provide an accurate taxpayer identification number; (2) has been notified by the Internal Revenue Service that it has failed to report all interest or dividends required to be shown on its federal income tax returns, or (3) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder s United States federal income tax liability provided that the shareholder furnishes the required information to the Internal Revenue Service.

This discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger. In addition this discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. It also does not address any federal estate tax or state, local or foreign tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to a Pocono shareholder will depend upon the facts of his or her particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular tax consequences to you of the merger, as well as to any later sale of shares of First Keystone Corporation common stock received by you in the merger.

Source or Amount of Funds

First Keystone Corporation will pay a combination of cash and First Keystone Corporation common stock as the consideration for Pocono. Based upon the maximum allocation percentage of cash consideration to be paid excluding cash amounts for fractional shares (if any), First Keystone Corporation will pay a maximum of approximately $16 million to Pocono shareholders.

First Keystone Corporation has not yet determined how it will fund the cash consideration; however, it has several alternative funding sources available to it. First Keystone Corporation may draw down on an existing line of credit, it may enter into a loan agreement with an unrelated financial institution on terms that would be customary for a transaction of comparable size or it may sell its investments. First Keystone Corporation does not anticipate that the funding of the cash portion of the merger consideration will have a significant impact on its financial condition, results of operations, liquidity or regulatory capital.

Resale of First Keystone Corporation Common Stock

The First Keystone Corporation common stock issued in the merger will be freely transferable under the Securities Act of 1933, as amended, except for shares issued to any Pocono shareholder who may be deemed to be:

- An affiliate of Pocono for purposes of Rule 145 under the Securities Act of 1933, as amended; or
- An affiliate of First Keystone Corporation for purposes of Rule 144 under the Securities Act of 1933, as amended.

Affiliates will include persons (generally executive officers, directors and 10% or more shareholders) who control, are controlled by, or are under common control with, First Keystone Corporation or Pocono at the time of the Pocono special meeting, and with respect to First Keystone Corporation, at or after the effective date of the merger.

Rules 144 and 145 will restrict the sale of shares of First Keystone Corporation common stock received in the merger by affiliates and certain of their family members and related interests.

Pocono affiliates:

- Generally, during the year following the effective date of the merger, those persons who are affiliates of Pocono at the time of the Pocono special meeting, provided they are not affiliates of First Keystone Corporation at or following the merger s effective date, may publicly resell any shares of First Keystone Corporation common stock received by them in the merger, subject to certain limitations and requirements. These include the amount of First Keystone Corporation common stock that may be sold by them in any three-month period, the manner of sale, and the adequacy of current public information about First Keystone Corporation.
- After the one-year period, these affiliates may resell their shares without the restrictions, so long as there is adequate current public information with respect to First Keystone Corporation as required by Rule 144.

First Keystone Corporation affiliates:

- Persons who are affiliates of First Keystone Corporation after the effective date of the merger may publicly resell the shares of First Keystone Corporation common stock received by them in the merger subject to the same limitations and requirements as apply to Pocono affiliates in the first year and subject to certain filing requirements specified in Rule 144.

The ability of affiliates to resell shares of First Keystone Corporation common stock received in the merger under Rule 144 or Rule 145, as summarized herein, generally will be subject to First Keystone Corporation s having satisfied its public reporting requirements under the Securities Exchange Act of 1934 for specified periods prior to the time of sale.

Affiliates also would be permitted to resell shares of First Keystone Corporation common stock received in the merger pursuant to an effective registration statement under the Securities Act or another available exemption from the Securities Act of 1933, as amended, registration requirements.

This prospectus/proxy statement does not cover any resales of shares of First Keystone Corporation common stock received by persons who may be deemed to be affiliates of First Keystone Corporation or Pocono.

As a condition of the merger, First Keystone Corporation will receive an affiliate s letter from each Pocono director and executive officer. The affiliate s letter states that, as a Pocono affiliate, they will not transfer any shares of First Keystone Corporation common stock received in the merger except in compliance with the Securities Act of 1933, as amended.

Rights of Dissenting Shareholders

As required by the national banking laws, any shareholder of Pocono who has voted against the merger agreement at the special meeting, or has given written notice at or prior to the special meeting to the President of Pocono or presiding officer that he or she dissents from the merger agreement, will be entitled to receive the value of the shares of common stock of held by him or her at the time the reorganization is approved by the Comptroller of the Currency upon written request made to Pocono at any time before thirty (30) days after the date of consummation of the merger, accompanied by the surrender of his share certificates. Any shareholder of Pocono who votes against the merger agreement at the special meeting, or who gives notice in writing at or prior to the special meeting to the President of Pocono or presiding officer that he or she dissents, will be notified in writing of the date of consummation of the merger.

The value of the shares of any dissenting shareholder will be ascertained, as of the effective date of the transaction, by an appraisal made by a committee of three persons. The committee shall be comprised of one person selected by the vote of the holders of the majority of the shares whose owners are entitled to payment in cash (by reason of such requests for appraisal), one person selected by the board of directors of Pocono and one person selected by the two so selected. The valuation agreed upon by any two of the three appraisers will govern. If the value so fixed is not satisfactory to any dissenting shareholder who has duly requested payment, that shareholder may, within five (5) days after being notified of the appraisal value of his shares, appeal to the Comptroller of the Currency. The Comptroller of the Currency is required to cause a reappraisal to be made which will be final and binding as to the value of the shares of the dissenting shareholder. If, for any reason, one or more of the appraisers is not selected as provided above within ninety (90) days from the effective date or, if the appraisers fail to determine the value of such shares within the ninety (90) days, the Comptroller of the Currency is required, upon written request of any interested party, to cause an appraisal to be made that will be final and binding on all parties. The expenses of the Comptroller of the Currency in making the reappraisal or the appraisal, as the case may be, will be paid by Pocono. The ascertained value of the shares must be paid promptly to the dissenting shareholders, if any. The shares of First Keystone Corporation common stock that would have been allocated to a dissenting shareholder will be sold at public auction and any excess received therefrom will be paid to the dissenting shareholder in accordance with the requirements of the national banking laws. For more information regarding the Comptroller of the Currency s stock appraisal process, you may contact the Office of the Comptroller for the Currency, 250 E Street, S.W., Washington, D.C. 20219 (Telephone: 202-874-5000).

The foregoing summary does not purport to be a complete statement of the appraisal rights of dissenting shareholders, and such summary is qualified in its entirety by reference to the merger agreement, attached hereto as **Annex A** and to the applicable provisions of 12 U.S.C. § 215a, which are reproduced and attached hereto as **Annex D**. Moreover, a shareholder will not be permitted to split his or her vote; if a shareholder intends to vote, he or she must vote all of his or her shares either for or against the merger agreement.

Failure to follow the procedures set forth in 12 U.S.C. § 215a, regarding dissenters rights will constitute a waiver of appraisal rights. Shareholders may wish to consult independent legal counsel before exercising dissenters rights.

Except as set forth herein, notification of the beginning or end of any statutory period will not be given by Pocono to any dissenting shareholders.

Proposal No. 2:

Amendment of the Warrant Agreements

Background and Reason

In connection with the initial formation of Pocono, stock purchase warrants to purchase 427,862 shares (as adjusted for stock splits and stock dividends) of Pocono common stock at $4.55 per share were granted to Pocono s organizing shareholders. As of the date of this proxy statement/prospectus, 396,134 of these warrants are held by Pocono organizing shareholders or their assignees, all of which must be exercised on or before November 21, 2007 (the Expiring Warrants). If the warrantholder does not exercise his/her stock purchase warrant at $4.55 per share by November 21, 2007, he/she loses all right to do so.

One of the terms and provisions of the merger agreement requires First Keystone Corporation to pay to each warrantholder $11.55 in cash for each such outstanding warrant held on the closing date of the merger. First Keystone Corporation anticipates that the closing date should occur prior to November 21, 2007, but there is no assurance that such closing will occur before November 21, 2007, due to factors beyond the control of the parties, for example: the bank supervisory agencies take longer than expected to approve the application for their approval to merger. Therefore, in order to assure First Keystone Corporation and the warrantholders that they will be able to cash-out these warrants at the closing date, it is necessary to seek Pocono shareholder approval to extend the exercise date by one year or until November 21, 2008.

Proposal

The Pocono board of directors has approved the following resolution and directed that it be submitted to the Pocono shareholders at this special meeting:

Resolved, that all outstanding stock purchase warrants with an exercise date of no later than November 21, 2007 (the Expiring Warrants) are hereby amended to set a new exercise date of no later than November 21, 2008; and

Be it further resolved, that the appropriate officers of Pocono shall make such changes, to the warrant instrument and warrant register, as they deem necessary or appropriate, to reflect this new exercise date for the Expiring Warrants after approval of such amendment by the shareholders of Pocono.

Required Vote

The affirmative vote of a majority of the issued and outstanding shares of Pocono common stock is required to approve this amendment to the stock purchase warrants.

Recommendation of the Pocono Board of Directors

The Pocono board of directors recommends that the Pocono shareholders vote FOR this amendment to extend the exercise date for the Expiring Warrants to no later than November 21, 2008.

Information with Respect to First Keystone Corporation

General

First Keystone Corporation is a Pennsylvania business corporation and a registered bank holding company headquartered in Berwick, Pennsylvania. First Keystone National Bank, formerly known as The First National Bank of Berwick, was founded in 1864.

Description of Business of First Keystone Corporation

First Keystone Corporation became the bank holding company for First Keystone National Bank on June 1, 1984 as a wholly-owned subsidiary of First Keystone Corporation. First Keystone Corporation s primary activity consists of owning and supervising its subsidiary, First Keystone National Bank.

Description of Business of First Keystone National Bank

First Keystone National Bank, has ten branch locations (five branches within Columbia County, four branches within Luzerne County, and one branch in Montour County, Pennsylvania), and is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Northeastern and Central Pennsylvania market area. First Keystone National Bank s commercial banking activities include accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans. Additionally, First Keystone National Bank also provides personal and corporate trust and agency services to individuals, corporations, and others, including trust investment accounts, investment advisory services, mutual funds, estate planning, and management of pension and profit sharing plans.

At June 30, 2007, First Keystone National Bank had 117 full time employees and 26 part time employees. In the opinion of management, the Bank enjoys a satisfactory relationship with its employees. First Keystone National Bank is not a party to any collective bargaining agreement.

Property

First Keystone Corporation owns or leases no property other than through First Keystone National Bank. These are:

- Main Office located at 111 West Front Street, Berwick, Pennsylvania 18603;
- Salem Office located at 400 Fowler Avenue, Berwick, Pennsylvania 18603;
- Freas Avenue Office located at 701 Freas Avenue, Berwick, Pennsylvania 18603;
- Briar Creek Office located inside the Giant Market at 50 Briar Creek Plaza, Berwick, Pennsylvania 18603;
- Nescopeck Office located at 437 West Third Street, Nescopeck, Pennsylvania 18635;
- Scott Township Office located at Central Road and Route 11, Bloomsburg, Pennsylvania 17815;

- Mifflinville Office located at Third and Race Streets, Mifflinville, Pennsylvania 18631;
- Hanover Township Office located at 1540 Sans Souci Highway, Wilkes-Barre, Pennsylvania 18706;
- Danville Office located at 1519 Bloom Road, Danville, Pennsylvania 17821;
- Kingston Office located at 179 South Wyoming Avenue, Kingston, Pennsylvania 18704;
- Vacant lot held for expansion located at 117-119 West Front Street, Berwick, Pennsylvania 18603;
- Parking lot located at Second and Market Streets, Berwick, Pennsylvania 18603;
- Vacant lot held for a future branch located at intersection of Route 309 and Sherwood Road, Mountaintop, Pennsylvania 18707; and
- 12 ATM s located in Columbia, Luzerne and Montour Counties.

It is Management s opinion that the facilities currently utilized are suitable and adequate for the Corporation s current and immediate future purposes.

Legal Proceedings

First Keystone Corporation and/or First Keystone National Bank are defendants in various legal proceedings arising in the ordinary course of their business. However, in the opinion of management of First Keystone Corporation and First Keystone National Bank, there are no proceedings pending to which First Keystone Corporation and First Keystone National Bank is a party or to which their property is subject, which, if determined adversely to First Keystone Corporation and First Keystone National Bank, would be material in relation to First Keystone Corporation s and First Keystone National Bank s individual profits or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of First Keystone Corporation and First Keystone National Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against First Keystone Corporation and First Keystone National Bank by government authorities or others.

Management s Discussion and Analysis of Financial Condition and Results of Operations of First Keystone Corporation

The purpose of Management s Discussion and Analysis of First Keystone Corporation, a bank holding company, and its wholly owned subsidiary, First Keystone National Bank, is to assist the reader in reviewing the financial information presented and should be read in conjunction with the consolidated financial statements and other financial data contained herein.

Year Ended December 31, 2006 Versus Year Ended December 31, 2005

Results of Operations

Net income decreased to $6,190,000 for the year ended December 31, 2006, as compared to $6,847,000 for the prior year, a decrease of 9.6%. Earnings per share, both basic and diluted, for 2006 were $1.35 as compared to $1.48 in 2005. Cash dividends per share increased to $.85 in 2006 from $.78 in 2005, an increase of 9.0%.

First Keystone Corporation s return on average assets was 1.20% in 2006 as compared to 1.35% in 2005. Return on average equity decreased to 11.76% in 2006 from 12.65% in 2005. The series of increases in interest rates in 2005 ended in 2006 and resulted in an overall increase of interest income to $28,577,000 up 8.3% from 2005. Likewise, there was the accompanying increase in the cost of funds which resulted in interest expense of $14,972,000 in 2006, an increase of 28.8% from 2005. The increases in deposit rates in 2006 and the flattened yield curve resulted in interest expense increasing faster than interest income.

Net interest income, as indicated below in Table 1, decreased by $1,156,000 or 7.8% to $13,605,000 for the year ended December 31, 2006. First Keystone Corporation s net interest income on a fully taxable equivalent basis decreased by $1,326,000, or 8.0% to $15,300,000 in 2006 as compared to an increase of $61,000, or 0.4% to $16,626,000 in 2005.

Year Ended December 31, 2005 Versus Year Ended December 31, 2004

Net income increased to $6,847,000 for the year ended December 31, 2005, as compared to $6,787,000 for the prior year, an increase of 0.9%. Earnings per share, both basic and diluted, for 2005 were $1.48 as compared to $1.48 and $1.47, respectively in 2004. Cash dividends per share increased to $.78 in 2005 from $.70 in 2004, an increase of 11.4%.

Net interest income, as indicated below in Table 1, decreased by $269,000 or 1.8% to $14,761,000 for the year ended December 31, 2005. First Keystone Corporation s net interest income on a fully taxable equivalent basis increased $61,000, or 0.4% to $16,626,000 in 2005 as compared to $16,565,000 in 2004.

Table 1 Net Interest Income

	2006/2005			
		Increase/(Decrease)		
	2006	Amount	%	2005
	(Amounts in thousands)			
Interest Income	$ 28,577	$ 2,195	8.3	$ 26,382
Interest Expense	14,972	3,351	28.8	11,621
Net Interest Income	13,605	(1,156)	(7.8)	14,761
Tax Equivalent Adjustment	1,695	(170)	(9.1)	1,865
Net Interest Income (fully tax equivalent)	$ 15,300	$ (1,326)	(8.0)	$ 16,626

	2005/2004			
		Increase/(Decrease)		
	2005	Amount	%	2004
	(Amounts in thousands)			
Interest Income	$ 26,382	$ 1,346	5.4	$ 25,036
Interest Expense	11,621	1,615	16.1	10,006
Net Interest Income	14,761	(269)	(1.8)	15,030
Tax Equivalent Adjustment	1,865	330	21.5	1,535
Net Interest Income (fully tax equivalent)	$ 16,626	$ 61	.4	$ 16,565

Table 2 Distribution of Assets, Liabilities and Stockholders Equity

	2006 Average Balance	Revenue/ Expense	Yield/ Rate	2005 Average Balance	Revenue/ Expense	Yield/ Rate	2004 Average Balance	Revenue/ Expense	Yield/ Rate
Interest Earning Assets:									
Loans:									
Commercial(1)	**$ 28,120**	**$ 2,003**	**7.12 %**	$ 30,933	$ 1,953	6.31 %	$ 32,658	$ 2,251	6.89 %
Real Estate(1)	**198,854**	**13,200**	**6.64 %**	182,019	11,501	6.32 %	172,314	10,720	6.22 %
Installment Loans, Net(1),(2)	**17,681**	**1,402**	**7.93 %**	19,706	1,492	7.57 %	28,123	1,680	5.97 %
Fees on Loans	**0**	**(39)**	**0 %**	0	(26)	0 %	0	(36)	0 %
Total Loans (Including Fees)(3)	**$ 244,655**	**$ 16,566**	**6.77 %**	$ 232,658	$ 14,920	6.41 %	$ 233,095	$ 14,615	6.27 %
Investment Securities:									
Taxable	**$ 156,109**	**$ 8,488**	**5.44 %**	$ 158,749	$ 7,638	4.81 %	$ 161,464	$ 7,378	4.57 %
Tax Exempt(1)	**82,669**	**5,188**	**6.28 %**	87,564	5,635	6.44 %	70,928	4,519	6.37 %
Total Investment Securities	**$ 238,778**	**$ 13,676**	**5.73 %**	$ 246,313	$ 13,273	5.39 %	$ 232,392	$ 11,897	5.12 %
Interest Bearing Deposits in Banks	**606**	**31**	**5.12 %**	1,784	51	2.85 %	4,152	51	1.23 %
Federal Funds Sold	**0**	**0**	**0 %**	90	3	3.04 %	328	8	2.37 %
Total Other Interest-Earning Assets	**606**	**31**	**5.12 %**	1,874	54	2.86 %	4,480	59	1.32 %
Total Interest-Earning Assets	**$ 484,039**	**$ 30,273**	**6.25 %**	$ 480,845	$ 28,247	5.87 %	$ 469,967	$ 26,571	5.65 %
Non-Interest Earning Assets:									
Cash and Due From Banks	**$ 7,437**			$ 7,006			$ 6,561		
Allowance for Loan Losses	**(3,662)**			(3,738)			(3,744)		
Premises and Equipment	**4,991**			5,230			5,453		
Foreclosed Assets Held for Sale	**229**			150			0		
Other Assets	**23,707**			17,028			16,268		
Total Non-Interest Earning Assets	**32,702**			25,676			24,538		
Total Assets	**$ 516,741**			$ 506,521			$ 494,505		
Interest-Bearing Liabilities:									
Savings, NOW Accounts, and Money Markets	**$ 136,481**	**$ 2,921**	**2.14 %**	$ 137,134	$ 1,711	1.25 %	$ 142,385	$ 1,335	.94 %
Time Deposits	**202,780**	**8,263**	**4.07 %**	191,455	6,394	3.34 %	186,534	5,573	2.99 %
Short-Term Borrowings	**6,909**	**352**	**5.09 %**	5,039	179	3.56 %	2,736	41	1.50 %
Long-Term Borrowings	**62,376**	**2,895**	**4.64 %**	66,305	3,017	4.55 %	64,144	2,932	4.57 %
Securities Sold U/A to Repurchase	**13,411**	**542**	**4.04 %**	10,770	320	2.97 %	7,357	125	1.70 %
Total Interest-Bearing Liabilities	**$ 421,957**	**$ 14,973**	**3.55 %**	$ 410,703	$ 11,621	2.83 %	$ 403,156	$ 10,006	2.48 %
Non-Interest Bearing Liabilities:									
Demand Deposits	**$ 39,076**			$ 38,177			$ 34,000		
Other Liabilities	**3,074**			3,511			4,144		
Stockholders Equity	**52,634**			54,130			53,205		
Total Liabilities/Stockholders Equity	**$ 516,741**			$ 506,521			$ 494,505		
Net Interest Income Tax Equivalent		**$ 15,300**			$ 16,626			$ 16,565	
Net Interest Spread			**2.70 %**			3.04 %			3.17 %
Net Interest Margin			**3.16 %**			3.46 %			3.52 %

(1) Tax-exempt income has been adjusted to a tax equivalent basis using an incremental rate of 34%, and statutory interest expense disallowance.

