
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended September 30, 2024
- or
- Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
for the transition period from
001-36388
(Commission File Number)
-

PEOPLES FINANCIAL SERVICES CORP.
(Exact name of registrant as specified in its charter)

Pennsylvania (State of incorporation)	23-2391852 (IRS Employer ID Number)
150 North Washington Avenue, Scranton, PA (Address of principal executive offices)	18503 (Zip code)
(570) 346-7741 (Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common stock, \$2.00 par value	PFIS	The Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date: 9,994,647 at November 1, 2024.

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PEOPLES FINANCIAL SERVICES CORP.
FORM 10-Q

For the Quarter Ended September 30, 2024

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Peoples Financial Services Corp.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	September 30, 2024	December 31, 2023
Assets:		
Cash and cash equivalents		
Cash and due from banks	\$ 97,090	\$ 33,524
Interest-bearing deposits in other banks	10,286	9,141
Federal funds sold	178,093	144,700
Total cash and cash equivalents	285,469	187,365
Investment securities:		
Available for sale: Amortized cost of \$601,270 and \$450,454, respectively, net of allowance for credit losses of \$0 at September 30, 2024 and December 31, 2023	562,486	398,927
Held to maturity: Fair value of \$69,034 and \$71,698, respectively, net of allowance for credit losses of \$0 at September 30, 2024 and December 31, 2023	79,861	84,851
Equity investments carried at fair value	3,921	98
Total investment securities	646,268	483,876
Loans	4,069,683	2,849,897
Less: allowance for credit losses	39,341	21,895
Net loans	4,030,342	2,828,002
Loans held for sale	803	250
Goodwill	76,958	63,370
Premises and equipment, net	75,877	61,276
Bank owned life insurance	87,401	49,397
Deferred tax assets	33,078	13,770
Accrued interest receivable	17,979	12,734
Intangible assets, net	35,907	
Other assets	70,056	42,249
Total assets	\$ 5,360,138	\$ 3,742,289
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 717,565	\$ 644,683
Interest-bearing	3,920,299	2,634,354
Total deposits	4,637,864	3,279,037
Short-term borrowings	37,346	17,590
Long-term debt	111,489	25,000
Subordinated debt	33,000	33,000
Junior subordinated debt	8,015	
Accrued interest payable	6,829	5,765
Other liabilities	50,544	41,475
Total liabilities	4,885,087	3,401,867
Stockholders' equity:		
Common stock, par value \$2.00, authorized 25,000,000 shares, issued and outstanding 9,994,648, shares at September 30, 2024 and 7,040,852 shares at December 31, 2023	19,993	14,093
Capital surplus	250,578	122,130
Retained earnings	239,021	248,550
Accumulated other comprehensive loss	(34,541)	(44,351)
Total stockholders' equity	475,051	340,422
Total liabilities and stockholders' equity	\$ 5,360,138	\$ 3,742,289

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(Dollars in thousands, except per share data)

September 30,	Three Months Ended		Nine Months Ended	
	2024	2023	2024	2023
Interest income:				
Interest and fees on loans:				
Taxable	\$ 59,412	\$ 33,095	\$ 127,859	\$ 95,283
Tax-exempt	2,299	1,411	5,116	4,205
Interest and dividends on investment securities:				
Taxable	4,739	1,920	8,561	5,973
Tax-exempt	411	375	1,153	1,210
Dividends	55		59	4
Interest on interest-bearing deposits in other banks	150	91	385	190
Interest on federal funds sold	1,218	1,873	2,524	2,914
Total interest income	<u>68,284</u>	<u>38,765</u>	<u>145,657</u>	<u>109,779</u>
Interest expense:				
Interest on deposits	26,398	16,481	63,216	39,805
Interest on short-term borrowings	550	291	1,444	1,590
Interest on long-term debt	1,389	273	1,929	569
Interest on subordinated debt	443	443	1,330	1,330
Interest on junior subordinated debt	260		260	
Total interest expense	<u>29,040</u>	<u>17,488</u>	<u>68,179</u>	<u>43,294</u>
Net interest income	<u>39,244</u>	<u>21,277</u>	<u>77,478</u>	<u>66,485</u>
Provision for (credit to) credit losses	14,458	(166)	15,762	(1,103)
Net interest income after provision for (credit to) credit losses	<u>24,786</u>	<u>21,443</u>	<u>61,716</u>	<u>67,588</u>
Noninterest income:				
Service charges, fees, commissions and other	3,384	1,900	7,304	5,847
Merchant services income	223	170	598	542
Commission and fees on fiduciary activities	649	606	1,717	1,691
Wealth management income	708	393	1,486	1,177
Mortgage banking income	84	87	263	295
Increase in cash surrender value of life insurance	551	270	1,116	790
Interest rate swap (loss) gain	(53)	266	25	512
Net gains (losses) on equity investment securities	175		155	(17)
Net gains on sale of investment securities available for sale	1		1	81
Total noninterest income	<u>5,722</u>	<u>3,692</u>	<u>12,665</u>	<u>10,918</u>
Noninterest expense:				
Salaries and employee benefits expense	13,170	8,784	30,459	26,346
Net occupancy and equipment expense	6,436	4,298	15,745	12,678
Acquisition related expenses	9,653	869	11,210	990
Amortization of intangible assets	1,665	29	1,665	86
Net gains on sale of other real estate owned		(18)		(18)
Professional fees and outside services	1,017	687	2,482	1,960
FDIC insurance and assessments	809	508	1,907	1,565
Donations	512	389	1,354	1,254
Other expenses	2,240	1,508	6,906	5,361
Total noninterest expense	<u>35,502</u>	<u>17,054</u>	<u>71,728</u>	<u>50,222</u>
(Loss) income before income taxes	(4,994)	8,081	2,653	28,284
(Benefit) provision for income tax expense	(657)	1,335	242	4,534
Net (loss) income	<u>(4,337)</u>	<u>6,746</u>	<u>2,411</u>	<u>23,750</u>
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available for sale	15,167	(10,378)	12,744	(4,690)
Reclassification adjustment for net gain on sales included in net income	(1)		(1)	(81)
Change in derivative fair value	(1,424)	747	(185)	826
Other comprehensive income (loss)	<u>13,742</u>	<u>(9,631)</u>	<u>12,558</u>	<u>(3,945)</u>
Income tax expense (benefit) related to other comprehensive income (loss)	3,008	(2,074)	2,748	(851)
Other comprehensive income (loss), net of income tax expense (benefit)	<u>10,734</u>	<u>(7,557)</u>	<u>9,810</u>	<u>(3,094)</u>
Comprehensive income (loss)	<u>\$ 6,397</u>	<u>\$ (811)</u>	<u>\$ 12,221</u>	<u>\$ 20,656</u>
Per share data:				
Net (loss) income:				
Basic	\$ (0.43)	\$ 0.95	\$ 0.30	\$ 3.33
Diluted	\$ (0.43)	\$ 0.95	\$ 0.30	\$ 3.31
Weighted average common shares outstanding:				
Basic	9,987,627	7,088,745	8,039,734	7,130,506
Diluted	10,044,449	7,120,685	8,094,036	7,165,570
Dividends declared	\$ 0.62	\$ 0.41	\$ 1.44	\$ 1.23

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2024	\$ 14,093	\$ 122,130	\$ 248,550	\$ (44,351)	\$ 340,422
Net income			3,466		3,466
Other comprehensive loss, net of tax				(1,064)	(1,064)
Cash dividends declared: \$0.41 per common share			(2,893)		(2,893)
Stock compensation, including tax effects and expenses		61			61
Restricted stock issued: 14,434 shares	29	(29)			
Balance, March 31, 2024	\$ 14,122	\$ 122,162	\$ 249,123	\$ (45,415)	\$ 339,992
Net income			3,282		3,282
Other comprehensive income, net of tax				140	140
Cash dividends declared: \$0.41 per share			(2,894)		(2,894)
Stock compensation, including tax effects and expenses		287			287
Balance, June 30, 2024	\$ 14,122	\$ 122,449	\$ 249,511	\$ (45,275)	\$ 340,807
Net loss			(4,337)		(4,337)
Other comprehensive income, net of tax				10,734	10,734
Acquisition of FNCB Bancorp, Inc. 2,935,456 shares, \$45.54 per share ⁽¹⁾	5,871	127,810			133,681
Cash dividends declared: \$0.62 per share			(6,153)		(6,153)
Stock compensation, including tax effects and expenses		319			319
Balance, September 30, 2024	\$ 19,993	\$ 250,578	\$ 239,021	\$ (34,541)	\$ 475,051

(1) Refer to Note 2 - Business Combination for additional detail.

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2023	\$ 14,321	\$ 126,850	\$ 230,515	\$ (56,336)	\$ 315,350
Cumulative impact of adoption of ASC 326, net of tax			2,364		2,364
Net income			7,579		7,579
Other comprehensive income, net of tax				6,894	6,894
Cash dividends declared: \$0.41 per common share			(2,936)		(2,936)
Stock compensation, including tax effects and expenses		209			209
Restricted stock issued: 17,640 shares.	35	(35)			
Share retirement: 16,573 shares	(33)	(793)			(826)
Balance, March 31, 2023	\$ 14,323	\$ 126,231	\$ 237,522	\$ (49,442)	\$ 328,634
Net income			9,425		9,425
Other comprehensive loss, net of tax				(2,431)	(2,431)
Cash dividends declared: \$0.41 per share			(2,930)		(2,930)
Stock compensation, including tax effects and expenses		160			160
Share retirement: 25,555 shares	(51)	(1,020)			(1,071)
Balance, June 30, 2023	\$ 14,272	\$ 125,371	\$ 244,017	\$ (51,873)	\$ 331,787
Net income			6,746		6,746
Other comprehensive loss, net of income taxes				(7,557)	(7,557)
Cash dividends declared: \$0.41 per share			(2,906)		(2,906)
Stock compensation, including tax effects and expenses		259			259
Share retirement: 89,558 shares	(179)	(3,760)			(3,939)
Balance, September 30, 2023	\$ 14,093	\$ 121,870	\$ 247,857	\$ (59,430)	\$ 324,390

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Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

For the Nine Months Ended September 30,	2024	2023
Cash flows from operating activities:		
Net income	\$ 2,411	\$ 23,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	2,372	2,051
Amortization of right-of-use lease asset	805	454
Amortization of deferred loan fees, net	451	493
Amortization of intangibles	1,665	86
Amortization of low income housing partnerships	376	310
Provision for (credit to) credit losses	15,762	(1,103)
Net unrealized (gain) loss on equity investment securities	(155)	17
Net gain on sale of other real estate owned		(18)
Loans originated for sale	(2,564)	(3,511)
Proceeds from sale of loans originated for sale	2,012	3,499
Net (gain) loss on sale of loans originated for sale	(1)	12
Net (accretion) amortization of investment securities	(197)	774
Net gain on sale of investment securities available for sale	(1)	(81)
(Gain) loss on sale of premises and equipment	(1)	3
Increase in cash surrender value of life insurance	(1,116)	(790)
Deferred income tax (benefit) expense	(2,558)	983
Stock compensation, including tax effects and expenses	667	628
Net change in:		
Accrued interest receivable	2,203	(1,054)
Other assets	8,788	(3,581)
Accrued interest payable	(902)	3,874
Other liabilities	585	(2,489)
Net cash provided by operating activities	<u>30,602</u>	<u>24,307</u>
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	240,861	67,363
Proceeds from repayments of investment securities:		
Available for sale	27,013	22,740
Held to maturity	4,918	4,845
Purchases of investment securities:		
Available for sale		
Equity Securities	(775)	
Net (purchase) redemption of restricted equity securities	(4,638)	3,966
Proceeds from sale of equity securities	614	
Net cash received in merger with FNCB Bancorp, Inc.	28,811	
Net increase in loans	(24,398)	(141,422)
Purchases of premises and equipment	(4,926)	(5,697)
Proceeds from the sale of premises and equipment	153	14
Proceeds from sale of other real estate owned		139
Net cash provided by (used in) investing activities	<u>267,633</u>	<u>(48,052)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits	(68,174)	318,485
(Repayment of) proceeds from long-term borrowings	(10,136)	24,445
Net proceeds (decrease) in short-term borrowings	(109,880)	(87,910)
Retirement of common stock		(5,836)
Cash dividends paid	(11,940)	(8,772)
Net cash (used in) provided by financing activities	<u>(200,130)</u>	<u>240,412</u>
Net increase in cash and cash equivalents	98,104	216,667
Cash and cash equivalents at beginning of period	187,365	37,868
Cash and cash equivalents at end of period	<u>\$ 285,469</u>	<u>\$ 254,535</u>

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Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

For the Nine Months Ended September 30,	2024	2023
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$ 67,116	\$ 39,420
Income taxes	1,154	3,072
Noncash items:		
Transfers of fixed assets to other real estate	1,556	
Transfers of loans to other real estate	27	
Origination of mortgage servicing rights	542	3,878
Initial recognition of right-of-use assets ⁽¹⁾	2,819	3,878
Initial recognition of lease liability ⁽¹⁾	3,106	
Removal of right-of-use assets		785
Removal of lease liability		820
Merger with FNCB ⁽²⁾		
Tangible assets acquired	1,729,872	
Goodwill and other intangible assets	51,205	
Liabilities assumed	1,676,207	

(1) Recognized as a result of the FNCB merger

(2) See notes to unaudited consolidated financial statements

Peoples Financial Services Corp.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

1. Summary of significant accounting policies:

Nature of operations

Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned direct and indirect subsidiaries, including Peoples Security Bank and Trust Company (“Peoples Bank”) and 1st Equipment Finance Inc., collectively, the “Company” or “Peoples”. The Company services its retail and commercial customers through thirty nine full-service community banking offices located within Allegheny, Bucks, Lackawanna, Lebanon, Lehigh, Luzerne, Monroe, Montgomery, Northampton, Susquehanna, Wayne and Wyoming Counties of Pennsylvania, Middlesex County of New Jersey and Broome County of New York.

Basis of presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Prior period amounts are reclassified when necessary to conform to the current year’s presentation. These reclassifications did not have any effect on the consolidated operating results or financial position of the Company. The consolidated operating results and financial position of the Company for the three and nine months ended and as of September 30, 2024, are not necessarily indicative of the results of consolidated operations and financial position that may be expected in the future.

The preparation of consolidated financial statements in conformity with GAAP 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 the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that are particularly susceptible to material change in the near term relate to the determination of the allowance for credit losses, fair value of financial instruments, the fair value of assets acquired and liabilities assumed in business combinations, the valuation of deferred tax assets, and impairment of goodwill. Actual results could differ from those estimates. For additional information and disclosures required under GAAP, reference is made to the Company’s Annual Report on Form 10-K for the period ended December 31, 2023.

Fourth Quarter Dividend Declaration

On October 25, 2024, the Company’s board of directors declared a fourth quarter dividend of \$0.6175 per share. The dividend is payable on December 13, 2024 to shareholders of record as of November 29, 2024. The dividend is consistent with the dividend declared in the third quarter of 2024 and is a 50.6 % increase from the fourth quarter in the prior year, which was contemplated as part of the Merger Agreement between the Company and FNCB.

Recent accounting standards

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies that are adopted by the Company as of the required effective dates. The following should be read in conjunction with Note 1 Summary of significant accounting policies of the Notes to the Consolidated Financial Statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2023.

Unless otherwise discussed, management believes the impact of any recently issued standards, including those issued but not yet effective, will not have a material impact on the Company’s consolidated financial statements.

ASU 2024-01, “Compensation – Stock Compensation (Topic 718) – Scope Application of Profits Interest and Similar Awards” (ASU 2024-01) clarifies how an entity determines whether a profits interest or similar award is within the scope

Peoples Financial Services Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share data)

of Topic 718 or is not a share-based payment arrangement and therefore within the scope of other guidance. ASU 2024-01 provides an illustrative example with multiple fact patterns and also amends certain language in the “Scope” and “Scope Exceptions” sections of Topic 718 to improve its clarity and operability without changing the guidance. Entities can apply the amendments either retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or modified on or after the date of adoption. If prospective application is elected, an entity must disclose the nature of and reason for the change in accounting principle. ASU 2024-01 is effective January 1, 2025, including interim periods, and is not expected to have a significant impact on the consolidated financial statements.

ASU 2024-02 “Codification Improvements” (“ASU 2024-02”) amends the Codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. ASU 2024-02 is effective January 1, 2025 and is not expected to have a significant impact on the financial statements.

