TORONTO DOMINION BANK
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The information in this pricing supplement is not complete and may be changed. This pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated August 4, 2016.

Pricing Supplement dated August , 2016 to the

Product Prospectus Supplement MLN-ES-ETF-1 dated July 8, 2016 and

Prospectus Dated June 30, 2016

The Toronto-Dominion Bank

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Market Linked Securities – Leveraged Upside Participation to a Cap and Fixed Percentage Buffered Downside

Principal at Risk Securities Linked to a

Basket of Three Exchange-Traded Funds due September 8, 2020

The Toronto-Dominion Bank ("TD" or "we") is offering the Principal at Risk Securities (the "Securities") linked to an unequally-weighted basket (the "Basket") of three exchange-traded funds described below. The Basket will consist of the SPDR® S&P 500® ETF Trust (the "SPY") (60%), the iShares® Russell 2000 ETF (the "IWM") (20%) and the SPDR® S&P MIDCAP 400® ETF (the "MDY") (20%) (each, a "Basket Component").

The Securities provide a 150% leveraged positive return if the level of the Basket increases from the Initial Level to the Final Level, subject to the Maximum Redemption Amount. Investors will lose 1% of the Principal Amount for each 1% decrease from the Initial Level to the Final Level of more than 10% and may lose up to 90% of the Principal Amount. **Any payments on the Securities are subject to our credit risk.**

The Securities are unsecured and are not savings accounts or insured deposits of a bank. The Securities are not insured or guaranteed by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other governmental agency or instrumentality of Canada or the United States.

The Securities will not be listed on any securities exchange.

The Payment at Maturity will be greater than the Principal Amount only if the Percentage Change is greater than zero. The Securities do not guarantee the return of the Principal Amount and investors may lose up to 90% of their investment in the Securities.

The Securities have complex features and investing in the Securities involves a number of risks. See "Additional Risk Factors" on page P-7 of this pricing supplement, "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the product prospectus supplement MLN-ES-ETF-1 dated July 8, 2016 (the "product prospectus supplement") and "Risk Factors" on page 1 of the prospectus dated June 30, 2016 (the "prospectus").

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined that this pricing supplement, the product prospectus supplement or the prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We will deliver the Securities in book-entry only form through the facilities of The Depository Trust Company on or about September 6, 2016, against payment in immediately available funds.

The estimated value of the Securities on the Pricing Date is expected to be between $937.20 and $962.40 per Security, as discussed further under "Additional Risk Factors — Estimated Value" beginning on page P-10 and "Additional Information Regarding Our Estimated Value of the Securities" beginning on P-32, respectively. The estimated value is expected to be less than the public offering price of the Securities.

	Public Offering Price[1]	Underwriting Discount[2]	Proceeds to TD
Per Security	$1,000.00	$40.00	$960.00
Total	$	$	$

[1] Certain dealers who purchase the Securities for sale to certain fee-based advisory accounts may forego some or all of their selling concessions, fees or commissions. The price for investors purchasing the Securities in these accounts may be as low as $960.00 (96.00%) per Security.

[2] The Agents may receive a commission of up to $40.00 (4.00%) per Security and may use a portion of that commission to allow selling concessions to other dealers in connection with the distribution of the Securities, or will offer the Securities directly to investors. The Agents may resell the Securities to other securities dealers at the Principal Amount less a concession not in excess of $22.50 per Security. Such securities dealers may include Wells Fargo Advisors, LLC ("WFA"), an affiliate of Wells Fargo Securities, LLC ("Wells Fargo Securities"). The other dealers may forgo, in their sole discretion, some or all of their selling concessions. In addition to the selling concession allowed to WFA, Wells Fargo Securities will pay $0.75 per Security of the underwriting discount to WFA as a distribution expense fee for each Security sold by WFA. TD will reimburse TD Securities (USA) LLC ("TDS") for certain expenses in connection with its role in the offer and sale of the Securities, and TD will pay TDS a fee in connection with its role in the offer and sale of the Securities. See "Supplemental Plan of Distribution (Conflicts of Interest)" on page P-32 of this pricing supplement.

WELLS FARGO SECURITIES, LLC

TD SECURITIES (USA) LLC

Market Linked Securities – Leveraged Upside Participation to a Cap and Fixed Percentage Buffered Downside

Due September 8, 2020

Summary

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the product prospectus supplement and the prospectus.

Issuer:	The Toronto-Dominion Bank
Issue:	Senior Debt Securities
Type of Security:	Market Linked Securities – Leveraged Upside Participation to a Cap and Fixed Percentage Buffered Downside
Term:	Approximately 4 years
Basket:	An unequally-weighted basket (the "Basket") of three exchange-traded funds (each, a "Basket Component") described below. For the avoidance of doubt, references to the term "Reference Asset" in the product prospectus supplement MLN-ES-ETF-1 dated July 8, 2016 should be read to refer to a Basket Component where context so requires, including, without limitation, in the definitions of trading day, closing price and market disruption event and in the anti-dilution provisions under "General Terms of the Notes—Anti-Dilution Adjustments."

Basket Components:

Basket Component	**Bloomberg Ticker**	**Component Weight**	**Initial Component Price***
SPDR® S&P 500® ETF Trust	SPY	60%	
iShares® Russell 2000 ETF	IWM	20%	
SPDR® S&P MIDCAP 400® ETF	MDY	20%	

	* The Initial Component Price for each Basket Component will be its closing price on the Pricing Date.
CUSIP / ISIN:	89114QXE3 / US89114QXE33
Agents:	TDS and Wells Fargo Securities. The Agents may receive a commission of up to $40.00 and may resell the Securities to other securities dealers, including securities dealers acting as custodians, at the Principal Amount less a concession of not in excess of $22.50 per Security. Such securities dealers may include WFA, an affiliate of Wells Fargo Securities. In addition to the concession allowed to WFA, Wells Fargo Securities will pay $0.75 per Security of the underwriting discount to WFA as a distribution expense fee for each Security sold by WFA.
Currency:	U.S. Dollars
Minimum Investment:	$1,000 and minimum denominations of $1,000 in excess thereof.
Principal Amount:	$1,000 per Security
Pricing Date:	August 31, 2016
Issue Date:	September 6, 2016
Valuation Date:	August 31, 2020, subject to postponement for market disruption events and non-trading days, as described in "—Final Component Prices" below.
Maturity Date:	September 8, 2020, subject to postponement for market disruption events and non-trading days, as described in "—Final Component Prices" below.

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Payment at Maturity:	If the Percentage Change is **positive**, then the investor will receive an amount per Security equal to the lesser of: (i) Principal Amount + (Principal Amount x Percentage Change x Leverage Factor); and (ii) the Maximum Redemption Amount. If the Percentage Change is **less than or equal to 0% but greater than or equal to -10%**, then the investor will receive only the Principal Amount. If the Percentage Change is **less than -10%**, then the investor will receive less than the Principal Amount, calculated using the following formula: Principal Amount + [Principal Amount x (Percentage Change + Buffer Percentage)] **If the Final Level is less than Buffer Level, the investor will receive less, and possibly 90% less, than the Principal Amount at maturity.**
Leverage Factor:	150%
Maximum Redemption Amount:	The Maximum Redemption Amount will be determined on the Pricing Date and will be within the range of 140% to 145% of the Principal Amount (or $1,400 to $1,450 per Security). As a result, the maximum return on the Securities will be 40% to 45% of the Principal Amount (assuming a public offering price of $1,000 per Security).
Buffer Percentage:	10%
Buffer Level:	90% of the Initial Level
Percentage Change:	(Final Level – Initial Level) / Initial Level, expressed as a percentage
Initial Level:	The Initial Level will be set to 100 on the Pricing Date.
Final Level:	100 × [1 + (the sum of the products of the Basket Component Return for each Basket Component multiplied by its Component Weight)].
Basket Component Return:	With respect to each Basket Component, (Final Component Price – Initial Component Price) / Initial Component Price, expressed as a percentage.
Initial Component Price:	The closing price of a Basket Component on the Pricing Date.
Final Component Price:	The closing price of a Basket Component on the Valuation Date. If the originally scheduled Valuation Date is not a trading day with respect to a Basket Component or a market disruption event with respect to a Basket Component occurs or is continuing on that day, the Final Component Price for that Basket Component will be its closing price on the first trading day for such Basket Component following the originally scheduled Valuation Date on which the Calculation Agent determines that a market disruption event does not occur or is not continuing. If a market disruption event with respect to such Basket Component occurs or is continuing on each trading day to and including the tenth trading day following the originally scheduled Valuation Date, the Final Component Price for that Basket Component will be determined (or, if not determinable, estimated by the Calculation Agent in a manner which is considered commercially reasonable under the circumstances) by the Calculation Agent on that tenth trading day, regardless of the occurrence or continuation of a market disruption event on that day. For the avoidance of doubt, if the originally

scheduled Valuation Date is a trading day and no market disruption event exists on that day with respect to a Basket Component, the determination of that Basket Component's Final Component Price will be made on the originally scheduled Valuation Date, irrespective of the non-trading day status or the existence of a market disruption event with respect to any other Basket Component. For the definition of a market disruption event, see "General Terms of the Notes—Market Disruption Events" beginning on page PS-25 of the accompanying product prospectus supplement. If the Valuation Date is postponed due to a market disruption event or non-trading day for any Basket Component, the Maturity Date will be postponed to the fifth Business Day after the final postponed Valuation Date.

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Business Day:	Any day that is a Monday, Tuesday, Wednesday, Thursday or Friday that is neither a legal holiday nor a day on which banking institutions are authorized or required by law to close in New York City or Toronto.
U.S. Tax Treatment:	By purchasing a Security, each holder agrees, in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary, to characterize the Securities, for U.S. federal income tax purposes, as pre-paid derivative contracts with respect to the Basket. Based on certain factual representations received from us, in the opinion of our special U.S. tax counsel, Cadwalader, Wickersham & Taft LLP, it is reasonable to treat the Securities in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the Securities, it is possible that your Securities could alternatively be treated for tax purposes as a single contingent payment debt instrument, or pursuant to some other characterization, including possible treatment as a "constructive ownership transaction" subject to section 1260 of the Internal Revenue Code of 1986, as amended (the "Code"), and the timing and character of your income from the Securities could differ materially from the treatment described above, as described further under "Supplemental Discussion of U.S. Federal Income Tax Consequences".
Canadian Tax Treatment:	Please see the discussion in the product prospectus supplement under "Supplemental Discussion of Canadian Tax Consequences," which applies to the Securities.
Calculation Agent:	TD
Listing:	The Securities will not be listed on any securities exchange.
Clearance and Settlement:	DTC global (including through its indirect participants Euroclear and Clearstream, Luxembourg, as described under "Forms of the Debt Securities" and "Book-Entry Procedures and Settlement" in the prospectus).

The Pricing Date, the Issue Date, the Valuation Date and the Maturity Date are subject to change. These dates will be set forth in the final pricing supplement that will be made available in connection with sales of the Securities.

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Investor Considerations

We have designed the Securities for investors who:

- § seek 150% exposure to the upside performance of the Basket if the Final Level is greater than the Initial Level, subject to the Maximum Redemption Amount of 140% to 145% (to be determined on the Pricing Date) of the Principal Amount, assuming a public offering price of $1,000 per Security;
- § understand that if the Final Level is less than the Initial Level by more than the Buffer Percentage, they will receive less, and possibly 90% less, than the Principal Amount at maturity;
- § understand the effect of the unequal weighting of the Basket Components on the Final Level;
- § are willing to forgo interest payments on the Securities and dividends on securities held by the Basket Components;
- § are willing to accept the risk of unequally weighted exposure to the large, medium and small capitalization segments of the U.S. equity market;
- § are willing to accept the credit risk of TD to obtain exposure to the Basket generally and the Basket Components specifically; and
- § are willing to hold the Securities until maturity.

The Securities are not designed for, and may not be a suitable investment for, investors who:

- § seek a liquid investment or are unable or unwilling to hold the Securities to maturity;
- § are unwilling to accept the risk that the Final Level of the Basket may decrease by more than the Buffer Percentage from the Initial Level;
- § seek uncapped exposure to the upside performance of the Basket;
- § seek full return of the Principal Amount at maturity;
- § are unwilling to purchase securities with an estimated value as of the Pricing Date that is lower than the public offering price and that may be as low as the lower estimated value set forth on the cover page;
- § seek current income;
- § are unwilling to accept the risk of unequally weighted exposure to the large, medium and small capitalization segments of the U.S. equity market;
- § seek exposure to the Basket Components but are unwilling to accept the risk/return trade-offs inherent in the Payment at Maturity for the Securities;
- § are unwilling to accept the credit risk of TD to obtain exposure to the Basket generally or the Basket Components specifically; or
- § prefer the lower risk of fixed income investments with comparable maturities issued by companies with comparable credit ratings.

Additional Terms of Your Securities

You should read this pricing supplement together with the prospectus, as supplemented by the product prospectus supplement, relating to our Senior Debt Securities, of which these Securities are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict the following hierarchy will govern: first, this pricing supplement; second, the product prospectus supplement; and last, the prospectus. ***The Securities vary from the terms described in the product prospectus supplement in several important ways. You should read this pricing supplement carefully.***

This pricing supplement, together with the documents listed below, contains the terms of the Securities and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors" on page P-7 of this pricing supplement, "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the product prospectus supplement and "Risk Factors" on page 1 of the prospectus, as the Securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities. You may access these documents on the Securities and Exchange Commission (the "SEC") website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website):

§ Prospectus dated June 30, 2016: https://www.sec.gov/Archives/edgar/data/947263/000119312516638441/d162493d424b3.htm

§ Product Prospectus Supplement MLN-ES-ETF-1 dated July 8, 2016: https://www.sec.gov/Archives/edgar/data/947263/000089109216016045/e70441_424b2.htm

Our Central Index Key, or CIK, on the SEC website is 0000947263. As used in this pricing supplement, the "Bank," "we," "us," or "our" refers to The Toronto-Dominion Bank and its subsidiaries. Alternatively, The Toronto-Dominion Bank, any agent or any dealer participating in this offering will arrange to send you the product prospectus supplement and the prospectus if you so request by calling 1-855-303-3234.

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Additional Risk Factors

The Securities involve risks not associated with an investment in conventional debt securities. This section describes the most significant risks relating to the terms of the Securities. For additional information as to these risks, please see "Additional Risk Factors Specific to the Notes" in the product prospectus supplement and "Risk Factors" in the prospectus.

You should carefully consider whether the Securities are suited to your particular circumstances before you decide to purchase them. Accordingly, prospective investors should consult their investment, legal, tax, accounting and other advisors as to the risks entailed by an investment in the Securities and the suitability of the Securities in light of their particular circumstances.

Principal at Risk.

Investors in the Securities could lose a substantial portion of their Principal Amount if there is a decline in the level of the Basket by more than the Buffer Percentage. You will lose 1% of the Principal Amount of your Securities for each 1% that the Final Level is less than the Initial Level by more than the Buffer Percentage and you may lose up to 90% of your Principal Amount.

The Securities Do Not Pay Interest and Your Return on the Securities May Be Lower Than the Return on a Conventional Debt Security of Comparable Maturity.

There will be no periodic interest payments on the Securities as there would be on a conventional fixed-rate or floating-rate debt security having the same term. The return that you will receive on the Securities, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of TD.

Your Potential Return on the Securities Will Be Limited by the Maximum Redemption Amount and May Be Less Than the Return on a Direct Investment In the Basket Components.

The opportunity to participate in the possible increases in the Percentage Change of the Basket through an investment in the Securities will be limited because the Payment at Maturity will not exceed the Maximum Redemption Amount. Furthermore, the effect of the Leverage Factor will not be taken into account for any Percentage Change that, when multiplied by the Leverage Factor, exceeds the maximum return on the Securities (40% to 45% of the Principal Amount) regardless of how much the Basket has appreciated. Accordingly, your return on the Securities may be less than your return would be if you made an investment in a security directly linked to the performance of the Basket Components or invested in the Basket Components directly.

Changes in the Prices of the Basket Components May Offset Each Other.

Movements in the prices of the Basket Components may not correlate with each other. At a time when the price of one or more of the Basket Components increases, the prices of one or more of the other Basket Components may not increase as much or may even decline. Therefore, in calculating the Final Level and the Payment at Maturity, increases in the price of one or more of the Basket Components may be moderated, or more than offset, by lesser increases or declines in the prices of the other Basket Components. In addition, because the Basket Components are not equally weighted, and because one of the Basket Components has a 60% weighting, increases in the lower weighted Basket Components may be offset by even small decreases in the more heavily weighted Basket Component.

Investors Are Subject to TD's Credit Risk, and TD's Credit Ratings and Credit Spreads May Adversely Affect the Market Value of the Securities.

Although the return on the Securities will be based on the performance of the Basket, the payment of any amount due on the Securities is subject to TD's credit risk. The Securities are TD's senior unsecured debt obligations. Investors are dependent on TD's ability to pay all amounts due on the Securities on the Maturity Date and, therefore, investors are subject to the credit risk of TD and to changes in the market's view of TD's creditworthiness. Any decrease in TD's credit ratings or increase in the credit spreads charged by the market for taking TD's credit risk is likely to adversely affect the market value of the Securities.