(2) Installment loans are stated net of unearned interest.

(3) Average loan balances include non-accrual loans. Interest income on non-accrual loans is not included.

Net Interest Income

The major source of operating income for First Keystone Corporation is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, including deposits and other borrowings. The amount of interest income is dependent upon both the volume of earning assets and the level of interest rates. In addition, the volume of non performing loans affects interest income. The amount of interest expense varies with the amount of funds needed to support earning assets, interest rates paid on deposits and borrowed funds, and finally, the level of interest free deposits.

Table 2 on the preceding pages provides a summary of average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and interest expense as well as average tax equivalent rates earned and paid as of year end 2006, 2005, and 2004.

The yield on earning assets was 6.25% in 2006, 5.87% in 2005, and 5.65% in 2004. The rate paid on interest bearing liabilities was 3.55% in 2006, 2.83% in 2005, and 2.48% in 2004. This resulted in a decrease in our net interest spread to 2.70% in 2006, as compared to 3.04% in 2005 and 3.17% in 2004. As Table 2 illustrates, our net interest margin also declined in 2006.

The net interest margin, which is interest income less interest expenses divided by average earnings assets, was 3.16% in 2006 as compared to 3.46% in 2005 and 3.52% in 2004. The net interest margins are presented on a tax equivalent basis. The decrease in net interest margin in 2006 was due primarily to the increased interest paid on interest bearing liabilities. This was a result of more interest bearing liabilities repricing than earning assets.

In an effort to maintain or try to increase our net interest margin, we look to higher earning asset yields in 2007. However, it is apparent that margin expansion will be limited if the flattened yield curve environment continues.

Table 3 sets forth changes in interest income and interest expense for the periods indicated for each category of interest earning assets and interest bearing liabilities. Information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by prior rate); (ii) changes in rate (changes in average rate multiplied by prior average volume); and, (iii) changes in rate and volume (changes in average volume multiplied by change in average rate).

Table 3 Changes in Income and Expense, 2006 and 2005

	2006 COMPARED TO 2005			2005 COMPARED TO 2004		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(Amounts in thousands)					
Interest Income:						
Loans, Net	**$ 769**	**$ 877**	**$ 1,646**	$ (27)	$ 332	$ 305
Taxable Investment Securities	**(127)**	**977**	**850**	(124)	384	260
Tax-Exempt Investment Securities	**(315)**	**(132)**	**(447)**	1,060	56	1,116
Other Short-Term Investments	**(37)**	**14**	**(23)**	(34)	29	(5)
Total Interest Income	**$ 290**	**$ 1,736**	**$ 2,026**	$ 875	$ 801	$ 1,676
Interest Expense:						
Savings, Now, and Money Markets	**$ (8)**	**$ 1,218**	**$ 1,210**	$ (49)	$ 425	$ 376
Time Deposits	**378**	**1,491**	**1,869**	147	674	821
Short-Term Borrowings	**66**	**107**	**173**	35	103	138
Long-Term Borrowings	**(179)**	**57**	**(122)**	98	(13)	85
Securities Sold U/A to Repurchase	**78**	**144**	**222**	58	137	195
Total Interest Expense	**$ 335**	**$ 3,017**	**$ 3,352**	$ 289	$ 1,326	$ 1,615
Net Interest Income	**$ (45)**	**$ (1,281)**	**$ (1,326)**	$ 586	$ (525)	$ 61

The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each.

Balance on non-accrual loans are included for computational purposes. Interest income on non-accrual loans is not included.

Interest income exempt from federal tax was $3,755,000 in 2006, $4,043,000 in 2005, and $3,260,000 in 2004. Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental rate of 34%.

In 2006, the decrease in net interest income of $1,326,000 resulted from a decrease in volume of $45,000 and a decrease of $1,281,000 due to changes in rate.

Provision for Loan Losses

For the year ended December 31, 2006, the provision for loan losses was $500,000 as compared to $750,000 as of December 31, 2005. First Keystone Corporation s provision for loan losses for the year ended December 31, 2004, was $1,750,000. The provision in 2006, decreased primarily because of the reduced net charge offs and stable loan quality. Net charge offs by First Keystone Corporation for the fiscal year end December 31, 2006, 2005, and 2004, were $505,000, $902,000, and $1,446,000, respectively.

The allowance for loan losses as a percentage of loans, net of unearned interest, was 1.46% as of December 31, 2006, 1.57% as of December 31, 2005, 1.64% as of December 31, 2004.

On a quarterly basis, First Keystone Corporation s Board of Directors and management performs a detailed analysis of the adequacy of the allowance for loan losses. This analysis includes an evaluation of credit risk concentration, delinquency trends, past loss experience, current economic conditions, composition of the loan portfolio, classified loans and other relevant factors.

First Keystone Corporation will continue to monitor its allowance for loan losses and make future adjustments to the allowance through the provision for loan losses as conditions warrant. Although First Keystone Corporation believes that the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio, there can be no assurance that future losses will not exceed the estimated amounts or that additional provisions will not be required in the future.

First Keystone National Bank is subject to periodic regulatory examination by the Office of the Comptroller of the Currency (OCC). As part of the examination, the OCC will assess the adequacy of the bank s allowance for loan losses and may include factors not considered by First Keystone National Bank. In the event that an OCC examination results in a conclusion that First Keystone National Bank s allowance for loan losses is not adequate, First Keystone National Bank may be required to increase its provision for loan losses.

Non-Interest Income

Non interest income is derived primarily from trust department revenue, service charges and fees, income on bank owned life insurance, other miscellaneous revenue and the gain on the sale of mortgage loans. In addition, investment securities gains or losses also impact total non interest income.

For the year ended December 31, 2006, non interest income amounted to $3,788,000, an increase of $6,000, or 0.2% as compared to a decrease of $814,000, or 17.7% for the year ended December 31, 2005. Table 4 provides the major categories of non interest income and each respective change comparing the past three years.

Excluding investment securities gains, non interest income in 2006 increased $45,000, or 1.3%. This compares to a decrease of $154,000, or 4.4% in 2005 before investment securities gains. Income from the trust department, which consists of fees generated from individual and corporate accounts, increased in 2006 by $30,000, or 6.3% after decreasing by $48,000, or 9.1% in 2005. Increased income from the trust department in 2006 was due primarily to an increase in market value in the trust department because of the strong equity market performance in 2006.

Service charges and fees, consisting primarily of service charges on deposit accounts, was the largest source of non interest income in 2006 and 2005. Service charges and fees decreased by $14,000, or 0.6% in 2006 compared to an increase of $114,000, or 5.6% in 2005. The decrease in 2006 resulted primarily from slightly decreased revenue from ATM surcharges.

Income on Bank Owned Life Insurance (BOLI) increased $35,000 to $472,000 in 2006 as compared to a decrease of $9,000 to $437,000 in 2005. The income from BOLI represents the increase in the cash surrender value of BOLI and is intended to partially cover the costs of First Keystone National Bank s employee benefit plan, including group life, disability, and health insurance.

The gain on sale of mortgages provided $39,000 in 2006 as compared to $63,000 in 2005. The decrease in gains on sale of mortgages was largely a function of the decreased originations and the reduced subsequent mortgage sales in the secondary market during the past year. First Keystone Corporation continues to service the mortgages which are sold, this servicing income provides an additional source of non interest income on an ongoing basis.

Other income, consisting primarily of safe deposit box rentals, income from the sale of non deposit products, and miscellaneous fees amounted to $240,000 for 2006, an increase of $18,000 or 8.1% over the $222,000 other income reported in 2005.

Table 4 Non-Interest Income

	2006	2006/2005 Increase / (Decrease) Amount	%	2005	2005/2004 Increase / (Decrease) Amount	%	2004
	(Amounts in thousands)						
Trust Department	**$ 507**	**$ 30**	**6.3**	**$ 477**	$ (48)	(9.1)	$ 525
Service Charges and Fees	**2,149**	**(14)**	**(0.6)**	**2,163**	114	5.6	2,049
Income on Bank Owned Life Insurance	**472**	**35**	**8.0**	**437**	(9)	(2.0)	446
Gain on Sale of Mortgages	**39**	**(24)**	**(38.1)**	**63**	(158)	(71.5)	221
Other	**240**	**18**	**8.1**	**222**	(53)	(19.3)	275
Subtotal	**$ 3,407**	**$ 45**	**1.3**	**$ 3,362**	$ (154)	(4.4)	$ 3,516
Investment Securities Gains	**381**	**(39)**	**(9.3)**	**420**	(660)	(61.1)	1,080
Total	**$ 3,788**	**$ 6**	**0.2**	**$ 3,782**	$ (814)	(17.7)	$ 4,596

Non-Interest Expense

Non interest expense consists of salaries and benefits, occupancy, furniture and equipment, and other miscellaneous expenses. Table 5 provides the yearly non interest expense by category, along with the amount, dollar changes, and percentage of change.

Total non interest expense amounted to $9,515,000, a decrease of $68,000, or 0.7% in 2006 compared to an increase of $157,000, or 1.7% in 2005. Expenses associated with employees (salaries and employee benefits) continue to be the largest non interest expenditure. Salaries and employee benefits amounted to 54.5% of total non interest expense in 2006 and 52.9% in 2005. Salaries and employee benefits increased $111,000, or 2.2% in 2006 and $192,000, or 3.9% in 2005. The increases in both years largely reflect normal salary adjustments and increased benefit costs. The number of full time equivalent employees was 128 as of December 31, 2006, and 128 as of December 31, 2005.

Net occupancy expense increased $30,000, or 5.2% in 2006 as compared to a decrease of $78,000, or 11.9% in 2005. Furniture and equipment expense increased $67,000, or 9.8% in 2006 compared to a decrease of $98,000, or 12.5% in 2005. The increases in occupancy and furniture and equipment expense in 2006 relate to increases in rent and lease payments and new equipment purchases. The decrease in occupancy and furniture and equipment expense in 2005 relates primarily to reductions in depreciation expense. Other operating expenses decreased $276,000, or 8.5% in 2006 as compared to an increase of $141,000, or 4.5% in 2005. Decreases in professional fees, marketing, advertising, and miscellaneous expense account for much of the decrease in other operating expenses in 2006.

The overall level of non interest expense remains low, relative to our peers. In fact, our total non interest expense was less than 2% of average assets in both 2006 and 2005. Non interest expense as a percentage of average assets under 2% places us among the leaders in our peer financial institution categories in controlling non interest expense.

Table 5 Non-Interest Expense

	2006	2006/2005 Increase / (Decrease) Amount	%	2005	2005/2004 Increase / (Decrease) Amount	%	2004
	(Amounts in thousands)						
Salaries and Employee Benefits	**$ 5,185**	**$ 111**	**2.2**	**$ 5,074**	$ 192	3.9	$ 4,882
Occupancy, Net	**608**	**30**	**5.2**	**578**	(78)	(11.9)	656
Furniture and Equipment	**751**	**67**	**9.8**	**684**	(98)	(12.5)	782
Other, Shares Tax, and Professional Service	**2,971**	**(276)**	**(8.5)**	**3,247**	141	4.5	3,106
Total	**$ 9,515**	**$ (68)**	**(0.7)**	**$ 9,583**	$ 157	1.7	$ 9,426

Income Tax Expense

Income tax expense for the year ended December 31, 2006, was $1,188,000 as compared to $1,363,000 and $1,663,000 for the years ended December 31, 2005, and December 31, 2004, respectively. In 2006, our income tax expense decreased because income before taxes decreased $832,000 to $7,378,000 from $8,210,000 in 2005. In 2004, our income before taxes amounted to $8,450,000. The corporation looks to maximize its tax exempt interest derived from both tax free loans and tax free municipal investments without triggering alternative minimum tax. The effective income tax rate was 16.1% in 2006, 16.6% in 2005, and 19.7% in 2004. The limited availability of tax free municipal investments at attractive interest rates may result in a higher effective tax rate in future years.

Financial Condition

General

Total assets increased to $525,920,000, at year end 2006, an increase of 2.6% over year end 2005. As of December 31, 2006, total deposits amounted to $384,020,000, an increase of 5.9% over 2005. Assets as of December 31, 2005, were $512,399,000, an increase of 3.0% over 2004, while total deposits as of year end 2005 amounted to $362,796,000, an increase of 1.4% from 2004.

In 2006, deposit growth was used principally to fund loan growth. While in 2005, the increase in assets primarily reflects the deployment of deposits and borrowings into investment securities because loan growth was limited. First Keystone Corporation continues to maintain and manage its asset growth. Our strong equity capital position provides us an opportunity to further leverage our asset growth. Borrowings decreased in 2006 by $7,972,000 after increasing in 2005 by $11,264,000. Decreased borrowings in 2006 resulted in a reduction in investment securities. Core deposits, which include demand deposits and interest bearing demand deposits (NOWs), money market accounts, savings accounts, and time deposits of individuals continues to be our most significant source of funds. In 2006 and 2005, several successful sales campaigns attracted new customers and generated growth in retail certificates of deposit (time deposits of individuals) as well as savings and money market accounts.

Earning Assets

Earning assets are defined as those assets that produce interest income. By maintaining a healthy asset utilization rate, i.e., the volume of earning assets as a percentage of total assets, First Keystone Corporation maximizes income. The earning asset ratio (average interest earning assets divided by average total assets) equaled 93.7% for 2006, compared to 94.9% for 2005 and 95.0% for 2004. This indicates that the management of earning assets is a priority and non earning assets, primarily cash and due from banks, fixed assets and other assets, are maintained at minimal levels. The primary earning assets are loans and investment securities.

Loans

Total loans, net of unearned income, increased to $251,757,000 as of December 31, 2006, as compared to a balance of $234,593,000 as of December 31, 2005. Table 6 provides data relating to the composition of First Keystone Corporation s loan portfolio on the dates indicated. Total loans, net of unearned income increased $17,164,000, or 7.3% in 2006 compared to an increase of $793,000, or 0.3% in 2005.

The loan portfolio is well diversified and increases in the portfolio in 2006 were primarily in commercial loans secured by real estate and a small increase in consumer loans. In 2005, the increase in loans was also entirely in commercial real estate. Outstanding balances on commercial other loans and consumer loans declined in both 2006 and 2005. First Keystone Corporation continues to originate and sell certain long term fixed rate residential mortgage loans which conform to secondary market requirements. First Keystone Corporation derives ongoing income from the servicing of mortgages sold in the secondary market.

First Keystone Corporation continues to internally underwrite each of its loans to comply with prescribed policies and approval levels established by its Board of Directors.

Table 6 Loans Outstanding, Net of Unearned Income

	December 31, 2006 (Amounts in thousands)	**2005**	**2004**	**2003**	**2002**
Commercial, financial and agricultural:					
Commercial secured by real estate	**$ 123,673**	$ 92,930	$ 86,735	$ 73,433	$ 65,352
Commercial other	**22,169**	29,284	33,470	33,890	23,639
Tax exempt	**3,264**	3,840	3,629	3,930	4,393
Real estate (primarily residential mortgage loans)	**86,208**	92,840	92,408	96,422	85,145
Consumer loans	**18,728**	18,467	20,823	25,626	28,640
Total Gross Loans	**$ 254,042**	$ 237,361	$ 237,065	$ 233,301	$ 207,169
Less: Unearned income and unamortized loan fees net of costs	**2,285**	2,768	3,265	4,228	5,652
Total Loans, net of unearned income	**$ 251,757**	$ 234,593	$ 233,800	$ 229,073	$ 201,517

Investment Securities

First Keystone Corporation uses investment securities to not only generate interest and dividend revenue, but also to help manage interest rate risk and to provide liquidity to meet operating cash needs.

The investment portfolio has been allocated between securities available for sale and securities held to maturity. No investment securities were established in a trading account. Available for sale securities decreased to $237,009,000 in 2006, a 4.2% decline from 2005. At December 31, 2006 the net unrealized loss, net of the tax effect, on these securities was $126,000 and is included in stockholders equity as accumulated other comprehensive income (loss). At December 31, 2005, accumulated other comprehensive income, net of tax effect, amounted to $807,000. In 2006, held to maturity securities increased $2,681,000, or 63.1% to $6,929,000 after increasing $887,000, or a 26.4% in 2005. Table 7 provides data on the carrying value of our investment portfolio on the dates indicated. The vast majority of investment security purchases are allocated as available for sale. This provides First Keystone Corporation with increased flexibility should there be a need or desire to liquidate an investment security.

The investment portfolio includes U.S. Government Corporations and Agencies, corporate obligations, mortgage backed securities, state and municipal securities, and other debt securities. In addition, the investment portfolio includes restricted equity securities consisting primarily of common stock investments in the Federal Reserve Bank and the Federal Home Loan Bank. Marketable equity securities consists of common stock investments in other commercial banks and bank holding companies.

Securities available for sale may be sold as part of the overall asset and liability management process. Realized gains and losses are reflected in the results of operations on our statements of income. The investment portfolio does not contain any structured notes, step up bonds, or any off-balance sheet derivatives.