2. Business Combinations:

On July 1, 2024 (the “Acquisition Date”), the Company completed the acquisition of FNCB Bancorp, Inc., a Pennsylvania corporation (“FNCB”), in accordance with the definitive Agreement and Plan of Merger dated as of September 27, 2023 (the “Merger Agreement”), by and among the Company and FNCB. Pursuant to the Merger Agreement, on the Acquisition Date, FNCB merged with and into Peoples, with Peoples continuing as the surviving corporation, and immediately following the merger, FNCB Bank, a Pennsylvania-chartered bank (“FNCB Bank”), merged with and into Peoples Bank, with Peoples Bank as the surviving bank (collectively, the “merger”). The primary reasons for the merger included: expansion of the branch network and commanding market share positions in northeastern Pennsylvania; attractive low-cost funding base; strong cultural alignment and a deep commitment to shareholders, customers, employees, and communities served by Peoples and FNCB; meaningful value creation to shareholders; increased trading liquidity; and increased dividends for People’s shareholders.

In connection with the completion of the merger, former FNCB shareholders received 0.1460 shares of the Company’s common stock per share of FNCB common stock. The value of the total transaction consideration was approximately \$133.7 million. The consideration included the issuance of 2,935,456 shares of the Company’s common stock, valued at \$45.54 per share, which was the closing price of the Company’s common stock on June 28, 2024, the last trading day prior to the consummation of the merger. Also included in the total consideration was cash in lieu of any fractional shares, which was effectively settled upon closing.

The acquisition of FNCB was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company’s consolidated statements of financial condition. The \$13.6 million of goodwill created from the merger is not amortizable or deductible for tax purposes. The amount of goodwill represents an asset attributed to the future benefits arising from other assets acquired in a business combination. Future benefits consist largely of the synergies and economies of scale expected from combining the operations of FNCB and Peoples. Peoples does not currently provide segment reporting for GAAP, therefore the goodwill will be assigned to the whole operating company.

The Company considers its valuations of acquired loans and other assets to be preliminary, as management continues to identify and assess information regarding the nature of these assets acquired and liabilities assumed, including extended information gathering, management review procedures, and any new information that may arise as a result of integration activities. Accordingly, the amounts recorded for current and deferred taxes are also considered preliminary, as the Company continues to evaluate the nature and extent of permanent and temporary differences between the book and tax bases of these other assets acquired and other liabilities assumed. While the Company believes that the information available as of September 30, 2024, provides a reasonable basis for estimating fair value, it is possible that additional

Peoples Financial Services Corp.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

information may become available during the remainder of the measurement period that could result in changes to the fair values presented.

The Company will continue to keep the measurement of goodwill open for any additional adjustments to the fair value of certain accounts, for example loans, that may arise during the Company's final review procedures of any updated information. If considered necessary, any subsequent adjustments to the fair value of assets acquired and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first twelve months following the Acquisition Date.

As a result of the integration of operations of FNCB, it is not practicable to determine revenue or net income included in the Company's consolidated operating results relating to FNCB since the Acquisition Date, as FNCB's results cannot be separately identified.

Comparative pro-forma financial statements for the prior year period were not presented, as adjustments to those statements would not be indicative of what would have occurred had the acquisition taken place on January 1, 2023. In particular, adjustments that would have been necessary to be made to record the loans at fair value, the provision for credit losses or the core deposit intangible would not be practical to estimate.

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Peoples Financial Services Corp.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

In connection with the acquisition, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(Dollars in thousands)

	FNCB Bancorp, Inc. Book Value 6/30/2024	Fair Value Adjustments	FNCB Bancorp, Inc. Fair Value 6/30/2024
Purchase Price Consideration			
FNCB Bancorp, Inc. common shares settled for stock			20,110,771
Exchange Ratio			0.146
Peoples Financial Services Corp. shares issued			2,935,456
Price per share of Peoples Financial Services Corp. common stock on June 28, 2024			45.54
Purchase price consideration for common stock			\$ 133,681
Cash in lieu of fractional shares			32
Total purchase price consideration			<u>\$ 133,713</u>
Total purchase price consideration	\$	\$	\$ 133,713
Recognized amounts of identifiable assets acquired and liabilities assumed			
Cash and cash equivalents	28,843		28,843
Investment securities	426,107	(4,180)	421,927
Loans held for investment	1,267,330	(71,579)	1,195,751
Allowance for credit losses	(13,921)	12,353	(1,568)
Loans held for investment, net of allowance	1,253,409	(59,226)	1,194,183
Restricted stock	9,934		9,934
Premises and equipment, net	13,960	593	14,553
Accrued interest receivable	7,448		7,448
Core deposit intangibles		36,629	36,629
Wealth management customer list intangible		988	988
Deferred tax asset	14,415	5,083	19,498
Operating lease right of use asset	2,821	263	3,084
Other assets	62,728	(3,483)	59,245
Total identifiable assets acquired	<u>1,819,665</u>	<u>(23,333)</u>	<u>1,796,332</u>
Deposits	1,429,406	(2,405)	1,427,001
Borrowings	227,135	(851)	226,284
Trust preferred	10,310	(2,318)	7,992
Accrued interest payable	1,966		1,966
Operating lease liability	3,082		3,082
Other liabilities	9,704	178	9,882
Total liabilities assumed	<u>1,681,603</u>	<u>(5,396)</u>	<u>1,676,207</u>
Total identifiable net assets	<u>\$ 138,062</u>	<u>(\$ 17,937)</u>	<u>\$ 120,125</u>
Goodwill			<u>\$ 13,588</u>

The following is a discussion of the valuation methodologies used to estimate the fair value of major categories of assets acquired and liabilities assumed in the FNCB merger. The Company used an independent valuation specialist to assist with the determination of fair values of certain acquired assets and assumed liabilities.

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Cash and cash equivalents

The estimated fair value was determined to approximate the carrying amount of these assets.

Investment securities

All acquired investments were classified as available for sale. The balance sheet adjustment of \$4.1 million reflects the fair value adjustment related to certain securities that were sold shortly after closing and was determined by the actual market price. Additional information is included in Note 5.

Loans

The acquired loan portfolio was valued utilizing Level 3 inputs and included the use of a discounted cash flow methodology applied on a pooled basis for accruing loans and on an individual basis for nonaccruing loans and incorporated assumptions that marketplace participants would use in estimating fair values. In the fair value process, accruing loans were grouped by characteristics such as loan type, term, collateral and rate. The Company developed assumptions as to credit risk, expected lifetime losses, qualitative factors, collateral values, discount rates, expected payments and expected prepayments. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company created three separate fair value adjustments which a market participant would employ in estimating the total fair value adjustment. The three fair valuation adjustments used were: (i) interest rate loan fair value adjustment; (ii) general credit fair value adjustment; and (iii) specific credit fair value adjustment.

To prepare the interest rate fair value adjustment, market discount rates for similar loans were obtained from various data sources to develop market participant assumptions. The general credit fair value adjustment was calculated using a two-part general credit fair value adjustment: (i) expected lifetime losses and (ii) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using historical losses of the acquired bank and Pennsylvania peer banks. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to lack of experience with the originator's underwriting process.

Acquired loans are classified into three categories: purchased credit deteriorated ("PCD") accruing loans ("PCD Accruing loans"), purchased credit deteriorated nonaccruing loans ("PCD Nonaccruing loans") and non-PCD loans. PCD loans are defined as a loan or group of loans that have experienced more than insignificant credit deterioration since origination. The Company considers various factors in connection with the identification of more-than-insignificant deterioration in credit, including but not limited to nonperforming status, delinquency, risk ratings, and other qualitative factors that indicate deterioration in credit quality since origination. Non-PCD loans will have an allowance established subsequent to the Acquisition Date, which is recognized as an expense through the provision for credit losses. For PCD loans, the loans were recorded at their amortized cost, less an allowance for credit losses of \$1.8 million on the Acquisition Date. There is no provision for credit loss expense recognized on PCD loans because the initial allowance is established by grossing-up the amortized cost of the PCD loans. The remaining difference between the net of the amortized cost basis and the allowance for credit losses and the fair value allocated to the loans on the date of acquisition is recognized as a non-credit-related discount that will be accreted into interest income over the life of the loans.

The following table provides details related to the fair value of acquired PCD loans.

Dollars in thousands	Unpaid Principal Balance	Non-credit Discount at Acquisition	PCD	Fair Value of PCD Loans at Acquisition
			Allowance for Credit Losses at Acquisition	
PCD Accruing	\$ 95,851	\$ (3,626)	\$ 1,841	\$ 94,066
PCD Nonaccruing	10,470	(2,898)		7,572
Total PCD loans	\$ 106,321	\$ (6,524)	\$ 1,841	\$ 101,638

Peoples Financial Services Corp.

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A Day 1 allowance for credit losses on non-PCD loans of \$14.3 million was recorded through the provision for credit losses within the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). At the Acquisition Date, of the \$1.3 billion loans acquired from FNCB, \$1.2 billion, or 91.5%, of FNCB's loan portfolio was accounted for as non-PCD loans.

Premises and equipment

The estimated fair value of premises were measured based upon appraisals from independent third parties. The estimated fair value of equipment was determined to approximate the carrying amount of these assets.

Core Deposit Intangible

Fair value was determined by using income approach under ASC topic 820. This present value analysis calculates the expected after-tax cash flow benefits of each acquired core deposits type versus the cost of obtaining an alternative source of funding (brokered deposits and FHLB borrowings) over the expected life of each acquired core deposits type, discounted at a long-term market oriented after-tax rate of return. The valuation also included assumptions related to expected account attrition, interest costs, and deposit maintenance cost and deposit fee income. The core deposit intangible was valued at \$36.6 million or 5.1% of core deposits. The core deposit intangible asset is being amortized on an accelerated basis over 10 years based upon the period over which the estimated economic benefits are estimated to be received. Amortization expense for three months ended September 30, 2024, was \$1.7 million. Additional information is included in Note 6.

Deferred Tax Asset

The Company recorded a net deferred income tax asset of \$19.5 million related to tax attributes of FNCB, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

Time Deposits

The estimated fair value of time deposits was determined using a discounted cash flow approach. The fair value of time deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to current market interest rates offered on time deposits with similar terms and maturities.

Borrowings and Subordinated Debt

The estimated fair value of short-term borrowings was determined to approximate the stated value. Subordinated debentures were valued using a discounted cash flow approach incorporating a discount rate that incorporated similar terms, maturity and credit rating.

Peoples Financial Services Corp.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(Dollars in thousands, except per share data)****Merger-related Expenses**

Costs related to the acquisition totaled \$9.7 million and \$11.2 million during the three and nine months ended September 30, 2024. These amounts were expensed as incurred and are recorded as merger-related expenses in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The following table details the costs identified and classified as merger-related expenses of the acquisition.

	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
Severance expenses	\$ 187	\$ 187
System termination and integration fees	8,375	8,551
Financial advisory fees	582	1,173
Legal and professional fees	87	772
Other merger related expenses	422	527
Total	\$ 9,653	\$ 11,210

3. Other comprehensive income (loss):

The components of other comprehensive income (loss) (“OCI”) and their related tax effects are reported in the consolidated statements of income (loss) and comprehensive income (loss). The accumulated other comprehensive loss included in the consolidated balance sheets relates to net unrealized gains and losses on investment securities available for sale, benefit plan adjustments and adjustments to derivative fair values.

The components of accumulated other comprehensive loss included in stockholders’ equity at September 30, 2024 and December 31, 2023 are as follows:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Net unrealized loss on investment securities available for sale	\$ (38,784)	\$ (51,527)
Income tax benefit	(8,482)	(11,270)
Net of income taxes	(30,302)	(40,257)
Benefit plan adjustments	(4,370)	(4,370)
Income tax benefit	(956)	(956)
Net of income taxes	(3,414)	(3,414)
Derivative adjustments	(1,056)	(871)
Income tax benefit	(231)	(191)
Net of income taxes	(825)	(680)
Accumulated other comprehensive loss	<u>\$ (34,541)</u>	<u>\$ (44,351)</u>

4. Earnings per share:

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

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The following table presents the calculation of both basic and diluted earnings per share of common stock for the three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands, except per share data) For the Three Months Ended September 30,	2024		2023	
	Basic	Diluted	Basic	Diluted
Net (loss) income	\$ (4,337)	\$ (4,337)	\$ 6,746	\$ 6,746
Average common shares outstanding	9,987,627	10,044,449	7,088,745	7,120,685
(Loss) earnings per share	\$ (0.43)	\$ (0.43)	\$ 0.95	\$ 0.95

(Dollars in thousands, except per share data) For the Nine Months Ended September 30,	2024		2023	
	Basic	Diluted	Basic	Diluted
Net income	\$ 2,411	\$ 2,411	\$ 23,750	\$ 23,750
Average common shares outstanding	8,039,734	8,094,036	7,130,506	7,165,570
Earnings per share	\$ 0.30	\$ 0.30	\$ 3.33	\$ 3.31

5. Investment securities:

The amortized cost and fair value of investment securities aggregated by investment category at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury securities	\$ 189,190	\$	\$ 8,375	\$ 180,815
U.S. government-sponsored enterprises				
State and municipals:				
Taxable	85,468	109	8,186	77,391
Tax-exempt	76,570	67	8,467	68,170
Residential mortgage-backed securities:				
U.S. government agencies	1,451	30		1,481
U.S. government-sponsored enterprises	144,244	1,362	15,536	130,070
Commercial mortgage-backed securities:				
U.S. government-sponsored enterprises	4,608		60	4,548
Private collateralized mortgage obligations	42,624	635	12	43,247
Asset backed securities	24,115	44	314	23,845
Corporate debt securities	32,307	622	717	32,212
Negotiable certificates of deposit	693	14		707
Total available for sale	<u>\$ 601,270</u>	<u>\$ 2,883</u>	<u>\$ 41,667</u>	<u>\$ 562,486</u>
Held to maturity:				
Tax-exempt state and municipals	\$ 11,175	\$	\$ 835	\$ 10,340
Residential mortgage-backed securities:				
U.S. government agencies	14,151		2,298	11,853
U.S. government-sponsored enterprises	54,535		7,694	46,841
Total held to maturity	<u>\$ 79,861</u>	<u>\$</u>	<u>\$ 10,827</u>	<u>\$ 69,034</u>

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(Dollars in thousands)	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury securities	\$ 197,920	\$	\$ 13,863	\$ 184,057
U.S. government-sponsored enterprises	2,539		387	2,152
State and municipals:				
Taxable	67,831		10,731	57,100
Tax-exempt	75,742		8,618	67,124
Residential mortgage-backed securities:				
U.S. government agencies	758		34	724
U.S. government-sponsored enterprises	89,935		17,264	72,671
Commercial mortgage-backed securities:				
U.S. government-sponsored enterprises	11,729		360	11,369
Corporate debt securities	4,000		270	3,730
Total available for sale	<u>\$ 450,454</u>	<u>\$</u>	<u>\$ 51,527</u>	<u>\$ 398,927</u>
Held to maturity:				
Tax-exempt state and municipals	\$ 11,201	\$ 1	\$ 660	\$ 10,542
Residential mortgage-backed securities:				
U.S. government agencies	15,400		2,653	12,747
U.S. government-sponsored enterprises	58,250		9,841	48,409
Total held to maturity	<u>\$ 84,851</u>	<u>\$ 1</u>	<u>\$ 13,154</u>	<u>\$ 71,698</u>

The Company did not sell any investments from its legacy securities portfolio during the three and nine months ended September 30, 2024. Immediately after the consummation of the FNCB merger, the Company sold a significant portion of the available for sale investments acquired from FNCB and used the proceeds of \$241.3 million to repay short-term borrowings and build on-balance sheet liquidity; there were no gains or losses realized on the sale. During the nine-month period ended September 30, 2023, investment securities, including U.S. Treasury bonds and mortgage-backed securities, with a par value of \$65.6 million were sold at a net gain of \$81 thousand. The proceeds were used to pay-down higher cost short-term borrowings.