The Agent Discount, Offering Expenses and Certain Hedging Costs Are Likely to Adversely Affect Secondary Market Prices.

Assuming no changes in market conditions or any other relevant factors, the price, if any, at which you may be able to sell the Securities will likely be lower than the public offering price. The public offering price includes, and any price quoted to you is likely to exclude, the underwriting discount paid in connection with the initial distribution, offering expenses as well as the cost of hedging our obligations under the Securities. In addition, any such price is also likely to reflect dealer discounts, mark-ups and other transaction costs, such as a discount to account for costs associated with establishing or unwinding any related hedge transaction. In addition, because an affiliate of Wells Fargo Securities is to conduct hedging activities for us in connection with the Securities, that affiliate may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the Securities to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the dealer to sell the Securities to you in addition to the compensation they would receive for the sale of the Securities.

There May Not Be an Active Trading Market for the Securities — Sales in the Secondary Market May Result in Significant Losses.

There may be little or no secondary market for the Securities. The Securities will not be listed on any securities exchange. The Agents and their respective affiliates may make a market for the Securities; however, they are not required to do so. The Agents and their respective affiliates may stop any market-making activities at any time. Even if a secondary market for the Securities develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for your Securities in any secondary market could be substantial.

If you sell your Securities before the Maturity Date, you may have to do so at a substantial discount from the public offering price irrespective of the prices of the Basket Components, and as a result, you may suffer substantial losses.

If the Level of the Basket Changes, the Market Value of Your Securities May Not Change in the Same Manner.

Your Securities may trade quite differently from the performance of the Basket. Changes in the level of the Basket may not result in a comparable change in the market value of your Securities. Even if the level of the Basket increases above its respective Initial Level during the life of the Securities, the market value of your Securities may not increase by the same amount and could decline.

The Payment at Maturity Is Not Linked to the Prices of the Basket Components at Any Time Other than the Valuation Date.

The Final Level will be based on the closing prices of the Basket Components on the Valuation Date (subject to adjustment as described elsewhere in this pricing supplement). Therefore, if the closing prices of the Basket Components dropped precipitously on the Valuation Date, the Payment at Maturity for your Securities may be significantly less than it would have been had the Payment at Maturity been linked to the closing prices of the Basket Components prior to such drop in the prices of the Basket Components. Although the actual prices of the Basket Components on the Maturity Date or at other times during the life of your Securities may be higher than their prices on the Valuation Date, you will not benefit from the prices of the Basket Components at any time other than the closing prices on the Valuation Date.

You Will Not Have Any Rights to the Basket Components or the Securities Held by the Basket Components.

You will not have any rights to the Basket Components or the securities, commodities, futures contracts, or other assets held by the Basket Components (the "Basket Component Constituents"). As a holder of the Securities, you will not have voting rights or rights to receive cash dividends or other distributions or other rights that holders of the Basket Components or the Basket Component Constituents would have. Neither the Final Level nor the Final Component Price will reflect any dividends paid on the Basket Components or the Basket Component Constituents.

The Performance and Market Value of a Basket Component During Periods of Market Volatility May Not Correlate With the Performance of Its Applicable Underlying Index as Well as the Net Asset Value per Share of Such Basket Component.

Each Basket Component seeks to track the performance of a particular index (each, an "Underlying Index" and together, the "Underlying Indices"). During periods of market volatility, markets for the Basket Component Constituents may be unavailable or impaired, therefore market participants may be unable to calculate accurately the net asset value per share of a Basket Component and the liquidity of a Basket Component may be adversely affected. This kind of market volatility may also disrupt the ability of market participants to create and redeem shares of a Basket Component. Further, market volatility may adversely affect, sometimes materially, the prices at which market participants are

willing to buy and sell shares of a Basket Component. As a result, under these circumstances, the market value of shares of a Basket Component may vary substantially from the net asset value per share of such Basket Component. For all of the foregoing reasons, the performance of a Basket Component may not correlate with the performance of its applicable Underlying Index or the net asset value per share of a Basket Component, which could materially and adversely affect the level of the Basket and the value of the Securities in the secondary market and/or reduce your payment at maturity.

The Market Value of Your Securities May Be Influenced by Many Unpredictable Factors.

When we refer to the market value of your Securities, we mean the value that you could receive for your Securities if you choose to sell them in the open market before the Maturity Date. A number of factors, many of which are beyond our control, will influence the market value of your Securities, including:

- the market prices of the Basket Components and the Basket Component Constituents
- the volatility – i.e., the frequency and magnitude of changes – in the level of the Basket and the prices of the Basket Components;
- the dividend rates, if applicable, of the Basket Components and the Basket Component Constituents;
- economic, financial, regulatory and political, military or other events that may affect the prices of any of the Basket Components, the Basket Component Constituents and thus the level of the Basket;
- the correlation among the Basket Components;
- interest rates in the market;

- the time remaining until your Securities mature;
- our creditworthiness, whether actual or perceived, and including actual or anticipated upgrades or downgrades in our credit ratings or changes in other credit measures.

These factors will influence the price you will receive if you sell your Securities before maturity, including the price you may receive for your Securities in any market-making transaction.

As of the Date of this Pricing Supplement, There is No History for the Closing Levels of the Basket.

The Payment at Maturity, if any, for the Securities is linked to the Percentage Change in the Basket, which will begin to be calculated on the Pricing Date. Since there will be no actual history for the closing levels of the Basket, no actual historical information about the Closing Levels of the Basket will be available for you to consider in making an independent investigation of the performance of the Basket, which may make it difficult for you to make an informed decision with respect to an investment in your Securities.

Hypothetical Past Basket Performance is No Guide to Future Performance.

The actual performance of the Basket over the life of the Securities, as well as the Payment at Maturity, may bear little relation to the hypothetical historical closing levels of the Basket (when available) or to the hypothetical return examples set forth elsewhere in this pricing supplement. We cannot predict the future performance of the Basket.

There Are Potential Conflicts of Interest Between You and the Calculation Agent.

The Calculation Agent will, among other things, determine the amount of your payment on the Securities. We will serve as the Calculation Agent and may appoint a different Calculation Agent after the Issue Date without notice to you. The Calculation Agent will exercise its judgment when performing its functions and may take into consideration our ability to unwind any related hedges. For example, the Calculation Agent may have to determine whether a market disruption event affecting a Basket Component has occurred. This determination may, in turn, depend on the Calculation Agent's judgment whether the event has materially interfered with our ability or the ability of one of our affiliates to unwind our hedge positions. Since this determination by the Calculation Agent will affect the payment on the Securities, the Calculation Agent may have a conflict of interest if it needs to make a determination of this kind. For additional information as to the Calculation Agent's role, see "General Terms of the Notes—Role of Calculation Agent" in the product prospectus supplement.

An Investment in the Securities Is Subject to Risks Associated with Small- and Mid-Capitalization Stocks.

The Underlying Indices of the IWM and the MDY consist of stocks issued by companies with relatively small and medium market capitalizations, respectively. These companies often have greater stock price volatility, lower trading volume and less liquidity than large-capitalization companies. As a result, the share price of the IWM and MDY may be more volatile than that of a market measure that does not track solely small- or mid-capitalization stocks. Stock prices of small- and mid-capitalization companies are also generally more vulnerable than those of large-capitalization companies to adverse business and economic developments, and the stocks of small- and mid-capitalization companies may be thinly traded, and be less attractive to many investors if they do not pay dividends. In addition, small- and mid-capitalization companies are typically less well-established and less stable financially than large-capitalization companies and may depend on a smaller number of key personnel, making them more vulnerable to loss of those individuals. Small- and mid-capitalization companies tend to have lower revenues, less diverse product lines, smaller shares of their target markets, fewer financial resources and fewer competitive strengths than large-capitalization companies. These companies may also be more susceptible to adverse developments related to their products or services.

Changes That Affect the Underlying Indices Will Affect the Market Value of the Securities and the Amount You Will Receive at Maturity.

We have no control over the actions of the relevant sponsor of each Underlying Index tracked by a Basket Component (each, an “Index Sponsor” and together the “Index Sponsors”), including any actions of the type that would affect the composition of the Underlying Indices, and therefore, the composition and price of the relevant Basket Component. The Index Sponsors have no obligation of any sort with respect to the Securities. Thus, the Index Sponsors have no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the Securities.

Adjustments to the Basket Components Could Adversely Affect the Securities.

The investment advisor of each Basket Component is responsible for calculating and maintaining the relevant Basket Component. Each investment advisor can add, delete or substitute the stocks or other assets comprising the applicable Basket Component. Each investment advisor may make other methodological changes that could change the price of the applicable Basket Component at any time. If one or more of these events occurs, the calculation of the amount payable at maturity may be adjusted to reflect such event or events. Consequently, any of these actions could adversely affect the amount payable at maturity and/or the market value of the Securities.

We Have No Affiliation with the Index Sponsors or the Investment Advisors and Will Not Be Responsible for Any Actions Taken by the Index Sponsors or the Investment Advisors.

The Index Sponsors of the Underlying Indices and the investment advisors of the Basket Components are not affiliates of ours and will not be involved in the offering of the Securities in any way. Consequently, we have no control over the actions of the Index Sponsors or the investment advisors, including any actions of the type that would require the Calculation Agent to adjust the payment to you at maturity. The Index Sponsors and the investment advisors have no obligation of any sort with respect to the Securities. Thus, Index

Sponsors and the investment advisors have no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the Securities. None of our proceeds from the issuance of the Securities will be delivered to the Index Sponsors or the investment advisors.

We and Our Affiliates Do Not Have Any Affiliation with the Index Sponsors or the Investment Advisors and Are Not Responsible for Their Public Disclosure of Information.

We have no ability to control or predict the actions of the Index Sponsors of the Underlying Indices or the investment advisors of the Basket Components, including any errors in or discontinuance of disclosure regarding their methods or policies relating to the Underlying Indices or the Basket Components. Neither we nor any of our affiliates has conducted any independent review or due diligence of the information about the Index Sponsors, the investment advisors, the Underlying Indices or the Basket Components contained in any public disclosure of information. You, as an investor in the Securities, should make your own investigation into the Underlying Indices and the Basket Components.

Each Basket Component and its Underlying Index Are Different and the Performance of a Basket Component May Not Correlate With That of Its Applicable Underlying Index.

The performance of the Basket Components may not exactly replicate the performance of their respective Underlying Indices because the Basket Components will reflect transaction costs and fees that are not included in the calculation of the Underlying Indices. It is also possible that a Basket Component may not fully replicate or may in certain circumstances diverge significantly from the performance of its applicable Underlying Index due to the temporary unavailability of certain securities in the secondary market, the performance of any derivative instruments contained in such Basket Component, differences in trading hours between such Basket Component and its Underlying Index or due to other circumstances. In addition, because the shares of each Basket Component are traded on a securities exchange and are subject to market supply and investor demand, the price of a share of a Basket Component may differ from the net asset value per share of such Basket Component. The Basket Components generally use a "representative sampling" strategy to achieve their investment objectives, meaning they generally will invest in a sample of securities in the applicable Underlying Index whose risk, return and other characteristics generally resemble the risk return and other characteristics of such Underlying Index as a whole. A "representative sampling" strategy generally can be expected to produce a greater tracking error.

The Price of each Basket Component May Not Completely Track its Net Asset Value.

The price of each Basket Component will usually track the value of its Basket Component Constituents, but may not track the Basket Component Constituent values completely. The price of the Basket Component will reflect costs and fees that the Basket Component Constituents do not have. In addition, because the shares of each Basket Component are traded on a securities exchange and are subject to market supply and investor demand, the price of a share of a Basket Component may differ from the net asset value per share of such Basket Component.

Estimated Value

The Estimated Value of Your Securities Is Expected to Be Lower Than the Public Offering Price of Your Securities.

The estimated value of your Securities on the Pricing Date is expected to be lower, and may be significantly lower, than the public offering price of your Securities. The difference between the public offering price of your Securities and the estimated value of the Securities is expected as a result of certain factors, such as any sales commissions expected to be paid to the Agents or their affiliates, any selling concessions, discounts, commissions or fees expected to be allowed or paid to non-affiliated intermediaries, the estimated profit that we or any of our affiliates expect to

earn in connection with structuring and hedging the Securities, the estimated cost which we may incur in hedging our obligations under the Securities, and estimated development and other costs which we may incur in connection with the Securities. The estimated value also factors in an estimate of the difference between the amounts we pay and receive in a hedging transaction with an affiliate of WFS in connection with your Securities.

The Estimated Value of Your Securities Is Based on Our Internal Funding Rate.

The estimated value of your Securities on the Pricing Date is based on a number of variables, including our internal funding rates. Our internal funding rates may differ from the levels at which our benchmark debt securities trade in the secondary market, and at times the internal funding rates we use in calculating the estimated value of your Securities may be lower. As a result of this difference, the estimated value may be higher than it would have been if it were calculated by reference to the levels at which our benchmark debt securities trade in the secondary market, since it is not based on those levels.

The Estimated Value of the Securities Is Based on Our Internal Pricing Models and Pricing Models of Third Parties With Whom We Enter Into Hedging Transactions; These May Prove to Be Inaccurate and May Be Different from the Pricing Models of Other Financial Institutions.

The estimated value of your Securities on the Pricing Date is based on our internal pricing models and upon pricing models of an affiliate of WFS with whom we enter into a hedging transaction. These pricing models take into account a number of variables and are based on a number of subjective assumptions, which are not evaluated or verified on an independent basis and may or may not materialize. Further, these pricing models may be different from other financial institutions' pricing models and the methodologies used to estimate the value of the Securities may not be consistent with those of other financial institutions that may be purchasers or sellers of Securities in the secondary market. As a result, the secondary market price of your Securities may be materially different from the estimated value of the Securities determined by reference to these pricing models.

The Estimated Value of Your Securities Is Not a Prediction of the Prices at Which You May Sell Your Securities in the Secondary Market, if Any, and Such Secondary Market Prices, if Any, Will Likely Be Lower Than the Public Offering Price of Your Securities and May Be Lower Than the Estimated Value of Your Securities.

The estimated value of the Securities will not be a prediction of the prices at which the Agents, other affiliates of ours or third parties may be willing to purchase the Securities from you in secondary market transactions (if they are willing to purchase, which they are not obligated to do). The price at which you may be able to sell your Securities in the secondary market at any time will be influenced by many factors that cannot be predicted, such as market conditions and any bid and ask spread for similar sized trades, and may be substantially less than our estimated value of the Securities. Further, as secondary market prices of your Securities take into account the levels at which our debt securities trade in the secondary market and do not take into account our various costs related to the Securities such as fees, commissions, discounts, and the costs of hedging our obligations under the Securities, secondary market prices of your Securities will likely be lower than the public offering price of your Securities. As a result, the price at which the Agents, other affiliates of ours or third parties may be willing to purchase the Securities from you in secondary market transactions, if any, will likely be lower than the price you paid for your Securities, and any sale prior to the Maturity Date could result in a substantial loss to you.

The Temporary Price at Which We May Initially Buy the Securities in the Secondary Market May Not Be Indicative of Future Prices of Your Securities.

Assuming that all relevant factors remain constant after the Pricing Date, the price at which the Agents may initially buy or sell the Securities in the secondary market (if the Agents make a market in the Securities, which they are not obligated to do) may exceed our estimated value of the Securities on the Pricing Date, as well as the secondary market value of the Securities, for a temporary period after the initial issue date of the Securities, as discussed further under "Additional Information Regarding Our Estimated Value of the Securities". The price at which the Agents may initially buy or sell the Securities in the secondary market may not be indicative of future prices of your Securities.

The Valuation Date and Therefore the Maturity Date May be Postponed In the Case of a Market Disruption Event.

The Valuation Date and therefore the Maturity Date may be postponed in the case of a Market Disruption Event as described herein and in the product prospectus supplement. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event, see "General Terms of the Notes—Market Disruption Events" in the product prospectus supplement and "Summary" above.

The Antidilution Adjustments That the Calculation Agent Is Required to Make Do Not Cover Every Event That Could Affect the Basket Components.

The Calculation Agent may adjust the Final Component Price for any Basket Component in the case of stock splits, reverse stock splits, stock dividends, extraordinary dividends and other events that affect such Basket Component, but only in the situations we describe in "General Terms of the Notes—Anti-Dilution Adjustments" in the product prospectus supplement. The Calculation Agent will not be required to make an adjustment for every corporate event that affects the Basket Component. Those events or other actions by the investment advisors of a Basket Component or a third party may nevertheless adversely affect the prices of any of the Basket Components, and adversely affect the value of your Securities.

Significant Aspects of the Tax Treatment of the Securities Are Uncertain.

Significant aspects of the U.S. tax treatment of the Securities are uncertain. You should consult your tax advisor about your own tax situation and should read carefully the section entitled "Supplemental Discussion of U.S. Federal Income Tax Consequences" below.

For a more complete discussion of the Canadian federal income tax consequences of investing in the Securities, please see the discussion in the product prospectus supplement under "Supplemental Discussion of Canadian Tax Consequences."