During 2006, interest bearing deposits in other banks increased to $4,307,000 from $58,000 in 2005. Interest bearing deposits in other banks are generally kept relatively low as funds were invested in marketable securities to maximize income while still addressing liquidity needs.

Table 7 Carrying Value of Investment Securities

	December 31, 2006		**2005**		**2004**	
	Available for Sale	**Held to Maturity**	**Available for Sale**	**Held to Maturity**	**Available for Sale**	**Held to Maturity**
	(Amounts in thousands)					
U. S. Government Corporations and Agencies	**$ 153,211**	**$ 4,205**	$ 142,403	$ 1,524	$ 111,636	$ 638
State and Municipal	**73,456**	**2,724**	84,434	2,724	86,593	2,723
Corporate	**2,019**	**0**	12,698	0	29,302	0
Marketable Equity Securities	**3,711**	**0**	2,966	0	2,695	0
Restricted Equity Securities	**4,612**	**0**	4,787	0	5,466	0
Total Investment Securities	**$ 237,009**	**$ 6,929**	$ 247,288	$ 4,248	$ 235,692	$ 3,361

Allowance for Loan Losses

The allowance for loan losses constitutes the amount available to absorb losses within the loan portfolio. As of December 31, 2006, the allowance for loan losses was $3,671,000 as compared to $3,676,000 and $3,828,000 as of December 31, 2005 and 2004, respectively. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for possible loan losses when management believes that the collectibility of the principal is unlikely. The risk characteristics of the loan portfolio are managed through the various control processes, including credit evaluations of individual borrowers, periodic reviews, and diversification by industry. Risk is further mitigated through the application of lending procedures such as the holding of adequate collateral and the establishment of contractual guarantees.

Management performs a quarterly analysis to determine the adequacy of the allowance for loan losses. The methodology in determining adequacy incorporates specific and general allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. This assessment results in an allocated allowance. Management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority.

Management feels based upon its methodology, that the allowance for loan losses is adequate to cover foreseeable future losses. Table 8 contains an analysis of our Allowance for Loan Losses indicating charge offs and recoveries by the year and annual additional provisions charged to operations. In 2006, net charge offs as a percentage of average loans were .21% compared to .39% in 2005 and .62% in 2004. Net charge offs amounted to $505,000 in 2006 compared to $902,000 in 2005 and $1,446,000 in 2004, respectively. The decrease in net charge offs in 2006 follows the decrease in net charge offs in 2005. In 2004, the increase in net charge offs was primarily from part of one large commercial loan relationship, which was deemed impaired and placed on non accrual, being charged off.

Table 8 Analysis of Allowance for Loan Losses

	Years Ended December 31, 2006	2005	2004	2003	2002
	(Amounts in thousands)				
Balance at beginning of period Charge-offs:	**$ 3,676**	$ 3,828	$ 3,524	$ 3,174	$ 2,922
Commercial, financial, and agricultural	**493**	338	1,209	43	66
Real estate	**183**	497	132	22	140
Consumer	**110**	98	143	133	196
	786	933	1,484	198	402
Recoveries:					
Commercial, financial, and agricultural	**228**	0	0	1	0
Real estate	**4**	1	18	1	77
Consumer	**49**	30	20	46	27
	281	31	38	48	104
Net charge-offs	**505**	902	1,446	150	298
Additions charged to operations	**500**	750	1,750	500	550
Balance at end of period	**$ 3,671**	$ 3,676	$ 3,828	$ 3,524	$ 3,174
Ratio of net charge-offs during the period to average loans outstanding during the period	**.21 %**	.39 %	.62 %	.07 %	.15 %
Allowance for loan losses to average loans outstanding during the period	**1.50 %**	1.58 %	1.64 %	1.66 %	1.58 %

It is the policy of management and First Keystone Corporation s Board of Directors to provide for losses on both identified and unidentified losses inherent in its loan portfolio. A provision for loan losses is charged to operations based upon an evaluation of the potential losses in the loan portfolio. This evaluation takes into account such factors as portfolio concentrations, delinquency, trends, trends of non accrual and classified loans, economic conditions, and other relevant factors.

The loan review process which is conducted quarterly, is an integral part of our evaluation of the loan portfolio. A detailed quarterly analysis to determine the adequacy of First Keystone Corporation s allowance for loan losses is reviewed by our Board of Directors.

With our manageable level of net charge offs and the additions to the reserve from our provision out of operations, the allowance for loan losses as a percentage of average loans amounted to 1.50% in 2006, 1.58% to 2005, and 1.64% in 2004.

Table 9 sets forth the allocation of First Keystone National Bank s allowance for loan losses by loan category and the percentage of loans in each category to total loans receivable at the dates indicated. The portion of the allowance for loan losses allocated to each loan category does not represent the total available for future losses that may occur within the loan category, since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

Table 9 Allocation of Allowance for Loan Losses

	December 31, 2006 (Amounts in thousands)	%*	2005	%*	2004	%*	2003	%*	2002	%*
Commercial, financial, and agricultural	**$ 674**	**19.7**	$ 906	25.2	$ 858	14.3	$ 775	15.4	$ 488	12.4
Real estate mortgage	**2,613**	**76.1**	2,521	70.2	2,594	77.1	2,106	72.6	1,812	75.0
Consumer and other loans	**145**	**4.2**	164	4.6	308	8.6	378	12.0	357	12.6
Unallocated	**239**	**N/A**	85	N/A	68	N/A	265	N/A	517	N/A
	$ 3,671	**100.0**	$ 3,676	100.0	$ 3,828	100.0	$ 3,524	100.0	$ 3,174	100.0

* Percentage of loans in each category to total loans.

Non-Performing Assets

Table 10 details First Keystone Corporation s non performing assets at the dates indicated.

Non accrual loans are generally delinquent on which principal or interest is past due approximately 90 days or more, depending upon the type of credit and the collateral. When a loan is placed on non accrual status, any unpaid interest is charged against income. Restructured loans are loans where the borrower has been granted a concession in the interest rate or payment amount because of financial problems. Foreclosed assets held for sale represents property acquired through foreclosure, or considered to be an in substance foreclosure.

The total of non performing assets increased to $2,880,000 as of December 31, 2006, as compared to $2,530,000 as of December 31, 2005. Non accrual and restructured loans decreased to $1,704,000 in 2006 from $2,069,000 in 2005. Foreclosed assets decreased to $41,000 in 2006 from $397,000 in 2005. Loans past due 90 days or more and still accruing increased to $1,135,000 in 2006 from $64,000 in 2005. The $1,135,000 reported past due 90 days or more in 2006 represents one borrower whose loan is secured by commercial real estate and presently sold under a sales agreement. The loan is expected to be paid off in full without loss to First Keystone National Bank. Our allowance for loan losses to total non performing assets decreased to 127.5% in 2006 from 145.3% in 2005. While asset quality is a priority, the corporation continues to retain an independent outside loan review consultant to closely tract and monitor overall loan quality.

Improving loan quality is a priority, and we actively work with borrowers to resolve credit problems. Excluding the assets disclosed in Table 10, management is not aware of any information about borrowers possible credit problems, which cause serious doubt as to their ability to comply with present loan repayment terms.

Should the economic climate no longer continue to be stable or begin to deteriorate, borrowers may experience difficulty, and the level of non performing loans and assets, charge offs and delinquencies could rise and possibly require additional increases in our allowance for loan losses.

In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for possible loan and lease losses. They may require additions to allowances based upon their judgements about information available to them at the time of examination.

Interest income received on non performing loans in 2006 and 2005 was $14,000 and $57,000, respectively. Interest income, which would have been recorded on these loans under the original terms in 2006 and 2005 was $133,000 and $149,000, respectively. At December 31, 2006, First Keystone Corporation had no outstanding commitments to advance additional funds with respect to these non performing loans.

A concentration of credit exists when the total amount of loans to borrowers, who are engaged in similar activities that are similarly impacted by economic or other conditions, exceed 10% of total loans. As of December 31, 2006, 2005 and 2004, management is of the opinion that there were no loan concentrations exceeding 10% of total loans.

Table 10 Non-Performing Assets

	December 31, 2006	2005	2004	2003	2002
	(Amounts in thousands)				
Non-accrual and restructured loans	**$ 1,704**	$ 2,069	$ 3,405	$ 735	$ 458
Foreclosed assets	**41**	397	6	0	0
Loans past-due 90 days or more and still accruing	**1,135**	64	69	33	0
Total non-performing assets	**$ 2,880**	$ 2,530	$ 3,480	$ 768	$ 458
Non-performing assets to period-end loans and foreclosed assets	**1.14 %**	1.08 %	1.49 %	.34 %	.23 %
Total non-performing assets to total assets	**.55 %**	.49 %	.70 %	.16 %	.10 %
Total allowance for loan losses to total non-performing assets	**127.5 %**	145.3 %	110.0 %	458.9 %	693.7 %

Real estate mortgages comprise 83.4% of the loan portfolio as of December 31, 2006, up from 79.2% in 2005. Real estate mortgages consist of both residential and commercial real estate loans. The real estate loan portfolio is well diversified in terms of borrowers, collateral, interest rates, and maturities. Also, the real estate loan portfolio has a mix of both fixed rate and adjustable rate mortgages. The real estate loans are concentrated primarily in our marketing area and are subject to risks associated with the local economy.

Deposits and Other Borrowed Funds

Consumer and commercial retail deposits are attracted primarily by First Keystone s subsidiary bank s ten full service office locations. First Keystone National Bank offers a broad selection of deposit products and continually evaluates its interest rates and fees on deposit products. First Keystone National Bank regularly reviews competing financial institutions interest rates along with prevailing market rates, especially when establishing interest rates on certificates of deposit.

Deposits increased by $21,224,000, or a 5.9% increase when comparing December 31, 2006 to December 31, 2005. This increase compares to a deposit increase of 1.4% in 2005 and an increase of 4.4% in 2004.

During 2006, First Keystone Corporation experienced a deposit increase in both non interest bearing and interest bearing deposits. Non interest bearing deposits amounted to $41,361,000 as of December 31, 2006, an increase of $1,697,000 or 4.3% over 2005. Interest bearing deposits amounted to $342,659,000 as of December 31, 2006, an increase of $19,527,000, or 6.0% over 2005.

During 2006, First Keystone Corporation decreased its reliance on borrowings. Short term borrowings amounted to $28,179,000 as of year end 2006, a slight increase of $28,000 from 2005. Long term borrowings decreased $8,000,000 in 2006 to $57,535,000 as of December 31, 2006. Total borrowings were $85,714,000 as of December 31, 2006, compared to $93,686,000 on December 31, 2005. Short term borrowings are comprised of federal funds purchased, securities sold under agreements to repurchase, U.S. Treasury demand notes, and short term borrowings from the Federal Home Loan Bank (FHLB).

Long term borrowings are typically FHLB term borrowings with a maturity of one year or more. Short term borrowings from the Federal Home Loan Bank are commonly used to offset seasonal fluctuations in deposits. In connection with FHLB borrowings and securities sold under agreements to repurchase, First Keystone Corporation maintains certain eligible assets as collateral.

Capital Strength

Normal increases in capital are generated by net income, less cash dividends paid out. Also, the net unrealized gains or losses on investment securities available for sale, net of taxes, referred to as accumulated other comprehensive income may increase or decrease total equity capital. The total net decrease in capital was $56,000 in 2006 after an increase of $131,000 in 2005. The accumulated other comprehensive income amounted to $(126,000) in 2006 and $807,000 in 2005. One factor which also decreased total equity capital in 2006 and 2005 relates to stock repurchase. First Keystone Corporation had 228,900 shares of common stock as of December 31, 2006, and 153,624 shares in 2005, at a cost of $5,910,000 and $4,544,000, respectively as treasury stock.

Return on equity (ROE) is computed by dividing net income by average stockholders equity. This ratio was 11.76% for 2006, 12.65% for 2005, and 12.76% for 2004. Refer to Performance Ratios on Page 14 Selected Historical Financial Data of First Keystone Corporation for a more expanded listing of the ROE.

Adequate capitalization of banks and bank holding companies is required and monitored by regulatory authorities. Table 11 reflects risk based capital ratios and the leverage ratio for our First Keystone Corporation and First Keystone National Bank. First Keystone Corporation s leverage ratio was 9.94% at December 31, 2006, and 10.04% at December 31, 2005.

First Keystone Corporation has consistently maintained regulatory capital ratios at or above the well capitalized standards. For additional information on capital ratios, see Page 4 First Keystone Corporations Capital Ratios or Table 11 Capital Ratios. The risk based capital ratios for both First Keystone Corporation and First Keystone National Bank, remained very strong. The risk based capital calculation assigns various levels of risk to different categories of bank assets, requiring higher levels of capital for assets with more risk. Also measured in the risk based capital ratio is credit risk exposure associated with off balance sheet contracts and commitments.

Table 11 Capital Ratios

	December 31, 2006		**December 31, 2005**	
	Corporation	**Bank**	**Corporation**	**Bank**
Risk-Based Capital:				
Tier I risk-based capital ratio	**17.45 %**	**16.17 %**	17.74 %	15.97 %
Total risk-based capital ratio (Tier 1 and Tier 2)	**18.82 %**	**17.41 %**	19.16 %	17.22 %
Leverage Ratio:				
Tier I capital to average assets	**9.94 %**	**9.19 %**	10.04 %	9.03 %

Liquidity Management

Effective liquidity management ensures that the cash flow requirements of depositors and borrowers, as well as the operating cash needs of First Keystone Corporation, are met.

Liquidity is needed to provide the funding requirements of depositors withdrawals, loan growth, and other operational needs. Asset liquidity is provided by investment securities maturing in one year or less, other short term investments, federal funds sold, and cash and due from banks. At year end 2006, cash and due from banks and interest bearing deposits in other banks totaled $10,188,000 as compared to $7,156,000 at year end 2005. Additionally, maturing loans and repayment of loans are another source of asset liquidity.

Liability liquidity is accomplished by maintaining a core deposit base, acquired by attracting new deposits and retaining maturing deposits. Also, short term borrowings provide funds to meet liquidity.

Management feels its current liquidity position is satisfactory given the fact that First Keystone Corporation has a very stable core deposit base which has increased annually. Secondly, our loan payments and principal paydowns on our mortgage backed securities provide a steady source of funds. Also, short term investments and maturing investments represent additional sources of liquidity.

Finally, First Keystone Corporation s subsidiary bank does have access to funds on a short term basis from the Federal Reserve Bank discount window. Also, Fed funds can be purchased by means of a borrowing line at the Atlantic Central Bankers Bank. First Keystone Corporation has indirect access to the capital markets through its membership in the Federal Home Loan Bank. Advances on borrowings, both short term and long term, are available to help address any liquidity needs.

Forward Looking Statements

The sections that follow, Market Risk and Asset/Liability Management contain certain forward looking statements. These forward looking statements involve significant risks and uncertainties, including changes in economic and financial market conditions. Although First Keystone Corporation believes that the expectations reflected in such forward looking statements are reasonable, actual results may differ materially.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. First Keystone Corporation s market risk is composed primarily of interest rate risk. The Corporation s interest rate risk results from timing differences in the repricing of assets, liabilities, off balance sheet instruments, and changes in relationships between ratio indices and the potential exercise of explicit or embedded options.

Increases in the level of interest rates also may adversely affect the fair value of First Keystone Corporation s securities and other earning assets. Generally, the fair value of fixed rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the First Keystone Corporation s interest earning assets, which could adversely affect the First Keystone Corporation s results of operations if sold, or, in the case of interest earning assets classified as available for sale, the First Keystone Corporation s stockholders equity, if retained. Under The Financial Accounting Standards Board (FASB) Statement 115, changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in the First Keystone Corporation s stockholders equity. The First Keystone Corporation does not own any trading assets.

Asset/Liability Management

The principal objective of asset liability management is to manage the sensitivity of the net interest margin to potential movements in interest rates and to enhance profitability through returns from managed levels of interest rate risk. The First Keystone Corporation actively manages the interest rate sensitivity of its assets and liabilities. Table 12 presents an interest sensitivity analysis of assets and liabilities as of December 31, 2006. Several techniques are used for measuring interest rate sensitivity. Interest rate risk arises from the mismatches in the repricing of assets and liabilities within a given time period, referred to as a rate sensitivity gap. If more assets than liabilities mature or reprice within the time frame, the First Keystone Corporation is asset sensitive. This position would contribute positively to net interest income in a rising rate environment. Conversely, if more liabilities mature or reprice, the First

Keystone Corporation is liability sensitive. This position would contribute positively to net interest income in a falling rate environment.

Limitations of interest rate sensitivity gap analysis as illustrated in Table 12 include: a) assets and liabilities which contractually reprice within the same period may not, in fact, reprice at the same time or to the same extent; b) changes in market interest rates do not affect all assets and liabilities to the same extent or at the same time, and c) interest rate sensitivity gaps reflect the First Keystone Corporation s position on a single day (December 31, 2006 in the case of the following schedule) while the First Keystone Corporation continually adjusts its interest sensitivity throughout the year. The First Keystone Corporation s cumulative gap at one year indicates the First Keystone Corporation is liability sensitive.

Table 12 Interest Rate Sensitivity Analysis

	December 31, 2006 One Year (Amounts in thousands)	1 - 5 Years	Beyond 5 Years	Not Rate Sensitive	Total
Assets	$ 135,489	$ 212,312	$ 158,000	$ 20,119	$ 525,920
Liabilities/Stockholders Equity	347,091	94,846	29,444	54,539	525,920
Interest Rate Sensitivity Gap	(211,602)	117,466	128,556		
Cumulative Gap	(211,602)	(94,136)	34,420		

Earnings at Risk

First Keystone National Bank s Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. The guidelines established by ALCO are reviewed by the First Keystone Corporation s Board of Directors. The First Keystone Corporation recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet beyond interest rate sensitivity gap. Although the First Keystone Corporation continues to measure its interest rate sensitivity gap, the First Keystone Corporation utilizes additional modeling for interest rate risk in the overall balance sheet. Earnings at risk and economic values at risk are analyzed.

Earnings simulation modeling addresses earnings at risk and net present value estimation addresses economic value at risk. While each of these interest rate risk measurements has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the First Keystone Corporation.

Earnings Simulation Model

The First Keystone Corporation s net income is affected by changes in the level of interest rates. Net income is also subject to changes in the shape of the yield curve. For example, a flattening of the yield curve would result in a decline in earnings due to the compression of earning asset yields and increased liability rates, while a steepening would result in increased earnings as earning asset yields widen.