The maturity distribution of the fair value, which is the net carrying amount, of the debt securities classified as available for sale at September 30, 2024, is summarized as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
Within one year	\$ 74,667	\$ 73,596
After one but within five years	163,400	154,865
After five but within ten years	77,493	71,741
After ten years	68,668	59,093
	<u>384,228</u>	<u>359,295</u>
Mortgage-backed and other amortizing securities	217,042	203,191
Total	<u>\$ 601,270</u>	<u>\$ 562,486</u>

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The maturity distribution of the amortized cost and fair value, of debt securities classified as held to maturity at September 30, 2024, is summarized as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
After one but within five years	\$ 1,191	\$ 1,096
After five but within ten years	9,984	9,244
	11,175	10,340
Mortgage-backed securities	68,686	58,694
Total	<u>\$ 79,861</u>	<u>\$ 69,034</u>

Securities with a carrying value of \$368.6 million and \$322.4 million at September 30, 2024 and December 31, 2023, respectively, were pledged to secure public deposits and certain other deposits as required or permitted by law and pledged to the Discount Window at the Federal Reserve

Securities and short-term investment activities are conducted with a diverse group of government entities, corporations and state and local municipalities. The counterparty's creditworthiness and type of collateral is evaluated on a case-by-case basis. At September 30, 2024, there were no significant concentrations of credit risk from any one issuer, with the exception of U.S. government agencies and sponsored enterprises, which exceeded 10.0 percent of stockholders' equity.

The fair value and gross unrealized losses of investment securities with unrealized losses at September 30, 2024 and December 31, 2023, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, are summarized as follows:

(Dollars in thousands)	September 30, 2024								
	Less than Twelve Months			Twelve Months or Longer			Total		
	Total # in a loss Position	Fair Value	Unrealized Losses	Total # in a loss Position	Fair Value	Unrealized Losses	Total # in a loss Position	Fair Value	Unrealized Losses
Securities Available for Sale									
U.S. Treasury securities				41	\$ 180,815	\$ 8,375	41	\$ 180,815	\$ 8,375
State and municipals:									
Taxable				64	58,033	8,186	64	58,033	8,186
Tax-exempt	1	680		91	64,293	8,467	92	64,973	8,467
Residential mortgage-backed securities:									
U.S. government agencies				1	6	0	1	6	0
U.S. government-sponsored enterprises	1	3,601	41	31	73,997	15,495	32	77,598	15,536
Commercial mortgage-backed securities:									
U.S. government-sponsored enterprises				2	4,548	60	2	4,548	60
Private collateralized mortgage obligations	9	7,699	12				9	7,699	12
Asset-backed securities	3	2,818	11	1	2,024	303	4	4,842	314
Corporate debt securities	6	6,034	315	6	3,599	402	12	9,633	717
Total	<u>20</u>	<u>\$ 20,832</u>	<u>\$ 379</u>	<u>237</u>	<u>\$ 387,315</u>	<u>\$ 41,288</u>	<u>257</u>	<u>\$ 408,147</u>	<u>\$ 41,667</u>
Securities Held to Maturity									
U.S. government-sponsored enterprises									
Tax-exempt	4	\$ 1,182	\$ 7	12	\$ 7,453	\$ 828	16	\$ 8,635	\$ 835
Residential mortgage-backed securities:									
U.S. government agencies				4	11,853	2,298	4	11,853	2,298
U.S. government-sponsored enterprises				8	46,841	7,694	8	46,841	7,694
Total	<u>4</u>	<u>\$ 1,182</u>	<u>\$ 7</u>	<u>24</u>	<u>\$ 66,147</u>	<u>\$ 10,820</u>	<u>28</u>	<u>\$ 67,329</u>	<u>\$ 10,827</u>

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	December 31, 2023								
	Less than Twelve Months			Twelve Months or Longer			Total		
	Total # in a loss Position	Fair Value	Unrealized Losses	Total # in a loss Position	Fair Value	Unrealized Losses	Total # in a loss Position	Fair Value	Unrealized Losses
(Dollars in thousands)									
Securities Available for Sale									
U.S. Treasury securities				43	\$ 184,057	\$ 13,863	43	\$ 184,057	\$ 13,863
U.S. government-sponsored enterprises				2	2,152	387	2	2,152	387
State and municipals:									
Taxable	1	\$ 995	\$ 6	65	56,105	10,725	66	57,100	10,731
Tax-exempt	2	575	5	93	66,393	8,613	95	66,968	8,618
Residential mortgage-backed securities:									
U.S. government agencies				3	724	34	3	724	34
U.S. government-sponsored enterprises				32	72,671	17,264	32	72,671	17,264
Commercial mortgage-backed securities:									
U.S. government-sponsored enterprises				4	11,369	360	4	11,369	360
Corporate debt securities				6	3,730	270	6	3,730	270
Total	3	\$ 1,570	\$ 11	248	\$ 397,201	\$ 51,516	251	\$ 398,771	\$ 51,527
(Dollars in thousands)									
Securities Held to Maturity									
State and municipals:									
Tax-exempt	2	\$ 1,438	\$ 36	10	\$ 6,209	\$ 624	12	\$ 7,647	\$ 660
Residential mortgage-backed securities:									
U.S. government agencies				4	12,747	2,653	4	12,747	2,653
U.S. government-sponsored enterprises				8	48,409	9,841	8	48,409	9,841
Total	2	\$ 1,438	\$ 36	22	\$ 67,365	\$ 13,118	24	\$ 68,803	\$ 13,154

Management considered whether a credit loss existed related to the investments in an unrealized loss position by determining (i) whether the decline in fair value is attributable to adverse conditions specifically related to the financial condition of the security issuer or specific conditions in an industry or geographic area; (ii) whether the credit rating of the issuer of the security has been downgraded; (iii) whether dividend or interest payments have been reduced or have not been made and (iv) an adverse change in the remaining expected cash flows from the security such that the Company will not recover the amortized cost of the security. If the decline is judged to be due to factors related to credit, the credit loss should be recorded as an allowance for credit losses (“ACL”) with an offsetting entry to net income. The portion of the loss related to non-credit factors are recorded in OCI.

Based on management’s assessment of the factors identified above, it is determined the fair value of all the identified investments being less than the amortized costs is primarily caused by the rapid increase in market rates and not credit quality. All interest payments have been received as scheduled, substantially all debt securities are rated above investment grade and no material downgrades announced. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the unrealized loss to be credit related, thus no allowance for credit loss expense was recorded at September 30, 2024 or December 31, 2023.

Equity Securities

Included in equity securities with readily determinable fair values at September 30, 2024 were investments in the common or preferred stock of publicly traded bank holding companies and an investment in a mutual fund comprised of 1-4 family residential mortgage-backed securities collateralized by properties within the Company’s market area. Equity securities with readily determinable fair values are reported at fair value with net unrealized gains and losses recognized in the consolidated statements of income (loss) and comprehensive income (loss).

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The following table presents unrealized and realized gains and losses recognized in net income on equity securities for the three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands)	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net gains (losses) recognized on equity securities	\$ 175	\$ 155	\$ 155	\$ (17)
Less: net gains realized on equity securities sold	54	54	54	
Unrealized gains (losses) on equity securities	<u>\$ 121</u>	<u>\$ 101</u>	<u>\$ 101</u>	<u>\$ (17)</u>

Equity Securities without Readily Determinable Fair Values

At September 30, 2024 and December 31, 2023, equity securities without readily determinable fair values consisted primarily of Federal Home Loan Bank (“FHLB”) of Pittsburgh stock totaling \$7.7 million and \$5.2 million, respectively. At September 30, 2024, equity securities without readily determinable fair values also included a \$500 thousand investment in a fixed-rate, non-cumulative perpetual preferred stock of a privately-held bank holding company acquired through the merger with FNCB. The preferred stock, which is not traded on any established market, pays quarterly dividends at an annual rate of 8.25%. Equity securities without readily determinable fair values are evaluated for impairment whenever events or circumstances suggest that their carrying value may not be recoverable are included in other assets in the Consolidated Balance Sheets.

Peoples Financial Services Corp.
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6. Goodwill and Other Intangibles:

The following table provides information on the significant components of goodwill and other acquired intangible assets at September 30, 2024 and December 31, 2023.

(Dollars in thousands)	September 30, 2024				
	Gross Carrying Amount	Additions	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount
Goodwill	\$ 63,370	\$ 13,588	\$	\$	\$ 76,958
Total goodwill	\$ 63,370	\$ 13,588	\$	\$	\$ 76,958
Core deposit intangible	\$	\$ 36,629	\$	\$ 1,665	\$ 34,964
Wealth management customer list intangible	\$	988	\$	45	943
Total intangible assets, net	\$	\$ 37,617	\$	\$ 1,710	\$ 35,907

(Dollars in thousands)	December 31, 2023				
	Gross Carrying Amount	Additions	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount
Goodwill	\$ 63,370	\$	\$	\$	\$ 63,370
Total goodwill	\$ 63,370	\$	\$	\$	\$ 63,370

The aggregate amortization expense was \$1.7 million for the three and nine months ended September 30, 2024. There was \$29 thousand and \$86 thousand of expense for the three and nine months ended September 30, 2023, respectively.

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At September 30, 2024, estimated future remaining amortization of the core deposit intangible and wealth management customer list intangible within the years ending December 31, are as follows:

(Dollars in thousands)	CDI	Wealth management customer list intangible	Total
2024	\$ 1,665	\$ 45	\$ 1,710
2025	6,327	171	6,498
2026	5,661	153	5,814
2027	4,995	135	5,130
2028	4,329	117	4,446
Thereafter	11,987	322	12,309
Total amortizing intangible	<u>\$ 34,964</u>	<u>\$ 943</u>	<u>\$ 35,907</u>

7. Loans, net and allowance for credit losses:

The major classifications of loans outstanding, net of deferred loan origination fees and costs at September 30, 2024 and December 31, 2023 are summarized as follows. The Company had net deferred loan origination fees of \$1.0 million and \$0.4 million at September 30, 2024 and December 31, 2023, respectively. Included in total loans at September 30, 2024 were \$1.2 billion in loans acquired as part of the acquisition of FNCB effective July 1, 2024.

(Dollars in thousands)	September 30, 2024	December 31, 2023
Commercial and Industrial	\$ 699,912	\$ 368,411
Municipal	190,167	175,304
Total	890,079	543,715
Real estate		
Commercial	2,309,588	1,863,118
Residential	550,590	360,803
Total	2,860,178	2,223,921
Consumer		
Indirect Auto	130,380	75,389
Consumer Other	15,580	6,872
Total	145,960	82,261
Equipment Financing	173,466	
Total	<u>\$ 4,069,683</u>	<u>\$ 2,849,897</u>

Allowance for Credit Losses

The ACL represents the estimated amount considered necessary to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable and held to maturity securities measured at amortized cost. It also applies to off-balance sheet credit exposures such as loan commitments and unused lines of credit. The allowance is established through a provision for credit losses that is charged against income. The methodology for determining the ACL for loans is considered a critical accounting estimate by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the

Peoples Financial Services Corp.

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recorded ACL. The ACL related to loans receivable and held to maturity debt securities is reported separately as a contra-asset on the consolidated balance sheets. The expected credit loss for unfunded lending commitments and unfunded loan commitments is reported on the consolidated balance sheets in other liabilities while the provision for credit losses related to unfunded commitments is reported in other noninterest expense in the consolidated statements of income (loss) and comprehensive income (loss).

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans, available for sale securities, and held to maturity securities. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the Consolidated Balance Sheets, totaled \$15.1 million and \$10.6 million at September 30, 2024 and 2023 and is excluded from the estimate of credit losses. Accrued interest receivable on available for sale securities and held to maturity securities, also a component of accrued interest receivable on the Consolidated Balance Sheets, and totaled \$2.5 million and \$175 thousand, respectively, at September 30, 2024 and is excluded from the estimate of credit losses, as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. At September 30, 2023, accrued interest receivable on available for sale securities and held to maturity securities was \$1.6 million and \$185 thousand, respectively.

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The following tables present the changes in and period end balance of the allowance for credit losses at September 30, 2024 and 2023. The tables identify the valuation allowances attributable to specifically identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality. The tables include the underlying balance of loans receivable applicable to each category as of those dates.

(Dollars in thousands)	September 30, 2024						Total
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	
			Commercial	Residential			
Allowance for credit losses:							
Beginning Balance July 1, 2024	\$ 2,171	\$ 711	\$ 15,156	\$ 4,230	\$ 855	\$	\$ 23,123
Merger-related adjustments - Non PCD Loans*	2,259	502	4,149	1,785	1,470	4,163	14,328
Merger-related adjustments PCD Loans	337	71	371	468	320	274	1,841
Charge-offs	(5)		(26)		(444)	(58)	(533)
Recoveries	10		70	4	310	58	452
(Credits) provisions	(162)	(321)	2,172	(1,241)	(528)	210	130
Ending balance	<u>\$ 4,610</u>	<u>\$ 963</u>	<u>\$ 21,892</u>	<u>\$ 5,246</u>	<u>\$ 1,983</u>	<u>\$ 4,647</u>	<u>\$ 39,341</u>

* See Note 2 - Business Combination and the initial provision for non-PCD loans.

(Dollars in thousands)	September 30, 2023						Total
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	
			Commercial	Residential			
Allowance for loan losses:							
Beginning Balance July 1, 2023	\$ 2,751	\$ 827	\$ 14,961	\$ 3,767	\$ 912	\$	\$ 23,218
Charge-offs					(65)		(65)
Recoveries	4			3	16		23
(Credits) provisions	(504)	40	134	128	36		(166)
Ending balance	<u>\$ 2,251</u>	<u>\$ 867</u>	<u>\$ 15,095</u>	<u>\$ 3,898</u>	<u>\$ 899</u>	<u>\$</u>	<u>\$ 23,010</u>

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(Dollars in thousands)	September 30, 2024						
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	Total
			Commercial	Residential			
Allowance for credit losses:							
Beginning Balance January 1, 2024	\$ 2,272	\$ 788	\$ 14,153	\$ 3,782	\$ 900		\$ 21,895
Merger-related adjustments - Non PCD Loans*	2,259	502	4,149	1,785	1,470	4,163	14,328
Merger-related adjustments PCD Loans	337	71	371	468	320	274	1,841
Charge-offs	(51)		(27)		(640)	(58)	(776)
Recoveries	90		70	8	393	58	619
(Credits) provisions	(297)	(398)	3,176	(797)	(460)	210	1,434
Ending balance	<u>\$ 4,610</u>	<u>\$ 963</u>	<u>\$ 21,892</u>	<u>\$ 5,246</u>	<u>\$ 1,983</u>	<u>\$ 4,647</u>	<u>\$ 39,341</u>

* See Note 2 - Business Combination and the initial provision for non-PCD loans.

(Dollars in thousands)	September 30, 2023						
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	Total
			Commercial	Residential			
Allowance for credit losses:							
Beginning Balance January 1, 2023	\$ 4,365	\$ 1,247	\$ 17,915	\$ 3,072	\$ 873		\$ 27,472
Impact of adopting ASC 326	(1,683)	747	(3,344)	967	30		(3,283)
Beginning Balance January 1, 2023	2,682	1,994	14,571	4,039	903		24,189
Charge-offs	(4)				(213)		(217)
Recoveries	9		1	22	109		141
(Credits) provisions	(436)	(1,127)	523	(163)	100		(1,103)
Ending balance	<u>\$ 2,251</u>	<u>\$ 867</u>	<u>\$ 15,095</u>	<u>\$ 3,898</u>	<u>\$ 899</u>		<u>\$ 23,010</u>

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The following table represents the allowance for credit losses by major classification of loan and whether the loans were individually or collectively evaluated and collateral dependent by class of loans at September 30, 2024 and December 31, 2023.

(Dollars in thousands)	September 30, 2024						Total
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	
			Commercial	Residential			
Allowance for credit losses:							
Ending balance	\$ 4,610	\$ 963	\$ 21,892	\$ 5,246	\$ 1,983	\$ 4,647	\$ 39,341
Ending balance: individually evaluated	8		400				408
Ending balance: collectively evaluated	4,602	963	21,492	5,246	1,983	4,647	38,933
Loans receivable:							
Ending balance	\$ 699,912	\$ 190,167	\$ 2,309,588	\$ 550,590	\$ 145,960	\$ 173,466	\$ 4,069,683
Individually evaluated - collateral dependent - real estate	4,180		11,145	4,883		851	21,059
Individually evaluated - collateral dependent - non-real estate	7						7
Collectively evaluated	695,725	190,167	2,298,443	545,707	145,960	172,615	4,048,617

(Dollars in thousands)	December 31, 2023						Total
	Commercial	Municipal	Real estate		Consumer	Equipment Financing	
			Commercial	Residential			
Allowance for loan losses:							
Ending balance	\$ 2,272	\$ 788	\$ 14,153	\$ 3,782	\$ 900	\$	\$ 21,895
Ending balance: individually evaluated for impairment	10		21				31
Ending balance: collectively evaluated for impairment	2,262	788	14,132	3,782	900		21,864
Loans receivable:							
Ending balance	\$ 368,411	\$ 175,304	\$ 1,863,118	\$ 360,803	\$ 82,261	\$	\$ 2,849,897
Individually evaluated - collateral dependent - real estate	7		2,974	1,749			4,730
Individually evaluated - collateral dependent - non-real estate	10						10
Collectively evaluated	368,394	175,304	1,860,144	359,054	82,261		2,845,157

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Nonaccrual Loans

The following table presents the Company's nonaccrual loans, including non-PCD nonaccrual loans, at September 30, 2024 and December 31, 2023.