If you are not a Non-resident Holder (as that term is defined in the prospectus) or if you acquire the Securities in the secondary market, you should consult your tax advisors as to the consequences of acquiring, holding and disposing of the Securities and receiving the payments that might be due under the Securities.

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TD SECURITIES (USA) LLC

Hypothetical Returns

The examples, table and graph set out below are included for illustration purposes only. The **hypothetical** Percentage Changes of the Basket used to illustrate the calculation of the Payment at Maturity (rounded to two decimal places) are not estimates or forecasts of the Final Level or the level of the Basket on any trading day prior to the Maturity Date throughout the term of the Securities. All examples, the table and the graph are based on the Initial Level of 100, assume a Buffer Percentage of 10% (the Buffer Level is 90% of the Initial Level), a Leverage Factor of 150%, a Maximum Redemption Amount of 142.50% of the Principal Amount (the midpoint of the Maximum Redemption Amount range of 140% to 145%), that a holder purchased Securities with an aggregate Principal Amount and public offering price of $1,000 and that no market disruption event occurs on the Valuation Date.

Example 1— Calculation of the Payment at Maturity where the Percentage Change is positive and the Payment at Maturity is less than the Maximum Redemption Amount.

	SPY	**IWM**	**MDY**
Basket Component Return	30%	0%	-10%
Component Weight	60%	20%	20%

Based on the Basket Component Returns set forth above, the hypothetical Final Level would equal:

100 × [1 + (30% x 60%) + (0% x 20%) + (-10% x 20%)] = 116

Percentage Change:	(116 – 100) / 100 = 16%
Payment at Maturity:	$1,000 + ($1,000 x 16% x 150%) = $1,000 + $240 = $1,240.00

On a $1,000 investment, a 16% Percentage Change results in a Payment at Maturity of $1,240.00, a 24.00% return on the Securities.

In this example, due to the relatively higher weight of the SPY, the Percentage Change is positive despite the zero or negative Basket Component Return of each other Basket Component.

Example 2— Calculation of the Payment at Maturity where the Percentage Change is positive and the Payment at Maturity equals the Maximum Redemption Amount.

	SPY	**IWM**	**MDY**
Basket Component Return	40%	37%	43%
Component Weight	60%	20%	20%

Based on the Basket Component Returns set forth above, the hypothetical Final Level would equal:

100 × [1 + (40% x 60%) + (37% x 20%) + (43% x 20%)] = 140

Percentage Change: (140 – 100) / 100 = 40%

Payment at Maturity: $1,425.00

On a $1,000 investment, a 40% Percentage Change results in a Payment at Maturity equal to the Maximum Redemption Amount, a 42.50% return on the Securities, because that

amount is the lesser of the Maximum Redemption amount and $1,600.00 ($1,000 + ($1,000 x 40% x 150%)).

In addition to limiting your return on the Securities, the Maximum Redemption Amount limits the positive effect of the Leverage Factor. If the Final Level is greater than the Initial Level, you will participate in the performance of the Basket at a rate of 150% up to a certain point. However, the effect of the Leverage Factor will be progressively reduced for Final Levels that are greater than approximately 28.33% of the Initial Level (assuming a Maximum Redemption Amount of 142.50% or $1,425.00 per Security, the midpoint of the specified range for the Maximum Redemption Amount) since your return on the Securities for any Final Level greater than approximately 28.33% of the Initial Level will be limited to the Maximum Redemption Amount.

Example 3—Calculation of the Payment at Maturity where the Percentage Change is negative (but greater than or equal to -10%).

	SPY	IWM	MDY
Basket Component Return	-15%	0%	-5%
Component Weight	60%	20%	20%

Based on the Basket Component Returns set forth above, the hypothetical Final Level would equal:

100 × [1 + (-15% x 60%) + (0% x 20%) + (-5% x 20%)] = 90

Percentage Change:	(90 – 100) / 100 = -10%
Payment at Maturity:	At maturity, if the Percentage Change is negative BUT greater than or equal to -10%, then the Payment at Maturity will equal the Principal Amount.

On a $1,000 investment, a -10% Percentage Change results in a Payment at Maturity of $1,000.00, a 0.00% return on the Securities.

Example 4—Calculation of the Payment at Maturity where the Percentage Change is less than -10%.

	SPY	IWM	MDY
Basket Component Return	-80%	8%	7%
Component Weight	60%	20%	20%

Based on the Basket Component Returns set forth above, the hypothetical Final Level would equal:

100 × [1 + (-80% x 60%) + (8% x 20%) + (7% x 20%)] = 55

Percentage Change: (55 – 100) / 100 = -45%

Payment at Maturity: $1,000 + [$1,000 x (-45% + 10%)] = $1,000 - $350 = $650.00

On a $1,000 investment, a -45% Percentage Change results in a Payment at Maturity of $650.00, a -35.00% return on the Securities.

In this example, due to the relatively higher weight of the SPY, the Percentage Change is negative despite the positive Basket Component Return of each other Basket Component.

The following table and graph show the return profile for the Securities at the Maturity Date, assuming that the investor purchased the Securities on the Pricing Date and held the Securities until the Maturity Date. The returns illustrated in the following table are not estimates or forecasts of the Percentage Change or the return on the Securities. Neither TD nor either Agent is predicting or guaranteeing any gain or particular return on the Securities.

Hypothetical Final Level	**Hypothetical Percentage Change**	**Hypothetical Payment at Maturity ($)**	**Hypothetical Return on Securities[1] (%)**
200.00	100.00%	$1,425.00	42.50%
175.00	75.00%	$1,425.00	42.50%
150.00	50.00%	$1,425.00	42.50%
140.00	40.00%	$1,425.00	42.50%
130.00	30.00%	$1,425.00	42.50%
128.33	28.33%	$1,425.00	42.50%
120.00	20.00%	$1,300.00	30.00%
110.00	10.00%	$1,150.00	15.00%
105.00	5.00%	$1,075.00	7.50%
100.00[2]	0.00%	$1,000.00	0.00%
97.50	-2.50%	$1,000.00	0.00%
95.00	-5.00%	$1,000.00	0.00%
90.00	-10.00%	$1,000.00	0.00%
85.00	-15.00%	$950.00	-5.00%
80.00	-20.00%	$900.00	-10.00%
70.00	-30.00%	$800.00	-20.00%
60.00	-40.00%	$700.00	-30.00%
50.00	-50.00%	$600.00	-40.00%
25.00	-75.00%	$350.00	-65.00%
0.00	-100.00%	$100.00	-90.00%

[1] The "return" as used in this pricing supplement is the number, expressed as a percentage, that results from comparing the difference between the Payment at Maturity per Security and the Principal Amount.

[2] The Initial Level will be set to 100 on the Pricing Date.

* These calculations are hypothetical and should not be taken as an indication of the future performance of the Basket Components or the Basket as measured from the actual Pricing Date. We cannot give you assurance that the performance of the Basket Components will result in any positive return on your initial investment.

* The graph above represents a hypothetical payout profile for the Securities. The 45 degree dotted line represents the hypothetical Percentage Change of the Basket and the solid line represents the hypothetical return on the Securities for a given Percentage Change in the Basket.

Determining the Payment at Maturity

On the Maturity Date, you will receive a cash payment per Security (the Payment at Maturity) calculated as follows:

Information Regarding the Basket

While actual historical information on the Basket will not exist before the Pricing Date, the following graph sets forth the hypothetical daily performance of the Basket from January 2, 2008 through August 1, 2016. The graph is based upon actual daily historical closing prices of the Basket Components and a hypothetical Basket level of 100.00 as of January 2, 2008.

The dotted line on the graph presents a hypothetical Buffer Level of 90.00, which is equal to 90% of the Initial Level of 100, which will be set on the Pricing Date. We obtained the information regarding the historical performance of the Basket Components used in calculating the graph below from Bloomberg® Professional Service ("Bloomberg").

We have not conducted any independent review or due diligence of publicly available information obtained from Bloomberg. The hypothetical performance of the Basket should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Basket. We cannot give you assurance that the performance of the Basket will result in any positive return on your initial investment.

Hypothetical Percentage Change and Basket Component Returns

If the Pricing Date had been January 2, 2008 and the Valuation Date had been August 1, 2016 (the term spanned by the graph above), the Percentage Change of the Basket would have been 58.83%. This results from calculating hypothetical Basket Component Returns as follows:*

	SPY	**IWM**	**MDY**
Hypothetical Initial Component Price	$144.86	$75.12	$154.18
Hypothetical Final Component Price	$216.93	$121.20	$282.98
Hypothetical Basket Component Return†	49.75%	61.34%	83.54%
Component Weight	60%	20%	20%

†Calculated as (Hypothetical Final Component Price - Hypothetical Initial Component Price) / Hypothetical Initial Component Price

Hypothetical Final Level = 100 × [1 + (49.75% x 60%) + (61.34% x 20%) + (83.54% x 20%)] = 158.83

Hypothetical Percentage Change = (158.83 – 100) / 100 = 58.83%

* These calculations are hypothetical and should not be taken as an indication of the future performance of the Basket Components or the Basket as measured from the actual Pricing Date. Additionally, the hypothetical examples and graph above reflect the performance of the hypothetical Basket, and do not reflect or incorporate any terms of the Security. We cannot give you assurance that the performance of the Basket Components will result in any positive return on your initial investment.

Information Regarding the Basket Components

All information contained in this pricing supplement regarding the Basket Components including, without limitation, their make-up, method of calculation and changes in their components and their historical closing prices, is derived from publicly available information prepared by the investment advisors of the Basket Components. Such information reflects the policies of, and is subject to change by, such investment advisors. The investment advisors own the copyrights and all rights to the Basket Components. The investment advisors are under no obligation to continue to publish, and may discontinue publication of, the Basket Components. The consequences of the investment advisors discontinuing or modifying the Basket Components are described in the section of the product prospectus supplement entitled "General Terms of the Notes—Discontinuance of or Material Change to an ETF."

The Basket Components are calculated and maintained by the investment advisors. None of TD or Wells Fargo Securities or any of our or their respective affiliates has participated in the preparation of such documents or made any due diligence inquiry with respect to the Basket Components or investment advisors in connection with the offering of the Securities. Furthermore, none of we, Wells Fargo Securities or any of our or their respective affiliates have any ability to control the corporate actions or any other events affecting a Basket Component or investment advisor and subsequent disclosure of any such events could affect the value of the Basket Component, the Basket and therefore the market value of the Securities and the Payment at Maturity.

We, Wells Fargo Securities or our or their respective affiliates may presently or from time to time engage in business with one or more of the issuers of the Basket Component Constituents without regard to your interests, including extending loans to or entering into loans with, or making equity investments in, one or more of such issuers or providing advisory services to one or more of such issuers, such as merger and acquisition advisory services. In the course of business, we, Wells Fargo Securities or our or their respective affiliates may acquire non-public information about one or more of such issuers and none of us, Wells Fargo Securities or our respective affiliates undertake to disclose any such information to you. In addition, we, Wells Fargo Securities or our or their respective affiliates from time to time have published and in the future may publish research reports with respect to such issuers. These research reports may or may not recommend that investors buy or hold the securities of such issuers. As a prospective purchaser of the Securities, you should undertake an independent investigation of the Basket Components and of the issuers of the stocks held by the Basket Component Constituents to the extent required, in your judgment, to allow you to make an informed decision with respect to an investment in the Securities.

We are not incorporating by reference the websites of the investment advisors of the Basket Components or any material they include into this pricing supplement. In this pricing supplement, unless the context requires otherwise, references to the Basket Components will include any successor funds to the Basket Components and references to the investment advisors will include any successors thereto.

The graphs and tables below set forth the information relating to the historical closing prices of the Basket Components. We obtained the information regarding the historical performance of the Basket Components in the graphs and tables below from Bloomberg.

We have not conducted any independent review or due diligence of publicly available information obtained from Bloomberg. The historical performance of the Basket Components should not be taken as an indication of their future performance, and no assurance can be given as to the Final Component Price of any Basket Component. We cannot give you assurance that the performance of the Basket Components will result in any positive return on your initial investment.

The SPDR® S&P 500® ETF Trust (“SPY”)

For information concerning the SPY and the risk factors attributable to the SPY, please consult filings with the SEC under the Exchange Act and the Investment Company Act of 1940, as amended (the “Investment Company Act”), which can be located by reference to SEC file numbers 033-46080 and 811-06125, respectively. The shares of the SPY trade on the NYSE Arca under the symbol “SPY.”

Investment Objective and Strategy

The SPY seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P 500® Index (the “SPX”). To maintain the correspondence between the composition and weightings of stocks held by the SPY and component stocks of the SPX, the SPY adjusts its holdings from time to time to conform to periodic changes in the identity and/or relative weightings of the index securities.

The SPY utilizes a “passive” or “indexing” investment approach in attempting to track the performance of the SPX. The SPY seeks to invest in substantially all of the securities that comprise the SPX. The SPY typically earns income from dividends from securities held by the SPY. These amounts, net of expenses and taxes (if applicable), are passed along to the SPY’s shareholders as “ordinary income.” In addition, the SPY realizes capital gains or losses whenever it sells securities. Net long-term capital gains are distributed to shareholders as “capital gain distributions.” However, because the component return of the SPY will be calculated based only on the share price of the SPY, you will not receive any benefit from or be entitled to receive income, dividend, or capital gain distributions from the SPY or any equivalent payments.

The S&P 500® Index

The information below is included only to give insight to the SPX, the performance of which the SPY attempts to reflect. The return on your Securities is linked to the performance of a basket that includes the SPY, and not to the performance of the SPX.

All disclosures contained in this pricing supplement regarding the SPX, including, without limitation, its make up, methods of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by, S&P Dow Jones Indices, LLC. S&P Dow Jones Indices, LLC, which owns the copyright and all other rights to the SPX, has no obligation to continue to publish, and may discontinue publication of, the SPX.

The SPX is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the SPX is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

S&P Dow Jones Indices LLC chooses companies for inclusion in the SPX with the aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of its Stock Guide Database of over 10,000 companies, which S&P Dow Jones Indices LLC uses as an assumed model for the composition of the total market. Relevant criteria employed by S&P Dow Jones Indices LLC include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company’s common stock generally is responsive to changes in the affairs of the respective industry, and the market value and trading activity of the common stock of that company.

S&P Dow Jones Indices LLC calculates the SPX by reference to the prices of the constituent stocks of the SPX without taking account of the value of dividends paid on those stocks. As a result, the return on the Securities will not

reflect the return you would realize if you actually owned the SPX constituent stocks and received the dividends paid on those stocks.

Effective with the September 2015 rebalance, consolidated share class lines will no longer be included in the SPX. Each share class line will be subject to public float and liquidity criteria individually, but the company's total market capitalization will be used to evaluate each share class line. This may result in one listed share class line of a company being included in the SPX while a second listed share class line of the same company is excluded.

Computation of the S&P 500® Index

While S&P Dow Jones Indices LLC currently employs the following methodology to calculate the SPX, no assurance can be given that S&P Dow Jones Indices LLC will not modify or change this methodology in a manner that may affect the Payment at Maturity.

Historically, the market value of any component stock of the SPX was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, S&P Dow Jones Indices LLC began shifting the SPX halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the SPX to full float adjustment on September 16, 2005. S&P Dow Jones Indices LLC's criteria for selecting stocks for the SPX did not change with the shift to float adjustment. However, the adjustment affects each company's weight in the SPX.

Under float adjustment, the share counts used in calculating the SPX reflect only those shares that are available to investors, not all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock's outstanding shares, other than holdings by "block owners," were removed from the float for purposes of calculating the SPX. Generally, these "control holders" will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension funds) and any individual

person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depositary banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, restricted shares, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depositary shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block. If a company has multiple classes of stock outstanding, shares in an unlisted or non-traded class are treated as a control block.

For each stock, an investable weight factor ("IWF") is calculated by dividing the available float shares by the total shares outstanding. As of September 21, 2012, available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company's officers and directors hold 3% of the company's shares, and no other control group holds 5% of the company's shares, S&P Dow Jones Indices LLC would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company's officers and directors hold 3% of the company's shares and another control group holds 20% of the company's shares, S&P Dow Jones Indices LLC would assign an IWF of 0.77, reflecting the fact that 23% of the company's outstanding shares are considered to be held for control. For companies with multiple classes of stock, S&P Dow Jones Indices LLC calculates the weighted average IWF for each stock using the proportion of the total company market capitalization of each share class as weights.

The SPX is calculated using a base-weighted aggregate methodology. The level of the SPX reflects the total market value of all 500 component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to use and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941-43 = 10. In practice, the daily calculation of the SPX is computed by dividing the total market value of the component stocks by the "index divisor." By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the SPX, it serves as a link to the original base period level of the SPX. The index divisor keeps the SPX comparable over time and is the manipulation point for all adjustments to the SPX, which is index maintenance.

Index Maintenance

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock splits and stock dividends, require changes in the common shares outstanding and the stock prices of the companies in the SPX, and do not require index divisor adjustments.

To prevent the level of the SPX from changing due to corporate actions, corporate actions which affect the total market value of the SPX require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the SPX remains constant and does not reflect the corporate actions of individual companies in the SPX. Index divisor adjustments are made after the close of trading and after the calculation of the SPX closing level.