Earnings simulation modeling is the primary mechanism used in assessing the impact of changes in interest rates on net interest income. The model reflects management s assumptions related to asset yields and rates paid on liabilities, deposit sensitivity, size and composition of the balance sheet. The assumptions are based on what management believes at that time to be the most likely interest rate environment. Earnings at risk is the change in net interest income from a base case scenario under an increase and decrease of 200 basis points in the interest rate earnings simulation model.

Table 13 presents an analysis of the changes in net interest income and net present value of the balance sheet resulting from an increase or decrease of two percentage points (200 basis points) in the level of interest rates. The calculated estimates of change in net interest income and net present value of the balance sheet are compared to current limits approved by ALCO and the Board of Directors. The earnings simulation model projects net interest income would increase by approximately 3.5% if rates fell by two percentage points over one year. The model projects a decrease of approximately 27.3% in net interest income if rates rise by two percentage points over one year. Both of these forecasts are within the one year policy guidelines.

Net Present Value Estimation

The net present value measures economic value at risk and is used for helping to determine levels of risk at a point in time present in the balance sheet that might not be taken into account in the earnings simulation model. The net present value of the balance sheet is defined as the discounted present value of asset cash flows minus the discounted present value of liability cash flows. At year end, a 200 basis point immediate decrease in rates is estimated to increase net present value by 7.0%. Additionally, net present value is projected to decrease by 46.0% if rates increase immediately by 200 basis points. The +2% scenario slightly exceeds policy limits of 40%.

The computation of the effects of hypothetical interest rate changes are based on many assumptions. They should not be relied upon solely as being indicative of actual results, since the computations do not contemplate actions management could undertake in response to changes in interest rates.

Table 13 Effect of Change in Interest Rates

	Projected Change
Effect on Net Interest Income	
1-year Net Income simulation Projection	
-200 bp Shock vs Stable Rate	3.5 %
+200 bp Shock vs Stable Rate	(27.3 %)
Effect on Net Present Value of Balance Sheet	
Static Net Present Value Change	
-200 bp Shock vs Stable Rate	7.0 %
+200 bp Shock vs Stable Rate	(46.0 %)

Market Price and Dividend History

As of December 31, 2006, the corporation had 4,526,664 shares of $2.00 par value common stock outstanding held by shareholders of record. First Keystone Corporation s common stock is quoted on the Over The Counter (OTC) Bulletin Board under the symbol FKYS.OB .

Table 14 reports the highest and lowest per share prices known to the First Keystone Corporation and the dividends paid during the periods indicated. The market prices and dividend paid have been adjusted to reflect a 5% stock dividend paid December 5, 2006 and a 3 for 2 stock split in the form of a 50% stock dividend paid May 11, 2004. These prices do not necessarily reflect any dealer or retail markup, markdown or commission.

Table 14 Market Price/Dividend History

	2006 Common Stock High/Low	2006 Dividends Paid	2005 Common Stock High/Low	2005 Dividends Paid	2004 Common Stock High/Low	2004 Dividends Paid
First Quarter	**$ 19.91/$18.57**	**$ .21**	$ 22.76/$20.48	$ .19	$ 24.29/$22.85	$ .17
Second Quarter	**$ 19.05/$17.43**	**.21**	$ 20.95/$18.81	.19	$ 24.29/$23.10	.17
Third Quarter	**$ 19.33/$16.81**	**.21**	$ 21.67/$19.14	.19	$ 23.33/$21.67	.17
Fourth Quarter	**$ 19.20/$17.29**	**.22**	$ 20.81/$19.05	.21	$ 22.14/$20.48	.19

Table 15 Quarterly Results of Operations (Unaudited)

2006	Three Months Ended March 31	June 30	September 30	December 31
	(Amounts in thousands, except per share)			
Interest income	**$ 6,858**	**$ 7,051**	**$ 7,236**	**$ 7,432**
Interest expense	**3,343**	**3,626**	**3,910**	**4,093**
Net interest income	**$ 3,515**	**$ 3,425**	**$ 3,326**	**$ 3,339**
Provision for loan losses	**100**	**200**	**100**	**100**
Other non-interest income	**867**	**901**	**952**	**1,068**
Non-interest expense	**2,432**	**2,423**	**2,380**	**2,280**
Income before income taxes	**$ 1,850**	**$ 1,703**	**$ 1,798**	**$ 2,027**
Income taxes	**284**	**244**	**295**	**365**
Net income	**$ 1,566**	**$ 1,459**	**$ 1,503**	**$ 1,662**
Per share	**$ .343**	**$ .314**	**$ .333**	**$ .360**

2005	March 31	June 30	September 30	December 31
Interest income	$ 6,441	$ 6,491	$ 6,637	$ 6,813
Interest expense	2,630	2,782	2,981	3,228
Net interest income	$ 3,811	$ 3,709	$ 3,656	$ 3,585
Provision for loan losses	150	200	150	250
Other non-interest income	803	916	915	1,148
Non-interest expense	2,331	2,389	2,245	2,618
Income before income taxes	$ 2,133	$ 2,036	$ 2,176	$ 1,865
Income taxes	378	339	372	274
Net income	$ 1,755	$ 1,697	$ 1,804	$ 1,591
Per share	$ .380	$ .370	$ .390	$ .340

Six Months Ended June 30, 2007

Results of Operations

First Keystone Corporation realized earnings for the second quarter of 2007 of $1,384,000, a decrease of $75,000, or 5.1% from the second quarter of 2006. Six months net income for the period ended June 30, 2007 amounted to $2,818,000, a decrease of $207,000, or 6.8% from the $3,025,000 net income reported June 30, 2006. Net interest income decreased in both the second quarter of 2007 and for the six months ending June 30, 2007, when compared to the same periods in 2006. However, our net interest margin did increase slightly to 2.99% for the second quarter of 2007, up from 2.96% in the first quarter of 2007. The tightening of our net interest margin resulted from liability or interest expense increasing faster than interest income. The net interest margin and net interest income declines are primarily a result of a flattened yield curve. Also, an increase in non interest expense, related principally to the change of our Bank s name, in the second quarter and for the six months ended June 30, 2007, put additional pressure on earnings. On a per share basis, net income per share decreased to $.62 for the first six months of 2007 compared to $.66 for the first six months of 2006, while dividends increased to $.44 per share up from $.42 per share in 2006, or an increase of 4.8%.

Year to date net income annualized amounts to a return on average common equity of 10.34% and a return on assets of 1.07%. For the six months ended June 30, 2006, these measures were 11.60% and 1.18%, respectively on an annualized basis.

Net Interest Income

The major source of operating income for the Corporation is net interest income, defined as interest income less interest expense. In the second quarter of 2007, interest income amounted to $7,550,000, an increase of $499,000 or 7.1% from the second quarter of 2006. Interest expense amounted to $4,175,000 in the second quarter of 2007, an increase of $549,000, or 15.1% from the second quarter of 2006. As a result, net interest income amounted to $3,375,000 in the second quarter of 2007, a decrease of $50,000, or 1.5% from the second quarter of 2006. Year to date for the six months ended June 30, 2007, net interest income decreased $244,000, or 3.5% to $6,696,000 from $6,940,000 in 2006.

Our net interest margin for the quarter ended June 30, 2007, was 2.99% compared to 3.17% for the quarter ended June 30, 2006. For the six months ended June 30, 2007, our net interest margin was 2.97% compared to 3.22% for the first six months of 2006.

Provision for Loan Losses

The provision for loan losses for the quarter ended June 30, 2007, was $75,000 a decline of $125,000 from the second quarter of 2006. Year to date, the provision for loan losses amounts to $125,000 in 2007, a decrease of $175,000 from June 30, 2006. Net charge offs amounted to $43,000 for the six months ended June 30, 2007, as compared to $310,000 for the first six months of 2006.

The allowance for loan losses as a percentage of loans, net of unearned interest remains strong at 1.47% as of June 30, 2007, as compared to 1.46% as of December 31, 2006.

Non-Interest Income

Total non interest or other income was $1,042,000 for the quarter ended June 30, 2007, as compared to $901,000 for the quarter ended June 30, 2006. Excluding investment securities gains and losses, non interest income was $901,000 for the second quarter of 2007, as compared to $803,000 in the second quarter of 2006, an increase of 12.2%. For the six months ended June 30, 2007, total non interest income was $1,995,000, an increase of $227,000, or 12.8% from the first six months of 2006. Excluding investment securities gains, non interest income for the six months ended June 30, 2007, was $1,728,000, an increase of 9.9% from the $1,573,000 reported for the first six months of 2006.

Non-Interest Expenses

Total non interest, or other expenses, was $2,669,000 for the quarter ended June 30, 2007, as compared to $2,423,000 for the quarter ended June 30, 2006. The increase of $246,000, or 10.2% was primarily related to expenses with regards to the change of our Bank s name. In particular, professional services expenses relating to increased legal fees and other non interest expenses relating to additional marketing expense account for much of the increase.

For the six months ended June 30, 2007, total non interest expense was $5,160,000, an increase of $305,000, or 6.3% over the first six months of 2006. Expenses associated with employees (salaries and employee benefits) continue to be the largest category of non interest expenses. Salaries and benefits amount to 51.3% of total non interest expense for the six months ended June 30, 2007, as compared to 55.1% for the first six months of 2006. Salaries and benefits amounted to $2,645,000 for the six months ended June 30, 2007, a decrease of $31,000, or 1.2% from the first six months of 2006. Net occupancy expense, including furniture and equipment, amounted to $703,000 for the six months ended June 30, 2007, an increase of $31,000, or 4.6% from 2006. Because of additional legal expenses, professional services increased $89,000 or 48.6% from the first six months of 2006. State shares tax increased by $15,000 or 5.8% over the first six months of 2006. Other non interest expenses amounted to $1,267,000 for the six months ended June 30, 2007, an increase of $201,000, or 18.9% from the first six months of 2006. Even with the increase in non interest expenses in 2007, our overall non interest expense continues at less than 2.0% of average assets on an annualized basis. This places us among the leaders of our peer financial institutions at controlling non interest expense.

Income Taxes

Effective tax planning has helped produce favorable net income. The effective total income tax rate was 17.3% for the second quarter of 2007 as compared to 14.3% for the second quarter of 2006. For the six months ended June 30, 2007, our tax liability amounted to $588,000 for an effective tax rate of 17.3% as compared to an effective tax rate of 14.9% for the first six months of 2006.

Analysis of Financial Condition

Assets

Total assets increased to $534,560,000 as of June 30, 2007, an increase of $8,640,000, or 1.6% over year end 2006. Total deposits increased to $397,480,000 as of June 30, 2007, an increase of $13,460,000, or 3.5% over year end 2006.

The Corporation increased short term borrowings by $3,629,000, or 12.9% as of June 30, 2007, when compared to year end 2006. Also, long term borrowings declined by $5,500,000, or 9.6% from year end 2006.

Earning Assets

Our primary earning asset, loans, net of unearned income increased to $254,978,000 as of June 30, 2007, an increase of $3,221,000 from $251,757,000, or 1.3% since year end 2006. The loan portfolio continues to be well diversified. Asset quality has improved with both net charge offs and non performing assets declining since year end 2006.

In addition to loans, another primary earning asset is our investment portfolio which increased in size from December 31, 2006, to June 30, 2007. Available for sale securities amounted to $243,375,000 as of June 30, 2007, an increase of $6,366,000, or 2.7% from year end 2006. Held to maturity securities decreased to $4,545,000 as of June 30, 2007, a decrease of $2,384,000, or 34.4% from year end 2006.

Allowance for Loan Losses

Management performs a quarterly analysis to determine the adequacy of the allowance for loan losses. The methodology in determining adequacy incorporates specific and general allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. Management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority. Management feels, considering the conservative portfolio composition, which is largely composed of small retail loans (mortgages and installments) with minimal classified assets, low delinquencies, and favorable loss history, that the allowance for loan loss is adequate to cover foreseeable future losses.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed under Industry Guide 3 do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

The company was required to adopt Financial Accounting Standards Board Statement No. 114, Accounting by Creditors for Impairment of a Loan Refer to Note 2 above for details.

Non-Performing Assets

Non performing assets consist of non accrual and restructured loans, other real estate and foreclosed assets, together with the loans past due 90 days or more and still accruing. As of June 30, 2007, total non performing assets were $1,537,000 as compared to $2,880,000 on December 31, 2006. Non performing assets to total loans and foreclosed assets was .60% as of June 30, 2007, and 1.14% as of December 31, 2006.

Interest income received on non performing loans as of June 30, 2007, was $0 compared to $14,000 as of December 31, 2006. Interest income, which would have been recorded on these loans under the original terms as of June 30, 2007, and December 31, 2006 was $40,000 and $133,000, respectively. As of June 30, 2007 and December 31, 2006, there were no outstanding commitments to advance additional funds with respect to these non performing loans.

Deposits and Other Borrowed Funds

As indicated previously, total deposits increased by $13,460,000 as non interest bearing deposits increased slightly by $1,239,000 and interest bearing deposits increased by $12,221,000 as of June 30, 2007, from year end 2006. Total short term and long term borrowings decreased to $83,843,000 as of June 30, 2007, as compared to $85,714,000 as of year end 2006.

Capital Strength

Normal increases in capital are generated by net income, less cash dividends paid out. Also, accumulated other comprehensive income derived from unrealized gains or losses on investment securities available for sale decreased shareholders equity, or capital, net of taxes, by $3,925,000 as of June 30, 2007, and decreased capital by $126,000 as of December 31, 2006. Treasury stock had an effect of reducing our total stockholders equity by $6,054,000 on June 30, 2007, and $5,910,000 on December 31, 2006.

Total stockholders equity was $50,273,000 as of June 30, 2007, and $53,387,000 as of December 31, 2006. Leverage ratio and risk based capital ratios remain very strong. As of June 30, 2007, our leverage ratio was 10.00% compared to 9.94% as of December 31, 2006. In addition, Tier I risk based capital and total risk based capital ratio as of June 30, 2007, were 17.06% and 18.34%, respectively. The same ratios as of December 31, 2006, were 17.45% and 18.82%, respectively.

Liquidity

The liquidity position of the Corporation remains adequate to meet customer loan demand and deposit fluctuation. Managing liquidity remains an important segment of asset liability management. Our overall liquidity position is maintained by an active asset liability management committee.

Management feels its current liquidity position is satisfactorily given a very stable core deposit base which has increased annually. Secondly, our loan payments and principal paydowns on our mortgage backed securities provide a steady source of funds. Also, short term investments and maturing investment securities represent additional sources of liquidity. Finally, short term borrowings are readily accessible at the Federal Reserve Bank discount window, Atlantic Central Bankers Bank, or the Federal Home Loan Bank.

Stock Ownership of Principal Shareholders and Management

Principal Owners

The following table sets forth, as of June 30, 2007, the name and address of each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of First Keystone Corporation s outstanding common stock, the number of shares beneficially owned by the person and the percentage of First Keystone Corporation s outstanding common stock so owned.

Name and Address	Amount and Nature of Beneficial Ownership (1)	Percent of Outstanding Common Stock Beneficially Owned
Berbank First Keystone National Bank Trust Department 111 West Front Street Berwick, PA 18603	510,528 (2)	11.30 %
Robert E. Bull 323 West Fourth Street Nescopeck, PA 18635	227,700 (3)	5.04 %

(1) 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 Securities and Exchange Commission 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 June 30, 2007. Beneficial ownership may be disclaimed as to certain of the securities.

(2) Nominee registration for the common stock held by the Trust Department of First Keystone National Bank on behalf of various trusts, estates and other accounts for which the bank acts as fiduciary with sole voting and dispositive power over 430,037 shares and as fiduciary with shared voting and dispositive power over 80,491 shares. Total does not include 94,164 shares held by the Trust Department of First Keystone National Bank for which First Keystone National Bank does not have sole or shared voting or dispositive power.

(3) Includes 139,945 shares held individually by Mr. Bull, 4,085 shares held by Bull, Bull & Knecht, 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.

Beneficial Ownership by Officers and Directors

The following table sets forth, as of June 30, 2007, the amount and percentage of the outstanding common stock beneficially owned by each director, and other named executive officer of the corporation. The table also indicates the total number of shares owned by all directors, and executive officers of First Keystone Corporation and First Keystone National Bank as a group. A person owns his shares directly as an individual unless otherwise indicated.

Name	Number of Shares Owned(1),(2)		Percentage (3)
Class A Director (to serve until 2009)			
Jerome F. Fabian	35,237	(4)	
David R. Saracino	12,053		
Robert J. Wise	203,690	(5)	4.51 %
Class B Director (to serve until 2010)			
John E. Arndt	8,187	(6)	
J. Gerald Bazewicz	41,154	(7)	
Robert E. Bull	227,700	(8)	5.04 %
Class C Director (to serve until 2008)			
Don E. Bower	35,500		
Robert A. Bull	63,899	(9)	1.41 %
Dudley P. Cooley	7,097		
Other Named Executive Officer			
Matthew P. Prosseda	2,079	(10)	
Diane C.A. Rosler	3,433	(11)	
All Directors and Executive Officers as a Group (13 Persons in Total)	649,702		14.38 %

(1) 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 Securities and Exchange Commission 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 June 30, 2007. Beneficial ownership may be disclaimed as to certain of the securities.

(2) Information furnished by the directors and the corporation.

(3) Less than 1% unless otherwise indicated.

(4) Includes 6,389 shares held individually by Mr. Fabian, 13,186 shares by the Jerome F. Fabian Trust Under Agreement for which Mr. Fabian exercises dispositive power, and 15,662 shares held jointly with his spouse.

(5) Includes 78,750 shares held individually by Mr. Wise, 46,190 shares held jointly with his spouse, and 78,750 shares held individually by his spouse.

(6) Includes 7,082 shares held individually by Mr. Arndt, and 1,105 shares held individually by his spouse.

(7) Includes 18,498 shares held individually by Mr. Bazewicz, 6,786 shares held in his bank 401(k) plan, 5,390 shares held jointly with his spouse, 768 shares held individually by his spouse, and 9,712 shares which may be purchased upon the exercise of stock options.

(8) Includes 139,945 shares held individually by Mr. R.E. Bull, 4,085 shares held by Bull, Bull & Knecht, 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.

(9) Includes 21,127 shares held individually by Mr. R.A. Bull, 4,085 shares held by Bull, Bull & Knecht, LLP, a law firm of which Mr. Bull is a partner, 23,989 shares held jointly with his spouse, 4,665 shares held individually by his spouse, and 10,033 shares held by his child.