(Dollars in thousands)	September 30, 2024		
	Total Nonaccrual Loans	Nonaccrual with an Allowance for Credit Losses	Nonaccrual with no Allowance for Credit Losses
Commercial	\$ 4,180	\$ 351	\$ 3,829
Municipal			
Real estate:			
Commercial	11,146	2,620	8,526
Residential	4,321		4,321
Consumer	451		451
Equipment Financing	851		851
Total	<u>\$ 20,949</u>	<u>\$ 2,971</u>	<u>\$ 17,978</u>

(Dollars in thousands)	December 31, 2023		
	Total Nonaccrual Loans	Nonaccrual with an Allowance for Credit Losses	Nonaccrual with no Allowance for Credit Losses
Commercial	\$ 10	\$ 10	\$
Municipal			
Real estate:			
Commercial	2,974	1,170	1,804
Residential	760		760
Consumer	218		218
Total	<u>\$ 3,962</u>	<u>\$ 1,180</u>	<u>\$ 2,782</u>

Interest income recorded on nonaccrual loans was \$887 thousand and \$11 thousand for the three months ended September 30, 2024 and September 30, 2023, respectively. Interest income recorded on nonaccrual loans was \$961 thousand and \$426 thousand for the nine months ended September 30, 2024 and September 30, 2023, respectively.

The Company segments loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are individually analyzed for credit risk by classifying them within the Company's internal risk rating system. The Company's risk rating classifications are defined as follows:

- Pass- A loan to borrowers with acceptable credit quality and risk that is not adversely classified as Substandard, Doubtful, Loss nor designated as Special Mention.
- Special Mention- A loan that has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified since they do not expose the Company to sufficient risk to warrant adverse classification
- Substandard- A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Peoples Bank will sustain some loss if the deficiencies are not corrected.

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- Doubtful – A loan classified as Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss- A loan classified as Loss is considered uncollectible and of such little value that its continuance as bankable loan is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following table presents the amortized cost of loans and gross charge-offs by year of origination and by major classification of loans summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system at September 30, 2024 and December 31, 2023:

As of September 30, 2024									
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial									
Pass	\$ 54,824	\$ 85,532	\$ 80,128	\$ 90,107	\$ 40,718	\$ 107,295	\$ 219,160	\$ 7	\$ 677,771
Special Mention	1,352	1,136	701	458	2,449	1,464	1,806		9,366
Substandard	-	1,010	2,352	442	1,178	687	7,106		12,775
Total Commercial	56,176	87,678	83,181	91,007	44,345	109,446	228,072	7	699,912
Municipal									
Pass	5,249	6,180	51,520	100,817	10,347	15,999	55		190,167
Special Mention									
Substandard									
Total Municipal	5,249	6,180	51,520	100,817	10,347	15,999	55		190,167
Commercial real estate									
Pass	136,530	188,333	660,675	536,817	163,176	563,148	6,553	137	2,255,369
Special Mention		2,342	950	3,708	1,351	25,304	99		33,754
Substandard		501	5,686	6,054	155	8,069			20,465
Total Commercial real estate	136,530	191,176	667,311	546,579	164,682	596,521	6,652	137	2,309,588
Residential real estate									
Pass	23,736	34,797	78,746	125,726	52,640	111,597	121,174	308	548,724
Special Mention									
Substandard		4	60	186	301	1,311	4		1,866
Total Residential real estate	23,736	34,801	78,806	125,912	52,941	112,908	121,178	308	550,590
Consumer									
Pass	25,689	41,912	44,430	21,337	5,009	6,303	1,034		145,714
Special Mention									
Substandard		102	20	66	51	5	2		246
Total Consumer	25,689	42,014	44,450	21,403	5,060	6,308	1,036		145,960
Equipment Financing									
Pass	50,596	72,636	46,005	2,443					171,680
Special Mention		710	417						1,127
Substandard		659							659
Total Equipment Financing	50,596	74,005	46,422	2,443					173,466
Total Loans	\$ 297,976	\$ 435,854	\$ 971,690	\$ 888,161	\$ 277,375	\$ 841,182	\$ 356,993	\$ 452	\$ 4,069,683
Gross charge-offs									
Commercial	\$	\$ 41	\$	\$ 2	\$	\$ 8	\$	\$	\$ 51
Municipal									
Commercial real estate						27			27
Residential real estate									
Consumer	90	143	186	125	22	74			640
Equipment Financing		58							58
Total Gross charge-offs	\$ 90	\$ 242	\$ 186	\$ 127	\$ 22	\$ 109	\$	\$	\$ 776

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	As of December 31, 2023							Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior				
Commercial										
Pass	\$ 9,856	\$ 38,172	\$ 28,127	\$ 29,966	\$ 44,551	\$ 82,190	\$ 131,536	\$ 650	\$ 365,048	
Special Mention		876	182			49	832		1,939	
Substandard	15	19	42		33	534	781		1,424	
Total Commercial	9,871	39,067	28,351	29,966	44,584	82,773	133,149	650	368,411	
Municipal										
Pass	1,888	48,095	94,791	10,804	16	19,652	58		175,304	
Special Mention										
Substandard										
Total Municipal	1,888	48,095	94,791	10,804	16	19,652	58		175,304	
Commercial real estate										
Pass	156,277	553,754	491,506	143,068	153,426	351,142		117	1,849,290	
Special Mention		1,299			360	2,761			4,420	
Substandard	169	1,338	1,520	160	697	5,524			9,408	
Total Commercial real estate	156,446	556,391	493,026	143,228	154,483	359,427		117	1,863,118	
Residential real estate										
Pass	17,385	52,093	65,280	27,118	16,652	84,652	83,507	13,490	360,177	
Special Mention										
Substandard	4			329		288	5		626	
Total Residential real estate	17,389	52,093	65,280	27,447	16,652	84,940	83,512	13,490	360,803	
Consumer										
Pass	27,053	30,307	12,460	5,441	3,107	2,981	694		82,043	
Special Mention										
Substandard		58	79	31	30	20			218	
Total Consumer	27,053	30,365	12,539	5,472	3,137	3,001	694		82,261	
Total Loans	\$ 212,647	\$ 726,011	\$ 693,987	\$ 216,917	\$ 218,872	\$ 549,793	\$ 217,413	\$ 14,257	\$ 2,849,897	
Gross charge-offs										
Commercial	\$	\$	\$	\$ 21	\$	\$ 33	\$ 4	\$	\$ 58	
Municipal										
Commercial real estate						2,598			2,598	
Residential real estate										
Consumer		95	101	69	49	55			369	
Total Gross charge-offs	\$	\$ 95	\$ 101	\$ 90	\$ 49	\$ 2,686	\$ 4	\$	\$ 3,025	

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The major classifications of loans by past due status are summarized as follows:

September 30, 2024							
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	\$ 762	\$ 173	\$ 841	\$ 1,776	\$ 698,136	\$ 699,912	\$
Municipal					190,167	190,167	
Real estate:							
Commercial	2,226	206	8,799	11,231	2,298,357	2,309,588	
Residential	1,153	1,136	4,056	6,345	544,245	550,590	558
Consumer	1,759	687	166	2,612	143,348	145,960	11
Equipment Financing	821	544		1,365	172,101	173,466	
Total	<u>\$ 6,721</u>	<u>\$ 2,746</u>	<u>\$ 13,862</u>	<u>\$ 23,329</u>	<u>\$ 4,046,354</u>	<u>\$ 4,069,683</u>	<u>\$ 569</u>

December 31, 2023							
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	\$ 53	\$ 155	\$ 10	\$ 218	\$ 368,193	\$ 368,411	\$
Municipal					175,304	175,304	
Real estate:							
Commercial	152	5	279	436	1,862,682	1,863,118	
Residential	1,456	50	1,610	3,116	357,687	360,803	986
Consumer	1,069	285	85	1,439	80,822	82,261	
Total	<u>\$ 2,730</u>	<u>\$ 495</u>	<u>\$ 1,984</u>	<u>\$ 5,209</u>	<u>\$ 2,844,688</u>	<u>\$ 2,849,897</u>	<u>\$ 986</u>

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Allowance for Credit Losses on Off Balance Sheet Commitments

The following table presents the activity in the ACL on off balance sheet commitments, which include commitments to extend credit, unused portions of lines of credit and standby letters of credit, for the three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands)	For the three months ended	
	September 30, 2024	September 30, 2023
Beginning balance	\$ 334	\$ 93
Merger related adjustments	1,179	
Credit to credit losses recorded in noninterest expense	(784)	(12)
Total allowance for credit losses on off balance sheet commitments	<u>\$ 729</u>	<u>\$ 81</u>

(Dollars in thousands)	For the nine months ended	
	September 30, 2024	September 30, 2023
Beginning balance	\$ 43	\$ 179
Impact of adopting Topic 326		270
Merger related adjustments	1,179	
Credit to credit losses recorded in noninterest expense	(493)	(368)
Total allowance for credit losses on off balance sheet commitments	<u>\$ 729</u>	<u>\$ 81</u>

The contractual amounts of off-balance sheet commitments at September 30, 2024 and 2023 are as follows:

(Dollars in thousands)	2024	2023
Commitments to extend credit	\$ 160,389	\$ 203,183
Unused portions of lines of credit	569,195	370,792
Standby letters of credit	61,943	62,181
	<u>\$ 791,527</u>	<u>\$ 636,156</u>

Modifications to Borrowers Experiencing Financial Difficulty

ASU 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures (“ASU 2022-02”) eliminated the accounting guidance for troubled debt restructurings while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In accordance with the new guidance, the Company no longer evaluates loans with modifications made to borrowers experiencing financial difficulty individually for impairment, nor establishes a related specific reserve for such loans, but rather these loans are included in their respective portfolio segment and evaluated collectively for impairment to establish an ACL.

There were no modifications made to borrowers experiencing financial difficulty during the three months ended September 30, 2024. There was one modification made to a commercial and industrial loan with a borrower experiencing financial difficulty during the nine months ended September 30, 2024 which involved the deferral of the principal payment and the extension of the loan’s maturity date three months to September 16, 2024. The loan had an outstanding principal balance of \$370 thousand at June 30, 2024. There were no loans made to borrowers that were modified during the three and nine months ended September 30, 2023.

During the three and nine months ended September 30, 2024 and September 30, 2023, there were no defaults on loan modifications made to borrowers experiencing financial difficulty.

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8. Other assets:

The components of other assets at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Other real estate owned	\$ 1,152	\$ 870
Mortgage servicing rights	832	870
Prepaid shares tax	1,489	949
Prepaid pension	4,144	3,764
Prepaid expenses	7,704	4,840
Restricted equity securities (FHLB and other)	9,829	5,180
Investment in low income housing partnership	15,779	5,015
Interest rate swaps ⁽¹⁾	17,338	19,278
Other assets	11,789	2,353
Total	<u>\$ 70,056</u>	<u>\$ 42,249</u>

(1) Interest rate swaps balance represents the fair value of the commercial loan back-to-back swaps.

9. Fair value estimates:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosure under GAAP. Fair value estimates are calculated without attempting to estimate the value of anticipated future business and the value of certain assets and liabilities that are not considered financial. Accordingly, such assets and liabilities are excluded from disclosure requirements.

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures," fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets. In many cases, these values cannot be realized in immediate settlement of the instrument.

Current fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction that is not a forced liquidation or distressed sale between participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with GAAP, the Company groups its assets and liabilities generally measured at fair value into three levels based on market information or other fair value estimates in which the assets and liabilities are traded or valued and the reliability of the assumptions used to determine fair value. These levels include:

- Level 1: Unadjusted quoted prices of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

An asset's or liability's placement in the fair value hierarchy is based on the lowest level of input that is significant to the fair value estimate.

At September 30, 2024, the Company owned 35 corporate debt securities with an aggregate amortized cost and fair value of \$32.3 million and \$32.2 million, respectively. At September 30, 2024, the market for three corporate debt securities was not active based on transaction criteria for similar instruments. Both the aggregate amortized cost and fair value for these three securities was \$4.3 million at September 30, 2024. The Company obtained valuations for these securities from a third-party service provider that prepared the valuations using a market approach that involves identifying a population of transactions for similar instruments and incorporating an evaluation to capture credit risk associated with these bonds. Management takes measures to validate the service providers' analysis and is actively involved in the valuation process, including reviewing the population and evaluation of credit risk. Management believes this approach to be a conservative approach as it takes into consideration securities that have longer maturities or longer call dates, issuers with smaller asset sizes, and securities with smaller issue amounts. These factors are typically considered to be factors that would add credit spread to a bond, thus resulting in a higher required yield. Management believes the valuation results from this market approach to be consistent with pricing and data for similar deals at September 30, 2024. The Company considers the inputs used in the market approach to be unobservable Level 3 inputs because, while inputs are based on actual transactions, the relative number of transactions in the population is small and subjective assumptions are used in considering factors considered to incorporate credit spreads into the price determination. Management will continue to monitor the market for these securities to assess the market activity and the availability of observable inputs and will continue to apply these controls and procedures to the valuations received from People's third-party service provider. During the periods ended September 30, 2024 there were no transfers into Level 3 other than those Level 3 assets acquired in the FNCB merger. During the year ended December 31, 2023 there were no transfers in or out of Level 3.

The following methods and assumptions were used by the Company to calculate fair values and related carrying amounts of financial instruments:

Investment securities: The fair values of U.S. Treasury securities and marketable equity securities are based on quoted market prices from active exchange markets. The fair values of debt securities are based on pricing from a matrix pricing model.

Interest rate swaps and options: The Company's interest rate swaps and options are reported at fair value utilizing Level 2 inputs. Values of these instruments are obtained through an independent pricing source utilizing information which may include market observed quotations for interest rate, forward rates, rate volatility, and volatility surface. Derivative contracts create exposure to interest rate movements as well as risks from the potential of non-performance of the counterparty.