Changes in a company's shares outstanding of 5.00% or more due to mergers, acquisitions, public offerings, tender offers, Dutch auctions, or exchange offers are made as soon as reasonably possible. All other changes of 5.00% or more (due to, for example, company stock repurchases, private placements, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participation units, at the market offerings, or other recapitalizations) are made weekly and are announced on Fridays for implementation after the close of trading on the following Friday. Changes of less than 5.00% due to a company's acquisition of another company in the SPX are made

as soon as reasonably possible. All other changes of less than 5.00% are accumulated and made quarterly on the third Friday of March, June, September, and December, and are usually announced two to five days prior.

Changes in IWFs of more than five percentage points caused by corporate actions (such as merger and acquisition activity, restructurings, or spinoffs) will be made as soon as reasonably possible. Other changes in IWFs will be made annually when IWFs are reviewed.

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Historical Information for the SPY

Quarter Ending	Quarter High	Quarter Low	Quarter Close
June 30, 2008	$143.08	$127.69	$128.04
September 30, 2008	$130.70	$111.38	$116.54
December 31, 2008	$116.00	$75.95	$90.33
March 31, 2009	$93.44	$68.11	$79.44
June 30, 2009	$95.09	$81.00	$91.92
September 30, 2009	$107.33	$87.95	$105.56
December 31, 2009	$112.67	$102.54	$111.44
March 31, 2010	$117.40	$105.87	$116.99
June 30, 2010	$121.79	$103.22	$103.22
September 30, 2010	$114.79	$102.20	$114.12
December 31, 2010	$125.92	$113.75	$125.78
March 31, 2011	$134.57	$126.21	$132.51
June 30, 2011	$136.54	$126.81	$131.97
September 30, 2011	$135.46	$112.26	$113.17
December 30, 2011	$128.68	$109.93	$125.50
March 30, 2012	$141.61	$127.49	$140.72
June 29, 2012	$141.79	$128.10	$136.27
Quarter Ending	**Quarter High**	**Quarter Low**	**Quarter Close**
September 28, 2012	$147.24	$133.51	$143.93
December 31, 2012	$146.27	$135.70	$142.52
March 28, 2013	$156.73	$145.53	$156.55
June 28, 2013	$167.11	$154.14	$160.01
September 30, 2013	$173.14	$161.16	$168.10
December 31, 2013	$184.67	$165.48	$184.67
March 31, 2014	$188.26	$174.15	$187.04
June 30, 2014	$196.48	$181.48	$195.72
September 30, 2014	$201.82	$190.99	$197.02
December 31, 2014	$208.72	$186.27	$205.50
March 31, 2015	$211.99	$198.97	$206.43
June 30, 2015	$213.50	$205.42	$205.85
September 30, 2015	$212.59	$187.27	$191.63
December 31, 2015	$211.00	$192.13	$203.89
March 31, 2016	$206.10	$183.03	$205.56
June 30, 2016	$212.39	$199.53	$209.53
August 1, 2016*	$217.25	$208.39	$216.93

* This pricing supplement includes available information for the third calendar quarter of 2016 for the period from July 1, 2016 through August 1, 2016. Accordingly, the “Quarter High,” “Quarter Low” and “Quarter Close” data indicated are for this shortened period only and do not reflect complete data for the third calendar quarter of 2016.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

TD SECURITIES (USA) LLC

WELLS FARGO SECURITIES, LLC

iShares® Russell 2000 ETF ("IWM")

"iShares®" and "BlackRock" are registered trademarks of BlackRock, Inc. or its subsidiaries. The IWM seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Russell 2000® Index (the "RTY"), which measures the performance of the small- capitalization sector of the U.S. equity market. The IWM typically earns income from dividends from securities that it holds. These amounts, net of expenses and taxes (if applicable), are passed along to the IWM's shareholders as "ordinary income." In addition, the IWM realizes capital gains or losses whenever it sells securities. Net long-term capital gains are distributed to shareholders as "capital gain distributions." However, because the securities are linked only to the share price of the the IWM, you will not be entitled to receive income, dividend, or capital gain distributions from the IWM or any equivalent payments.

For information concerning the IWM and the risk factors attributable to the IWM, please consult filings with the SEC under the Exchange Act and the Investment Company Act, which can be located by reference to SEC file number 333-92935. Information provided to or filed with the SEC can be inspected and copied at the public reference facility maintained by the SEC or through the SEC's website at www.sec.gov. None of this publicly available information is incorporated by reference into this pricing supplement.

The shares of the IWM trade on the NYSE Arca under the symbol "IWM".

Investment Objective and Strategy

The IWM seeks to track the investment results of the RTY, which measures the performance of the small-capitalization sector of the U.S. equity market.

The return on your Securities is linked to the performance of the IWM, and not to the performance of the RTY on which the IWM is based. Although the IWM seeks results that correspond generally to the performance of the RTY, the IWM follows a strategy of "representative sampling," which means the IWM's holdings do not identically correspond to the holdings and weightings of the RTY, and may significantly diverge from the RTY. Although the IWM generally invests at least 90% of its assets in some of the same securities as those contained in the RTY and in depositary receipts representing the same securities as those contained in the RTY, it does not hold all of the securities underlying the RTY and may invest the remainder in securities that are not contained in the RTY, or in other types of investments. Currently, the IWM holds substantially fewer securities than the RTY. Additionally, when the IWM purchases securities not held by the RTY, the IWM may be exposed to additional risks, such as counterparty credit risk or liquidity risk, to which the Russell Index components are not exposed. Therefore, the IWM will not directly track the performance of the RTY and there may be significant variation between the performance of the IWM and the RTY.

Representative Sampling

BFA, the investment advisor, uses a representative sampling strategy to track the RTY. Representative sampling is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to the RTY. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the RTY. Funds may or may not hold all of the securities that are included in the RTY.

Correlation

The index is a theoretical financial calculation, while the IWM is an actual investment portfolio. The performance of the IWM and its RTY will vary somewhat due to transaction costs, foreign currency valuations, asset valuations,

corporate actions (such as mergers and spin-offs), timing variances and differences between the IWM's portfolio and the RTY resulting from legal restrictions (such as diversification requirements that apply to the IWM but not to the RTY) or representative sampling. A figure of 100% would indicate perfect correlation. Any correlation of less than 100% is called "tracking error." The IWM, using representative sampling, can be expected to have a greater tracking error than a IWM using a replication indexing strategy. "Replication" is a strategy in which a fund invests in substantially all of the securities in its RTY in approximately the same proportions as in the RTY.

Russell 2000® Index

The information below is included only to give insight to the RTY, the performance of which the IWM attempts to reflect. The return on your Securities is linked to the performance of a basket that includes the IWM, and not to the performance of the RTY.

We have derived all information contained in this pricing supplement regarding the RTY, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information, including Bloomberg. The information reflects the policies of, and is subject to change by Russell. Russell has no obligation to continue to publish, and may discontinue publication of, the RTY.

Russell began dissemination of the RTY (Bloomberg L.P. index symbol "RTY") on January 31, 1984 and calculates and publishes the RTY. The RTY was set to 135 as of the close of business on December 31, 1986. The RTY is designed to track the performance of the small capitalization segment of the U.S. equity market. As a subset of the Russell 3000® Index, the RTY consists of the smallest 2,000 companies included in the Russell 3000® Index. The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. equity market. The RTY is determined, comprised, and calculated by Russell without regard to the securities.

Selection of Stocks Comprising the Russell 2000® Index

All companies eligible for inclusion in the RTY must be classified as a U.S. company under Russell's country-assignment methodology. If a company is incorporated, has a stated headquarters location, and trades in the same country (American Depositary Receipts and American Depositary Shares are not eligible), then the company is assigned to its country of incorporation. If any of the three factors are not the same, Russell defines three Home Country Indicators ("HCIs"): country of incorporation, country of headquarters, and country of the most liquid exchange (as defined by a two-year average daily dollar trading volume) ("ADDTV"). Using the HCIs, Russell compares the primary location of the company's assets with the three HCIs. If the primary location of its assets matches any of the HCIs, then the company is assigned to the primary location of its assets. If there is insufficient information to determine the country in which the company's assets are primarily located, Russell will use the primary country from which the company's revenues are primarily derived for the comparison with the three HCIs in a similar manner. Russell uses the average of two years of assets or revenues data to reduce potential turnover. If conclusive country details cannot be derived from assets or revenues data, Russell will assign the company to the country of its headquarters, which is defined as the address of the company's principal executive offices, unless that country is a Benefit Driven Incorporation "BDI" country, in which case the company will be assigned to the country of its most liquid stock exchange. BDI countries include: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Channel Islands, Cook Islands, Curacao, Faroe Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Liberia, Marshall Islands, Panama, Saba, Sint Eustatius, Sint Maarten, and Turks and Caicos Islands. For any companies incorporated or headquartered in a U.S. territory, including countries such as Puerto Rico, Guam, and U.S. Virgin Islands, a U.S. HCI is assigned.

All securities eligible for inclusion in the RTY must trade on a major U.S. exchange. Bulletin board, pink-sheets, and over-the-counter ("OTC") traded securities are not eligible for inclusion. Stocks must trade at or above $1.00 on their primary exchange on the last trading day in May to be eligible for inclusion during annual reconstitution. However, in order to reduce unnecessary turnover, if an existing member's closing price is less than $1.00 on the last day of May, it will be considered eligible if the average of the daily closing prices (from its primary exchange) during the month of May is equal to or greater than $1.00. Initial public offerings are added each quarter and must have a closing price at or above $1.00 on the last day of their eligibility period in order to qualify for index inclusion. If a stock, new or existing, does not have a closing price at or above $1.00 (on its primary exchange) on the last trading day in May, but does have a closing price at or above $1.00 on another major U.S. exchange, that stock will be eligible for inclusion.

An important criteria used to determine the list of securities eligible for the RTY is total market capitalization, which is defined as the market price as of the last trading day in May for those securities being considered at annual reconstitution times the total number of shares outstanding. Where applicable, common stock, non-restricted exchangeable shares and partnership units/membership interests are used to determine market capitalization. Any other form of shares such as preferred stock, convertible preferred stock, redeemable shares, participating preferred stock, warrants and rights, or trust receipts, are excluded from the calculation. If multiple share classes of common stock exist, they are combined. In cases where the common stock share classes act independently of each other (e.g., tracking stocks), each class is considered for inclusion separately. If multiple share classes exist, Russell will determine a primary trading vehicle, and the price of that primary trading vehicle (usually the most liquid) is used to calculate market capitalization.

Companies with a total market capitalization of less than $30 million are not eligible for the RTY. Similarly, companies with only 5% or less of their shares available in the marketplace are not eligible for the RTY. Royalty trusts, limited liability companies, closed-end investment companies, blank check companies, special purpose acquisition companies, and limited partnerships are also ineligible for inclusion. Business development companies, exchange traded funds and mutual funds are also excluded.

Annual reconstitution is a process by which the RTY is completely rebuilt. Based on closing levels of the company's common stock on its primary exchange on the last trading day of May of each year, Russell reconstitutes the composition of the RTY using the then existing market capitalizations of eligible companies. Reconstitution of the RTY occurs on the last Friday in June or, when the last Friday in June is the 29th or 30th, reconstitution occurs on the prior Friday. In addition, Russell adds initial public offerings to the RTY on a quarterly basis based on market capitalization guidelines established during the most recent reconstitution.

After membership is determined, a security's shares are adjusted to include only those shares available to the public. This is often referred to as "free float." The purpose of the adjustment is to exclude from market calculations the capitalization that is not available for purchase and is not part of the investable opportunity set.

Historical Information for the IWM

Quarter Ending	Quarter High	Quarter Low	Quarter Close
June 30, 2008	$76.17	$68.47	$69.03
September 30, 2008	$75.20	$65.50	$68.39
December 31, 2008	$67.02	$38.58	$49.27
March 31, 2009	$51.27	$34.36	$41.94
June 30, 2009	$53.19	$42.82	$50.96
September 30, 2009	$62.02	$47.87	$60.23
December 31, 2009	$63.36	$56.22	$62.26
March 31, 2010	$69.25	$58.68	$67.81
June 30, 2010	$74.14	$61.08	$61.08
September 30, 2010	$67.67	$59.04	$67.47
December 31, 2010	$79.22	$66.94	$78.23
March 31, 2011	$84.17		

	Stock	Surplus	Income	Earnings	(Loss)	Stock	Total
Balance at December 31, 2009	$ 11,375	$30,269		$41,346	$(2,583)	$(6,240)	$74,167
Comprehensive Income:							
Net Income			$6,990	6,990			6,990
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects			9,282		9,282		9,282
Total comprehensive income			$16,272				
Issuance of 4,051 shares of treasury stock upon exercise of employee stock options		(94)				136	42
				(3,754)			(3,754)

Cash dividends - $.69 per share							
Balance at September 30, 2010	$ 11,375	$30,175		$44,582	$6,699	$(6,104)	$86,727
Balance at December 31, 2010	$ 11,375	$30,175		$45,246	$(1,633)	$(6,103)	$79,060
Comprehensive Income:							
Net Income			$7,716	7,716			7,716
Change in unrealized gain (loss) on investment securities available-for sale, net of reclassification adjustment and tax effects			9,126		9,126		9,126
Total Comprehensive income			$16,842				
Issuance of 815 shares of treasury stock upon exercise of employee stock options		(14)				28	14
Cash dividends - $.72 per share				(3,920)			(3,920)
Balance at September 30, 2011	$ 11,375	$30,161		$49,042	$7,493	$(6,075)	$91,996

See accompanying notes to consolidated financial statements.

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(Unaudited)

(Amounts in thousands)

	2011	2010
OPERATING ACTIVITIES		
Net income	$7,716	$6,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision or loan losses	1,100	1,675
Provision for depreciation and amortization	721	742
Premium amortization on investment securities	760	531
Core deposit amortization	217	214
Discount accretion on investment securities	(860)	(1,025)
Gain on sale of mortgage loans	(211)	(532)
Proceeds from sale of mortgage loans for resale	14,270	15,860
Originations of mortgage loans for resale	(12,756)	(11,635)
Loss (gain) on sale and valuation adjustments on foreclosed assets held for sale	137	(20)
Gain on sales of investment securities	(143)	(198)
Deferred income tax provision	141	73
Decrease (increase) in interest receivable and other assets	97	(1,072)
Decrease in prepaid FDIC insurance	520	564
Increase in cash surrender value of bank owned life insurance	(569)	(573)
Increase/(decrease) in interest payable, accrued expenses and other liabilities	(292)	47
NET CASH PROVIDED BY OPERATING ACTIVITIES	$10,848	$11,641
INVESTING ACTIVITIES		
Purchase of investment securities	$(87,501)	$(57,994)
Proceeds from sales of investment securities available for sale	53,564	18,216
Proceeds from maturities and redemptions of investment securities available for sale	26,229	14,297
Proceeds from the redemption of restricted securities	903	0
Proceeds from maturities and redemption of investment securities held to maturity	2,048	2,733
Net (decrease) in loans	(3,632)	(12,715)
Purchase of premises and equipment	(1,047)	(1,160)
Proceeds from sale of foreclosed assets	348	200
Purchase of investment in real estate venture	0	(1,084)
NET CASH (USED IN) INVESTING ACTIVITIES	$(9,088)	$(37,507)
FINANCING ACTIVITIES		
Net increase in deposits	$6,912	$47,032
Net increase in short-term borrowings	1,372	5,562
Proceeds from long-term borrowings	5,000	7,000
Repayment of long-term borrowings	(2,045)	(16,541)
Proceeds from issuance of treasury stock under stock option plan	14	42
Cash dividends	(3,920)	(3,754)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$7,333	$39,341
INCREASE IN CASH AND CASH EQUIVALENTS	$9,093	$13,475
CASH AND CASH EQUIVALENTS, BEGINNING	11,905	11,426

CASH AND CASH EQUIVALENTS, ENDING	$20,998	$24,901
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during period for		
Interest	$7,484	$10,144
Income taxes	1,572	1,436
Loans transferred to foreclosed assets held for resale	336	821
Investment securities purchased - $2,192 less settlement obligation $2,192 in 2011	0	0

See Accompanying Notes to Consolidated Financial Statements

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(Unaudited)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of First Keystone Corporation and Subsidiary (the "Corporation") are in accordance with accounting principles generally accepted in the United States of America and conform to common practices within the banking industry. The more significant policies follow:

Principles of Consolidation

The consolidated financial statements include the accounts of First Keystone Corporation and its wholly-owned Subsidiary, First Keystone Community Bank (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation.

Nature of Operations

The Corporation, headquartered in Berwick, Pennsylvania, provides a full range of banking, trust and related services through its wholly-owned Bank subsidiary and is subject to competition from other financial institutions in connection with these services. The Bank serves a customer base which includes individuals, businesses, public and institutional customers primarily located in the Northeast Region of Pennsylvania. The Bank has 16 full service offices and 18 ATMs located in Columbia, Luzerne, Montour and Monroe Counties. The Corporation and its subsidiary must also adhere to certain federal banking laws and regulations and are subject to periodic examinations made by various federal agencies.