(10) Includes 1,263 shares held individually by Mr. Prosseda, 291 shares held in his bank 401(k) plan, and 525 shares which may be purchased upon the exercise of stock options.

(11) Includes 623 shares held in her bank 401(k) plan and 2,810 shares which may be purchased upon the exercise of stock options.

Directors and Executive Officers

The following table contains biographical information about the directors and executive officers of First Keystone Corporation as of June 30, 2007, and includes each person s business experience for at least the past 5 years.

Class A Directors whose Term Expires in 2009	
Jerome F. Fabian	Mr. Fabian (age 64), is the President and owner of Tile Distributors of America, Inc., located in Wilkes-Barre, Pennsylvania. He has served as a director of the corporation and the bank since 1998.
David R. Saracino	Mr. Saracino (age 62), is the former Vice President, Cashier, and Assistant Secretary of The First National Bank of Berwick (now First Keystone National Bank). Mr. Saracino has served as a director of the corporation and the bank since 2006.
Robert J. Wise	Mr. Wise (age 77), now retired, has served as a director of the corporation since 1983 and of the bank since 1967. Mr. Wise is also the Vice Chairman of the Board of the corporation and the bank, a position he has held since 1996.
Class B Directors whose Term Expires in 2010	
John E. Arndt	Mr. Arndt (age 45), is an insurance broker and the owner of Arndt Insurance Agency in Berwick, Pennsylvania. He has served as a director of the corporation and the bank since 1995.
J. Gerald Bazewicz	Mr. Bazewicz (age 58), serves as the President and Chief Executive Officer of the corporation and the bank, a position he has held since 1987. He has served as a director of the corporation and the bank since 1986.
Robert E. Bull(1)	Mr. Bull (age 84), now retired, practiced as an attorney at the law firm Bull, Bull & Knecht, LLP, of which he remains a partner. He has been the Chairman of the Board of the corporation since 1983 and of the bank since 1981. He has served as a director of the corporation since 1983 and of the bank since 1956.

Class C Directors whose Term Expires in 2008	
Don E. Bower	Mr. Bower (age 58), 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.
Robert A. Bull(1)	Mr. Bull (age 54), is an attorney at the law firm Bull, Bull, & Knecht, LLP. Mr. Bull has been a director of the corporation and the bank since 2006.
Dudley P. Cooley	Mr. Cooley (age 68), is a financial consultant and the former controller for Wise Foods, a division of Borden, Inc. He has been a director of the corporation and the bank since 1987.

(1) Robert E. Bull is the father of Robert A. Bull.

Executive Officers

Matthew P. Prosseda	Mr. Prosseda (age 46) is Treasurer and Assistant Secretary of First Keystone Corporation. Prior to joining First Keystone National Bank in March 2005, Mr. Prosseda served as Executive Vice President and Director of Lending at Citizens & Northern Bank.
Diane C.A. Rosler	Ms. Rosler (age 42) is Assistant Vice President and Chief Financial Officer.

New First Keystone Directors and Executive Officers

Prior to the closing of the merger, W. Peter Ahnert and John G. Gerlach, current directors of Pocono will be selected as directors of First Keystone Corporation and First Keystone National Bank. Further, Mr. Gerlach will serve as Executive Vice President of First Keystone National Bank. The following table contains biographical information about the new directors and executive officers of First Keystone Corporation as of June 30, 2007, and includes each person s business experience for at least the past 5 years.

W. Peter Ahnert	Mr. Ahnert (age 66) is currently the Chairman of the board of directors of Pocono and has served in that position since 1996. Mr. Ahnert is a private investor in various projects related to real estate development and quick-serve restaurants.
John G. Gerlach	Mr. Gerlach (age 65) is currently the President of Pocono and has served in that position since 1996. He also serves on the board of directors of Pocono.

Mr. Ahnert is expected to be considered independent pursuant to First Keystone Corporation s independence standards.

Compensation of Directors

Directors Compensation Table

Name	Fees Earned or Paid in Cash ($)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
John Arndt	25,050.00						25,050.00
Budd L. Beyer	14,200.00						14,200.00
Don E. Bower	23,000.00						23,000.00
Robert A. Bull	1,200.00						1,200.00
Robert E. Bull	26,400.00						26,400.00
John L. Coates	16,369.50						16,369.50
Dudley P. Cooley	23,300.00						23,300.00
Frederick E. Crispin, Jr.	24,200.00						24,200.00
Jerome F. Fabian	23,300.00						23,300.00
Robert J. Wise	24,050.00						24,050.00

During 2006, each member of First Keystone Corporation s board of directors received $600 for his attendance at the annual meeting. Other corporate board meetings met concurrently with First Keystone National Bank s board, and directors received no additional compensation. First Keystone National Bank s directors received $600 for each directors meeting attended. Non-employee directors received a $5,000 retainer and $300 for each committee meeting attended. In addition, Chairman Bull received an annual stipend of $1,000, and Vice Chairman Wise and Secretary Coates each received an annual stipend of $750. In the aggregate, the board of directors received $217,569 for all board of directors meetings and committee meetings attended in 2006, including all fees, and stipends paid to all directors in 2006.

Executive Compensation

Compensation Discussion and Analysis

Introduction

The Board of Directors serves as the Compensation Committee for First Keystone National Bank and develops First Keystone National Bank s and First Keystone Corporation s executive compensation policy, with the guidance of the Human Resources Committee. The Human Resources Committee consists of independent directors and the Chief Executive Officer and helps ensure that a sound human resources management system is developed and maintained.

Executive compensation includes base salary, cash bonuses, long-term incentives, and health and welfare and pension plans. The basic mission of First Keystone Corporation s executive compensation policy is to provide executives with a competitive compensation package that attracts and retains qualified executives while placing a portion of total pay at risk. At risk elements of compensation may have no value or may be worth less than the target value if goals are not met. At risk compensation includes all components of core compensation other than base salary, pension plans, and health and welfare benefits. Equity based compensation provides an incentive for the executives which are aligned with the interests of the shareholders.

The compensation program is designed to reward the named executive officers based on their level of assigned management responsibilities, individual performance levels, and individual value in the job marketplace. The Chief Executive Officer s individual performance objectives are the same as the strategic and financial performance objectives of First Keystone National Bank as a whole. For other executives, individual performances objectives are set by the Chief Executive Officer and are reviewed by the Board of Directors.

The executive compensation established by the Board of Directors is based upon its overall subjective assessment of the value of the services provided by each executive officer with consideration performance factors and peer group compensation information. The Board considers information provided by the Chief Executive Officer in determining the appropriate level of compensation for other executives, including the Chief Executive Officer s views on the appropriate levels of compensation for other named executive officers for the ensuing year. No executive officer other than the Chief Executive Officer attends those portions of the Board meetings during which the performance of the other named executive officers is evaluated or their compensation is being determined. For compensation provided to the Chief Executive Officer, the Board considers his performance, the results of management decisions made by him, and the earnings of the organization. The Chief Executive Officer is not present during these discussions.

The Board of Directors uses data from compensation surveys of the banking industry to assist in determining executive pay. The peer group of banks chosen by the Board of Directors for purposes of making a comparative analysis of executive compensation does not include all of the same banks incorporated in the peer group established to compare shareholder returns as indicated in the performance graph included in the Form 10-K.

Base Salary

The Board of Directors determines base salary for the executive officers with guidance from the Human Resources Committee and from compensation surveys. For the base salary paid to executive officers other than the Chief Executive Officer, the Board of Directors considers information provided by the Chief Executive Officer as to each executive officer s level of individual performance, contribution to the organization, scope of responsibilities, salary history, and market levels. For the base salary paid to the Chief Executive Officer, the Board of Directors, with the Chief Executive Officer not being present, considers his performance level, the results of management decisions made by him, and the earnings of the organization. The Board of Directors considers the return on assets and return on equity when determining whether or not the Chief Executive Officer s base pay should be at the median, below the median, or above the median provided in the compensation surveys. No particular weight is assigned to any of the foregoing individual performance factors.

Decisions regarding base salary are made without consideration of other forms of compensation provided. Bonuses and long-term incentive awards are intended to provide additional incentive to the executives to achieve a higher level of success. Adjusting the base salary to correspond with the amount of the bonuses and long term incentive awards would defeat the purpose of having at risk compensation.

Cash Bonuses

The purpose of the Management Incentive Compensation Plan (the Plan) is to provide incentives and awards to top management employees who, through high levels of performance, contribute to the success and profitability of First Keystone National Bank. The bonus plan serves as short term incentives that align executive pay with the annual performance of First Keystone Corporation and is earned through the achievement of overall annual earnings objectives. It aligns management s interests with those of the shareholders because, generally, the higher the net income for the year, the larger the bonuses paid to management. The Plan is also designed to support organizational objectives and financial goals, as defined by First Keystone National Bank s Strategic and Financial Plans, by making available additional, variable, and contingent incentive compensation.

The Plan is based upon the achievement of a required budget net income figure before any incentive award pool is formed. The calculation of share of profits to be distributed to the Plan participants, and the incentive formulas, are constructed to provide awards that are consistent with achieved profitability levels. The incentive formulas insure a level of incentive award that will enable First Keystone National Bank to attract, retain, and motivate high quality management personnel and support continued growth and profitability.

The Plan is also established to augment regular salary and benefits programs already in existence. It is not meant to be a substitute for salary increases, but as a supplement to salary, and, as stated earlier, as an incentive for performance that contributes to outstanding levels of achievement.

A committee appointed by the Board recommends performance levels to the Board for final action. Plan participants who are members of that committee shall not be entitled to vote on matters relating to the eligibility for and/or determination of their own incentive compensation awards. The committee, in the exercise of its discretion with respect to the determination of the amount of the incentive plan pool for any given plan year, may take into account the presence or absence of nonrecurring or extraordinary items of income, gain, expense, or loss, and any and all factors that, in its sole discretion, may deem relevant. Extraordinary occurrences may be excluded when calculating performance results to insure that the best interests of First Keystone National Bank are protected and are not brought into conflict with the best interest of plan participants.

Participation in the Plan is limited to the executive management team. This management team includes the following functional job titles: Chief Executive Officer/President, Executive Vice President/Director of Lending, Vice President/Deposit/Operations Division Manager, Vice President/Technology Division Manager, and Trust Services Division Manager.

Long Term Incentives

Long-term company performance is best achieved through an ownership culture that encourages long-term performance through the use of stock-based awards. The Board of Directors believes that stock option awards under First Keystone Corporation s 1998 Stock Incentive Plan (1998 Plan) provide a vehicle for long term incentive compensation through financial rewards dependent on future increases in the market value of First Keystone Corporation s stock. The purpose of the 1998 Plan is to advance the development, growth and financial condition of First Keystone Corporation and its subsidiaries by providing incentives through participation in the appreciation of capital stock of First Keystone Corporation in order to secure, retain and motivate personnel responsible for the operation and management of First Keystone Corporation and its subsidiaries. The 1998 Plan is designed to attract and retain individuals of outstanding ability as employees of First Keystone Corporation and its subsidiaries, to encourage employees to acquire a proprietary interest in First Keystone Corporation, to continue their employment with First Keystone Corporation and its subsidiaries and to render superior performance during such employment. The 1998 Plan is administered by the board of directors. Persons eligible to receive awards under the 1998 Plan are those key officers and other management employees of First Keystone Corporation and its subsidiaries as determined by the committee. Thus, executive officers are encouraged to manage First Keystone Corporation with a view toward maximizing long term shareholder value.

Under the 1998 Plan, First Keystone Corporation makes grants of options to purchase shares of First Keystone Corporation s common stock to employees, including executives, and First Keystone Corporation has absolute power to determine what, to whom, when and under what facts and circumstances awards are made. The Board of Directors bases decisions relating to the awards on its overall subjective assessment of the value of the services provided by each executive officer with consideration to performance of First Keystone Corporation and peer group compensation information. The options generally vest 6 months after issuance and expire ten years from the date of the grant. The options are awarded at the fair market value on the date of grant.

The value realized by named executive officers from award grants in prior years is not taken into account in the process of setting compensation for the current year. First Keystone Corporation also does not maintain any equity or other security ownership guidelines or requirements.

401(k) Plan

The Board believes that it is essential for employees to save for retirement and as such has provided all employees a vehicle through which to do so. First Keystone National Bank maintains a 401(k) plan, which has a combined tax qualified savings feature and profit sharing feature. The Plan provides benefits to employees who have completed at least one year of service and are at least 21 years of age. The Plan provides that First Keystone National Bank will match employee deferrals to the plan up to 3% of their respective eligible compensation. First Keystone National Bank may make a discretionary contribution annually to the plan. Contributions made by First Keystone National Bank to the plan are allocated to participants in the same portions that each participant s compensation bears to the aggregate compensation of all participants. Each participant in the plan is 100% vested at all times. As employees of First Keystone National Bank, the named executive officers are also eligible to participate in the 401(k) under the same terms and conditions as other employees.

Supplemental Employee Retirement Plan

The Supplemental Employee Retirement Plan (SERP) rewards the executive officers for their long-term contributions to First Keystone National Bank. To encourage the executives to continue their employment with First Keystone Corporation, the Board believed it to be in the best interests of First Keystone Corporation to enter into certain salary continuation agreements with the executives. The agreements were also established to reward the executives for past and future services to First Keystone Corporation. The Board believes the income benefit amounts are reasonable and consistent with the compensation standards of Section 39 of the Federal Deposit Insurance Company Improvement Act of 1991 and the related implementing regulations.

First Keystone Corporation maintains a SERP for which Mr. Bazewicz participates. The SERP provides that if the executive officer continues to serve as an officer of First Keystone National Bank until a stated retirement age of 60 years, First Keystone National Bank will pay 240 guaranteed consecutive monthly payments commencing on the first day of the month following the officer s 60th birthday and the termination of employment in the amounts indicated in this proxy. Generally, no benefit will be paid if the executive officer voluntarily terminates employment prior to attaining the stated retirement age.

The Board has also determined that it is in the best interests of First Keystone Corporation to finance the SERP benefits by purchasing life insurance on the life of certain executives. The Board selected Bank Compensation Strategies Group, a benefits consulting firm endorsed by the American Banking Association and many other state bank associations to calculate cost projections and choose life insurance appropriate to finance the obligations.

Health and Welfare Plans

Health and welfare plans are not tied to corporation or individual performance. The costs of providing such benefits to all employees are not taken into account when determining specific salaries of the named executives and is seen as a cost of doing business.

Group life insurance, group disability, vision benefits, and health insurance are available to all employees, as well is an Internal Revenue Service 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 First Keystone Corporation. Named executives participate in these plans under the same terms and conditions as other employees.

Health insurance premiums are partially paid by employees through payroll deductions for the employee share of the health care cost.

Executive Compensation

The table below shows information concerning the annual and long-term compensation for services rendered in all capacities to First Keystone Corporation and First Keystone National Bank for the fiscal year ended December 31, 2006 of those persons who were:

- all individuals who served as the Principal Executive Officer and Principal Financial Officer during 2006, and

- the other 3 most highly compensated executive officers of First Keystone Corporation and First Keystone National Bank at December 31, 2006 whose total compensation exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
J. Gerald Bazewicz Principal Executive Officer	2006	186,000				73,541	34,065 (1)	293,606
Diane C.A. Rosler Principal Financial Officer	2006	47,115 (2)					4,829	51,944
David R. Saracino Chief Financial Officer	2006	41,885					23,861 (3)	75,746
Matthew P. Prosseda Executive Vice President	2006	140,000					14,350 (4)	154,350

(1) Amounts shown for Mr. Bazewicz include $15,000 in Director fees, $5,580 401(k) matching contribution and $13,485 401(k) profit sharing award.

(2) Assumed duties of PFO after March 31, 2006 retirement of David R. Saracino, CFO.

(3) Amounts shown for Mr. Saracino include Director fees of $1,500, consultant fees of $1,900 and SERP payments of $20,461.

(4) Amounts shown for Mr. Prosseda include $4,200 401(k) matching contribution and $10,150 401(k) profit sharing award.

Stock Option Grants in Fiscal Year 2006

First Keystone Corporation granted no stock options to executive officers and other employees during fiscal year ended December 31, 2006.

Aggregated Option Exercises in 2006 Year-End Option Values

The following table shows information about all exercises of stock options by the named officer under the 1998 Stock Incentive Plan. The options and information shown on the table have been adjusted to reflect a 5% stock dividend paid December 5, 2006.

Outstanding Equity Awards at December 31, 2006

	Option Awards				
Name	**Number of Securities Underlying Unrestricted Options(#) Exercisable**	**Number of Securities Underlying Unrestricted Options(#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unrestricted Unearned Options(#)**	**Option Exercise Price($)**	**Option Expiration Date**
J. Gerald Bazewicz	3,307			20.26	9/22/08
Principal Executive Officer	2,205			15.88	9/28/09
	3,150			21.11	9/23/13
	1,050			20.95	9/27/15
Diane C.A. Rosler	412			20.26	9/22/08
Principal Financial Officer	412			15.88	9/28/09
	412			10.28	9/26/10
	787			15.08	9/24/12
	787			21.11	9/23/13
David R. Saracino Chief Financial Officer					
Matthew P. Prosseda Executive Vice President	525			20.95	9/27/15

Options Exercised During 2006

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**
J. Gerald Bazewicz Principal Executive Officer	1,050	3,549
Diane C.A. Rosler Principal Financial Officer		
David R. Saracino Chief Executive Officer	3,075	10,116
Matthew P. Prosseda Executive Vice President		

401(k) Plan

First Keystone National Bank maintains a 401(k) Plan which has a combined tax qualified savings feature and profit sharing feature. The plan provides benefits to employees who have completed at least one year of service and are at least 21 years of age. The plan agreement provides that First Keystone National Bank will match employee deferrals to the plan up to 3% of their respective eligible compensations. Additionally, First Keystone National Bank may make a discretionary profit sharing contribution annually to the plan. Contributions made by the bank to the plan are allocated to participants in the same portions 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 $364,884 total expenses during 2006, $40,842 was credited among the individual accounts of the 3 most highly compensated executive officers of First Keystone National Bank. Of the $40,842, Mr. Bazewicz was credited with $19,065, Mr. Prosseda with $14,350, and Mr. Miller with $7,427. Mr. Bazewicz has been a member of the plan for 21 years, Mr. Prosseda for 1 year, and Mr. Miller for 21 years.

Supplemental Employee Retirement Plan and Change of Control

First Keystone Corporation maintains a Supplemental Employee Retirement Plan (SERP) with a change of control provision, covering its chief executive officer, J. Gerald Bazewicz. The SERP, which is a salary continuation agreement, provides that if the executive officer continues to serve as an officer of First Keystone National Bank until a stated retirement age of 60 years, the bank will pay 240 guaranteed consecutive monthly payments commencing on the first day of the month following the officer s 60th birthday and the termination of employment in the amounts indicated below.