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Peoples Financial Services Corp.
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Assets and liabilities measured at fair value on a recurring basis at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands) September 30, 2024	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	\$ 180,815	\$ 180,815	\$	\$
U.S. government-sponsored enterprises				
State and municipals:				
Taxable	77,391		77,391	
Tax-exempt	68,170		68,170	
Residential mortgage-backed securities:				
U.S. government agencies	1,481		1,481	
U.S. government-sponsored enterprises	130,070		130,070	
Commercial mortgage-backed securities:				
U.S. government-sponsored enterprises	4,548		4,548	
Private collateralized mortgage obligations	43,247		43,247	
Asset backed securities	23,845		23,845	
Corporate debt securities	32,212		27,867	4,345
Negotiable certificates of deposit	707		707	
Common equity securities	3,921	3,921		
Total investment securities	\$ 566,407	\$ 184,736	\$ 377,326	\$ 4,345
Interest rate swap-other assets	\$ 17,338		\$ 17,338	
Interest rate swap-other liabilities	\$ (15,864)		\$ (15,864)	

(Dollars in thousands) December 31, 2023	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	\$ 184,057	\$ 184,057	\$	\$
U.S. government-sponsored enterprises	2,152		2,152	
State and municipals:				
Taxable	57,100		57,100	
Tax-exempt	67,124		67,124	
Mortgage-backed securities:				
U.S. government agencies	724		724	
U.S. government-sponsored enterprises	84,040		84,040	
Corporate debt securities	3,730		3,730	
Common equity securities	98	98		
Total investment securities	\$ 399,025	\$ 184,155	\$ 214,870	\$
Interest rate swap-other assets	\$ 19,278		\$ 19,278	
Interest rate swap-other liabilities	\$ (18,808)		\$ (18,808)	

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Peoples Financial Services Corp.
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Assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2024				
Loans individually evaluated for credit loss	\$ 21,066	\$	\$	\$ 21,066
Other real estate owned	\$ 1,152			\$ 1,152

(Dollars in thousands)	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Loans individually evaluated for credit loss	\$ 4,740	\$	\$	\$ 4,740

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

(Dollars in thousands, except percents)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
September 30, 2024				
Loans individually evaluated for credit loss	\$ 21,066	Appraisal of collateral	Appraisal adjustments	7.1% to 94.0% (40.0)%
			Liquidation expenses	3.0% to 6.0% (5.8)%
Other real estate owned	\$ 1,152	Appraisal of collateral	Appraisal adjustments	1.0% to 1.0% (1.0)%
			Liquidation expenses	3.0% to 6.0% (4.5)%

(Dollars in thousands, except percents)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
December 31, 2023				
Loans individually evaluated for credit loss	\$ 4,740	Appraisal of collateral	Appraisal adjustments	22.8% to 82.4% (63.6)%
			Liquidation expenses	3.0% to 6.0% (5.2)%

Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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Peoples Financial Services Corp.
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The carrying and fair values of the Company's financial instruments at September 30, 2024 and December 31, 2023 and their placement within the fair value hierarchy are as follows:

(Dollars in thousands) September 30, 2024	Carrying Value	Fair Value	Fair Value Hierarchy		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	\$ 285,469	\$ 285,469	\$ 285,469	\$	\$
Investment securities:					
Available for sale	562,486	562,486	180,815	377,326	4,345
Common equity securities	3,921	3,921	3,921		
Held to maturity	79,861	69,034		69,034	
Loans held for sale	803	803		803	
Net loans	4,030,342	3,949,667			3,949,667
Accrued interest receivable	17,979	17,979		17,979	
Mortgage servicing rights	832	1,669		1,669	
Restricted equity securities (FHLB and other)	9,829	9,829		9,829	
Other assets - interest rate swaps	17,338	17,338		17,338	
Total	\$ 5,008,860	\$ 4,918,195			
Financial liabilities:					
Deposits	\$ 4,637,864	\$ 4,639,273	\$	\$ 4,639,273	\$
Short-term borrowings	37,346	37,346		37,346	
Long-term debt	111,489	112,680		112,680	
Subordinated debt	33,000	32,232		32,232	
Junior subordinated debt	8,015	8,471		8,471	
Accrued interest payable	6,829	6,829		6,829	
Other liabilities - interest rate swaps	15,864	15,864		15,864	
Total	\$ 4,850,407	\$ 4,852,695			

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(Dollars in thousands) December 31, 2023	Carrying Value	Fair Value	Fair Value Hierarchy		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	\$ 187,365	\$ 187,365	\$ 187,365	\$	\$
Investment securities:					
Available for sale	398,927	398,927	184,057	214,870	
Common equity securities	98	98	98		
Held to maturity	84,851	71,698		71,698	
Loans held for sale	250	250			
Net loans	2,828,002	2,593,151			2,593,151
Accrued interest receivable	12,734	12,734		12,734	
Mortgage servicing rights	870	1,745		1,745	
Restricted equity securities (FHLB and other)	5,180	5,180		5,180	
Other assets - interest rate swaps	19,278	19,278		19,278	
Total	\$ 3,537,555	\$ 3,290,426			
Financial liabilities:					
Deposits	\$ 3,279,037	\$ 3,274,774	\$	\$ 3,274,774	\$
Short-term borrowings	17,590	17,590		17,590	
Long-term debt	25,000	24,924		24,924	
Subordinated debt	33,000	45,504		45,504	
Accrued interest payable	5,765	5,765		5,765	
Other liabilities - interest rate swaps	18,808	18,808		18,808	
Total	\$ 3,379,200	\$ 3,387,365			

10. Employee benefit plans:

The Company provides an Employee Stock Ownership Plan (“ESOP”) and a Retirement Profit Sharing Plan. The Company also maintains Supplemental Executive Retirement Plans (“SERPs”) and an Employees’ Pension Plan, which is currently frozen.

For the three and nine months ended September 30, salaries and employee benefits expense includes approximately \$607 thousand and \$1.3 million in 2024 and \$426 thousand and \$1.3 million in 2023 relating to the employee benefit plans.

(Dollars in thousands) Three Months Ended September 30,	Pension Benefits	
	2024	2023
Net periodic pension benefit:		
Interest cost	\$ 158	\$ 164
Expected return on plan assets	(320)	(293)
Amortization of unrecognized net loss	49	50
Net periodic pension benefit	\$ (113)	\$ (79)

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(Dollars in thousands) Nine Months Ended September 30,	Pension Benefits	
	2024	2023
Net periodic pension benefit:		
Interest cost	\$ 475	\$ 492
Expected return on plan assets	(961)	(878)
Amortization of unrecognized net loss	146	149
Net periodic pension benefit:	(340)	(237)

In May 2017, the Company's stockholders approved the 2017 equity incentive plan ("2017 Plan"). In May 2023, the Company's stockholders approved the 2023 equity incentive plan ("2023 Plan"). Under the 2017 Plan and 2023 Plan the compensation committee of the Company's board of directors has the authority to, among other things:

- Select the persons to be granted awards under the Plan.
- Determine the type, size and term of awards.
- Determine whether such performance objectives and conditions have been met.
- Accelerate the vesting or exercisability of an award.

Persons eligible to receive awards under the 2017 Plan and 2023 Plan include directors, officers, employees, consultants and other service providers of the Company and its subsidiaries.

On July 1, 2024, as a result of the FNCB merger, the Company assumed the outstanding and unvested restricted stock awards granted under the FNCB 2023 Equity Incentive Plan. These awards will be expensed over the remaining life of 57 months.

As of September 30, 2024, 66,298 shares of the Company's common stock were available for grants as awards pursuant to the 2023 Plan. While the 2017 Plan will remain in effect in accordance with its terms to govern outstanding awards under that plan, the Company intends to make future grants under the 2023 Plan. If any awards outstanding under the 2017 Plan or 2023 Plan are forfeited by the holder or canceled by the Company, the underlying shares would be available for regrant to others under the 2023 Plan.

The 2017 Plan and 2023 Plan authorize grants of stock options, stock appreciation rights, cash awards, performance awards, restricted stock and restricted stock units.

For the nine months ended September 30, 2024, the Company granted 23,243 performance based restricted stock units and 8,895 time based restricted stock awards, under the 2023 Plan. For the nine months ended September 30, 2023, the Company granted 18,222 performance based restricted stock units and 5,206 time based restricted stock awards, under the 2023 Plan.

The non-performance restricted stock grants made in 2024, 2023 and 2022 vest equally over three years. The performance-based restricted stock units vest over three fiscal years and include conditions based on the Company's three year cumulative diluted earnings per share and three-year average return on tangible common that determines the number of restricted stock units that may vest.

The Company expenses the fair value of all-share based compensation over the requisite service period commencing at grant date. The fair value of restricted stock is expensed on a straight-line basis. Compensation is recognized over the vesting period and adjusted based on the performance criteria. The Company classifies share-based compensation for employees within "salaries and employee benefits expense" on the consolidated statements of income (loss) and comprehensive income.

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The Company recognized net compensation costs of \$203 thousand and \$603 thousand for the three and nine months ended September 30, 2024 for awards granted under the 2023 Plan and recognized compensation expense of \$84 thousand and \$251 thousand for the three and nine months ended September 30, 2024 for the awards granted under the 2017 Plan. During the three months ended September 30, 2024, \$33 thousand was recognized as a result of the awards assumed in the FNCB merger. As of September 30, 2024, the Company had \$2.1 million of unrecognized compensation expense associated with restricted stock and restricted stock unit awards. The remaining cost is expected to be recognized over a weighted average vesting period of under 2.6 years.

11. Derivatives and hedging activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's existing credit derivatives result from participations of loan participation arrangements, therefore, are not used to manage interest rate risk in the Company's assets or liabilities.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income/expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and floors as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up-front premium. Such derivatives have been used to hedge the variable cash flows associated with existing variable-rate assets and issuances of debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive (loss) income, ("AOCI") and subsequently reclassified into interest expense/income in the same period(s) during which the hedged transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest expense/income as interest payments are made/received on the Company's variable-rate debt/assets. During the next twelve months, the Company estimates that no amount will be reclassified as a reduction to interest income.

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate pools of assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate, the Secured Overnight Financing Rate ("SOFR"). Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

Peoples Financial Services Corp.
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As of September 30, 2024, the following amounts were recorded on the consolidated balance sheet related to cumulative basis adjustment for fair value hedges:

Line Item in the Consolidated Statement of Financial Position in Which the Hedged Item is Included (Dollars in thousands)	Amortized Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	
	September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
AFS Securities (1)	\$ 162,038	\$ 143,573	\$ 1,056	\$ 871
Fixed Rate Loans (2)	50,484	50,462	484	462
Total	\$ 212,522	\$ 194,035	\$ 1,540	\$ 1,333

- (1) These amounts include the amortized cost basis of closed portfolios of fixed rate assets used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At September 30, 2024, the amortized cost basis of the closed portfolios used in these hedging relationships was \$162.0 million. The amounts of the designated hedged items were \$100.0 million.
- (2) Fixed Rate Loan Assets. These amounts include the carrying value of fixed rate loan assets used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At September 30, 2024, the principal value of the hedged item was \$50.0 million.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings. As of September 30, 2024, the Company had 140 interest rate swaps with an aggregate notional amount of \$314.1 million related to this program.

The Company's existing credit derivatives result from participations in or out of interest rate swaps provided by or to external lenders as part of loan participation arrangements, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain lenders which participate in loans.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of September 30, 2024 and December 31, 2023.

(Dollars in thousands)	Fair Values of Derivative Instruments											
	Derivative Assets					Derivative Liabilities						
	As of September 30, 2024			As of December 31, 2023 (1)		As of September 30, 2024			As of December 31, 2023			
Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value			
Derivatives designated as hedging instruments												
Interest Rate Products	\$	Other Assets	\$	Other Assets	\$	\$ 150,000	Other Liabilities	\$	1,510	Other Liabilities	\$	1,270
Total derivatives designated as hedging instruments			\$		\$		\$	1,510		\$	1,270	
Derivatives not designated as hedging instruments												
Interest Rate Products	\$ 289,313	Other Assets	\$ 17,845	Other Assets	\$ 19,833	\$ 289,313	Other Liabilities	\$ 17,546	Other Liabilities	\$ 19,364		
Other Contracts	24,795	Other Assets	2	Other Assets	3	7,250	Other Liabilities		Other Liabilities			
Total derivatives not designated as hedging instruments			\$ 17,847		\$ 19,836		\$ 17,546		\$ 19,364			

- (1) The notional asset amount of interest rate swaps at December 31, 2023 was \$230.3 million and \$8.4 million for risk participation agreements. Amounts include accrued interest.

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Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive (Loss) Income

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive (loss) income as of September 30, 2024 and September 30, 2023.

(Dollars in thousands)	Amount of (Loss) Recognized in OCI on Derivative	Amount of (Loss) Recognized in OCI Included Component	Amount of (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Three months ended September 30, 2024							
<u>Derivatives in Cash Flow Hedging Relationships</u>							
Interest Rate Products	\$	\$	\$	Interest Income	\$	\$	\$
Total	\$	\$	\$		\$	\$	\$
Three months ended September 30, 2023							
<u>Derivatives in Cash Flow Hedging Relationships</u>							
Interest Rate Products	\$	\$	\$	Interest Income	\$ (16)	\$	\$ (16)
Total	\$	\$	\$		\$ (16)	\$	\$ (16)
Nine months ended September 30, 2024							
<u>Derivatives in Cash Flow Hedging Relationships</u>							
Interest Rate Products	\$	\$	\$	Interest Income	\$	\$	\$
Total	\$	\$	\$		\$	\$	\$
Nine months ended September 30, 2023							
<u>Derivatives in Cash Flow Hedging Relationships</u>							
Interest Rate Products	\$ (1)	\$	\$ (1)	Interest Income	\$ (48)	\$	\$ (48)
Total	\$ (1)	\$	\$ (1)		\$ (48)	\$	\$ (48)

* Amounts disclosed are gross and not net of taxes.

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Effect of Fair Value and Cash Flow Hedge Accounting on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2024 and 2023.

(Dollars in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the three months ended September 30,	
	2024 Interest Income	2023 Interest Income
Total amounts of income and expense line items presented in the statements of income and comprehensive income (loss) in which the effects of fair value or cash flow hedges are recorded.	\$ 586	\$ 188
The effects of fair value and cash flow hedging:		
Gain or (loss) on fair value hedging relationships		
Interest contracts		
Hedged items	2,010	(731)
Derivatives designated as hedging instruments	(1,424)	935
Derivatives designated as hedging instruments		
Gain or (loss) on cash flow hedging relationships		
Interest contracts		
Amount of (loss) gain reclassified from AOCI into income		(16)
Amount of gain reclassified from AOCI into income - Included Component		
Amount of (loss) reclassified from AOCI into income - Excluded Component	\$	\$ (16)

(Dollars in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the nine months ended September 30,	
	2024 Interest Income	2023 Interest Income
Total amounts of income and expense line items presented in the statements of income and comprehensive income (loss) in which the effects of fair value or cash flow hedges are recorded.	\$ 21	\$ 318
The effects of fair value and cash flow hedging:		
Gain or (loss) on fair value hedging relationships		
Interest contracts		
Hedged items	206	(779)
Derivatives designated as hedging instruments	(185)	1,145
Derivatives designated as hedging instruments		
Gain or (loss) on cash flow hedging relationships		
Interest contracts		
Amount of (loss) gain reclassified from AOCI into income		(48)
Amount of gain reclassified from AOCI into income - Included Component		
Amount of (loss) reclassified from AOCI into income - Excluded Component	\$	\$ (48)

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Effect of Derivative Instruments Not Designated as Hedging Instruments on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2024 and 2023.

(Dollars in thousands)	Location of Gain or (Loss) Recognized in Income	Amount of Gain	Amount of Gain	Amount of	Amount of Gain
		or (Loss) Recognized in Income on Derivative Three Months Ended September 30, 2024	or (Loss) Recognized in Income on Derivative Nine Months Ended September 30, 2024	Gain Recognized in Income on Derivative Three Months Ended September 30, 2023	or (Loss) Recognized in Income on Derivative Nine Months Ended September 30, 2023
Derivatives Not Designated as Hedging Instruments:					
Interest Rate Products	Other income / (expense)	\$ (120)	\$ (170)	\$ 194	\$ 56
Other Contracts	Other income / (expense)			1	31
Total		\$ (120)	\$ (170)	\$ 195	\$ 87
Fee Income	Fee income	\$ 67	\$ 195	\$	\$ 457

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Offsetting Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 30, 2024 and December 31, 2023. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Consolidated Balance Sheets.

Offsetting of Derivative Assets
as of September 30, 2024

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$ 17,845	\$	\$ 17,845	\$	\$ 12,410	\$ 5,435

Offsetting of Derivative Liabilities
as of September 30, 2024

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Posted*	Net Amount
Derivatives	\$ 19,057	\$	\$ 19,057	\$ 19,057	\$	\$

*Cash collateral of \$3.320MM was paid in September 2024, but not presented as an offset above.

Offsetting of Derivative Assets
as of December 31, 2023

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$ 19,833	\$	\$ 19,833	\$	\$ 17,590	\$ 2,243

Offsetting of Derivative Liabilities
as of December 31, 2023

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$ 20,633	\$	\$ 20,633	\$ 20,633	\$	\$

Credit-risk-related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well-capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of September 30, 2024, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.3 million. As of December 31, 2023, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$2.7 million. The Company has minimum

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of \$3.3 million against its obligations under these agreements at September 30, 2024. Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the agreement. The cash collateral is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the cash collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above. If the Company had breached any of these provisions it could have been required to settle its obligations under the agreements at the termination value.

12. Deposits

The major components of interest-bearing and noninterest-bearing deposits at September 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2024	December 31, 2023
Interest-bearing deposits:		
Money market accounts	\$ 1,018,575	\$ 782,243
NOW accounts	1,439,382	796,426
Savings accounts	509,412	429,011
Time deposits less than \$250	824,791	505,409
Time deposits \$250 or more	128,139	121,265
Total interest-bearing deposits	3,920,299	2,634,354
Noninterest-bearing deposits		
Total deposits	\$ 4,637,864	\$ 3,279,037

The FNCB merger added \$1.3 billion of retail deposits and \$140.6 million of brokered deposits. The combined deposit base consisted of 38.6% retail accounts, 33.3% commercial accounts, 19.7% municipal relationships and 8.4% brokered deposits at September 30, 2024. At September 30, 2024, total estimated uninsured deposits, were approximately \$1.6 billion, or approximately 33.8% of total deposits; as compared to approximately \$883.5 million, or 26.9% of total deposits at December 31, 2023. Included in the uninsured total at September 30, 2024 is \$372.5 million of municipal deposits collateralized by letters of credit issued by the FHLB and pledged investment securities, and \$2.6 million of affiliate company deposits. We also offer customers access to IntraFi's CDARS and ICS programs through which their deposits may be allocated to separate FDIC-insured institutions, while they are able to maintain their relationship with our bank.