Segment Reporting

The Corporation's banking subsidiary acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch and automated teller machine network, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. The Bank also performs personal, corporate, pension and fiduciary services through its Trust Department.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and mortgage banking operations of the Corporation. Currently, management measures the performance and allocates the resources of First Keystone Corporation as a single segment.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could significantly differ from those estimates.

Material estimates that are particularly susceptible to significant changes include the assessment for impairment of certain investment securities, the allowance for loan losses, deferred tax assets and liabilities, impairment of other intangible assets and foreclosed real estate. Assumptions and factors used in the estimates are evaluated on an annual basis or whenever events or changes in circumstance indicate that the previous assumptions and factors have changed. The result of the analysis could result in adjustments to the estimates.

Investment Securities

The Corporation classifies its investment securities as either "Held-to-Maturity" or "Available-for-Sale" at the time of purchase. Debt securities are classified as Held-to-Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities Held-to-Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity.

Debt securities not classified as Held-to-Maturity and equity securities are included in the Available-for-Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as other comprehensive income (loss) in the Consolidated Statement of Changes in Stockholders' Equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held-to-Maturity or Available-for-Sale is adjusted for amortization of premiums and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends is included in interest income from investments. Realized gains and losses are included in net investment securities gains and losses. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

Restricted Securities

Restricted equity securities consist of stock in Federal Home Loan Bank of Pittsburgh ("FHLB-Pittsburgh"), Atlantic Central Bankers Bank ("ACBB") and Federal Reserve Bank and do not have a readily determinable fair value because their ownership is restricted, and they can be sold back only to the FHLB-Pittsburgh, ACBB, the Federal Reserve Bank or to another member institution. Therefore, these securities are classified as restricted equity investment securities, carried at cost, and evaluated for impairment. At September 30, 2011, the Corporation held $5,425,000 in stock of FHLB-Pittsburgh and $35,000 in stock of ACBB. At December 31, 2010, the Corporation held $6,328,000 in stock of the FHLB-Pittsburgh, and $35,000 in stock of ACBB.

The Corporation evaluated its holding of restricted stock for impairment and deemed the stock to not be impaired due to the expected recoverability of cost, which equals the value reflected within the Corporation's consolidated financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within FHLB's mortgage portfolio to the FHLB's liquidity position and credit rating. The Corporation utilizes the impairment framework outlined in GAAP to evaluate stock for impairment. The following factors were evaluated to determine the ultimate recoverability of the cost of the Corporation's restricted stock holdings; (i) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (ii) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB; (iv) the liquidity position of the FHLB; and (v) whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the materiality of the carrying amount to the member institution and (b) whether an assessment of the institution's operational needs for the foreseeable future allow management to dispose of the stock. Based on the analysis of these factors, the Corporation determined that its holdings of restricted stock were not impaired at September 30, 2011 and December 31, 2010.

Loans

Loans are stated at their outstanding unpaid principal balances, net of deferred fees or costs, unearned income and the allowance for loan losses. Interest on installment loans is recognized as income over the term of each loan, generally, by the actuarial or accrual methods. Interest on all other loans is primarily recognized based upon the principal amount outstanding on an actual day basis. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the interest method over the contractual life of the related loans as an interest yield adjustment.

Mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis determined by independent pricing from appropriate federal or state agency investors. These loans are sold without recourse to the Corporation.

Past-Due Loans — Generally, a loan is considered to be past-due when scheduled loan payments are in arrears 15 days or more. Delinquent notices are generated automatically when a loan is 15 days past-due. Collection efforts continue on loans past-due beyond 60 days that have not been satisfied, when it is believed that some chance exists for improvement in the status of the loan. Past-due loans are continually evaluated with the determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

Non-Accrual Loans — Generally, a loan is classified as non-accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan currently is performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Certain non-accrual loans may continue to perform, that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management’s judgement as to collectibility of principal.

Impaired Loans — A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan=s effective interest rate or the fair value of the collateral for certain collateral dependent loans. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

Allowance for Loan Losses — The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management’s periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

In addition, the Corporation is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

In addition, an allowance is provided for possible credit losses on off-balance sheet credit exposures. The allowance is estimated by management and is classified in other liabilities.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. At the present time, select loans are not aggregated for collective impairment evaluation, as such; all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to

the contractual terms of the loan agreement. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses adjusted for current factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding two years. In calculating the historical component of our allowance, we aggregate loans into one of four portfolio segments: Commercial, Commercial Real Estate, Consumer and Residential. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. Actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: the concentration of watch and substandard loans as a percentage of total loans, levels of loan concentration within the portfolio segment or division of a portfolio segment and broad economic conditions.

Premises and Equipment

Premises, improvements, and equipment are stated at cost less accumulated depreciation computed principally utilizing the straight-line method over the estimated useful lives of the assets. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value may not be recovered. Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

Mortgage Servicing Rights

The Corporation originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Corporation may retain the right to service these loans. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The unamortized cost is included in other assets in the accompanying consolidated balance sheet. The servicing rights are periodically evaluated for impairment based on their relative fair value.

Foreclosed Assets Held for Resale

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and if fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. The real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense.

Bank Owned Life Insurance

The Corporation invests in Bank Owned Life Insurance (BOLI) with split dollar life provisions. Purchase of BOLI provides life insurance coverage on certain employees with the Corporation being owner and beneficiary of the policies.

Investments in Real Estate Ventures

The Bank is a limited partner in real estate ventures that own and operate affordable residential low-income housing apartment buildings for elderly residents. The investments are accounted for under the effective yield method. Under the effective yield method, the Bank recognizes tax credits as they are allocated and amortizes the initial cost of the

investment to provide a constant effective yield over the period that the tax credits are allocated to the Bank. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the consolidated statements of income as a component of income tax expense. The amount of tax credits allocated to the Bank were $187,000 in 2011 and $187,000 in 2010, and the amortization of the investments in the limited partnerships were $88,000 and $120,000 for the nine months ended September 30, 2011 and 2010, respectively. The carrying value of the investments as of September 30, 2011 and December 31, 2010 were $1,513,000 and $1,600,000, respectively. During 2010, the Bank purchased an interest in a low income housing partnership in the amount of $1,084,000.

Income Taxes

The provision for income taxes is based on the results of operations, adjusted primarily for tax-exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and income tax bases of assets and liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income and tax planning strategies in making this assessment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation and the Bank are subject to U.S. federal income tax and Commonwealth of Pennsylvania tax. The Corporation is no longer subject to examination by Federal or State taxing authorities for the years before 2007. At September 30, 2011 and 2010 the Corporation did not have any unrecognized tax benefits. The Corporation does not expect the amount of any unrecognized tax benefits to significantly increase in the next twelve months. The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense. At September 30, 2011 and December 31, 2010, the Corporation does not have any amounts accrued for interest and/or penalties.

Goodwill, Other Intangible Assets, and Premium Discount

Goodwill resulted from the acquisition of the Pocono Community Bank in November 2007 and of certain fixed and operating assets acquired and deposit liabilities assumed of the branch of another financial institution in Danville, Pennsylvania, in January 2004. Such goodwill represents the excess cost of the acquired assets relative to the assets fair value at the dates of acquisition. The amount was comprised of the finalization of severance agreements and contract terminations related to the acquisition. In accordance with current accounting standards, goodwill is not amortized. Management performs an annual evaluation for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation has tested the goodwill included in its consolidated balance sheet at December 31, 2010, and has determined there was no impairment as of that date or as of September 30, 2011. No assurance can be given that future impairment tests will not result in a charge to earnings.

Intangible assets are comprised of core deposit intangibles and premium discount (negative premium) on certificates of deposit acquired. The core deposit intangible is being amortized over the average life of the deposits acquired as determined by an independent third party. Premium discount (negative premium) on acquired certificates of deposit resulted from the valuation of certificate of deposit accounts by an independent third party. The book value of certificates of deposit acquired was greater than their fair value at the date of acquisition which resulted in a negative

premium due to higher cost of the certificates of deposit compared to the cost of similar term financing. The Corporation has tested the core deposit intangible included in its consolidated balance sheet at December 31, 2010 and has determined there was no impairment as of that date or as of September 30, 2011. No assurance can be given that future impairment tests will not result in a charge to earnings.

Stock Based Compensation

The Corporation sponsored a stock option plan which expired on April 21, 2008. Compensation cost is recognized for stock options to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation expense is recognized over the requisite service period. There were 20,245 outstanding options that may be exercised as of September 30, 2011.

Per Share Data

FASB ASC 260-10 Earnings Per Share ((SFAS) No. 128, “Earnings Per Share”), requires dual presentation of basic and fully diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share is calculated by increasing the denominator for the assumed conversion of all potentially dilutive securities. The Corporation’s dilutive securities are limited to stock options. The most recent options issued were in December 2007.

Cash Flow Information

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and due from other banks and interest bearing deposits in other banks and federal funds sold. The Corporation considers cash classified as interest bearing deposits with other banks as a cash equivalent since they are represented by cash accounts essentially on a demand basis. Federal funds are also included as a cash equivalent because they are generally purchased and sold for one-day periods.

Treasury Stock

The purchase of the Corporation=s common stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a last-in-first-out basis.

Trust Assets and Income

Property held by the Corporation in a fiduciary or agency capacity for its customers is not included in the accompanying consolidated financial statements since such items are not assets of the Corporation. Trust Department income is generally recognized on a cash basis and is not materially different than if it were reported on an accrual basis.

Accumulated Other Comprehensive Income

The Corporation is required to present accumulated other comprehensive income in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income is comprised of net unrealized holding gains on the available for sale investment securities portfolio. The Corporation has elected to report the effects of other comprehensive income as part of the Consolidated Statement of Changes in Stockholders= Equity.

Recent Accounting Pronouncements

FASB ASU 2010-20 - AReceivable (Topic 310), Disclosures about the Credit Quality of Financial Receivables and the Allowance for Credit Losses@ — ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity=s financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past-due financing receivables, allowance for credit losses related to financing receivable, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 3.

FASB ASU 2010-09 - Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure requirements. This accounting standard update modifies the requirement to disclose the date that subsequent events

are considered through for SEC filers. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC=s requirements.

FASB ASC 860 - In September 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and servicing (Statement No. 166 — Accounting for Transfers of Financial Assets — and amendment of FASB Statement No. 140). The new guidance removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new guidance became effective for the Corporation on January 1, 2010. The implementation of this new guidance did not have a material impact on the Corporation=s consolidated financial statements.

FASB ASC 820-10 - In January 2010, the FASB issued an updated (ASC No. 2010-06, Improving Disclosures about Fair Value Measurements) impacting FASB ASC 210-10, Fair Value Measurements and Disclosures. The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. This update became effective for the Corporation on January 1, 2010. The implementation of this new guidance did not have a material impact on the Corporation's consolidated financial statements.

Advertising Costs

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the nine months ended September 30, 2011 and 2010, was approximately $201,000 and $172,000, respectively.

Reclassifications

Certain amounts in the consolidated financial statements of prior periods have been reclassified to conform with presentation used in the 2011 consolidated financial statements. Such reclassifications have no effect on the Corporation's consolidated financial condition or net income.

NOTE 2 — INVESTMENT SECURITIES

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities classified as "Available-For-Sale" or "Held-to-Maturity" were as follows at September 30, 2011 and December 31, 2010:

(Amounts in thousands)	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$69,248	$3,165	$(15)	$72,398
Other	13,208	109	(25)	13,292
Obligations of state and political subdivisions	176,011	11,052	(2,362)	184,701
Corporate securities	57,294	470	(928)	56,836
Marketable equity securities	1,725	203	(328)	1,600
Restricted equity securities	5,460	—	—	5,460
Total	$322,946	$14,999	$(3,658)	$334,287

(Amounts in thousands)	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$128	$4	$0	$132
Other	2,016	41	0	2,057
Obligations of state and political subdivisions	1,097	11	0	1,108

Total	$3,241	$56	$0	$3,297

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(Amounts in thousands)	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$43,673	$1,250	$(146)	$44,777
Other	7,079	47	(30)	7,096
Obligations of state and political subdivisions	182,181	2,617	(7,546)	177,252
Corporate securities	71,708	1,497	(253)	72,952
Marketable equity securities	1,725	256	(156)	1,825
Restricted equity securities	6,363	0	0	6,363
Total	$312,729	$5,667	$(8,131)	$310,265

(Amounts in thousands)	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$142	$3	$0	$145
Other	5,027	19	(81)	4,965
Obligations of state and political subdivisions	1,097	0	(16)	1,081
Total	$6,266	$22	$(97)	$6,191

Securities Available-for-Sale with an aggregate fair value of $180,993,000 at September 30, 2011 and $186,735,000 at December 31, 2010; and securities Held-to-Maturity with an aggregate book value of $2,774,000 at September 30, 2011 and $5,799,000 at December 31, 2010, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase, FHLB advances and other balances of $113,470,000 at September 30, 2011 and $109,283,000 at December 31, 2010.

The amortized cost, estimated fair value and weighted average yield of debt securities, by contractual maturity, are shown below at September 30, 2011 and December 31, 2010. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in thousands)

September 30, 2011

	U.S. Government Agency & Corporation Obligations1	Obligations of State & Political Subdivisions2	Marketable Equity Securities3	Restricted Equity Securities3	Corporate Securities
Available-For-Sale:					
Within 1 Year:					
Amortized cost	$ 1,018	$ —	$—	$—	$14,268
Estimated fair value	1,023	—	—	—	14,502
Weighted average yield	1.05 %	—	—	—	3.81 %
1 - 5 Years:					
Amortized cost	10,195	2,929	—	—	42,025
Estimated fair value	10,228	3,084	—	—	41,411
Weighted average yield	.99 %	4.53 %	—	—	2.77 %
5 - 10 Years:					
Amortized cost	12,138	11,699	—	—	1,000
Estimated fair value	12,600	13,037	—	—	923
Weighted average yield	3.35 %	5.33 %	—	—	3.10 %
After 10					
Amortized cost	59,106	161,383	1,725	5,460	—
Estimated fair value	61,839	168,580	1,600	5,460	—
Weighted average yield	3.89 %	6.23 %	3.33 %	—	—
Total:					
Amortized cost	$ 82,457	$ 176,011	$1,725	$5,460	$57,293
Estimated fair value	85,690	184,701	1,600	5,460	56,836
Weighted average yield	3.42 %	6.14 %	3.33 %	—	3.04 %

1Mortgage-backed securities are allocated for maturity reporting at their original maturity date.
2Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.
3Marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the after ten year category.

(Amounts in thousands)

September 30, 2011

	U.S. Government Agency & Corporation Obligations1	Obligations of State & Political Subdivisions2	Marketable Equity Securities3	Restricted Equity Securities3	Corporate Securities
Held-To-Maturity:					
Within 1 Year:					
Amortized cost	$ —	$ 630	$—	$—	$—
Estimated fair value	—	630	—	—	—
Weighted average yield	—	—	—	—	—
1 - 5 Years:					
Amortized cost	2,016	—	—	—	—
Estimated fair value	2,057	—	—	—	—
Weighted average yield	1.31 %	—	—	—	—
5 - 10 Years:					
Amortized cost	128	—	—	—	—
Estimated fair value	132	—	—	—	—
Weighted average yield	2.56 %	—	—	—	—
After 10 Years:					
Amortized cost	—	467	—	—	—
Estimated fair value	—	478	—	—	—
Weighted average yield	—	7.04 %	—	—	—
Total:					
Amortized cost	$ 2,144	$ 1,097	$—	$—	$—
Estimated fair value	2,189	1,108	—	—	—
Weighted average yield	1.38 %	3.00 %	—	—	—

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1 Mortgage-backed securities are allocated for maturity reporting at their original maturity date.
2Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.
3Marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the after ten year category.

(Amounts in thousands)

December 31, 2010

	U.S. Government Agency & Corporation Obligations1	Obligations of State & Political Subdivisions2	Marketable Equity Securities3	Restricted Equity Securities3	Corporate Securities
Available-For-Sale:					
Within 1 Year:					
Amortized cost	$ —	$ —	$—	$—	$10,746
Estimated fair value	—	—	—	—	10,843
Weighted average yield	—	—	—	—	4.32 %
1 - 5 Years:					
Amortized cost	4,056	452	—	—	57,902
Estimated fair value	4,064	467	—	—	59,069
Weighted average yield	1.25 %	5.78 %	—	—	3.22 %
5 - 10 Years:					
Amortized cost	10,682	1,734	—	—	3,060
Estimated fair value	11,149	1,823	—	—	3,040
Weighted average yield	4.08 %	6.05 %	—	—	3.19 %
After 10					
Amortized cost	36,014	179,995	1,725	6,363	—
Estimated fair value	36,660	174,962	1,825	6,363	—
Weighted average yield	4.03 %	6.14 %	2.54 %	.95 %	—
Total:					
Amortized cost	$ 50,752	$ 182,181	$1,725	$6,363	$71,708
Estimated fair value	51,873	177,252	1,825	6,363	72,952
Weighted average yield	3.82 %	6.14 %	2.54 %	.95 %	3.38 %

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1 Mortgage-backed securities are allocated for maturity reporting at their original maturity date.
2Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.
3Marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the after ten year category.