The established retirement benefit under the SERP for Mr. Bazewicz will be $3,750 per month and is not subject to change. If the executive officer attains their 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 their stated retirement age, First Keystone National 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 officers to achieve a retirement income percentage that is more consistent with their experience and years of service to First Keystone National Bank. The plan objective is to provide the executive officers with a final wage replacement ratio of approximately 75% of projected final salary including projected benefits from First Keystone National Bank s 401(k), social security, and salary continuation provided through the agreement.

Mr. Saracino, also covered by the SERP, elected to retire as of March 2006. Mr. Saracino s payments commenced on April 1, 2006 and the established benefit was $2,273.50 per month.

Name	Plan Name	Number of Years Credited Service (#)	Percent Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
J. Gerald Bazewicz Chief Executive Officer	SERP	9	401,878	
David R. Saracino Chief Financial Officer	SERP	9	333,587	20,461

Other Executive Benefits

First Keystone Corporation maintains the First Keystone Corporation 1998 Stock Incentive Plan to advance the development, growth and financial condition of the corporation. Please refer to the description of the 1998 Stock Incentive Plan in the Compensation Discussion and Analysis. First Keystone Corporation also maintains a bonus program for employees and for senior management, which is also described in the Compensation Discussion and Analysis.

Compensation Committee Interlocks and Insider Participation

First Keystone Corporation s board of directors, which includes J. Gerald Bazewicz, Chief Executive Officer, functions as the compensation committee. For compensation paid to executive officers other than the Chief Executive Officer, the board of directors considers information provided by the Chief Executive Officer. For compensation paid to the Chief Executive Officer, the board of directors, with Mr. Bazewicz not being present, determines his compensation, as outlined above under Base Salary .

Related Person Transactions

In deciding whether to approve a related person transaction, the following factors may be considered:

- information about the goods or services proposed to be or being provided by or to the related party or the nature of the transactions;
- the nature of the transactions and the costs to be incurred by the Corporation or payments to the Corporation;
- an analysis of the costs and benefits associated with the transaction and a comparison of comparable or alternative goods or services that are available to the Corporation from unrelated parties; and
- the business advantage the Corporation would gain by engaging in the transaction.

To receive approval, the related person transaction must be on terms that are fair and reasonable to First Keystone Corporation, and that are as favorable to First Keystone Corporation as would be available from non related entities in comparable transactions.

Other than described below, there have been no material transactions between the First Keystone Corporation or the First Keystone National Bank, nor any material transactions proposed, with any director or executive officer of First Keystone Corporation or First Keystone National Bank, or any associate of these persons. The law firm Bull, Bull & Knecht, LLP, of which Directors Robert E. Bull and Robert A. Bull, are partners, provided routine legal services to First Keystone Bank according to the firm s normal fee schedule and billing rates, and First Keystone National Bank intends to continue to engage the firm s services in the future. First Keystone National Bank paid total fees of $23,414.63 to the law firm

during 2006. In addition, the First Keystone Corporation and First Keystone National 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 First Keystone National Bank and their associates on comparable terms and with similar interest rates as those prevailing from time to time for other customers of First Keystone Corporation and First Keystone National Bank.

Total loans outstanding from First Keystone Corporation and First Keystone National Bank at December 31, 2006, to the First Keystone Corporation s and First Keystone National Bank s 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 $2,846,746, or approximately 5.33% 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, and did not involve more than the normal risk of collectibility 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 2006 to officers and directors of First Keystone Corporation and First Keystone National Bank, and their affiliates as a group was $3,453,144. The aggregate amount of outstanding indebtedness as of the latest practicable date, March 1, 2007, to the above described group was $2,834,421.

Director Independence

Currently, First Keystone Corporation s board of directors has 9 members. Based on the qualifications for independence established under the SEC and NASDAQ standards for independence, Don E. Bower, Dudley P. Cooley, and Jerome F. Fabian meet the standards for independence. Only independent directors serve on First Keystone Corporation s Audit Committee. Pursuant to First Keystone Corporation s independence standards, W. Peter Ahnert is considered independent.

In determining the directors independence, the Board of Directors considered loan transactions between First Keystone National 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.

Information with Respect to Pocono Community Bank

Description of Business of Pocono Community Bank

Pocono Community Bank engages in a full service commercial banking business, including accepting time and demand deposits, making secured and unsecured commercial and consumer loans, financing commercial transactions, and making construction and mortgage loans. Pocono s business is not seasonal in nature. Its deposits are insured by the FDIC to the fullest extent provided by law.

As of June 30, 2007, Pocono had assets, deposits and shareholders equity of approximately $137.0 million, $117.6 million, and $15.0 million, respectively.

Management s Discussion and Analysis of Financial Condition and Results of Operations of Pocono Community Bank

The purpose of Management s Discussion and Analysis of Pocono Community Bank is to assist the reader in reviewing the financial information presented and should be read in conjunction with the consolidated financial statements and other financial data contained herein.

Year Ended December 31, 2006 Versus Year Ended December 31, 2005

Results of Operations

Net income decreased to $1,003,956 for the year ended December 31, 2006, as compared to $1,301,221 for the prior year, a decrease of 22.8%. Basic earnings per share for 2006 were $0.60 as compared to $0.78 in 2005. Diluted earnings per share for 2006 were $0.49 as compared to $0.64 in 2005. This decrease in net income was primarily the result of a narrowing of Pocono s net interest margin. See Table 2, below.

Pocono s return on average assets was .79% in 2006 as compared to 1.04% in 2005. Return on average equity decreased to 7.19% in 2006 from 10.28% in 2005. The series of increases in interest rates in 2005 ended in 2006 and resulted in an overall increase of interest income to $7,208,915 up 9.0% from 2005. Likewise, there was the accompanying increase in the cost of funds which resulted in interest expense of $3,032,430 in 2006, an increase of 39.0% from 2005. The increases in deposit rates in 2006 and the flattened yield curve resulted in interest expense increasing faster than interest income.

Net interest income, as indicated below in Table 1, decreased by $258,000 or 5.8% to $4,177,000 for the year ended December 31, 2006. Pocono s net interest income on a fully taxable equivalent basis decreased by $241,000, or 5.4% to $4,234,000 in 2006 as compared to an increase of $165,000 or 3.8% to $4,475,000 in 2005.

Year Ended December 31, 2005 Versus Year Ended December 31, 2004

Net income decreased to $1,301,000 for the year ended December 31, 2005, as compared to $1,304,000 for the prior year, a decrease of 0.2%. Basic earnings per share for 2005 were $0.78 as compared to $0.78 in 2004. Diluted earnings per share for 2005 were $0.64 as compared to $0.64 in 2004. This decrease in net income was reflective of the narrowing of Pocono s net interest margin. See table 2, below.

Net interest income, as indicated below in Table 1, increased by $141,000 or 3.3% to $4,435,000 for the year ended December 31, 2005. Pocono s net interest income on a fully taxable equivalent basis increased $165,000, or 3.8% to $4,475,000 in 2005 as compared to $4,310,000 in 2004.

Table 1 Net Interest Income

	2006	Increase/(Decrease) Amount	%	2005	Increase/(Decrease) Amount	%	2004
	(Amounts in thousands)						
Interest Income	$ 7,209	$ 593	9.0 %	$ 6,616	$ 432	7.0 %	$ 6,184
Interest Expense	$ 3,032	$ 851	39.0 %	$ 2,181	$ 291	15.4 %	$ 1,890
Net Interest Income	$ 4,177	$ (258)	-5.8 %	$ 4,435	$ 141	3.3 %	$ 4,294
Tax Equivalent Adjustment	$ 86	$ 21	31.9 %	$ 65	$ 40	161.8 %	$ 25
Net Interest Income(fully tax equivalent)	$ 4,263	$ (237)	-5.3 %	$ 4,500	$ 181	4.2 %	$ 4,319

Table 2 Distribution of Assets, Liabilties and Stockholders Equity

	2006 Average Balance (Amounts in thousands)	2006 Revenue/ Expense	2006 Yield/ Rate	2005 Average Balance	2005 Revenue/ Expense	2005 Yield/ Rate	2004 Average Balance	2004 Revenue/ Expense	2004 Yield/ Rate
Interest Earning Assets:									
Loans:									
Commercial	$ 10,636	$ 729	6.85 %	$ 11,422	$ 677	5.93 %	$ 8,355	$ 440	5.27 %
Real Estate	$ 87,759	$ 5,548	6.32 %	$ 77,485	$ 4,735	6.11 %	$ 69,448	$ 4,245	6.11 %
Installment	$ 676	$ 47	6.94 %	$ 479	$ 35	7.30 %	$ 406	$ 32	7.81 %
Fees on loans		$ 28			$ 47			$ 413	
Total Loans(Including Fees)	$ 99,071	$ 6,352	6.41 %	$ 89,386	$ 5,494	6.15 %	$ 78,209	$ 5,130	6.56 %
Investment Securities:									
Taxable	$ 15,561	$ 658	4.23 %	$ 20,797	$ 810	3.90 %	$ 21,147	$ 812	3.84 %
Tax Exempt	$ 3,203	$ 160	4.98 %	$ 2,696	$ 131	4.85 %	$ 1,603	$ 74	4.59 %
Total Investment Securities	$ 18,764	$ 818	4.36 %	$ 23,493	$ 941	4.00 %	$ 22,750	$ 886	3.89 %
Interest Bearing Deposits in Banks	$ 213	$ 10	4.61 %	$ 276	$ 8	2.84 %	$ 25	$ 0	1.31 %
Federal Funds Sold	$ 2,353	$ 115	4.89 %	$ 7,503	$ 239	3.18 %	$ 15,664	$ 193	1.23 %
Total Other Interest-Earning Assets	$ 2,566	$ 125	4.86 %	$ 7,779	$ 247	3.17 %	$ 15,689	$ 193	1.23 %
Total Interest Earning Assets	$ 120,401	$ 7,295	6.06 %	$ 120,658	$ 6,682	5.54 %	$ 116,648	$ 6,209	5.32 %
Non-Interest Earning Assets:									
Cash and Due From Banks	$ 2,010			$ 1,913			$ 1,779		
Allowance for Loan Losses	$ (1,203)			$ (1,109)			$ (1,067)		
Premises and Equipment	$ 2,680			$ 1,989			$ 1,472		
Other Assets	$ 4,070			$ 1,999			$ 1,077		
Total Non-Interest Earning Assets	$ 7,557			$ 4,792			$ 3,261		
Total Assets	$ 127,958			$ 125,450			$ 119,909		
Interest-Bearing Liabilties									
Savings, NOW Accounts, and Money Markets	$ 48,904	$ 822	1.68 %	$ 62,119	$ 835	1.34 %	$ 69,055	$ 941	1.36 %
Time Deposits	$ 44,097	$ 1,897	4.30 %	$ 29,446	$ 1,039	3.53 %	$ 19,744	$ 639	3.24 %
Short Term Borrowings	$ 1,171	$ 63	5.40 %	$ 1,047	$ 56	5.31 %	$ 40	$ 2	4.97 %
Long Term Borrowings	$ 3,845	$ 250	6.49 %	$ 3,868	$ 252	6.51 %	$ 4,889	$ 307	6.28 %
Total Interest-Bearing Liabilties	$ 98,017	$ 3,032	3.09 %	$ 96,479	$ 2,182	2.26 %	$ 93,728	$ 1,890	2.02 %
Non-Interest Bearing Liabilties:									
Demand Deposits	$ 15,917			$ 15,886			$ 14,243		
Other Liabilties	$ 289			$ 424			$ 369		
Stockholders Equity	$ 13,735			$ 12,661			$ 11,569		
Total Liabilties/Stockholders Equity	$ 127,958			$ 125,450			$ 119,909		
Net Interest Income Tax Equivalent		$ 4,262			$ 4,500			$ 4,319	
Net Interest Spread			2.96 %			3.28 %			3.30 %
Net Interest Margin			3.54 %			3.73 %			3.70 %

Tax-exempt income has been adjusted to a tax equivalent basis using an incremental rate of 34%.

Average Loan Balances include non-accrual loans. Interest income on non-accrual loans is not included.

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Net Interest Income

The major source of operating income for Pocono is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, including deposits and other borrowings. The amount of interest income is dependent upon both the volume of earning assets and the level of interest rates. In addition, the volume of non-performing loans affects interest income. The amount of interest expense varies with the amount of funds needed to support earning assets, interest rates paid on deposits and borrowed funds, and finally, the level of interest free deposits.

Table 2 on the preceding page provides a summary of average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and interest expense as well as average tax equivalent rates earned and paid as of year end 2006, 2005, and 2004.

The yield on earning assets was 6.06% in 2006, 5.54% in 2005, and 5.32% in 2004. The rate paid on interest bearing liabilities was 3.09% in 2006, 2.26% in 2005, and 2.02% in 2004. This resulted in a decrease in our net interest spread to 2.97% in 2006, as compared to 3.28% in 2005 and 3.30% in 2004. As Table 2 illustrates, our net interest margin also declined in 2006.

The net interest margin, which is interest income less interest expenses divided by average earnings assets, was 3.54% in 2006 as compared to 3.73% in 2005 and 3.70% in 2004. The net interest margins are presented on a tax equivalent basis. The decrease in net interest margin in 2006 was due primarily to the increased interest paid on interest bearing liabilities. This was a result of more interest bearing liabilities repricing than earning assets.

Table 3 sets forth changes in interest income and interest expense for the periods indicated for each category of interest earning assets and interest bearing liabilities. Information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by prior rate) and changes in rate (changes in average rate multiplied by prior average volume).

Table 3 Changes in Income and Expense, 2006 and 2005

	2006 COMPARED TO 2005			**2005 COMPARED TO 2004**		
	VOLUME	**RATE**	**NET**	**VOLUME**	**RATE**	**NET**
	(Amounts in Thousands)					
Interest Income:						
Loans, Net	$ 617	$ 241	$ 858	$ 647	$ (283)	$ 364
Taxable Investment Securities	$ (229)	$ 77	$ (152)	$ (38)	$ 36	$ (2)
Tax Exempt Investment Securities	$ 25	$ 4	$ 29	$ 53	$ 4	$ 57
Other Short Term Investments	$ (640)	$ 518	$ (122)	$ (25)	$ 79	$ 54
Total Interest Income	$ (227)	$ 840	$ 613	$ 637	$ (164)	$ 473
Interest Expense:						
Savings, NOW Accounts, and Money Markets	$ 67	$ (80)	$ (13)	$ (92)	$ (14)	$ (106)
Time Deposits	$ 596	$ 262	$ 858	$ 338	$ 62	$ 400
Short Term Borrowings	$ 6	$ 1	$ 7	$ 52	$ 2	$ 54
Long Term Borrowings	$ (1)	$ (1)	$ (2)	$ (67)	$ 11	$ (56)
Total Interest Expense	$ 668	$ 182	$ 850	$ 231	$ 61	$ 292
Net Interest Income	$ (895)	$ 658	$ (237)	$ 406	$ (225)	$ 181

The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each.

Balance on non accrual loans are included for computational purposes. Interest income on non accrual loans is not included.

Interest income exempt from federal tax was $168,000 in 2006, $127,000 in 2005, and $48,000 in 2004. Tax exempt income has been adjusted to a tax equivalent basis using an incremental rate of 34%.

Provision for Loan Losses

For the year ended December 31, 2006, the provision for loan losses was $80,200 as compared to $101,000 as of December 31, 2005. Pocono s provision for loan losses for the year ended December 31, 2004, was $24,000. The provision in 2006, decreased primarily because of the reduced net charge offs and stable loan quality. Net charge offs by Pocono for the fiscal year end December 31, 2006, 2005, and 2004, were $10,000 $4,000, and $42,000, respectively.

The allowance for loan losses as a percentage of loans, net of unearned interest, was 1.22% as of December 31, 2006, 1.23% as of December 31, 2005, 1.28% as of December 31, 2004.

On a quarterly basis, Pocono s Board of Directors and management performs a detailed analysis of the adequacy of the allowance for loan losses. This analysis includes an evaluation of credit risk concentration, delinquency trends, past loss experience, current economic conditions, composition of the loan portfolio, classified loans and other relevant factors.

Pocono management will continue to monitor its allowance for loan losses and make future adjustments to the allowance through the provision for loan losses as conditions warrant. Although Pocono management believes that the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio, there can be no assurance that future losses will not exceed the estimated amounts or that additional provisions will not be required in the future.

Pocono is subject to periodic regulatory examination by the Pennsylvania Department of Banking and the Federal Reserve Bank. As part of the examination, they will assess the adequacy of Pocono s allowance for loan losses and may include factors not considered by Pocono management. In the event that an examination results in a conclusion that Pocono s allowance for loan losses is not adequate, Pocono management may be required to increase its provision for loan losses.

Non-Interest Income

Non-interest income is derived primarily from service charges and fees, income on bank-owned life insurance (BOLI), and other miscellaneous revenue.

For the year ended December 31, 2006, non-interest income amounted to $505,000, an increase of $69,000, or 15.9% as compared to a increase of $127,000, or 41.1% for the year ended December 31, 2005. Table 4 provides the major categories of non-interest income and each respective change comparing the past three years.

Service charges and fees, consisting primarily of service charges on deposit accounts, was the largest source of non-interest income in 2006 and 2005. Service charges and fees decreased by $19,000, or 6.1% in 2006 compared to an increase of $82,000, or 36.1% in 2005. The decline in 2006 was due primarily to a decrease in fees for the preparation of loan documents.

Income on BOLI increased $82,000 to $121,000 in 2006 as compared to $39,000 in 2005, the first year BOLI was acquired by Pocono. The income from BOLI represents the increase in the cash surrender value of BOLI and is intended to partially cover the costs of Pocono s employee benefit plans, including group life, disability, and health insurance.

Other income amounted to $93,000 for 2006, an increase of $6,000 or 7.0% over the $87,000 other income reported in 2005.

Table 4 Non-Interest Income

	2006	Increase/(Decrease) Amount	%	2005	Increase/(Decrease) Amount	%	2004
	(Amounts in thousands)						
Service Charges	$ 291	$ (19)	-6.1 %	$ 310	$ 82	36.1 %	$ 228
Income on Bank Owned Life Insurance	$ 121	$ 82	210.6 %	$ 39	$ 39		$
Other	$ 93	$ 6	7.0 %	$ 87	$ 6	7.2 %	$ 81
Total	$ 505	$ 69	15.9 %	$ 436	$ 127	41.1 %	$ 309

Non-Interest Expense

Non-interest expense consists of salaries and benefits, occupancy, furniture and equipment, and other miscellaneous expenses. Table 5 provides the yearly non-interest expense by category, along with the amount, dollar changes, and percentage of change.