The scheduled maturities of time deposits are summarized below, through September 30 of each year:

(Dollars in thousands)	
2025	\$ 645,140
2026	121,549
2027	70,920
2028	104,268
2029	6,240
Thereafter	4,813
	\$ 952,930

13. Borrowings

Short-term borrowings consist of FHLB overnight borrowings or advances with stated original terms of less than twelve months, Bank Term Funding Program ("BTFP") advances and other borrowings related to collateral held from derivative counterparties. Short-term borrowings at September 30, 2024 included \$24.9 million in BTFP funding,

Peoples Financial Services Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share data)

acquired at fair value, which the Company assumed in the FNCR merger. The Federal Reserve Bank established the BTFFP through the Discount Window to provide additional funding to eligible depository institutions during a period of stress. The BTFFP is collateralized by high-quality securities valued at par including U.S. Treasury securities, U.S. government agency debt and mortgage-backed securities and other qualifying securities. Also included in short-term borrowings at September 30, 2024 was cash collateral pledged by derivative counterparties to offset interest rate exposure, which totaled \$12.4 million at September 30, 2024 and \$17.6 million at December 31, 2023.

The table below outlines short-term borrowings at and for the nine months ended September 30, 2024 and at and for the year ended December 31, 2023:

(Dollars in thousands, except percents)	At and for the nine months ended September 30, 2024				
	Ending Balance	Average Balance	Maximum Month-End Balance	Weighted Average Rate for the Year	Weighted Average Rate at End of the Period
FHLB advances - Overnight	\$ 8,993	\$ 8,993	\$ 83,900	5.53 %	%
Federal Reserve Bank - BTFFP	24,936	8,270	24,936	4.83	4.76
Other borrowings	12,410	19,086	25,050	5.40	4.83
Total short-term borrowings	<u>\$ 37,346</u>	<u>\$ 36,349</u>	<u>\$ 133,886</u>	5.31 %	4.78 %

(Dollars in thousands, except percents)	At and for the year ended December 31, 2023				
	Ending Balance	Average Balance	Maximum Month-End Balance	Weighted Average Rate for the Year	Weighted Average Rate at End of the Year
Other borrowings	\$ 17,590	\$ 19,160	\$ 28,470	5.54 %	5.35 %
FHLB advances		19,171	158,000	4.48	
Total short-term borrowings	<u>\$ 17,590</u>	<u>\$ 38,331</u>	<u>\$ 186,470</u>	5.01 %	5.35 %

The Company has an agreement with the FHLB which allows for borrowings up to its maximum borrowing capacity based on a percentage of qualifying collateral assets. At September 30, 2024, the maximum borrowing capacity was \$1.4 billion of which \$112.1 million was outstanding in borrowings and \$364.5 million was used to issue standby letters of credit to collateralize public fund deposits. At December 31, 2023, the maximum borrowing capacity was \$1.2 billion of which \$25.0 million was outstanding in long-term debt and \$345.4 million was used to issue standby letters of credit to collateralize public fund deposits.

Advances with the FHLB are secured under terms of a blanket collateral agreement by a pledge of FHLB stock and certain other qualifying collateral, such as investments and mortgage-backed securities and mortgage loans. Interest accrues daily on the FHLB advances based on rates of the FHLB discount notes. The overnight borrowing rate resets each day.

In addition to borrowings from FHLB and correspondent bank lines of credit, we have availability through the Federal Reserve Bank's Discount Window of \$544.8 million at September 30, 2024. The FRB's borrower-in-custody program allows depository institutions to pledge loans as collateral for Discount Window advances while retaining possession of the loan documentation. At September 30, 2024, \$539.5 million in loans were pledged as collateral for the borrower-in-custody program and provided \$409.8 million in borrowing capacity. At September 30, 2024, securities with a current par value of \$142.8 million were pledged at the Discount Window resulting in borrowing capacity of \$135.0 million. An additional \$25.0 million in securities were pledged at the BTFFP at September 30, 2024.

At December 31, 2023, \$365.8 million in loans were pledged as collateral for the borrower-in-custody program and provided \$246.1 million in borrowing capacity. At December 31, 2023, \$191.0 million in securities were pledged to the BTFFP and \$11 thousand was pledged to the Discount Window. The BTFFP allowed depository institutions to borrow up to the par value of eligible securities pledged at the FRB. The BTFFP expired on March 11, 2024 and the Company transferred the eligible securities pledged to the Federal Reserve Discount Window.

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(Dollars in thousands, except per share data)

Long-term debt consisting of advances from the FHLB at September 30, 2024 and December 31, 2023 is as follows:

(Dollars in thousands, except percents)	Interest Rate	September 30, 2024	December 31, 2023
	Fixed		
December 2024	4.60	12,650	
March 2025	4.37	10,000	10,000
December 2025	4.40	9,567	
December 2025	4.36	20,000	
March 2026	4.78	4,292	
March 2026	4.20	15,000	15,000
May 2026	4.08	5,000	
June 2027	4.16	5,224	
August 2027	4.40	6,461	
October 2027	5.18	9,107	
March 2028	4.45 %	14,188	
		<u>\$ 111,489</u>	<u>\$ 25,000</u>

Maturities of long-term debt, by contractual maturity, for the remainder of 2024 and subsequent years are as follows:

(Dollars in thousands)	
2024	\$ 12,650
2025	39,567
2026	24,292
2027	20,792
2028	14,188
Thereafter	
	<u>\$ 111,489</u>

The advances from the FHLB totaling \$111.5 million are not convertible and have a fixed rate.

Peoples Financial Services Corp.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(Dollars in thousands, except per share data)****14. Subordinated debt**

On June 1, 2020, the Company sold \$33.0 million aggregate principal amount of Subordinated Notes due 2030 (the “2020 Notes”) to accredited investors. The 2020 Notes qualify as Tier 2 capital for regulatory capital purposes. The 2020 Notes bear interest at a rate of 5.375% per year for the first five years and then float based on a benchmark rate (as defined), provided that the interest rate applicable to the outstanding principal balance during the period the 2020 Notes are floating will at no time be less the 4.75%. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2020, for the first five years after issuance and will be payable quarterly in arrears thereafter on March 1, June 1, September 1, and December 1. The 2020 Notes will mature on June 1, 2030 and are redeemable in whole or in part, without premium or penalty, at any time on or after June 1, 2025 and prior to June 1, 2030. Additionally, if all or any portion of the 2020 Notes cease to be deemed Tier 2 Capital, the Company may redeem, in whole and not in part, at any time upon giving not less than ten days’ notice, an amount equal to one hundred percent (100%) of the principal amount outstanding plus accrued but unpaid interest to but excluding the date fixed for redemption. Holders of the 2020 Notes may not accelerate the maturity of the 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar proceeding by or against the Company or Peoples Bank.

On July 1, 2024, the Company assumed \$10.3 million of floating rate junior subordinated deferrable interest debentures due December 15, 2023 (“Debentures”) as a result of the FNCB merger at a fair market value of \$8.0 million. The Debentures are held by First National Community Statutory Trust I, a Delaware statutory trust (the “Trust”). The Debentures and corresponding trust preferred securities (the “Trust Securities”) have a variable interest rate which resets quarterly to 3-month CME Term SOFR plus a spread adjustment of 0.26161% and a margin of 1.67%. The Debentures are unsecured and rank subordinate and junior in right to all indebtedness, liabilities and obligations of the Company. The Debentures represent the sole assets of the Trust. Interest on the Trust Securities is deferrable until a period of twenty consecutive quarters has elapsed. The Trust Securities may be prepaid beginning December 15, 2011. The Company’s investment in the Trust is reflected on a deconsolidated basis. The Debentures totaling \$8.0 million, have been reflected in borrowed funds in the consolidated balance sheets under the caption “Junior Subordinated Debentures” and interest expense on the Debentures is in its consolidated statements of income (loss) and comprehensive income (loss).

15. Related party transactions

In conducting its business, Peoples has engaged in, and intends to continue to engage in, banking and financial transactions with directors, executive officers and their related parties. Balances at September 30, 2024 include those acquired due to the FNCB merger.

Peoples Bank has granted loans, letters of credit and lines of credit to directors, executive officers and their related parties. The following table summarizes the changes in the total amounts of such outstanding loans, advances under lines of credit, net of any participations sold, as well as repayments during the three months ended September 30, 2024 and 2023. Additions during the three months ended September 30, 2024 include loans and advances acquired in the FNCB merger.

(Dollars in thousands)

Three Months Ended September 30,	2024	2023
Balance, beginning of period	\$ 99,491	\$ 2,818
Additions, new loans and advances	32,337	29
Repayments	(8,203)	(875)
Balance, end of period	<u>\$ 123,625</u>	<u>\$ 1,972</u>

At September 30, 2024 and December 31, 2023, there were no loans to directors, executive officers and their related parties that were not performing in accordance with the original terms of the loan agreements.

Peoples Financial Services Corp.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

Deposits from directors, executive officers and their related parties held by Peoples Bank at September 30, 2024 and December 31, 2023 were \$131.9 million and \$7.8 million, respectively.

16. Regulatory matters

The Company's ability to pay dividends to its shareholders is largely dependent on Peoples Bank's ability to pay dividends to the Company. Regulations with respect to the banking industry limit the amount of dividends that may be paid without prior approval of Peoples Bank's regulatory agency.

The Company and the Peoples Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Peoples Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Peoples Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and Peoples Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of September 30, 2024 and December 31, 2023, that the Company and Peoples Bank met all applicable capital adequacy requirements.

Current quantitative measures established by regulation to ensure capital adequacy require Peoples Bank to maintain minimum amounts and ratios (set forth in the tables below) of Total capital, Tier I capital, and Tier I common equity (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). The following tables present summary information regarding Peoples Bank's risk-based capital and related ratios at September 30, 2024 and December 31, 2023:

(Dollars in thousands)	Peoples Bank		Minimum Required For Capital Adequacy Purposes	Minimum Required For Capital Adequacy Purposes with Conservation Buffer	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations
	Amount	Ratio	Ratio	Ratio	Ratio
September 30, 2024					
Total capital (to risk-weighted assets)	\$ 467,588	11.68 %	8.00 %	10.50 %	10.00 %
Tier I capital (to risk-weighted assets)	427,518	10.68	6.00	8.50	8.00
Tier I common equity (to risk-weighted assets)	427,518	10.68	4.50	7.00	6.50
Tier I capital (to average assets)	427,518	8.23	4.00	4.00	5.00
Total risk-weighted assets	4,002,166				
Total average assets	5,306,258				

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

(Dollars in thousands)	Peoples Bank		Minimum Required For Capital Adequacy Purposes	Minimum Required For Capital Adequacy Purposes with Conservation Buffer	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations
	Amount	Ratio	Ratio	Ratio	Ratio
December 31, 2023					
Total capital (to risk-weighted assets)	\$ 375,268	14.12 %	8.00 %	10.50 %	10.00 %
Tier I capital (to risk-weighted assets)	353,330	13.30	6.00	8.50	8.00
Tier I common equity (to risk-weighted assets)	353,330	13.30	4.50	7.00	6.50
Tier I capital (to average assets)	353,330	9.34	4.00	4.00	5.00
Total risk-weighted assets	2,656,901				
Total average assets	3,845,219				

Peoples Financial Services Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Dollars in thousands, except per share data)

17. Subsequent events

On October 25, 2024, the Board of Directors approved a resolution to sell the building at 150 North Washington Avenue, Scranton PA, in which the Company's current corporate headquarters are located, and to enter into a commercial lease agreement with the buyer to occupy certain pre-defined floors.

Peoples Financial Services Corp.
MANAGEMENT’S DISCUSSION AND ANALYSIS
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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements contained in Part I, Item 1 of this report, and with our audited consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” presented in our Annual Report on Form 10-K for the year ended December 31, 2023.

Cautionary Note Regarding Forward-Looking Statements:

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. These statements are based on assumptions and may describe future plans, strategies and expectations of Peoples Financial Services Corp. and its subsidiaries that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond our control). These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. All statements in this report, other than statements of historical facts, are forward-looking statements.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Important factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to: macroeconomic trends; the effects of any recession in the United States; the impact on financial markets from geopolitical conflicts such as the military conflict between Russia and Ukraine and the conflict in Israel; risks associated with business combinations, including, the possibility that we may be unable to achieve expected synergies and operating efficiencies of the FNCB merger within the expected timeframes or at all; the possibility that we may be unable to successfully integrate operations of FNCB, or that the integration may be more difficult, time consuming or costly than expected; the FNCB merger may divert management's attention from ongoing business operations and opportunities; effects of the FNCB merger on our ability to retain customers and retain and hire key personnel and maintain relationships with our vendors, and on our operating results and business generally; changes in interest rates; economic conditions, particularly in our market area; legislative and regulatory changes and the ability to comply with the significant laws and regulations governing the banking and financial services business; monetary and fiscal policies of the U.S. government, including policies of the U.S. Department of Treasury and the Federal Reserve System; adverse developments in the financial industry generally, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer and client behavior; credit risk associated with lending activities and changes in the quality and composition of our loan and investment portfolios; demand for loan and other products; deposit flows; competition; changes in the values of real estate and other collateral securing the loan portfolio, particularly in our market area; changes in relevant accounting principles and guidelines; inability of third party service providers to perform; and our ability to prevent, detect and respond to cyberattacks. Additional factors that may affect our results are discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, in Part II, Item 1A of this report and in reports we file with the Securities and Exchange Commission from time to time.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, we do not undertake, and specifically disclaim any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Peoples Financial Services Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Business Overview:

On the Acquisition Date, the Company completed the acquisition of FNCB in accordance with the Merger Agreement, by and among the Company and FNCB. Pursuant to the Merger Agreement, on the Acquisition Date, FNCB merged with and into Peoples, with Peoples continuing as the surviving corporation, and immediately following the merger, FNCB Bank merged with and into Peoples Bank, with Peoples Bank as the surviving bank. The primary reasons for the merger included: expansion of the branch network and commanding market share positions in northeastern Pennsylvania; attractive low-cost funding base; strong cultural alignment and a deep commitment to shareholders, customers, employees, and communities served by Peoples and FNCB; meaningful value creation to shareholders; increased trading liquidity; and increased dividends for Peoples's shareholders.

In connection with the completion of the merger, former FNCB shareholders received 0.1460 shares of the Company's common stock per share of FNCB common stock. The value of the total transaction consideration was approximately \$133.7 million. The consideration included the issuance of 2,935,456 shares of the Company's common stock, valued at \$45.54 per share, which was the closing price of the Company's common stock on June 28, 2024, the last trading day prior to the consummation of the merger. Also included in the total consideration was cash in lieu of any fractional shares, which was effectively settled upon closing.

The acquisition of FNCB was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition. The \$13.6 million of goodwill created from the merger is not amortizable or deductible for tax purposes. The amount of goodwill represents an asset attributed to the future benefits arising from other assets acquired in a business combination. Future benefits consist largely of the synergies and economies of scale expected from combining the operations of FNCB and Peoples. Peoples does not currently provide segment reporting for GAAP, therefore the goodwill will be assigned to the whole operating company. The Company will continue to keep the measurement of goodwill open for any additional adjustments to the fair value of certain accounts, for example loans, that may arise during the Company's final review procedures of any updated information. If considered necessary, any subsequent adjustments to the fair value of assets acquired and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first twelve months following the Acquisition Date.

Critical Accounting Policies:

Disclosure of our significant accounting policies is included in Note 1 to the consolidated financial statements of the Annual Report on [Form 10-K for the year ended December 31, 2023](#), which is incorporated herein by reference. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions.

Business Combinations:

Assets acquired and liabilities assumed in business combinations are measured at fair value as of the Acquisition Date. In many cases, determining the fair value of the assets acquired and liabilities assumed requires the Company to estimate the timing and amount of cash flows expected to result from these assets and liabilities and to discount these cash flows at appropriate rates of interest, which require the utilization of significant estimates and judgment in accounting for the acquisition.