(Amounts in thousands)

December 31, 2010

	U.S. Government Agency & Corporation Obligations1	Obligations of State & Political Subdivisions2	Marketable Equity Securities3	Restricted Equity Securities3	Corporate Securities
Held-To-Maturity:					
Within 1 Year:					
Amortized cost	$ —	$ 630	$—	$—	$—
Estimated fair value	—	628	—	—	—
Weighted average yield	—	4.49 %	—	—	—
1 - 5 Years:					
Amortized cost	3,027	—	—	—	—
Estimated fair value	3,030	—	—	—	—
Weighted average yield	3.83 %	—	—	—	—
5 - 10 Years:					
Amortized cost	2,142	—	—	—	—
Estimated fair value	2,080	—	—	—	—
Weighted average yield	2.37 %	—	—	—	—
After 10 Years:					
Amortized cost	—	467	—	—	—
Estimated fair value	—	453	—	—	—
Weighted average yield	—	7.04 %	—	—	—
Total:					
Amortized cost	$ 5,169	$ 1,097	$—	$—	$—
Estimated fair value	5,110	1,081	—	—	—
Weighted average yield	3.22 %	5.58 %	—	—	—

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1 Mortgage-backed securities are allocated for maturity reporting at their original maturity date.
2Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.
3Marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the after ten year category.

There were no aggregate investments with a single issuer (excluding the U.S. Government and its agencies) which exceeded ten percent of consolidated shareholders' equity at September 30, 2011. The quality rating of the obligations of state and political subdivisions are generally investment grade, as rated by Moody's, Standard and Poors or Fitch. The typical exceptions are local issues which are not rated, but are secured by the full faith and credit obligations of the communities that issued these securities. The state and political subdivision investments are actively traded in a liquid market.

Proceeds from sale of investments in Available-for-Sale debt and equity securities during the third quarter of 2011 and 2010 were $9,721,000 and $0, respectively. Gross gains realized on these sales were $407,000 and $0, respectively. Gross losses on these sales were $188,000 and $0, respectively. There were no impairment losses in 2011 and 2010.

There were no proceeds from sale of investments in Held-To-Maturity debt and equity securities during 2011 and 2010. There were no gains or losses realized during these periods.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 (SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities). In determining OTTI under the FASB 320 (SFAS No. 115) model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions; and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary impairment occurs, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment=s amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary impairment related to the other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment.

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non-performing assets and loan loss reserves, and whether or not the issuer is participating in the TARP Capital Purchase Program. The starting point for the equity analysis is the length and severity of market value decline. The Corporation and an independent consultant monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. Securities with an unrealized loss that were determined to be other-than-temporary were written down to fair value, with the write-down recorded as a realized loss included in security (losses) gains. The Corporation evaluated the near-term prospects of the issuer in relation the severity and duration of the market value decline as well as the other attributes listed above. Based on that evaluation and the Corporation=s ability and intent to hold these equity securities for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider these equity securities to be other-than-temporary impaired at September 30, 2011.

In accordance with disclosures required by FASB ASC 320-10-50 Investments-Debt and Equity Securities Disclosures (EITF No. 03-1), the summary below shows the gross unrealized losses and fair value of the Bank's investments, aggregated by investment category, that individual securities have been in a continuous unrealized loss position for less than 12 months or more than 12 months as of September 30, 2011 and December 31, 2010:

September 30, 2011

	Less Than 12 Months		12 Months or More		Total	
(Amounts in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Direct obligations of the U.S. Government	$6,108	$25	$—	$—	$6,108	$25
Federal Agency Backed Securities	5,200	15	—	—	5,200	15
Municipal Bonds	4,191	24	10,914	2,338	15,105	2,362
Corporate Securities	28,101	891	463	37	28,564	928
Equities	389	69	501	259	890	328
	$43,989	$1,024	$11,878	$2,634	$55,867	$3,658

December 31, 2010

(Amounts in thousands)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
Direct obligations of the U.S. Government	$7,925	$111	$—	$—	$7,925	$111
Federal Agency Backed Securities	4,859	146	—	—	4,859	146
Municipal Bonds	90,995	3,239	13,160	4,323	104,155	7,562
Corporate Securities	18,414	253	—	—	18,414	253
Equities	98	27	645	129	743	156
	$122,291	$3,776	$13,805	$4,452	$136,096	$8,228

The Corporation invests in various forms of agency debt including mortgage backed securities and callable debt. The mortgage backed securities are issued by FHLMC (Federal Home Loan Mortgage Corporation) of FNMA (Federal National Mortgage Association). The municipal securities consist of general obligations and revenue bonds. The equity securities consist of stocks in other bank holding companies. The fair market value of the above securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid to offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation=s carrying value at any measurement date. Management does not believe any of their 71 securities in an unrealized position as of September 30, 2011 represents an other-than-temporary impairment. The Corporation has the ability to hold the remaining securities contained in the above table for a time necessary to recover the cost.

Securities with an unrealized loss that are determined to be other-than-temporary are written down to fair value, with the write-down recorded as a realized loss included in securities gains (losses).

NOTE 3 — LOANS

Major classifications of loans at September 30, 2011 and December 31, 2010 consisted of:

(Amounts in thousands)

	September 30, 2011	December 31, 2010
Commercial, Financial, and Agricultural	$ 21,786	$ 29,693
Tax-exempt	19,346	12,450
Real estate mortgages - Held-for-sale	3,646	4,950
Real estate mortgages - Consumer	122,904	127,031
Real estate mortgages - Commercial	235,186	227,147
Consumer	7,688	8,781
Gross loans	$ 410,556	$ 410,052
Add (deduct): Unearned discount	(453)	(675)
Net deferred loan fees and costs	278	274
Loans, net of unearned income	$ 410,381	$ 409,651

Activity in the allowance for loan losses for the quarter ended September 30, 2011 and the year ended December 31, 2010:

(Amounts in thousands)

	September 30, 2011	December 31, 2010
Balance, January 1	$ 5,701	$ 5,322
Provision charged to operations	1,100	2,575
Loans charged off	(1,392)	(2,262)
Recoveries	65	66
Current period and year-end balance	$ 5,474	$ 5,701

The credit quality indicators by loan segment are summarized below at September 30, 2011 and December 31, 2010:

	Commercial & Industrial		Commercial Real Estate Construction	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Grade:				
1-6 Pass	$39,662	$ 37,991	$5,763	$ 5,111
7 Special Mention	557	1,330	—	—
8 Substandard	913	991	—	433
9 Doubtful	—	227	—	—
Add (deduct): Unearned discount	—	—	—	—
Net deferred loan fees & costs	91	74	(9)	(13)
Loans, net of unearned income	$41,223	$ 40,613	$5,754	$ 5,531

	Commercial Real Estate Other		Residential Real Estate Including Home Equity	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Grade:				
1-6 Pass	$216,642	$ 205,941	$125,383	$ 130,477
7 Special Mention	4,551	8,308	—	191
8 Substandard	8,230	8,958	1,167	1,313
9 Doubtful	—	—	—	—
Add (deduct): Unearned discount	—	—	—	—
Net deferred loan fees & costs	23	35	93	82
Loans, net of unearned income	$229,446	$ 223,242	$126,643	$ 132,063

	Consumer Loans	
	September 30, 2011	December 31, 2010
Grade:		
1-6 Pass	$ 7,661	$ 8,781
7 Special Mention	—	—
8 Substandard	27	—
9 Doubtful	—	—
Add (deduct): Unearned discount	(453)	(675)

Net deferred loan fees & costs	80	96
Loans, net of unearned income	$ 7,315	$ 8,202

Commercial C & I and Commercial Real Estate Other include loans categorized as tax free loans.

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Loan risk grading is a management tool designed to identify and measure risk in the Bank's loan portfolio. Its purpose is to provide a uniform framework and common language to assess and monitor risk, primarily in the Bank's commercial loan/commercial real estate loan portfolios.

The grading system focuses on a borrower's financial strength and performance, experience and depth of management, primary and secondary sources of repayment, the nature of the business and the outlook for the particular industry. Primary emphasis will be on the financial condition and trends. The grade also reflects current economic and industry conditions; as well as other variables such as liquidity, cash flow, revenue/earnings trends, management strengths or weaknesses, quality of financial information, and credit history.

The reduction in C & I loans rated Special Mention was primarily due to the payoff of one loan. The reduction in Substandard C & I loans was due to one loan being charged-off, and payments made on several other loans. The reduction in C & I loans rated doubtful was due to the charge-off of one unsecured loan.

The Substandard Commercial Real Estate Construction category was decreased due to the upgrade of one relationship.

The reduction in Special Mention Commercial Real Estate Other was due to upgrades of 5 relationships. Commercial Real Estate Other rated Substandard remained relatively level from December 31, 2010 to September 30, 2011.

The reduction in Special Mention Residential Real Estate was due entirely to the upgrade of one relationship.

Consumer loans had a downgrade of 1 relationship from Pass to Substandard.

The Bank utilizes a risk grading matrix to assign a risk rating to commercial loans, on a scale of 1 to 9. Risk grades in the residential real estate and consumer loan portfolios are assigned based on payment activity. Risk rating grade characteristics are as follows:

Risk Grade 1 - Cash Secured - Pass through and including Risk Grade 6 B Watch- Pass 6

At the low end of the rating scale, a risk grade of 1 has virtually no risk of loss or default. This grade is reserved for credit evidenced by 100% cash, or other liquid collateral, properly margined and monitored. This grade reflects excellent credit quality with virtually no risk of loss.

Loan ratings then progress through escalating ratings of 2 through 6 based upon risk. Risk is evaluated via examination of several attributes including but not limited to financial trends and strengths and weaknesses, likelihood of repayment when considering both cash flow and collateral, sources of repayment, leverage position, management expertise, and repayment history. A risk rating of 2 reflects excellent credit quality with low risk, while a rating of 3 is considered moderate risk, 4 is a loan with average risk, and 5 is acceptable risk.

At the high end of the Pass ratings is a Risk Grade of 6 - Watch - Pass. A 6 rated credit represents borderline risk reflecting higher than normal risk of loss or default, and serves as an early warning system that the credit needs to be monitored more closely. Loans in this category are performing according to terms, but present some type of potential concern.

Risk Grade 7 - SPECIAL MENTION

Generally, these loans or assets are currently protected, but are "Potentially Weak". They constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard.

Assets in this category are currently protected but have potential weakness which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. No loss of principal or interest is envisioned, however they constitute an undue credit risk that may be minor but is unwarranted in light of the circumstances surrounding a specific asset. Risk is increasing beyond that at which the loan originally would have been granted. Historically, cash flows are inconsistent; financial trends show some deterioration. Liquidity and leverage are above industry averages. Financial information could be incomplete or inadequate. A Special Mention asset has potential weaknesses that deserve management's close attention.

Risk Grade 8:- SUBSTANDARD

Generally, these assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have “well-defined” weaknesses that jeopardize the full liquidation of the debt. There is a distinct possibility that the Bank will sustain some loss.

They are characterized by the distinct possibility that the Bank will sustain some loss if in the aggregate amount of substandard assets, is not fully covered by the liquidation of the collateral used as security. Substandard loans are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral, and have a high probability of payment default, or they have other well-defined weaknesses. Such assets require more intensive supervision by Bank Management.

Risk Grade 9:- DOUBTFUL

Generally, all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where the basis of current information, conditions, and values, collection or liquidation in full is highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, its classification is deferred until, for example, a proposed merger, acquisition, liquidation procedures, capital injection, perfection of liens on additional collateral and refinancing plans are completed. Loans are graded doubtful if they contain weaknesses so serious that collection or liquidation in full is questionable.

The activity in the allowance for loan losses, by loan segment, is summarized below for the periods indicated.

(Amounts in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Nine months ended September 30, 2011:						
Allowance for Credit Losses:						
Beginning balance	$565	$2,769	$123	$1,501	$743	$5,701
Charge-offs	(483)	(712)	(71)	(126)	—	(1,392)
Recoveries	23	31	10	1	—	65
Provision	342	726	89	88	(145)	1,100
Ending Balance	$447	$2,814	$151	$1,464	$598	$5,474
Ending balance: individually evaluated for impairment	—	372	—	38	—	410
Ending balance: collectively evaluated for impairment	$447	$2,442	$151	$1,426	$598	$5,064
Financing Receivables:						
Ending Balance	$41,223	$235,200	$7,315	$126,643	$—	$410,381
Ending balance: individually evaluated for impairment	43	3,747	—	852	—	4,642
Ending balance: collectively evaluated for impairment	$41,180	$231,453	$7,315	$125,791	$—	$405,739

(Amounts in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Year ended December 31, 2010:						
Allowance for Credit Losses:						
Beginning balance	$ 970	$ 2,213	$ 99	$ 1,734	$ 306	$ 5,322
Charge-offs	(389)	(1,585)	(95)	(193)	—	(2,262)
Recoveries	38	13	14	1	—	66
Provision	(54)	2,128	105	(41)	437	2,575
Ending Balance	$ 565	$ 2,769	$ 123	$ 1,501	$ 743	$ 5,701
Ending balance: individually evaluated for impairment	296	309	—	C	—	605
Ending balance: collectively evaluated for impairment	$ 269	$ 2,460	$ 123	$ 1,501	$ 743	$ 5,096
Financing Receivables:						
Ending Balance	$ 20,969	$ 199,878	$ 7,357	$ 181,447	$—	$ 409,651
Ending balance: individually evaluated for impairment	381	3,108	—	787	—	4,276
Ending balance: collectively evaluated for impairment	$ 20,588	$ 196,770	$ 7,357	$ 180,660	$—	$ 405,375

Impaired loans at September 30, 2011 and December 31, 2010 were $4,642,000 and $4,276,000, respectively. The gross interest that would have been recorded if these loans had been current in accordance with their original terms and the amounts actually recorded in income were as follows:

(Amounts in thousands)	September 30, 2011	December 31, 2010
Gross interest due under terms	$ 536	$ 316
Amount included in income	(62)	(63)
Interest income not recognized	$ 474	$ 253

The Corporation's impaired loans are summarized below for the periods ended September 30, 2011 and December 31, 2010.

(Amounts in thousands) September 30, 2011:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 43	$ 187	$—	$ 253	$—
Commercial real estate	1,779	2,402	—	2,513	62
Residential	584	654	—	657	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Commercial real estate	1,968	2,236	372	2,272	—
Residential	268	268	38	269	—
Total	$ 4,642	$ 5,747	$ 410	$ 5,964	$ 62

Total consists of:					
Commercial	$43	$187	$—	$253	$—
Commercial real estate	$3,747	$4,638	$372	$4,785	$62
Residential	$852	$922	$38	$926	$—

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(Amounts in thousands) December 31, 2010:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$29	$29	$—	$29	$—
Commercial real estate	907	942	—	937	14
Residential	787	866	—	785	19
With an allowance recorded:					
Commercial	352	352	296	356	7
Commercial real estate	2,201	2,641	309	2,398	23
Residential	—	—	—	—	—
Total	$4,276	$4,830	$605	$4,505	$63
Total consists of:					
Commercial	$381	$381	$296	$385	$7
Commercial real estate	$3,108	$3,583	$309	$3,335	$37
Residential	$787	$866	$—	$785	$19

The recorded investment represents the loan balance reflected on the consolidated balance sheets net of any charge-offs. The unpaid balance is equal to the gross amount due on the loan. The average recorded investment is calculated on the daily loan balance during the period of impairment.

Financing receivables on non-accrual status and foreclosed assets as of September 30, 2011 and December 31, 2010 were as follows:

(Amounts in thousands)	September 30, 2011	December 31, 2010
Commercial – Real Estate	$ 3,747	$ 3,108
Commercial - other	43	381
Residential	852	787
Consumer	—	—
Total impaired/non-accruing loans	$ 4,642	$ 4,276
Restructured loans	—	—
Total impaired loans	$ 4,642	$ 4,276
Loans past-due 90 days or more and still accruing	28	—
Foreclosed assets	1,000	1,149
Total non-performing assets	$ 5,670	$ 5,425

At September 30, 2011 and December 31, 2010, the recorded investment in impaired loans as defined by FASB ASC 310-10-35 Receivables Subsequent Measurements was $4,642,000 and $4,276,000 and the impaired loans allowances were $410,000 and $605,000, respectively at September 30, 2011 and December 31, 2010. The average recorded balance in impaired loans during the quarter ended September 30, 2011 and the year ended December 31, 2010 was approximately $5,964,000 and $4,505,000, respectively.

The following tables present the aging of past-due loans by class of loans at September 30, 2011:

(Amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
September 30, 2011:						
Commercial	$199	$79	$ 28	$306	$40,917	$41,223
Commercial real estate	3,297	483	—	3,780	231,420	235,200
Consumer	122	30	—	152	7,163	7,315
Residential	1,059	399	—	1,458	125,185	126,643
Total	$4,677	$991	$ 28	$5,696	$404,685	$410,381

(Amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
December 31, 2010:						
Commercial	$740	$102	$ —	$842	$34,758	$35,600
Commercial real estate	999	2,149	—	3,148	230,638	233,786
Consumer	75	1	—	76	8,127	8,203
Residential	1,212	155	—	1,367	130,695	132,062
Total	$3,026	$2,407	$ —	$5,433	$404,218	$409,651

Loans past-due 90 days or more and still accruing interest was $28 and $0 at September 30, 2011 and December 31, 2010, respectively.