Total non-interest expense amounted to $3,215,000, an increase of $340,000 or 11.8% in 2006 compared to an increase of $248,000, or 9.5% in 2005. Expenses associated with employees (salaries and employee benefits) continue to be the largest non-interest expenditure. Salaries and employee benefits amounted to 51.9% of total non-interest expense in 2006 and 53.2% in 2005. Salaries and employee benefits increased $139,000, or 9.1% in 2006 and $75,000, or 5.2% in 2005. The increases in both years largely reflect normal salary adjustments and increased benefit costs along with increase staffing costs for the new office in Brodheadsville in 2006. The number of full time equivalent employees was 37 as of December 31, 2006, and 32 as of December 31, 2005.

Bank premises and equipment expenses increased $43,000, or 12.6% in 2006 as compared to an increase of $32,000, or 10.5% in 2005. The increase in 2006 was due primarily to costs associated with Pocono s new Brodheadsville location.

Other operating expenses increased $158,000, or 15.7% in 2006 as compared to an increase of $141,000, or 16.2% in 2005.

Table 5 Non Interest Expense

	2006	Increase/(Decrease) Amount	%	2005	Increase/(Decrease) Amount	%	2004
	(Amounts in Thousands)						
Salaries and Employee Benefits	$ 1,668	$ 139	9.1 %	$ 1,529	$ 75	5.2 %	$ 1,454
Bank Premises and Equipment	$ 380	$ 43	12.8 %	$ 337	$ 32	10.4 %	$ 305
Other	$ 1,167	$ 158	15.7 %	$ 1,009	$ 141	16.2 %	$ 868
	$ 3,215	$ 340	11.8 %	$ 2,875	$ 248	9.5 %	$ 2,627

Income Tax Expense

Income tax expense for the year ended December 31, 2006, was $382,000 as compared to $593,000 and $647,000 for the years ended December 31, 2005, and December 31, 2004, respectively. In 2006, our income tax expense decreased because income before taxes decreased $508,000 to $1,386,000 from $1,894,000 in 2005. In 2004, our income before taxes amounted to $1,952,000. Pocono looks to maximize its tax exempt interest derived from both tax free loans and tax free municipal investments without triggering alternative minimum tax. The effective income tax rate was 27.6% in 2006, 31.3% in 2005, and 33.2% in 2004.

Financial Condition

General

Total assets increased to $138,527,000, at year end 2006, an increase of 5.2% over year end 2005. As of December 31, 2006, total deposits amounted to $113,724,000, an increase of 4.9% over 2005. Assets as of December 31, 2005, were $131,632,000, an increase of 3.4% over 2004, while total deposits as of year end 2005 amounted to $108,383,000, an increase of 5.0% from 2004.

In both 2006 and 2005, deposit growth and investment maturities and repayments were used principally to fund loan growth. Pocono continues to maintain and manage its asset growth. Pocono s strong equity capital position provides an opportunity to further leverage asset growth. Core deposits, which include demand deposits and interest bearing demand deposits (NOWs), money market accounts, savings accounts, and time deposits of individuals continues to be our most significant source of funds. In 2006 and 2005, several successful sales campaigns attracted new customers and generated growth in retail certificates of deposit (time deposits of individuals) as well as savings and money market accounts.

Earning Assets

Earning assets are defined as those assets that produce interest income. By maintaining a healthy asset utilization rate, i.e., the volume of earning assets as a percentage of total assets, Pocono maximizes income. The earning asset ratio (average interest earning assets divided by average total assets) equaled 94.1% for 2006, compared to 96.2% for 2005 and 97.2% for 2004. This indicates that the management of earning assets is a priority and non earning assets, primarily cash and due from banks, fixed assets and other assets, are maintained at minimal levels. The primary earning assets are loans and investment securities.

Loans

Total loans, net of unearned income, increased to $100,352,000 as of December 31, 2006, as compared to a balance of $94,132,000 as of December 31, 2005. Table 6 provides data relating to the composition of Pocono s loan portfolio on the dates indicated. Total loans, net of unearned income increased $6,220,000, or 6.6% in 2006 compared to an increase of $11,188,000, or 13.5% in 2005.

The loan portfolio is well diversified and increases in the portfolio in 2006 were primarily in commercial loans secured by real estate and residential real estate. In 2005, the increase in loans was also in commercial and residential real estate. Outstanding balances on commercial loans declined in 2006.

Pocono continues to internally underwrite each of its loans to comply with prescribed policies and approval levels established by its Board of Directors.

Table 6 Loans Outstanding, Net of Unearned Income

	December 31, 2006	2005	2004	2003	2002
	(Amounts in thousands)				
Commercial and Industrial	$ 8,414	$ 9,955	$ 9,459	$ 6,139	$ 5,304
Commercial Real Estate	$ 41,473	$ 39,426	$ 34,438	$ 33,597	$ 28,999
Residential Real Estate	$ 48,797	$ 41,998	$ 36,723	$ 42,234	$ 36,280
Construction Loans	$ 1,040	$ 2,240	$ 1,718	$ 1,986	$ 2,155
Installment Loans	$ 354	$ 188	$ 136	$ 124	$ 202
Governmental	$ 392	$ 456	$ 601	$ 56	$ 81
Overdrafts	$ 13	$ 20	$ 19	$ 5	$ 9
Gross Loans	$ 100,483	$ 94,283	$ 83,094	$ 84,140	$ 73,030
Unamortized loan fees, net	$ (131)	$ (151)	$ (150)	$ (231)	$ (277)
Total Loans, net of unearned income	$ 100,352	$ 94,132	$ 82,944	$ 83,909	$ 72,753

Investment Securities

Pocono uses investment securities to not only generate interest and dividend revenue, but also to help manage interest rate risk and to provide liquidity to meet operating cash needs.

The investment portfolio has been designated as securities available for sale. No investment securities were established in a trading account. Available for sale securities decreased to $16,871,000 in 2006, a 20.6% decline from 2005. At December 31, 2006 the net unrealized loss, net of the tax effect, on these securities was $137,000 and is included in stockholders equity as accumulated other comprehensive loss. At December 31, 2005, accumulated other comprehensive loss, net of tax effect, amounted to $222,000. Table 7 provides data on the carrying value of our investment portfolio on the dates indicated. All investment security purchases are allocated as available for sale. This provides Pocono with increased flexibility should there be a need or desire to liquidate an investment security.

The investment portfolio includes U.S. government agency obligations, corporate bonds, mortgage-backed securities, state and municipal securities, and US Treasury securities. In addition, the investment portfolio includes restricted equity securities consisting primarily of common stock investments in the Federal Reserve Bank and the Federal Home Loan Bank.

Securities available for sale may be sold as part of the overall asset and liability management process. Realized gains and losses are reflected in the results of operations on our statements of income. The investment portfolio contains $979,000 in step up bonds.

Table 7 Carrying Value of Investment Securities

	December 31, 2006 Available for Sale	Held to Maturity	2005 Available for Sale	Held to Maturity	2004 Available for Sale	Held to Maturity
	(Amounts in thousands)					
Mortgage-backed securities	$ 5,698	$	$ 7,444	$	$ 10,378	$
US government agency obligations	$ 5,033	$	$ 5,467	$	$ 3,456	$
Corporate bonds	$ 1,735	$	$ 3,478	$	$ 4,497	$
State and municipal securities	$ 3,169	$	$ 3,193	$	$ 2,415	$
US Treasury securities	$ 244	$	$ 736	$	$ 4,283	$
Restricted equity securities	$ 992	$	$ 922	$	$ 1,078	$
Total	$ 16,871	$	$ 21,240	$	$ 26,107	$

Allowance for Loan Losses

The allowance for loan losses constitutes the amount available to absorb losses within the loan portfolio. As of December 31, 2006, the allowance for loan losses was $1,231,000 as compared to $1,161,000 and $1,064,000 as of December 31, 2005 and 2004, respectively. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for possible loan losses when management believes that the collectibility of the principal is unlikely. The risk characteristics of the loan portfolio are managed through the various control processes, including credit evaluations of individual borrowers, periodic reviews, and diversification by industry. Risk is further mitigated through the application of lending procedures such as the holding of adequate collateral and the establishment of contractual guarantees.

Pocono management performs a quarterly analysis to determine the adequacy of the allowance for loan losses. The methodology in determining adequacy incorporates specific and general allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. This assessment results in an allocated allowance. Pocono management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority.

Pocono management believes based upon its methodology, that the allowance for loan losses is adequate to cover foreseeable future losses. Table 8 contains an analysis of the Pocono Allowance for Loan Losses indicating charge offs and recoveries by the year and annual additional provisions charged to operations. In 2006, net charge offs as a percentage of average loans were .01% compared to .004% in 2005 and .05% in 2004. Net charge offs amounted to $10,000 in 2006 compared to $4,000 in 2005 and $42,000 in 2004, respectively. The increase in net charge offs in 2006 follows the decrease in net charge offs in 2005. In 2004, the increase in net charge offs was primarily from one commercial loan relationship.

Table 8 Analysis of Allowance for Loan Losses

	December 31, 2006	2005	2004	2003	2002
	(Amounts in thousands)				
Balance at Beginning of Period	$ 1,161	$ 1,064	$ 1,082	$ 921	$ 703
Charge-offs:					
Commercial	$	$	$ 42	$	$
Real Estate	$	$ 7	$	$	$
Consumer	$ 13	$ 2	$	$	$
Recoveries:					
Commercial	$		$	$	$
Real Estate	$	$ 4	$	$	$
Consumer	$ 3	$ 1	$	$	$
Net charge-offs	$ 10	$ 4	$ 42	$	$
Provision for loan losses	$ 80	$ 101	$ 24	$ 161	$ 218
Balance at end of period	$ 1,231	$ 1,161	$ 1,064	$ 1,082	$ 921
Ratio of net charge-offs during the period to average loans outstanding during the period	0.010 %	0.004 %	0.054 %	0.000 %	0.000 %
Allowance for loan losses to average loans outstanding during the period	1.24 %	1.30 %	1.36 %	1.36 %	1.36 %

It is the policy of Pocono management and Board of Directors to provide for losses on both identified and unidentified losses inherent in its loan portfolio. A provision for loan losses is charged to operations based upon an evaluation of the potential losses in the loan portfolio. This evaluation takes into account such factors as portfolio concentrations, delinquency trends, trends of non accrual and classified loans, economic conditions, and other relevant factors.

The loan review process which is conducted quarterly, is an integral part of our evaluation of the loan portfolio. A detailed quarterly analysis to determine the adequacy of Pocono s allowance for loan losses is reviewed by the Board of Directors.

With a manageable level of net charge offs and the additions to the allowance from the provision out of operations, the allowance for loan losses as a percentage of average loans amounted to 1.24% in 2006, 1.30% to 2005, and 1.36% in 2004.

Table 9 sets forth the allocation of Pocono s allowance for loan losses by loan category and the percentage of loans in each category to total loans receivable at the dates indicated. The portion of the allowance for loan losses allocated to each loan category does not represent the total available for future losses that may occur within the loan category, since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

Table 9 Allocation of Allowance for Loan Losses

	December 31, 2006 (Amounts in thousands)	%	2005	%	2004	%	2003	%	2002	%
Commercial	$ 123	8.7 %	$ 88	10.6 %	$ 77	10.4 %	58	7.4 %	$ 45	7.8 %
Real Estate mortgage	$ 901	90.9 %	$ 924	89.2 %	$ 862	89.4 %	833	92.5 %	$ 690	91.8 %
Consumer and other	$ 3	0.4 %	$ 2	0.2 %	$ 1	0.2 %	$ 1	0.1 %	$ 3	0.5 %
Unallocated	$ 204		$ 147		$ 124		$ 190		$ 183	
	$ 1,231		$ 1,161		$ 1,064		$ 1,082		$ 921	

Non-Performing Assets

Table 10 details Pocono s non-performing assets at the dates indicated.

Non-accrual loans are generally delinquent on which principal or interest is past due approximately 90 days or more, depending upon the type of credit and the collateral. When a loan is placed on non accrual status, any unpaid interest is charged against income. Restructured loans are loans where the borrower has been granted a concession in the interest rate or payment amount because of financial problems. Foreclosed assets held for sale represents property acquired through foreclosure, or considered to be an in substance foreclosure.

The total of non-performing assets increased to $123,000 as of December 31, 2006, as compared to $0 as of December 31, 2005. Pocono had no foreclosed assets in 2006 and 2005. Pocono had no loans past due 90 days or more and still accruing in 2006 and 2005. Our allowance for loan losses to total non-performing assets was 1001% in 2006. While asset quality is a priority, Pocono continues to retain an independent outside loan review consultant to closely tract and monitor overall loan quality.

Improving loan quality is a priority, and Pocono management actively works with borrowers to resolve credit problems. Excluding the assets disclosed in Table 10, Pocono management is not aware of any information about borrowers possible credit problems, which cause serious doubt as to their ability to comply with present loan repayment terms.

Should the economic climate no longer continue to be stable or begin to deteriorate, borrowers may experience difficulty, and the level of non performing loans and assets, charge offs and delinquencies could rise and possibly require additional increases in our allowance for loan losses.

In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for possible loan and lease losses. They may require additions to allowances based upon their judgments about information available to them at the time of examination.

No interest income was received on non-performing loans in 2006 or 2005. Interest income, which would have been recorded on these loans under the original terms in 2006 would have been $10,000. At December 31, 2006, Pocono had no outstanding commitments to advance additional funds with respect to these non-performing loans.

A concentration of credit exists when the total amount of loans to borrowers, who are engaged in similar activities that are similarly impacted by economic or other conditions, exceed 10% of total loans. As of December 31, 2006, 2005 and 2004, Pocono management is of the opinion that there were no loan concentrations exceeding 10% of total loans.

Table 10 Non-Performing Assets

	December 31, 2006 (Amounts in thousands)		2005		2004		2003		2002	
Non-Accrual and restructured loans	$ 123		$		$		$		$	
Foreclosed assets	$		$		$		$		$	
Loans past-due 90 days or more and still accruing	$		$		$		$		$	
Total non-performing assets	$ 123		$		$		$		$	
Non-performing assets to period-end loans and foreclosed assets	0.12	%	0.00	%	0.00	%	0.00	%	0.00	%
Total non-performing assets to total assets	0.09	%	0.00	%	0.00	%	0.00	%	0.00	%
Total allowance for loans to total non-performing assets	1000.81	%								

Real estate mortgages comprise 89.8% of the loan portfolio as of December 31, 2006, up from 86.3% in 2005. Real estate mortgages consist of both residential and commercial real estate loans. The real estate loan portfolio is well diversified in terms of borrowers, collateral, interest rates, and maturities. Also, the real estate loan portfolio has a mix of both fixed rate and adjustable rate mortgages. The real estate loans are concentrated primarily in Pocono s marketing area and are subject to risks associated with the local economy.

Deposits and Other Borrowed Funds

Consumer and commercial retail deposits are attracted primarily by Pocono s three full service office locations. Pocono offers a broad selection of deposit products and continually evaluates its interest rates and fees on deposit products. Pocono regularly reviews competing financial institutions interest rates along with prevailing market rates, especially when establishing interest rates on certificates of deposit.

Deposits increased by $5,342,000, or a 4.9% increase when comparing December 31, 2006 to December 31, 2005. This increase compares to a deposit increase of 5.0% in 2005 and an increase of .8% in 2004.

During 2006, Pocono experienced a deposit increase in both non-interest-bearing and interest-bearing deposits. Non-interest-bearing deposits amounted to $17,225,000 as of December 31, 2006, an increase of $893,000 or 5.5% over 2005. Interest bearing deposits amounted to $96,500,000 as of December 31, 2006, an increase of $4,449,000, or 4.8% over 2005.

Total borrowings were $9,000,000 as of December 31, 2006 and December 31, 2005. Short term borrowings are comprised of federal funds purchased, securities sold under agreements to repurchase, U.S. Treasury demand notes, and short term borrowings from the Federal Home Loan Bank (FHLB).

Long term borrowings are typically FHLB term borrowings with a maturity of one year or more. Short term borrowings from the Federal Home Loan Bank are commonly used to offset seasonal fluctuations in deposits. In connection with FHLB borrowings and securities sold under agreements to repurchase, Pocono maintains certain eligible assets as collateral.

Capital Strength

Normal increases in capital are generated by net income, less cash dividends paid out. Also, the net unrealized gains or losses on investment securities available for sale, net of taxes, referred to as accumulated other comprehensive income may increase or decrease total equity capital. The total net increase in capital was $1,231,000 in 2006 after an increase of $1,059,000 in 2005. The accumulated other comprehensive income amounted to $(137,000) in 2006 and $(222,000) in 2005.

Return on equity (ROE) is computed by dividing net income by average stockholders equity. This ratio was 7.19% for 2006, 10.28% for 2005, and 11.27% for 2004. Refer to Performance Ratios on Page 14 Selected Historical Financial Data of First Keystone Corporation for a more expanded listing of the ROE.

Adequate capitalization of banks and bank holding companies is required and monitored by regulatory authorities. Table 11 reflects risk based capital ratios and the leverage ratio for Pocono. Pocono s leverage ratio was 11.1% at December 31, 2006, and 10.4% at December 31, 2005.

Pocono has consistently maintained regulatory capital ratios at or above the well capitalized standards. For additional information on capital ratios, see Table 11 Capital Ratios. The risk based capital ratios for Pocono remained very strong. The risk based capital calculation assigns various levels of risk to different categories of bank assets, requiring higher levels of capital for assets with more risk. Also measured in the risk based capital ratio is credit risk exposure associated with off balance sheet contracts and commitments.

Table 11 Capital Ratios

	12/31/2006	12/31/2005
Risk Based Capital:		
Tier 1 risk-based capital ratio	14.1 %	14.8 %
Total risk based capital ratio(Tier 1 and Tier 2)	15.3 %	16.0 %
Leverage Ratio:		
Tier 1 capital to average assets	11.1 %	10.4 %

Liquidity Management

Effective liquidity management ensures that the cash flow requirements of depositors and borrowers, as well as the operating cash needs of Pocono, are met.