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Goodwill and Other Intangible Assets:

The Company has goodwill with a net carrying value of \$77.0 million and \$63.4 million at September 30, 2024 and December 31, 2023, respectively. The Company's policy is to test goodwill for impairment annually on December 31 or on an interim basis if an event triggering impairment may have occurred. If a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. At September 30, 2024, we performed a qualitative evaluation, which involves determining whether any events occurred or circumstances changed that would more likely than not reduce the Company's fair value below its carrying value. We noted no such matters. There is no assurance that changes in events or circumstances in the future will not result in impairment.

Core deposit intangibles are amortized on an accelerated basis using an estimated life of ten years. The core deposit intangibles are evaluated annually for impairment in accordance with GAAP. An impairment loss will be recognized if the carrying amount of the intangible asset is not fully recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered fully recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

We believe that the fair values of our intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at September 30, 2024.

Review of Financial Position:

Total assets increased \$1.6 billion or 57.8% annualized from December 31, 2023, to \$5.4 billion at September 30, 2024. The increase in assets during the nine months was primarily due to the merger with FNCF. FNCF contributed, after fair value purchase accounting adjustments, approximately \$1.8 billion in total assets, \$1.2 billion in loans, and \$1.4 billion in deposits at July 1, 2024. Total loans increased \$1.2 billion since December 31, 2023 and totaled \$4.1 billion at September 30, 2024. Investments increased \$162.4 million. Federal funds sold balances increased \$33.4 million to \$178.1 million at September 30, 2024 compared to a balance of \$144.7 million at December 31, 2023.

Deposits increased \$1.4 billion to \$4.6 billion at September 30, 2024 from \$3.3 billion at December 31, 2023. Interest-bearing deposits increased \$1.3 billion to \$3.9 billion compared to \$2.6 billion at December 31, 2023. Noninterest-bearing deposits increased \$72.9 million to \$717.6 million from \$644.7 million as of December 31, 2023.

Total short-term borrowings at September 30, 2024 were \$37.3 million, an increase of \$19.8 million from \$17.6 million at December 31, 2023. Long term debt increased \$86.5 million to \$111.5 million from \$25.0 million at December 31, 2023 and subordinated debentures increased \$8.0 million to \$41.0 million from \$33.0 million at December 31, 2023. Total stockholders' equity increased \$134.6 million from \$340.4 million at year-end 2023 to \$475.1 million at September 30, 2024 due to the merger with FNCF as well as a decrease to accumulated other comprehensive loss resulting from a reduction in the unrealized loss on available for sale investment securities, partially offset by dividends.

The unrealized losses on the held to maturity portfolio totaled \$10.8 million and \$13.2 million at September 30, 2024 and December 31, 2023, respectively. For the nine months ended September 30, 2024, total assets averaged \$4.2 billion, and increased \$539.2 million from the same period of 2023.

Investment Portfolio:

The majority of the investment portfolio is classified as available for sale, which allows for greater flexibility in using the investment portfolio for liquidity purposes by allowing securities to be sold when market opportunities occur. Investment securities available for sale totaled \$562.5 million at September 30, 2024, an increase of \$163.6 million, or 41.0% from \$398.9 million at December 31, 2023. The increase was primarily due to the addition of \$177.9 million to

Peoples Financial Services Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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the portfolio as a result of the merger with FNCB, as well as an increase in fair value due to market value adjustments, partially offset by maturities and principal payments.

Investment securities held to maturity, which consisted of 86.0% of mortgage-backed securities issued or guaranteed by U.S. Government agency and U.S. Government-sponsored entities, totaled \$79.9 million at September 30, 2024, a decrease of \$5.0 million, or 5.0% from \$84.9 million at December 31, 2023. The decrease was primarily due to principal payments. Held to maturity securities had a market value of \$69.0 million at September 30, 2024 compared to \$71.7 million at December 31, 2023.

As a result of the merger with FNCB, the Company added \$3.8 million in equity investments, consisting primarily of publicly traded bank holding companies, which are carried at fair value. Equity investments totaled \$3.9 million at September 30, 2024 compared to \$98 thousand at December 31, 2023.

For the nine months ended September 30, 2024, the investment portfolio averaged \$588.7 million, an increase of \$22.2 million or 3.9% compared to \$566.5 million for the same period last year. Average tax-exempt municipal bonds have decreased \$4.5 million or 4.9% to \$87.6 million for the nine months ended September 30, 2024 from \$92.1 million during the comparable period of 2023, and taxable investments have increased \$26.7 million, or 5.6% to \$501.1 million from an average of \$474.4 million for the nine months ended September 30, 2023. The fully tax equivalent ("FTE") yield on the investment portfolio, a non-GAAP measure, increased 56 basis points to 2.33% for the nine months ended September 30, 2024, from 1.77% for the comparable period of 2023 due to the additional investments from the FNCB merger which were accounted for at fair value based on current market rates.

Securities available for sale are carried at fair value, with unrealized gains or losses net of deferred income taxes reported in the Accumulated Other Comprehensive Loss component of stockholders' equity. We reported net unrealized losses, included as a separate component of stockholders' equity of \$30.3 million net of a deferred income tax benefit of \$8.5 million at September 30, 2024, and net unrealized losses of \$40.3 million, net of deferred income tax benefit of \$11.3 million, at December 31, 2023.

Our Asset/Liability Committee ("ALCO") reviews the performance and risk elements of the investment portfolio quarterly. Through active balance sheet management and analysis of the securities portfolio, we endeavor to maintain sufficient liquidity to satisfy depositor requirements and meet the credit needs of our customers.

Loan Portfolio:

Total loans increased \$1.2 billion or 57.2% annualized since December 31, 2023 and totaled \$4.1 billion at September 30, 2024. The loan growth in each of our loan categories was due primarily to increases in our overall portfolio resulting from the merger with FNCB, along with organic increases in our commercial and industrial loan portfolio.

Commercial and industrial loans increased \$346.4 million to \$890.1 million at September 30, 2024 compared to \$543.7 million at December 31, 2023.

Commercial real estate loans increased \$446.5 million to \$2.3 billion at September 30, 2024 compared to \$1.9 billion at December 31, 2023.

Consumer loans increased \$63.7 million to \$146.0 million at September 30, 2024 compared to \$82.3 million at December 31, 2023.

Residential real estate loans increased \$189.8 million to \$550.6 million at September 30, 2024 compared to \$360.8 million at December 31, 2023.

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The Company also added an equipment financing portfolio as a result of the FNCB merger. The portfolio totaled \$173.5 million at September 30, 2024.

For the nine months ended September 30, 2024, total loans averaged \$3.3 billion, an increase of \$443.3 million or 15.7% compared to \$2.8 billion for the same period of 2023. The FTE yield on the entire loan portfolio was 5.50% for the nine months ended September 30, 2024, a 73 basis point increase from the comparable period last year. The increase in yield was primarily due to the effective interest rates on the loans acquired in the FNCB merger.

In addition to the risks inherent in our loan portfolio, in the normal course of business, we are also a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These instruments include legally binding commitments to extend credit, unused portions of lines of credit and commercial letters of credit made under the same underwriting standards as on-balance sheet instruments, and may involve, to varying degrees, elements of credit risk and interest rate risk (“IRR”) in excess of the amount recognized in the consolidated financial statements.

Unused commitments at September 30, 2024, totaled \$791.5 million, consisting of \$729.6 million in unfunded commitments of existing loan facilities and \$61.9 million in standby letters of credit. Due to fixed maturity dates, specified conditions within these instruments, and the ultimate needs of our customers, many will expire without being drawn upon. We believe that amounts actually drawn upon can be funded in the normal course of operations and, therefore, do not represent a significant liquidity risk to us. In comparison, unused commitments at December 31, 2023 totaled \$587.6 million, consisting of \$525.4 million in unfunded commitments of existing loans and \$62.2 million in standby letters of credit.

Asset Quality:

Distribution of nonperforming assets

(Dollars in thousands, except percents)	September 30, 2024	December 31, 2023
Nonaccrual loans	\$ 20,949	\$ 3,962
Accruing loans past due 90 days or more:	569	986
Total nonperforming loans	<u>21,518</u>	<u>4,948</u>
Foreclosed assets	27	
Total nonperforming assets	<u>\$ 21,545</u>	<u>\$ 4,948</u>
Total loans held for investment	\$ 4,069,683	\$ 2,849,897
Allowance for credit losses	39,341	21,895
Allowance for credit losses as a percentage of loans held for investment	0.97 %	0.77 %
Allowance for credit losses as a percentage of nonaccrual loans	187.79 %	552.62 %
Nonaccrual loans as a percentage of loans held for investment	0.51 %	0.14 %
Nonperforming loans as a percentage of loans, net	0.53 %	0.17 %
Nonperforming assets as a percentage of total assets	0.40 %	0.13 %

Nonperforming assets increased by \$16.6 million during the first nine months of 2024 and included \$7.6 million of loans acquired from the FNCB merger. Nonperforming assets totaled \$21.5 million or 0.40% of total assets at September 30, 2024, an increase from \$4.9 million or 0.13% of total assets at December 31, 2023.

Loans on nonaccrual status increased \$17.0 million to \$20.9 million at September 30, 2024 from \$4.0 million at December 31, 2023. Nonaccrual loans acquired in the FNCB merger equaled \$7.6 million at September 30, 2024 and included a \$4.1 million relationship with a non-profit that has ceased operations. Nonaccrual loans increased due to placing a \$2.6 million collateral dependent real estate loan on nonaccrual as the primary source of repayment is in doubt and there are limited secondary sources of repayment. Potential loss is mitigated as the loan carries a 70 percent guarantee of a government agency for a significant amount of the outstanding balance. In addition, a \$1.7 million

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commercial relationship was placed on non-accrual in the current period due to the business closing, and a \$3.6 million real estate relationship was also placed on nonaccrual due to ownership concerns. There was one foreclosed property at September 30, 2024 in the amount of \$27 thousand. There were no foreclosed properties at December 31, 2023.

Generally we pursue a goal of maintaining a high loan-to-deposit ratio in order to drive profitability. However, this objective is superseded by our goal of maintaining strong asset quality. We continued our efforts to maintain sound underwriting standards for both commercial and consumer credit.

The allowance for credit losses equaled \$39.3 million or 0.97% of loans, net at September 30, 2024 compared to \$21.9 million or 0.77% of loans, net, at December 31, 2023. The increase was due primarily to the establishment of an allowance for non-PCD loans of \$14.3 million subsequent to the FNCB merger. Loans charged-off, net of recoveries, for the nine months ended September 30, 2024, equaled \$158 thousand and less than 0.01% of average loans, compared to \$76 thousand and less than 0.01% of average loans for the comparable period last year.

Deposits:

We attract the majority of our deposits from within our market area through the offering of various deposit instruments including demand deposit accounts, NOW accounts, money market deposit accounts, savings accounts, and time deposits, including certificates of deposit and IRAs.

For the nine months ended September 30, 2024, total deposits increased \$1.3 billion or 55.4% annualized to \$4.6 billion from \$3.3 billion at December 31, 2023. Noninterest-bearing deposits increased \$72.9 million, or 15.1% annualized and interest-bearing deposits increased \$1.3 billion, or 65.2% annualized during the nine months ended September 30, 2024. The increase in deposits was primarily due to the deposits assumed in the FNCB merger.

Interest-bearing checking, NOW, and money market accounts increased \$879.3 million to \$2.5 billion at September 30, 2024 from \$1.6 billion at December 31, 2023. Savings accounts increased \$80.4 million to \$509.4 million as of September 30, 2024 from \$429.0 million at December 31, 2023. Time deposits less than \$250 thousand increased \$319.4 million to \$824.8 million at September 30, 2024, from \$505.4 million at December 31, 2023. Time deposits \$250 thousand or more increased \$6.9 million to \$128.1 million at September 30, 2024 from \$121.3 million at year end 2023. The increases were primarily the result of the merger with FNCB, together with seasonal inflows.

The deposit base consisted of 38.6% retail accounts, 33.3% commercial accounts, 19.7% municipal relationships and 8.4% brokered deposits at September 30, 2024. At September 30, 2024, total estimated uninsured deposits were approximately \$1.6 billion, or 33.8% of total deposits; as compared to approximately \$883.5 million, or 26.9% of total deposits at December 31, 2023. Included in the uninsured total at September 30, 2024 is \$372.5 million of municipal deposits collateralized by letters of credit issued by the FHLB and pledged investment securities, and \$2.6 million of affiliate company deposits. We also offer customers access to IntraFi's CDARS and ICS programs through which their deposits may be allocated separate FDIC-insured institutions, while they are able to maintain their relationship with our bank.

For the nine months ended September 30, interest-bearing deposits averaged \$3.0 billion in 2024 compared to \$2.5 billion in 2023, an increase of \$495.2 million or 20.0%. The cost of interest-bearing deposits was 2.85% in 2024 compared to 2.15% for the same period last year. The overall cost of interest bearing liabilities, including the cost of borrowed funds was 2.94% for the nine months ended September 30, 2024 and 2.26% for the same period in 2023. The higher costs are due primarily to increases in interest rates paid in order to attract and retain current balances.

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Borrowings:

Peoples Bank utilizes borrowings as a secondary source of liquidity for its asset/liability management. Advances are available from the FHLB provided certain standards related to credit worthiness have been met. Repurchase and term agreements are also available from the FHLB. In addition, Peoples Bank may borrow from the Federal Reserve utilizing the Discount Window.

Overall, total borrowings were \$189.9 million at September 30, 2024, which included short-term borrowings, long-term debt, other borrowings and subordinated debt, compared to \$75.6 million at December 31, 2023, an increase of \$114.3 million. At September 30, 2024, other borrowings, which include cash collateral pledged by derivative counterparties to offset interest rate exposure, totaled \$12.4 million compared to \$17.6 million at December 31, 2023. Lower market interest rates resulted in reduced exposure, and in a decrease to pledged cash collateral. Short term, long term and subordinated debt all include increases primarily due to the FNCB merger. Long-term debt was \$111.5 million at September 30, 2024 compared with \$25.0 million at year end 2023. Long term debt is comprised of \$25.0 million from the Federal Reserve's BTFP program, and the remaining with the Federal Home Loan Bank of Pittsburgh. Junior subordinated debt, which was acquired as part of the FNCB merger, totaled \$8.0 million at September 30, 2024. Subordinated debt outstanding was unchanged at \$33.0 million at September 30, 2024 and December 31, 2023.

Market Risk Sensitivity:

Market risk is the risk to our earnings or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily IRR associated with our lending, investing and deposit-gathering activities. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in our reported earnings and/or the market value of our net worth. Variations in interest rates affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. Interest rate changes also affect the underlying economic value of our assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves, change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value and provide a basis for the expected change in future earnings related to interest rates. IRR is inherent in the role of banks as financial intermediaries. However, a bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities.

The FOMC has begun decreasing the federal funds rate in part due to lower inflation. Since September 2024, the FOMC has decreased the federal funds target rate by 75 basis points. Due to these factors, IRR and effectively managing it are very important to both bank management and regulators. Bank regulations require us to develop and maintain an IRR management program, overseen by our board of directors and senior management, that involves a comprehensive risk management process in order to effectively identify, measure, monitor and control risk. Should bank regulatory agencies identify a material weakness in our risk management process or high exposure relative to our capital, bank regulatory agencies may take action to remedy these shortcomings. Moreover, the level of IRR exposure and the quality of our risk management process is a determining factor when evaluating capital adequacy.

The ALCO, comprised of members of our board of directors, senior management and other appropriate officers, oversees our IRR management program. Specifically, ALCO analyzes economic data and market interest rate trends, as well as competitive pressures, and utilizes computerized modeling techniques to reveal potential exposure to IRR. This allows us to monitor and attempt to control the influence these factors may have on our rate-sensitive assets ("RSA") and rate-sensitive liabilities ("RSL"), and overall operating results and financial position. One such technique utilizes a static gap model that considers repricing frequencies of RSA and RSL in order to monitor IRR. Gap analysis attempts to measure our interest rate exposure by calculating the net amount of RSA and RSL that reprice within specific time

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intervals. A positive gap occurs when the amount of RSA repricing in a specific period is greater than the amount of RSL repricing within that same time frame and is indicated by an RSA/RSL ratio greater than 1.0. A negative gap occurs when the amount of RSL repricing is greater than the amount of RSA and is indicated by an RSA/RSL ratio of less than 1.0. A positive gap implies that earnings will be impacted favorably if interest rates rise and adversely if interest rates fall during the period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes.