At September 30, 2011, there were no commitments to lend additional funds with respect to non-accrual and restructured loans.

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on non-accrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At September 30, 2011 and December 31, 2010, there were no loans classified as troubled debt restructurings.

NOTE 4 — SHORT-TERM BORROWINGS

Federal funds purchased, securities sold under agreements to repurchase and Federal Home Loan Bank advances generally represent overnight or less than 30-day borrowings. U.S. Treasury tax and loan notes for collections made by the Bank are payable on demand.

NOTE 5 — LONG-TERM BORROWINGS

Long-term borrowings are comprised of advances from the Federal Home Loan Bank (FHLB). Under terms of a blanket agreement, collateral for the loans are secured by certain qualifying assets of the Corporation's banking subsidiary which consist principally of first mortgage loans and certain investment securities.

NOTE 6 —FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at September 30, 2011, and December 31, 2010, were as follows:

(amounts in thousands)	September 30, 2011	December 31, 2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 62,222	$ 55,551
Financial standby letters of credit	$ 1,189	$ 805
Performance standby letters of credit	$ 4,614	$ 5,315

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses that may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation may hold collateral to support standby letters of credit for which collateral is deemed necessary.

The Corporation grants commercial, agricultural, real estate mortgage and consumer loans to customers primarily in the counties of Columbia, Luzerne, Montour, and Monroe, Pennsylvania. It is management's opinion that the loan portfolio was well balanced and diversified at September 30, 2011, to the extent necessary to avoid any significant concentration of credit risk. However, its debtors' ability to honor their contracts may be influenced by the region's economy.

NOTE 7 — FAIR VALUES OF FINANCIAL INSTRUMENTS

Assets Measured at Fair Value on a Recurring Basis

The Corporation measures certain assets at fair value on a recurring basis. Fair value is defined as a price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

A. Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Bank for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.
B. Level 2: Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices that are not active for identical or similar assets and other observable inputs.
C.

Level 3: Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

At September 30, 2011 and December 31, 2010 investments measured at fair value on a recurring basis and the valuation methods used are as follows:

September 30, 2011	Level 1	Level 2	Level 3	Total
Available for Sale Securities				
Obligations of US Government Agencies				
Mortgaged-backed	$—	$72,398	$—	$72,398
Other	—	13,292	—	13,292
Obligations of state and political subdivisions	—	184,701	—	184,701
Corporate securities	—	56,836	—	56,836
Equity securities	1,600	—	—	1,600
Restricted equity securities	—	5,460	—	5,460
	$1,600	$332,687	$—	$334,287

December 31, 2010	Level 1	Level 2	Level 3	Total
Available for Sale Securities				
Obligations of US Government Agencies				
Mortgaged-backed	$—	$44,777	$—	$44,777
Other	—	7,096	—	7,096
Obligations of state and political subdivisions	—	177,252	—	177,252
Corporate securities	—	72,952	—	72,952
Equity securities	1,825	—	—	1,825
Restricted equity securities	—	6,363	—	6,363
	$1,825	$308,440	$—	$310,265

The estimated fair values of equity securities classified as Level 1 are derived from quoted market prices in active markets; these assets consist mainly of stocks held in other banks. The estimated fair values of all debt securities classified as Level 2 are obtained from nationally-recognized third-party pricing agencies. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Bank (observable inputs), and are therefore classified as Level 2 within the fair value hierarchy.

FASB ASC 825-10-50 Fair Value Measurement Disclosure ("Disclosures about Fair Value of Financial Instruments"), requires disclosure of fair value information about financial instruments, whether or not required to be recognized in the consolidated balance sheets, for which it is practicable to estimate such fair value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Fair value estimates derived through these techniques cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FASB ASC 825-10-50 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and Due From Banks, Short-Term Investments, Accrued Interest Receivable and Accrued Interest Payable

The fair values are equal to the current carrying values.

Investment Securities

Fair values have been individually determined based on currently quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

Fair values are estimated for categories of loans with similar financial characteristics. Loans were segregated by type such as commercial, tax-exempt, real estate mortgages and consumer. For estimation purposes each loan category was further segmented into fixed and adjustable rate interest terms and also into performing and non-performing classifications.

The fair value of each category of performing loans is calculated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Fair value for non-performing loans is based on management's estimate of future cash flows discounted using a rate commensurate with the risk associated with the estimated future cash flows. The assumptions used by management are judgmentally determined using specific borrower information.

Non-Performing Assets

The banks= impaired loan valuation procedure for any loans greater than $250,000 requires an appraisal to be obtained and reviewed annually at year end. A quarterly collateral evaluation is performed which may include a site visit, property pictures and discussions with realtors and other similar business professionals to ascertain current values.

For impaired loans less than $250,000 upon classification and annually at year end, the bank completes a Certificate of Inspection (approved by the State Dept. of Banking and the FDIC examiners) which includes the results of an onsite inspection, insured values, tax assessed values, recent sales comparisons and a review of the previous evaluations.

The banks= foreclosed asset valuation procedure requires an appraisal to be completed with the exception of those cases which the bank has obtained a sales agreement.

Cash Surrender Value of Bank Owned Life Insurance

Fair value is equal to the cash surrender value of life insurance policies.

Deposits

Under FASB ASC 825-10-50, the fair value of deposits with no stated maturity, such as Demand Deposits, Savings Accounts and Money Market Accounts is equal to the amount payable on demand at September 30, 2011 and December 31, 2010.

Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar term borrowings, to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term and Long-Term Borrowings

The fair values of short-term and long-term borrowings are estimated using discounted cash flow analyses based on the Corporation's incremental borrowing rate for similar instruments.

Commitments to Extend Credit and Standby Letters of Credit

Management estimates that there are no material differences between the notional amount and the estimated fair value of those off-balance sheet items since they are primarily composed of unfunded loan commitments which are generally priced at market at the time of funding.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

September 30, 2011	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$—	$4,642	$4,642
Foreclosed assets held for sale	—	—	1,000	1,000
Loans held for sale	—	—	3,646	3,646

December 31, 2010	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$—	$4,276	$4,276
Foreclosed assets held for sale	—	—	1,149	1,149
Loans held for sale	—	—	4,950	4,950

There were no transfers amongst valuation levels September 30, 2011 and December 31, 2010. At September 30, 2011 and December 31, 2010, the carrying values and estimated fair values of financial instruments of the Corporation are presented in the table below:

(Amounts in thousands)	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$7,040	$7,040	$4,346	$4,346
Short-term investments	13,958	13,958	7,559	7,559
Investment securities - available for sale	334,287	334,287	310,265	310,265
Investment securities - held to maturity	3,241	3,297	6,266	6,191
Net loans	404,907	427,811	403,950	408,984
Accrued interest receivable	4,274	4,274	4,589	4,589
Cash surrender value of life insurance	18,958	18,958	18,388	18,388
FINANCIAL LIABILITIES:				
Deposits	633,807	636,275	626,895	610,632
Short-term borrowings	22,349	22,349	20,977	20,977
Long-term borrowings	69,355	73,579	66,400	69,869
Accrued interest and other expenses	2,944	2,944	2,976	2,976
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS:				
Commitments to extend credit		62,222		55,551
Financial standby letters of credit		1,189		805
Performance standby letters of credit		4,614		5,315

NOTE8 —MANAGEMENT'S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10Q FILING

In management's opinion, the consolidated interim financial statements reflect fair presentation of the consolidated financial position of First Keystone Corporation and Subsidiary, and the results of their operations and their cash flows for the interim periods presented. Further, the consolidated interim financial statements are unaudited; however they reflect all adjustments, which are in the opinion of management, necessary to present fairly the consolidated financial condition and consolidated results of operations and cash flows for the interim periods presented and that all such adjustments to the consolidated financial statements are of a normal recurring nature. The independent registered public accounting firm, J. H. Williams & Co., LLP, reviewed these consolidated financial statements as stated in their accompanying review report.

The results of operations for the nine-month period ended September 30, 2011, are not necessarily indicative of the results to be expected for the full year.

These consolidated interim financial statements have been prepared in accordance with requirements of Form 10Q and therefore do not include all disclosures normally required by accounting principles generally accepted in the United States of America applicable to financial institutions as included with consolidated financial statements included in the Corporation's annual Form 10K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation's annual report or Form 10K for the period ended December 31, 2010, filed with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of First Keystone Corporation:

We have reviewed the accompanying consolidated balance sheet of First Keystone Corporation and Subsidiary as of September 30, 2011, and the related consolidated statements of income for the three and nine month periods ended September 30, 2011 and 2010 and changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2011, and 2010. These consolidated interim financial statements are the responsibility of the management of First Keystone Corporation and Subsidiary.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of First Keystone Corporation and Subsidiary as of December 31, 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J.H. Williams & Co., LLP
J. H. Williams & Co., LLP

Kingston, Pennsylvania
November 7, 2011

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ITEM 2. First Keystone Corporation Management's Discussion and Analysis of Financial Condition and Results of Operation as of September 30, 2011

This quarterly report contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995), which reflect management's beliefs and expectations based on information currently available. These forward-looking statements are inherently subject to significant risks and uncertainties, including changes in general economic and financial market conditions, the Corporation's ability to effectively carry out its business plans and changes in regulatory or legislative requirements. Other factors that could cause or contribute to such differences are changes in competitive conditions, and pending or threatened litigation. Although management believes the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

RESULTS OF OPERATIONS

First Keystone Corporation realized earnings for the third quarter of 2011 of $2,677,000, an increase of $187,000, or 7.51% from the third quarter of 2010. The increase in net income for 2011 was primarily the result of an increased net interest margin and an increase in net interest income of $404,000 from the third quarter of 2010. On a per share basis, net income per share was $1.42 for the first nine months of 2011 up from $1.28 for the first nine months of 2010, an increase of 10.9%. Cash dividends increased to $.72 per share up from $.69 in the first half of 2010, an increase of 4.3%.

Year-to-date net income annualized as of September 30, 2011, amounts to a return on average common equity of 12.38%, a return on tangible equity of 16.07% and a return on assets of 1.26%. For the nine months ended September 30, 2010, these measures were 11.63%, 15.62%, and 1.14%, 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 third quarter of 2011, interest income amounted to $9,237,000, a decrease of $348,000 or 3.6% from the third quarter of 2010, while interest expense amounted to $2,340,000 in the third quarter of 2011, a decrease of $752,000, or 24.3% from the third quarter of 2010. As a result, net interest income increased $404,000 or 6.2% in the third quarter of 2011 to $6,897,000 from $6,493,000 in third quarter of 2010.

Our net interest margin for the quarter ended September 30, 2011 was 3.97% compared to 3.73% for the quarter ended September 30, 2010.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the quarter ended September 30, 2011, was $500,000, compared to $1,075,000 for the third quarter of 2010. The decrease in the provision for loan losses resulted from our analysis of our current loan portfolio, including non performing loans. Net charge-offs amounted to $1,363,000 for the nine months ending September 30, 2011. For the nine months ended September 30, 2010, net charge-offs amounted to $1,781,000. The allowance for loan losses as a percentage of loans, net of unearned interest, was 1.33% as of September 30, 2011, as compared to 1.39% as of December 31, 2010 and 1.26% as of September 30, 2010. See Allowance for Loan Losses on Page 35 for further discussion.

NON-INTEREST INCOME

Total non-interest income or other income was $1,343,000 for the quarter ended September 30, 2011, as compared to $2,073,000 for the quarter ended September 30, 2010, a ––decrease of $730,000, or 35.2%. In the third quarter of

2010 the bank recorded income of $800,000 as a recovery on loss due to defalcation. Adjusting for that one time income indicates that other non-interest income was $1,273,000.

Securities gains in the third quarter of 2011 were $218,000 versus a loss of $11,000 in the third quarter of 2010. After adjusting for the one-time recovery on loss due to defalcation and the securities gains and losses, non-interest income from operations for the third quarter of 2011 was $1,125,000 versus $1,284,000 in 2010. This is a reduction of $159,000 or 12.4%. The main component of this decline was gains on sale of residential mortgage loans. The reduction in gains on sale of loans from 2010 to 2011 was $219,000, which represented 93% of the decline.

NON-INTEREST EXPENSES

Total non-interest expenses, or other expenses, was $4,431,000 for the quarter ended September 30, 2011, as compared to $4,288,000 for the quarter ended September 30, 2010. The increase of $143,000, or 3.3% is comprised of salary and benefits, increasing $113,000, occupancy, furniture and equipment and computer expense increasing $124,000. The increases reflect additional employees and benefit costs related to information technology security and greater regulatory compliance.

Expenses associated with employees (salaries and employee benefits) continue to be the largest category of non-interest expenses. Salaries and benefits amounted to $7,027,000, or 53.2% of total non-interest expense for the nine months ended September 30, 2011, as compared to 53.0% for the nine months ended September 30, 2010. Net occupancy, furniture and equipment, and computer expense amounted to $2,088,000 for the nine months ended September 30, 2011, an increase of $104,000, or 5.2%. Other non-interest expenses, including FDIC insurance, professional services and state shares tax amounted to $1,635,000 for the nine months ended September 30, 2011, a decrease of $195,000, or 10.7% from the first nine months of 2010. Our non-interest expense for the nine months ended September 30, 2011 is approximately 2.15% of average assets on an annualized basis, which places us among the leaders of our peer financial institutions at controlling total non-interest expense.

INCOME TAXES

Effective tax planning has helped produce favorable net income. Income tax amounted to $1,937,000 for the nine months ended September 30, 2011, as compared to $1,873,000 for 2010, an increase of $64,000. The effective total income tax rate was 20.1% and 21.1% for the nine months ended September 30, 2011 and 2010, respectively.

ANALYSIS OF FINANCIAL CONDITION

ASSETS

Total assets increased to $824,755,000 as of September 30, 2011, an increase of $28,154,000 from year-end 2010. Net loans decreased by just less than 1% as loan demand remains weak and borrowers are generally paying down debt. An increase in deposits led to a similar size increase in the investment portfolio.

During the third quarter of 2011 the Corporation decreased short-term borrowings to $22,349,000 as of September 30, 2011, as compared to $23,130,000 as of June 30, 2011. Long-term borrowings were $69,355,000 as of September 30, 2011, a decrease of $2,375,000 from the $71,730,000 reported June 30, 2011.

EARNING ASSETS

Our primary earning asset, loans, net of unearned income increased to $404,907,000 as of September 30, 2011, up $957,000 since year-end 2010. The loan portfolio continues to be diversified. Overall asset quality has remained consistent with non-performing assets increasing only slightly since year-end 2010. Total non-performing assets were $5,670,000 as of September 30, 2011, an increase of $245,000, or 4.5% from the $5,425,000 reported in non-performing assets as of December 31, 2010. Total allowance for loan losses to total non-performing loans was 117.9% as of September 30, 2011 and 133.3% at December 31, 2010.

Besides loans, another primary earning asset is our overall investment portfolio, which increased in size from December 31, 2010, to September 30, 2011. Held-to-maturity securities amounted to $3,241,000 as of September 30, 2011, a decrease of $3,025,000 from December 31, 2010. Available-for-sale securities amounted to $334,287,000 as of September 30, 2011, an increase of $24,022,000 from year-end 2010. Interest bearing deposits in other banks and

federal funds sold increased as of September 30, 2011, to $13,958,000 from $7,559,000 at year-end 2010.

LOANS

Total loans, net of unearned income and the allowance for loan losses, increased to $404,907,000 as of September 30, 2011, as compared to a balance of $403,950,000 as of December 31, 2010. The table on page 35 provides data relating to the composition of the Corporation's loan portfolio on the dates indicated. Total loans, net of unearned income and the allowance for loan losses, increased $957,000, or 0.2% as of September 30, 2011.

The economy and the resultant decline in loan demand account for the slow growth in loans in 2010 and continued into 2011. Residential real estate loans declined from December 31, 2010 a total of $131,981,000 to $126,550,000 as of September 30, 2011. The decline is attributed to the weak housing market, unstable employment and consumer's reluctance to take on debt. The Corporation did not change its underwriting standards in 2010 or 2011, rather opportunities to originate commercial and consumer loans declined because of the economy and the increased unemployment in our market area.

The loan portfolio is well diversified. The total commercial portfolio is $276,318,000 of which $235,186,000 or 85.1% of gross loans is secured by commercial real estate. The largest relationship is an $8,500,000 tax-free loan to a municipality founded in 1816 consisting of 35 square miles, which is located in the eastern region of our market area. According to the township it has experienced 17% growth in population over the past 9 years and future job growth is projected to be 29% over the next 10 years. The township is currently involved in a $70,000,000 sewer expansion project. Our loan is secured by project receivables and the full faith, credit and taxing power of the township.