Liquidity is needed to provide the funding requirements of depositors withdrawals, loan growth, and other operational needs. Asset liquidity is provided by investment securities maturing in one year or less, other short term investments, federal funds sold, and cash and due from banks. At year end 2006, cash and cash equivalents totaled $15,583,000 as compared to $10,851,000 at year end 2005. Additionally, maturing loans and repayment of loans are another source of asset liquidity.

Liability liquidity is accomplished by maintaining a core deposit base, acquired by attracting new deposits and retaining maturing deposits. Also, short term borrowings provide funds to meet liquidity.

Pocono management believes its current liquidity position is satisfactory given the fact that Pocono has a very stable core deposit base which has increased annually. Secondly, Pocono s loan payments and principal paydowns on its mortgage backed securities provide a steady source of funds. Also, short term investments and maturing investments represent additional sources of liquidity.

Finally, fed funds can be purchased by means of a borrowing line at the Atlantic Central Bankers Bank. Pocono also has indirect access to the capital markets through its membership in the Federal Home Loan Bank. Advances on borrowings, both short term and long term, are available to help address any liquidity needs.

Forward Looking Statements

The sections that follow, Market Risk and Asset/Liability Management, contain certain forward-looking statements. These forward looking statements involve significant risks and uncertainties, including changes in economic and financial market conditions. Although Pocono believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Pocono s market risk is composed primarily of interest rate risk. Pocono s interest rate risk results from timing differences in the repricing of assets, liabilities, off balance sheet instruments, and changes in relationships between ratio indices and the potential exercise of explicit or embedded options.

Increases in the level of interest rates also may adversely affect the fair value of Pocono s securities and other earning assets. Generally, the fair value of fixed rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of Pocono s interest earning assets, which could adversely affect Pocono s results of operations if sold, or, in the case of interest earning assets classified as available for sale, Pocono s stockholders equity, if retained. Under The Financial Accounting Standards Board (FASB) Statement 115, changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in Pocono s stockholders equity. Pocono does not own any trading assets.

The principal objective of asset liability management is to manage the sensitivity of the net interest margin to potential movements in interest rates and to enhance profitability through returns from managed levels of interest rate risk. Pocono actively manages the interest rate sensitivity of its assets and liabilities. Table 12 presents an interest sensitivity analysis of assets and liabilities as of December 31, 2006. Several techniques are used for measuring interest rate sensitivity. Interest rate risk arises from the mismatches in the repricing of assets and liabilities within a given time period, referred to as a rate sensitivity gap. If more assets than liabilities mature or reprice within the time frame, Pocono is asset sensitive. This position would contribute positively to net interest income in a rising rate environment. Conversely, if more liabilities mature or reprice, Pocono is liability sensitive. This position would contribute positively to net interest income in a falling rate environment.

Limitations of interest rate sensitivity gap analysis as illustrated in Table 12 include: a) assets and liabilities which contractually reprice within the same period may not, in fact, reprice at the same time or to the same extent; b) changes in market interest rates do not affect all assets and liabilities to the same extent or at the same time, and c) interest rate sensitivity gaps reflect Pocono s position on a single day (December 31, 2006 in the case of the following schedule) while Pocono continually adjusts its interest sensitivity throughout the year. Pocono s cumulative gap at one year indicates Pocono is liability sensitive.

Table 12 Interest Rate Sensitivity Analysis

	December 31, 2006 One Year	1-5 Years	Beyond 5 Years	Not Rate Sensitive	Total
	(Amounts in thousands)				
Assets	$ 49,890	$ 58,087	$ 21,470	$ 9,080	$ 138,527
Liabilties/Stockholders Equity	$ 66,059	$ 39,496	$ 832	$ 32,140	$ 138,527
Interest Rate Sensitivity Gap	$ (16,169)	$ 18,591	$ 20,638		
Cumulative Gap	$ (16,169)	$ 2,422	$ 23,060		

Earnings at Risk

Pocono s Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. The guidelines established by ALCO are reviewed by Pocono s Board of Directors. Pocono recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet beyond interest rate sensitivity gap. Although Pocono continues to measure its interest rate sensitivity gap, Pocono utilizes additional modeling for interest rate risk in the overall balance sheet. Earnings at risk and economic values at risk are analyzed.

Earnings simulation modeling addresses earnings at risk and net present value estimation addresses economic value at risk. While each of these interest rate risk measurements has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in Pocono.

Earnings Simulation Modeling

Pocono s net income is affected by changes in the level of interest rates. Net income is also subject to changes in the shape of the yield curve. For example, a flattening of the yield curve would result in a decline in earnings due to the compression of earning asset yields and increased liability rates, while a steepening would result in increased earnings as earning asset yields widen.

Earnings simulation modeling is the primary mechanism used in assessing the impact of changes in interest rates on net interest income. The model reflects management s assumptions related to asset yields and rates paid on liabilities, deposit sensitivity, size and composition of the balance sheet. The assumptions are based on what management believes at that time to be the most likely interest rate environment. Earnings at risk is the change in net interest income from a base case scenario under an increase and decrease of 200 basis points in the interest rate earnings simulation model.

Table 13 presents an analysis of the changes in net interest income and net present value of the balance sheet resulting from an increase or decrease of two percentage points (200 basis points) in the level of interest rates. The calculated estimates of change in net interest income and net present value of the balance sheet are compared to current limits approved by ALCO and the Pocono Board of Directors. The earnings simulation model projects net interest income would increase by approximately 2.5% if rates fell by two percentage points over one year. The model projects a decrease of approximately 5.5% in net interest income if rates rise by two percentage points over one year. Both of these forecasts are within the one year policy guidelines.

Net Present Value Estimation

The net present value measures economic value at risk and is used for helping to determine levels of risk at a point in time present in the balance sheet that might not be taken into account in the earnings simulation model. The net present value of the balance sheet is defined as the discounted present value of asset cash flows minus the discounted present value of liability cash flows. At year end, a 200 basis point immediate decrease in rates is estimated to increase net present value by 15.1%. Additionally, net present value is projected to decrease by 24.4% if rates increase immediately by 200 basis points.

The computation of the effects of hypothetical interest rate changes are based on many assumptions. They should not be relied upon solely as being indicative of actual results, since the computations do not contemplate actions management could undertake in response to changes in interest rates.

Table 13 Effect of Changes in Interest Rates

	Projected Change
Effect on Net Interest Income	
1-year Net Income simulation Projection	
-200 bp Shock vs Stable Rate	2.50 %
+200 bp Shock vs Stable Rate	-5.5 %
Effect on Net Present Value of Balance Sheet	
Static Net Present Value Change	
-200 bp Shock vs Stable Rate	15.1 %
+200 bp Shock vs Stable Rate	-24.4 %

Market Price and Dividend History

As of December 31, 2006, Pocono had 1,684,515 shares of $2.50 par value common stock outstanding held by shareholders of record. Pocono s common stock is not listed on an exchange.

Table 14 reports the highest and lowest per share prices known to Pocono management and the dividends paid during the periods indicated.

Table 14 Market Price/Dividend History

	2006 Common Stock High/Low	Dividends Paid	2005 Common Stock High/Low	Dividends Paid
First Quarter	$ 16.75/$16.50	$	$ 15.25/$15.25	$
Second Quarter	$ 16.75/$16.50	$	$ 15.50/$15.25	$
Third Quarter	$ 16.75/$16.50	$	$ 16.00/$15.50	$
Fourth Quarter	$ 16.75/$16.50	$	$ 16.25/$16.00	$

Pocono issued a 10% stock dividend in 2005.

Table 15 Quarterly Results of Operations(Unaudited)

	2006 Three Months Ended 31-Mar	30-Jun	30-Sep	31-Dec
	(Amounts in thousands)			
Interest Income	$ 1,702	$ 1,778	$ 1,855	$ 1,874
Interest Expense	$ 620	$ 722	$ 794	$ 896
Net interest income	$ 1,082	$ 1,056	$ 1,061	$ 978
Provision for loan losses	$ 24	$ 21	$ 26	$ 9
Other operating income	$ 122	$ 126	$ 134	$ 123
Other operating expenses	$ 775	$ 804	$ 775	$ 862
Income before income taxes	$ 405	$ 357	$ 394	$ 230
Applicable income tax	$ 114	$ 100	$ 111	$ 57
Net Income	$ 291	$ 257	$ 283	$ 173
Per Share	$ 0.17	$ 0.15	$ 0.17	$ 0.11

	2005 Three Months Ended 31-Mar	30-Jun	30-Sep	31-Dec
Interest Income	$ 1,534	$ 1,636	$ 1,708	$ 1,738
Interest Expense	$ 483	$ 518	$ 580	$ 600
Net interest income	$ 1,051	$ 1,118	$ 1,128	$ 1,138
Provision for loan losses	$ 27	$ 26	$ 26	$ 22
Other operating income	$ 83	$ 94	$ 114	$ 144
Other operating expenses	$ 652	$ 687	$ 706	$ 830
Income before income taxes	$ 455	$ 499	$ 510	$ 430
Applicable income tax	$ 151	$ 159	$ 157	$ 126
Net Income	$ 304	$ 340	$ 353	$ 304
Per Share	$ 0.19	$ 0.21	$ 0.22	$ 0.16

Quantitative and Qualitative Disclosure About Market Risk

Information with respect to Pocono s quantitative and qualitative disclosures about market risk is included in the above information under Management s Discussion and Analysis.

Pocono s Management Discussion and Analysis of Financial Condition and Results of Operation as of June 30, 2007

Results of Operations

Pocono realized earnings for the first six months of 2007 of $373,000, a decrease of $174,000, or 31.8% from the first six months of 2006. The decrease in net income for 2007 was primarily the result of a flat yield curve and a decline in net interest income of $109,000 from the first six months of 2006 along with expenses related to the merger with First Keystone Corporation. On a per share basis, net income per share was $.22 for the first six months of 2007 compared to $.33 for the first six months of 2006.

Year to date net income annualized amounts to a return on average common equity of 5.09% and a return on assets of .57%. For the six months ended June 30, 2006, these measures were 8.12% and .87%, respectively, on an annualized basis.

Net Interest Income

The major source of operating income for Pocono is net interest income, defined as interest income less interest expense. In the first six months of 2007, interest income amounted to $3,859,000, an increase of $379,000 or 10.9% from the first six months of 2006, while interest expense amounted to $1,836,000 in the first six months of 2007, an increase of $494,000, or 36.8% from the first six months of 2006. As a result, net interest income decreased $115,000, or 5.7% in the first six months of 2007 to $2,023,000 from $2,138,000 in first six months of 2006.

Our net interest margin for the six months ended June 30, 2007, was 3.34% compared to 3.65% for the six months ended June 30, 2006.

Provision for Loan Losses

The provision for loan losses for the six months ended June 30, 2007, was $39,000, down from the $45,000 provision for the first six months of 2006. Net charge offs totaled $3,000 for the six months ended June 30, 2007, as compared to $2,000 for the first six months of 2006. The allowance for loan losses as a percentage of loans, net of unearned interest, was 1.22% as of June 30, 2007, the same as in December 31, 2006.

Non-Interest Income

Total non-interest income or other income was $282,000 for the six months ended June 30, 2007, as compared to $248,000 for the six months ended June 30, 2006, an increase of $34,000, or 13.7%.

Non-Interest Expenses

Total non interest expenses, or other expenses, was $1,724,000 for the six months ended June 30, 2007, as compared to $1,580,000 for the six months ended June 30, 2006. The increase of $144,000, or 9.1% is comprised of salary and benefits increasing $46,000 and fees related to the merger with First Keystone Corporation of $78,000.

Expenses associated with employees (salaries and employee benefits) continue to be the largest category of non interest expenses. Salaries and benefits amounted to $830,000, or 48.1% of total non-interest expense for the six months ended June 30, 2007, as compared to 49.6% for the first six months of 2006.

Income Taxes

Income tax amounted to $169,000 for the six months ended June 30 2007, as compared to $214,000 for 2006, decrease of $45,000. The effective total income tax rate was 31.2% for the first six months of 2007 as compared to 28.1% for the first six months of 2006.

Analysis of Financial Condition

Assets

Total assets increased slightly to $137,008,000 as of June 30, 2007, a decrease of $1,519,000 from year end 2006. Total deposits increased to $117,599,000 as of June 30, 2007, an increase of $3,875,000, or 3.4% over year end 2006.

Long-term borrowings were $3,000,000 as of June 30, 2007, unchanged from year-end 2006. Short Term borrowings decreased to zero from $6,000,000 at year end.

Earning Assets

Our primary earning asset, loans, net of unearned income, increased to $102,720,000 as of June 30, 2007, up $3,599,000, or 3.6% from June 2006. The loan portfolio continues to be diversified. Total non performing assets were zero as of June 30, 2007.

Besides loans, another primary earning asset is our overall investment portfolio, which decreased in size from December 31, 2006, to June 30, 2007. Investment securities as of June 30, 2007 were 14,742,000 as compared to 16,871,000 as of year end.

Allowance for Loan Losses

Pocono management performs a quarterly analysis to determine the adequacy of the allowance for loan losses. The methodology in determining adequacy incorporates specific and general allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. Pocono management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority. Pocono management considers that the allowance for loan loss is adequate to cover foreseeable future losses, considering the conservative portfolio composition, which is largely composed of small retail loans (mortgages and installments) with minimal classified assets, low delinquencies, and favorable loss history.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed under the provisions of Industry Guide 3 do not: (i) represent or result from trends or uncertainties which Pocono management reasonably expects will materially impact future operating results, liquidity, or capital resources or (ii) represent material credits about which Pocono management is aware of any information which causes Pocono management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

Pocono was required to adopt Financial Accounting Standards Board Statement No. 114, Accounting by Creditors for Impairment of a Loan .

Non-Performing Assets

Non-performing assets consist of non accrual and restructured loans, other real estate and foreclosed assets, together with loans past due 90 days or more and still accruing. As of June 30, 2007, total non-performing assets were zero as compared to $123,000 on December 31, 2006. Non-performing assets to total loans and foreclosed assets was 0.0% as of June 30, 2007, and .12% as of December 31, 2006.

Interest income received on non-performing loans was zero for the six months ending June 30, 2007 and the year ending December 31, 2006.

Deposits and Other Borrowed Funds

As indicated previously, total deposits increased $3,875,000 as non-interest bearing deposits decreased by $1,794,000 and interest-bearing deposits increased by $5,669,000, as of June 30, 2007, from year end 2006. Total short-term and long-term borrowings decreased to $3,000,000 as of June 30, 2007, from $9,000,000 at year end 2006, a decrease of $6,000,000, or 66.6%.

Capital Strength

Normal increases in capital are generated by net income, less cash dividends paid out. Also, accumulated other comprehensive income derived from unrealized gains or losses on investment securities available for sale decreased shareholders equity, or capital net of taxes, by $121,000 as of June 30, 2007, and reduced equity by $137,000 as of December 31, 2006. Pocono had 1,745,950 shares of outstanding common stock on June 30, 2007, and 1,684,515 shares of outstanding common stock on December 31, 2006.

Total shareholders equity was $14,968,000 as of June 30, 2007, and $14,354,000 as of December 31, 2006. The leverage ratio remained very strong. As of June 30, 2007, Pocono s leverage ratio was 11.12% compared to 10.73% as of December 31, 2006.

Liquidity

The liquidity position of Pocono remains adequate to meet customer loan demand and deposit fluctuation. Managing liquidity remains an important segment of asset liability management. Pocono s overall liquidity position is maintained by an active asset-liability management committee.

Pocono management considers its current liquidity position to be satisfactory, given a very stable core deposit base which has increased annually. Moreover, Pocono s loan payments and principal paydowns on mortgage-backed securities provide a steady source of funds. Finally, short-term investments and maturing investment securities represent additional sources of liquidity. Short-term borrowings are readily accessible at the Federal Reserve Bank, Atlantic Central Bankers Bank, or the Federal Home Loan Bank.

Stock Ownership of Principal Shareholders and Management

Principal Owners

The following table sets forth, as of June 30, 2007, the name and address of each person who owns of record or who is known by the Pocono to be the beneficial owner of more than 5% of Pocono s outstanding common stock, the number of shares beneficially owned by such person and the percentage of the Pocono s outstanding common stock so owned.

Name and Address	Beneficially Owned(1)(2)	Percent of Outstanding Common Stock Beneficially Owned(%)(1)
Lester G. Abeloff R.D. 4, Box 4005 Stroudsburg, PA 18360	206,655 (3)	9.37
W. Peter Ahnert P.O. Box 1158 Marshalls Creek, PA 18335	383,532 (4)	17.39
Frances M. Hughes R.D. 5, Box 5618 East Stroudsburg, PA 18301	199,380	9.04
Jacob E. and Phyllis Seip, Sr. P.O. Box 444 Buck Hill Falls, PA 18323	143,874 (5)	6.53
William E. Rinehart P.O. Box 313 Stroudsburg, PA 18360	160,461 (3)	7.28

(1) Information furnished by the directors and Pocono.

(2) 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 Securities and Exchange Commission (SEC) as adopted by the Federal Reserve Board for state member banks, 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

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investment power or has the right to acquire beneficial ownership within sixty (60) days after June 30, 2007. Beneficial ownership may be disclaimed as to certain of the securities.

(3) All shares held in trust.

(4) Includes 508 shares held solely by Mr. Ahnert and 249,600 shares held as the Voting Trustee under the Ahnert Family Voting Trust.

(5) Includes 4,370 shares held as an individual; 5,894 shares held by his spouse under an IRA; and 133,610 shares held jointly with spouse.

Beneficial Ownership by Officers and Directors

The following table sets forth information concerning the number of shares of common stock beneficially owned, directly or indirectly, as of June 30, 2007, by (i) each director, (ii) each executive officer of Pocono, and (iii) the directors and the executive officers of Pocono as a group.

Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership(1)(2)(11) Outstanding Shares (#)		Vested Options & Warrants (#)	Total Number (#)	Percent of Class (%)(3)
Lester G. Abeloff	159,575	(4)	47,080	206,655	9.37
W. Peter Ahnert	250,108	(6)	133,424	383,532	17.39
Arthur Berry, Jr.	50,768	(7)	15,678	66,446	3.02
Dr. Joseph B. Conahan, Jr.	56,266	(8)	11,916	68,182	3.09
Joan M. Fitzgerald	13,239	(7)	-0-	13,239	
John G. Gerlach	6,816	(9)	86,295	93,111	4.22
Charles M. Hannig	50,767	(9)	2,979	53,746	2.44
Frances M. Hughes	152,300	(7)	47,080	199,380	9.04
John Procopio			5,450	5,450	
Richard L. Price, Jr.	18,509	(7)	5,958	24,467	1.11
William E. Rinehart	160,461	(9)	-0-		