The second largest relationship of $6,839,476 is comprised of loans to individuals and their related companies involved in the ownership and operation of gas stations, convenience stores, and truck stops located in northern, central, and eastern Pennsylvania. The borrowers are well experienced in the industry and have been operating various locations since 1988. The loans are secured by commercial real estate, and perfected security interest in all business assets.

The next largest relationship is a real estate holding LLC established in 2006, and its related medical service companies. The LLC was formed to construct and provide medical office space for a group of closely related medical entities and outside services and is located in the corporation's immediate central market area. The relationship had outstanding loan balances of $6,702,555 at September 30, 2011, secured primarily by commercial real estate and perfected security interest in all business assets of the various related entities. A small portion of the relationship is to an individual, $40,000, secured by vehicles, and a $277,000 residential mortgage secured by real estate.

The fourth largest commercial relationship is the net balance of $5,977,358, after participations sold of $3,365,000 and letters of credit of $2,331,000. This relationship is comprised of a $5,000,000 revolving line of credit and related $2,331,000 letters of credit to develop a Planned Residential Community in the eastern portion of our market area, several commercial investment properties totaling $3,921,000, a $450,000 revolving line of credit for working capital and a $78,000 residential mortgage. The borrowers and their related companies have been involved in real estate development since 1974, and have developed residential communities, and medical and professional office space. The entire relationship is secured by a combination of real estate and marketable securities.

The fifth largest relationship of $4,803,489 is located in our central market area and is involved in construction and ownership of a 60 room hotel. Loans consist of mortgages on the commercial real estate and perfected interest in all business assets.

Each of the aforementioned loans are paying as agreed and none of the loans are considered criticized or classified. The property securing each of the loans was appraised at the time the loan was originated. Appraisals are ordered independently of the loan approval process from appraisers on an approved list. All appraisals are reviewed internally for conformity with accepted standards of the Bank.

All loan relationships in excess of $1,500,000 are reviewed internally and through an external loan review process on an annual basis. Such review is based upon analysis of current financial statements of the borrower, co-borrowers/guarantors, payment history, and economic conditions.

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

Loans Outstanding, Net of Unearned Income

(Amounts in thousands)		September 30, 2011		December 31, 2010
Commercial, financial and agricultural:				
Commercial secured by real estate	$	235,186	$	227,147
Commercial - other		21,786		29,693
Tax exempt - real estate and other		19,346		12,450
Real estate (primarily residential mortgage loans)		126,550		131,981
Consumer loans		7,688		8,781
Total Gross Loans	$	410,556	$	410,052
Add (deduct): Unearned income		(453)		(675)
Unamortized loan fees net of costs		278		274
Total Loans, net of unearned income	$	410,381	$	409,651

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses constitutes the amount available to absorb losses within the loan portfolio. As of September 30, 2011 the allowance for loan loss was $5,474,000 as compared to $5,701,000 as of December 31, 2010. 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 considers, based upon its methodology, that the allowance for loan losses is adequate to cover foreseeable future losses. However, there can be no assurance that the allowance for loan losses will be adequate to cover significant losses, if any that might be incurred in the future.

The Analysis of Allowance for Loan Losses table 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 the third quarter of 2011, net charge-offs as a percentage of average loans were 0.32%, as compared to 0.43% in the third quarter of 2010. Net charge-offs amounted to $1,327,000 and $1,781,000 for the first nine months of 2011 and 2010, respectively. Commercial loan charge-offs for third quarter 2011 resulted primarily from $711,000 for 2 commercial-real estate secured loans. Net charge-offs in 2010 relates primarily to increased losses of commercial loans secured by real estate. The largest relationship, representing 45.7% of net charge-offs in 2010, is located in the eastern portion of our market area and was directly related to the housing industry. The downturn in the economy resulted in a drastic reduction in the number of housing starts in that region. The second largest loan relationship, representing 17.8%, of net charge-offs in 2010 was related to residential investment real estate which was also negatively affected with the downturn in the economy resulting in increased vacancy rates. The resulting charge-offs versus the specific allocations for these two relationships required an additional provision in the third quarter of 2010.

For the first three quarters of 2011, the provision for loan losses was $1,100,000 as compared to $1,675,000 for the first three quarters of 2010. As of September 30, 2011, the majority of the reserve was related to commercial real estate loans of $2,814,000 and residential real estate loans of $1,464,000. The Corporation determined that the reserve for loan losses as of September 30, 2011 was sufficient to adequately fund the reserve to account for probable future losses in the loan portfolio. At December 31, 2010, $4,270,000 of the reserve was related to commercial and real estate loans. Net charge-offs of commercial and real estate loans in 2010 were $2,115,000 and this impacted the historical loss component factor for the allowance for loan loss valuation. The Corporation determined that the provision for loan losses made during 2010 was sufficient to maintain the allowance for loan losses at a level necessary for the probable losses inherent in the loan portfolio as of December 31, 2010.

Analysis of Allowance for Loan Losses

(Amounts in thousands)

	September 30, 2011	December 31, 2010	September 30, 2010
Balance at beginning of period	$ 5,701	$ 5,322	$ 5,322
Charge-offs:			
Commercial, financial, and agricultural	483	389	243
Real estate	838	1,778	1,506
Consumer	71	95	77
	1,392	2,262	1,826
Recoveries:			
Commercial, financial, and agricultural	23	39	31
Real estate	32	13	1
Consumer	10	14	13
	65	66	45
Net charge-offs	1,327	2,196	1781
Additions charged to operations	1,100	2,575	1,675
Allowance purchased	—	—	—
Balance at end of period	$ 5,474	$ 5,701	$ 5,216
Ratio of net charge-offs during the period to average loans outstanding during the period	0.32 %	0.54 %	0.43 %
Allowance for loan losses to average loans outstanding during the period	1.33 %	1.39 %	1.26 %

It is the policy of management and the 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 the 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 1.33% at September 30, 2011, 1.39% at December 31, 2010 and 1.26% at September 30, 2010.

The following table sets forth the allocation of the 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.

Allocation of Allowance for Loan Losses

(Amounts in thousands)		September 30, 2011				December 31, 2010		
Commercial, financial, and agricultural	$	447	9.2	%*	$	565	11.4	%*
Real estate - mortgage		4,278	87.7	%*		4,270	86.1	%*
Consumer and other loans		151	3.1	%*		123	2.5	%*
Unallocated		598	N/A	*		743	N/A	*
	$	5,474	100.0	%*	$	5,701	100.0	%*

*Percentage of loans in each category to total loans in the Allowance for Loan Loss Analysis.

NON-PERFORMING ASSETS

The Non-Performing Assets table on page 38 details the Corporation's non-performing assets as of the dates indicated. Generally, a loan is classified as non-accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan currently is performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. 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 represent property acquired through foreclosure, or considered to be an in-substance foreclosure.

The total of non-performing assets increased $245,000 to $5,670,000 in the third quarter of 2011 after increasing to $5,425,000 as of December 31, 2010. The economy, in particular increased unemployment and the downturn of the housing industry, had a direct effect of increasing our non-performing assets at December 31, 2010. The Corporation is closely monitoring its commercial real estate portfolio because of the current economic environment. In particular, vacancy rates are rising and rents and property values in some markets have fallen. Losses on commercial real estate, which increased in 2010, are projected to continue somewhat higher than normal into 2011. Impaired loans increased to $4,642,000 in the third quarter of 2011, after increasing to $4,276,000 in 2010 from $2,948,000 in 2009. Foreclosed assets decreased to $1,000,000 in the third quarter of 2011 from $1,149,000 in 2010. Loans past-due 90 days or more and still accruing were $28,000 for the third quarter of 2011 and $0 in 2010. Non-performing assets to period end loans and foreclosed assets was 1.4% in the third quarter of 2011 and 1.3% in 2010. Total non-performing assets to total assets is 0.7% at September 30, 2011 and December 31, 2010. Our allowance for loan losses to total non-performing assets were 96.5% at September 30, 2011 and 105.1% at December 31, 2010. Additional detail can be found on page 38, Non-Performing Assets Table and page 24 in the Financing Receivables on non-accrual status table. Asset quality is a priority and the Corporation retains a full-time loan review officer to closely track and monitor overall loan quality, and a full-time workout specialist to manage collection efforts.

Impaired loans increased to $4,642,000 at September 30, 2011 from $4,276,000 at December 31, 2010. Four relationships in 2011 carried aggregate balances of $500,000 or greater. The largest relationship is represented by two loans carrying a balance of $1,000,000 secured by commercial real estate. The September 30, 2011 valuation carried a net realizable value of $1,200,000, after an estimated 10% cost to sell. The next largest relationship is represented by two loans carrying a balance of $600,000 secured by leasehold mortgages. The September 30, 2011 valuations carried a net realizable value of $492,000, after an estimated 10% cost to sell, resulting in a specific allocation of $108,000, which was increased from $49,000 at December 31, 2010. The next largest relationship is represented by three loans carrying a balance of $532,000 secured by two commercial real estate properties. The September 30, 2011 valuations carried a net realizable value of $502,000 after an estimated 10% cost to sell, resulting in a specific allocation of $30,000 at September 30, 2011 compared to $141,000 at December 31, 2010. A portion of this relationship, $91,000, was charged-off during the quarter ended June 30, 2011. The next largest relationship is represented by three loans carrying a balance of $500,000 secured by residential real estate. The December 31, 2010 and September 30, 2011 valuations indicated a maximum sales price of $721,000 and a liquidation value of $556,000. The Corporation charged off $70,000 prior to year end bringing the loan balances to $500,000 equaling the net realizable value after an estimated 10% cost to sell. Of the $4,642,000, $600,000 is located outside of our primary market area. None of the impaired loans were participation loans.

The Corporation's impaired loan valuation procedure for any loans greater than $250,000 requires an appraisal to be obtained and reviewed annually at year end. A quarterly collateral evaluation is performed which may include a site visit, property pictures and discussions with realtors and other similar business professionals to ascertain current

values.

For impaired loans less than $250,000 upon classification and annually at year end, the Corporation completes a Certificate of Inspection (approved by the State Department of Banking and the FDIC examiners) which includes the results of an onsite inspection, insured values, tax assessed values, recent sales comparisons and a review of the previous evaluations.

Improving loan quality is a priority, and we actively work with borrowers to resolve credit problems and we continue our close monitoring efforts in 2011. As of September 30, 2011, the Corporation did not have any troubled debt restructurings in its loan portfolio. Excluding the assets disclosed in the Non-Performing Assets Table, 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 deteriorate further, 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 as of September 30, 2011 and September 30, 2010 was $62,000 and $36,000, respectively. Interest income, which would have been recorded on these loans under the original terms was $536,000 as of September 30, 2011 and $261,000 as of September 30, 2010. At September 30, 2011 and December 31, 2010, the 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 September 30, 2011 and December 31, 2010 and 2009, management is of the opinion that there were no loan concentrations exceeding 10% of total loans.

Non-Performing Assets

(Amounts in thousands)

	September 30, 2011	December 31, 2010
Non-performing assets		
Impaired/non-accrual loans	$ 4,642	$ 4,276
Foreclosed assets held for resale	1,000	1,149
Loans past-due 90 days or more and still accruing interest	28	—
Total non-performing assets	$ 5,670	$ 5,425
Impaired loans		
Non-performing loans	$ 4,642	$ 4,276
Allocated allowance for loan losses	(410)	(605)
Net investment in impaired loans	$ 4,232	$ 3,671
Impaired loans with a valuation allowance	$ 2,236	$ 2,553
Impaired loans without a valuation allowance	2,406	1,723
Total impaired loans	$ 4,642	$ 4,276
Valuation allowance related to impaired loans	$ 410	$ 605
Valuation allowance as a percent of impaired loans	8.8 %	14.2 %
Impaired loans to loans net of unearned discount	1.1 %	1.0 %
Non-performing assets to period-end loans and foreclosed assets	1.4 %	1.3 %
Total non-performing assets to total assets	0.7 %	0.7 %
Allowance for loan losses to impaired loans	117.9 %	133.3 %
Allowance for loan losses to total non-performing assets	96.5 %	105.1 %

Real estate mortgages comprise 88.5% of the loan portfolio as of September 30, 2011, as compared to 89.2% as of December 31, 2010. 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 residential real estate loan portfolio is largely fixed rate mortgages. The real estate loans are concentrated primarily in our marketing area and are subject to risks associated with the local economy. The commercial real estate loans typically reprice approximately each three to five years and are also concentrated in our marketing area. The Corporation's loss exposure on its non-performing loans continues to be mitigated by collateral positions on these loans. The allocated allowance for loan losses associated with impaired loans is generally computed based upon the related collateral value of the loans. The collateral values are determined by recent appraisals, but are generally discounted by management based on historical dispositions, changes in market conditions since the last valuation and management's expertise and knowledge of the borrower and the borrower's business.

DEPOSITS AND OTHER BORROWED FUNDS

As indicated previously, total deposits increased by $6,912,000 as non-interest bearing deposits increased by $10,112,000 and interest bearing deposits decreased by $3,200,000 as of September 30, 2011, from year-end 2010. Total short-term and long-term borrowings increased $4,327,000 as of September 30, 2011 to $91,704,000, as compared to $87,377,000 in total borrowings as of year-end 2010.

CAPITAL STRENGTH

Normal increases in capital are generated by net income, less cash dividends paid out. Also, accumulated other comprehensive income or loss derived from unrealized gains or losses on investment securities available-for-sale can have a positive or negative impact on capital.

At September 30, 2011, total stockholders' equity was $91,996,000, an increase of $12,936,000 or 16.4% over December 31, 2010. During the nine month period ended September 30, 2011, the Corporation retained earnings in excess of dividends in the amount of $3,796,000. Also, the accumulated other comprehensive income from unrealized gains in the available-for-sale investment portfolio was $7,493,000, an increase of $9,126,000 from a loss of $1,633,000 as of December 31, 2010.

The Corporation had 242,725 shares of common stock as treasury stock as of September 30, 2011 compared to 243,540 on December 31, 2010. This had the effect of decreasing our Stockholders' Equity by $6,075,000 on September 30, 2011 and by $6,103,000 on December 31, 2010.

Total stockholders' equity was $91,996,000 as of September 30, 2011 and $79,060,000 as of December 31, 2010. Leverage ratio and risk based capital ratios remain very strong. As of September 30, 2011, our leverage ratio was 7.95% compared to 7.44% as of December 31, 2010. In addition, Tier I risk based capital and total risk based capital ratio as of September 30, 2011, were 11.88% and 12.89%, respectively. The same ratios as of December 31, 2010 were 10.85% and 11.87%, 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 satisfactory, given a very stable core deposit base which has generally 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Company's quantitative and qualitative market risks since December 31, 2010. The composition of rate sensitive assets and rate sensitive liabilities as of September 30, 2011 is very similar to December 31, 2010.

ITEM 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures. First Keystone Corporation maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those disclosure controls and procedures performed as of the end of the period covered by this report, the chief executive officer and chief financial officer of the Corporation concluded that the Corporation's disclosure controls and procedures were effective. The Corporation believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a corporation have been detected.

b) Changes in internal control over financial reporting. The Corporation made no changes in its internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting during the last fiscal quarter.

PART II - OTHER INFORMATION

Item 1.Legal Proceedings

None.

Item 1A. There have been no material changes in our "Risk Factors" as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2.Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 — July 31, 2011	—	—	—	112,098
August 1 — August 31, 2011	—	—	—	112,098
Sept 1 — Sept 30, 2011	—	—	—	112,098
Total	—	—	—	112,098

Item 3.Defaults Upon Senior Securities

None.

Item 4.Removed and Reserved

Item 5.Other Information

The Company made no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors.

Item 6.Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 Regulation S-K

Exhibit Number	Description of Exhibit
3i	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2006).
3ii	By-Laws, as amended (Incorporated by reference to Exhibit 3(ii) to the Registrant’s Report on Form 10-Q for the quarter ended March 31, 2006).
10.1	Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10 to the Registrant’s Report on Form 10-Q for the quarter ended September 30, 2005).
10.2	Management Incentive Compensation Plan (Incorporated by reference to Exhibit 10 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010).
10.3	Profit Sharing Plan (Incorporated by reference to Exhibit 10 to the Registrant’s Report on Form 10-Q for the quarter ended September 30, 2006).
10.4	First Keystone Corporation 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10 to the Registrant’s Report on Form 10-Q for the quarter ended September 30, 2006).
14	Code of Ethics (Incorporated by reference to Exhibit 14 to the Registrant’s Report on Form 8-K dated January 9, 2007).
31.1	Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer.
31.2	Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Principal Financial Officer.

FIRST KEYSTONE CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly cause this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	FIRST KEYSTONE CORPORATION Registrant
November 7, 2011	/s/ Matthew P. Prosseda Matthew P. Prosseda Chief Executive Officer (Principal Executive Officer)
November 7, 2011	/s/ Diane C.A. Rosler Diane C.A. Rosler Chief Financial Officer (Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit	Description
3i	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2006).
3ii	By-Laws, as amended (Incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2006).
10.1	Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2005).
10.2	Management Incentive Compensation Plan (Incorporated by reference to Exhibit 10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).
10.3	Profit Sharing Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2006).
10.4	First Keystone Corporation 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2006).
31.1	Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer.
31.2	Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Principal Financial Officer.