Our cumulative one-year RSA/RSL ratio equaled 1.14% at September 30, 2024, an increase from 0.73% at December 31, 2023. As previously mentioned, a positive gap indicates that if interest rates increase, our earnings would likely be favorably impacted. The overall focus of ALCO is to maintain a well-balanced interest rate risk position in order to safeguard future earnings. The current position at September 30, 2024, indicates that the amount of RSA repricing within one year would exceed that of RSL, thereby causing net interest income to increase as market rates increase. However, these forward-looking statements are qualified in the aforementioned section entitled "Cautionary Note Regarding Forward-Looking Statements" in this Management's Discussion and Analysis.

Static gap analysis, although a standard measuring tool, does not fully illustrate the impact of interest rate changes on future earnings. First, market rate changes normally do not equally or simultaneously affect all categories of assets and liabilities. Second, assets and liabilities that can contractually reprice within the same period may not do so at the same time or to the same magnitude. Third, the interest rate sensitivity analysis presents a one-day position. Variations occur daily as we adjust our rate sensitivity throughout the year. Finally, assumptions must be made in constructing such an analysis.

As the static gap report fails to address the dynamic changes in the balance sheet composition or prevailing interest rates, we utilize a simulation model to enhance our asset/liability management. This model is used to create pro forma net interest income scenarios under various interest rate shocks. Simulation model results at September 30, 2024, produced results similar to those indicated by the one-year static gap position. In addition, parallel and instantaneous shifts in interest rates under various interest rate shocks resulted in changes in net interest income that were well within ALCO policy limits during the first year of simulation. We will continue to monitor our IRR throughout 2024 and endeavor to employ deposit and loan pricing strategies and direct the reinvestment of loan and investment repayments in order to manage our IRR position.

Financial institutions are affected differently by inflation than commercial and industrial companies that have significant investments in fixed assets and inventories. Most of our assets are monetary in nature and change correspondingly with variations in the inflation rate. It is difficult to precisely measure the impact inflation has on us, however we believe that our exposure to inflation can be mitigated through asset/liability management.

Liquidity:

Liquidity management is essential to our continuing operations and enables us to meet financial obligations as they come due, as well as to take advantage of new business opportunities as they arise. Financial obligations include, but are not limited to, the following:

- Funding new and existing loan commitments;
- Payment of deposits on demand or at their contractual maturity;
- Repayment of borrowings as they mature;
- Payment of lease obligations; and

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- Payment of operating expenses.

These obligations are managed daily, thus enabling us to effectively monitor fluctuations in our liquidity position and to adapt that position according to market influences and balance sheet trends. Future liquidity needs are forecasted and strategies are developed to ensure adequate liquidity at all times.

Historically, core deposits have been the primary source of liquidity because of their stability and lower cost, in general, than other types of funding. Providing additional sources of funds are loan and investment payments and prepayments and the ability to sell both available for sale securities and mortgage loans held for sale.

Our ALCO generally meets quarterly, and most recently met in September to review our IRR profile, capital adequacy and liquidity. At September 30, 2024, the Company's cash and due from banks balances were \$97.1 million. Our maximum borrowing capacity with the FHLB as of September 30, 2024 was \$1.4 billion, of which \$477.6 million was outstanding in the form of borrowings and irrevocable standby letters of credit, and the remaining \$968.7 is available. Additionally, the Company maintains \$569.8 million of availability at the Federal Reserve Bank's Discount Window, through the pledging of securities and through a borrower-in-custody of collateral arrangement, which enables us to pledge certain loans not being used as collateral elsewhere. Of this amount, \$25.0 million was outstanding in borrowings associated with the Bank Term Funding Program. Additional sources of credit with corresponding banks total \$18.0 million, none of which is currently utilized. The Company also maintains an available for sale investment securities portfolio, comprised primarily of highly liquid U.S. Treasury securities, highly-rated municipal securities and U.S. agency-backed mortgage backed securities. This portfolio serves as an additional source of liquidity and capital. At September 30, 2024, the Company's available for sale investment securities portfolio totaled \$562.5 million, \$298.5 million of which were unencumbered. We believe our liquidity is adequate to meet both present and future financial obligations and commitments on a timely basis.

We employ a number of analytical techniques in assessing the adequacy of our liquidity position. One such technique is the use of ratio analysis to determine the extent of our reliance on noncore funds to fund our investments and loans maturing after September 30, 2024. Our noncore funds at September 30, 2024, were comprised of time deposits in denominations of \$100 thousand or more, brokered deposits and other borrowings. These funds are not considered to be a strong source of liquidity because they are very interest rate sensitive and are considered to be highly volatile. At September 30, 2024, our net noncore funding dependence ratio, the difference between noncore funds and short-term investments to long-term assets, was 11.8%, while our net short-term noncore funding dependence ratio, noncore funds maturing within one-year, less short-term investments to long-term assets equaled 1.9%. Comparatively, our overall noncore dependence ratio at year-end 2023 was 12.1% and our net short-term noncore funding dependence ratio was 4.7%, indicating that our reliance on noncore funds has decreased overall as a result of increases to our longer term assets such as loans and investments and an increase in our federal funds balances, primarily due to in part to the FNCB merger.

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents from operating, investing and financing activities. Cash and cash equivalents, consisting of cash on hand, cash items in the process of collection, deposit balances with other banks and federal funds sold, increased \$98.1 million during the nine months ended September 30, 2024. Cash and cash equivalents increased \$216.7 million for the same period last year. For the nine months ended September 30, 2024, net cash outflows of \$200.1 million, from financing activities, were offset by \$267.6 million received in investing activities and \$30.6 million received in operating activities. For the same period of 2023, net cash inflows of \$24.3 million from operating activities and \$240.4 million from financing activities were partially offset by net cash outflows of \$48.1 million from investing activities.

Operating activities received net cash of \$30.6 million for the nine months ended September 30, 2024, and provided \$24.3 million for the corresponding nine months of 2023. Net income, adjusted for the effects of gains and losses along with noncash transactions such as depreciation and the provision for credit losses, is the primary source of funds from operations.

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Investing activities primarily include transactions related to the FNCB merger, lending activities, and investment portfolio. Investing activities provided net cash of \$267.6 million for the nine months ended September 30, 2024, compared to using net cash of \$48.1 million for the same period of 2023. Proceeds from the sale of a portion of the investments acquired in the FNCB merger was the primary factor causing the net inflow, as well as \$28.8 million in cash received in the FNCB merger.

Financing activities used net cash of \$200.1 million for the nine months ended September 30, 2024, and provided net cash of \$240.4 million for the corresponding nine months of 2023. In 2024, deposit outflows, and payments of borrowings were the largest source of the net cash outflow. The year ago period included new long-term borrowings and the addition of brokered deposits to build our cash position. While a portion of the outflow is seasonal, we continue to seek deposits from new markets and customers as well as existing customers, including municipalities and school districts.

We believe that our future liquidity needs will be satisfied through maintaining an adequate level of cash and cash equivalents, by maintaining readily available access to traditional funding sources, and through proceeds received from the investment and loan portfolios. We believe that our current sources of funds will enable us to meet all cash obligations as they come due.

Capital:

Stockholders' equity totaled \$475.1 million or \$47.53 per share at September 30, 2024, compared to \$340.4 million or \$48.35 per share at December 31, 2023. Stockholders' equity increased during the nine month period ended September 30, 2024 primarily due to the FNCB merger, earnings, and a decrease in other comprehensive loss due to changes in market values of available for sale securities, offset by a dividend payout of \$11.9 million.

Dividends declared equaled \$1.44 per share for the nine months ended September 30, 2024 and \$1.23 per share for the same period of 2023. The Company has paid cash dividends since its formation as a bank holding company in 1986. The Company's board of directors declared on October 25, 2024 a fourth quarter dividend of \$0.6175 per share payable on December 13, 2024 to shareholders of record as of November 29, 2024. The increase to the quarterly cash dividend, which began in the third quarter of 2024, was contemplated as part of the Merger Agreement between the Company and FNCB. It is the present intention of the Company's board of directors to continue this dividend payment policy. Further dividends, however, must necessarily depend upon earnings, financial condition, appropriate legal restrictions and other factors relevant at the time the board of directors considers payment of dividends.

Current rules, which implemented the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act, call for the following capital requirements: (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%; (ii) a minimum ratio of tier 1 capital to risk-weighted assets of 6%; (iii) a minimum ratio of total capital to risk-weighted assets of 8%; and (iv) a minimum leverage ratio of 4%. In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments.

The adequacy of capital is reviewed on an ongoing basis with reference to the size, composition and quality of resources and regulatory guidelines. We seek to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings. At September 30, 2024, Peoples Bank's Tier 1 capital to total average assets was 8.23% as compared to 9.34% at December 31, 2023. Peoples Bank's Tier 1 capital to risk weighted asset ratio was 10.68% and the total capital to risk weighted asset ratio was 11.68% at September 30, 2024. These ratios were 13.30% and 14.12% at December 31, 2023. Peoples Bank's common equity Tier 1 to risk weighted asset ratio was 10.68% at September 30, 2024 compared to 13.30% at December

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31, 2023. Peoples Bank met all capital adequacy requirements and was deemed to be well-capitalized under regulatory standards at September 30, 2024.

Review of Financial Performance:

The Company's financial results for any periods ended prior to July 1, 2024 reflect Peoples results only on a stand alone basis, prior to the merger with FNCB. As a result of this factor and the below listed adjustments related to the FNCB merger, the Company's financial results for the third quarter of 2024 may not be directly comparable to prior reported periods. The following schedule highlights specific merger related activity for the three and nine months ended September 30, 2024:

	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
Severance expenses	\$ 187	\$ 187
System termination and integration fees	8,375	8,551
Financial advisory fees	582	1,173
Legal and professional fees	87	772
Other merger related expenses	422	527
Total	\$ 9,653	\$ 11,210

Peoples reported a net loss of \$4.3 million or (\$0.43) per diluted share for the three months ended September 30, 2024, a decline of \$11.1 million when compared to net income of \$6.7 million or \$0.95 per share for the comparable period of 2023. Quarterly net income included higher net interest income of \$18.0 million due primarily to increases in the volume of earning assets due to the FNCB merger and the \$3.7 million net accretion impact of purchase accounting marks on loans, deposits and borrowings acquired and assumed in the FNCB merger. The higher net interest income increased the net interest margin to 3.26% in the current period. Noninterest income was \$5.7 million, up from \$3.6 million in the year ago period. Noninterest expenses increased by \$18.4 million, which included merger related expenses of \$9.7 million, and higher overall expenses due to the FNCB merger. Provision for income tax decreased by \$2.0 million on lower earnings.

Peoples reported net income of \$2.4 million, or \$0.30 per diluted share for the nine months ended September 30, 2024, a decrease of 89.9% when compared to \$23.8 million, or \$3.31 per diluted share for the comparable period of 2023. The decrease in earnings in the nine months ended September 30, 2024 is a result of a higher provision for credit loss of \$16.9 million which included a \$14.3 million provision for non-PCD loans acquired in the FNCB merger, higher merger related expenses of \$10.2 million and higher overall expenses due to the FNCB merger, partially offset by higher net interest income of \$11.0 million and higher noninterest income of \$1.7 million primarily due to the FNCB merger.

Return on average assets ("ROA") measures our net income in relation to total assets. Our annualized ROA was (0.33)% for the third quarter of 2024 compared to 0.72% for the same period of 2023. Return on average equity ("ROE") indicates how effectively we can generate net income on the capital invested by stockholders. Our annualized ROE was (3.58)% for the third quarter of 2024 compared to 8.05% for the comparable period in 2023. The declines in our annualized ROA and ROE were due primarily to a lower level of net income resulting from non-recurring charges related to the FNCB merger.

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Non-GAAP Financial Measures:

The following are non-GAAP financial measures which provide useful insight to the reader of the consolidated financial statements but should be supplemental to GAAP used to prepare Peoples' consolidated financial statements and should not be read in isolation or relied upon as a substitute for GAAP measures. In addition, Peoples' non-GAAP measures may not be comparable to non-GAAP measures of other companies. The tax rate used to calculate the fully-taxable equivalent (FTE) adjustment was 21% for 2024 and 2023.

The following table reconciles the non-GAAP financial measures of FTE net interest income for the three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands)		
Three Months Ended September 30,	2024	2023
Interest income (GAAP)	\$ 68,284	\$ 38,765
Adjustment to FTE	720	475
Interest income adjusted to FTE (non-GAAP)	69,004	39,240
Interest expense	29,040	17,488
Net interest income adjusted to FTE (non-GAAP)	\$ 39,964	\$ 21,752

(Dollars in thousands)		
Nine Months Ended September 30,	2024	2023
Interest income (GAAP)	\$ 145,657	\$ 109,779
Adjustment to FTE	1,666	1,440
Interest income adjusted to FTE (non-GAAP)	147,323	111,219
Interest expense	68,179	43,294
Net interest income adjusted to FTE (non-GAAP)	\$ 79,144	\$ 67,925

The efficiency ratio is noninterest expenses, less amortization of intangible assets and acquisition related expenses, as a percentage of FTE net interest income plus noninterest income less gains on equity securities and gains on sale of assets. Management monitors the efficiency ratio to determine how well it is managing its operating expenses; a lower efficiency ratio is generally preferable as it indicates the Company is spending less to generate income. The Company is continuing to pursue opportunities to reduce expenses as a percentage of operating revenues.

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The following table reconciles the non-GAAP financial measures of the efficiency ratio to GAAP for the three and nine months ended September 30, 2024 and 2023:

(Dollars in thousands, except percents)		
Three Months Ended September 30,		
	2024	2023
Efficiency ratio (non-GAAP):		
Noninterest expense (GAAP)	\$ 35,502	\$ 17,054
Less: amortization of intangible assets expense	1,665	29
Less: acquisition related expenses	9,653	869
Noninterest expense adjusted (non-GAAP)	<u>24,184</u>	<u>16,156</u>
Net interest income (GAAP)	39,244	21,277
Plus: taxable equivalent adjustment	720	475
Noninterest income (GAAP)	5,722	3,692
Less: net gains on equity securities	175	
Net interest income (FTE) plus noninterest income (non-GAAP)	<u>\$ 45,511</u>	<u>\$ 25,444</u>
Efficiency ratio (non-GAAP)	<u>53.1 %</u>	<u>63.5 %</u>
(Dollars in thousands, except percents)		
Nine Months Ended September 30,		
	2024	2023
Efficiency ratio (non-GAAP):		
Noninterest expense (GAAP)	\$ 71,728	\$ 50,222
Less: amortization of intangible assets expense	1,665	86
Less: acquisition related expenses	11,210	990
Noninterest expense adjusted (non-GAAP)	<u>58,853</u>	<u>49,146</u>
Net interest income (GAAP)	77,478	66,485
Plus: taxable equivalent adjustment	1,666	1,440
Noninterest income (GAAP)	12,665	10,918
Less: net gains (losses) on equity securities	155	(17)
Less: gains on sale of available for sale securities	1	81
Net interest income (FTE) plus noninterest income (non-GAAP)	<u>\$ 91,653</u>	<u>\$ 78,779</u>
Efficiency ratio (non-GAAP)	<u>64.2 %</u>	<u>62.4 %</u>

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Net Interest Income:

Net interest income is the fundamental source of earnings for commercial banks. Fluctuations in the level of net interest income can have the greatest impact on net profits. Net interest income is defined as the difference between interest revenue, interest and fees earned on interest-earning assets, and interest expense, the cost of interest-bearing liabilities supporting those assets. The primary sources of earning assets are loans and investment securities, while interest-bearing deposits, short-term and long-term borrowings, and subordinated debt comprise interest-bearing liabilities. Net interest income is impacted by:

- Variations in the volume, rate and composition of earning assets and interest-bearing liabilities;
- Changes in general market rates; and
- The level of nonperforming assets.

Changes in net interest income are measured by the net interest spread and net interest margin. Net interest spread, the difference between the average yield earned on earning assets and the average rate incurred on interest-bearing liabilities, illustrates the effects changing interest rates have on profitability. Net interest margin, net interest income as a percentage of earning assets, is a more comprehensive ratio, as it reflects not only the spread, but also the change in the composition of interest-earning assets and interest-bearing liabilities. Tax-exempt loans and investments carry pre-tax yields lower than their taxable counterparts. Therefore, in order to make the analysis of net interest income more comparable, tax-exempt income and yields are reported herein on a FTE basis, as FTE net interest income using the prevailing federal statutory tax rate of 21.0% in 2024 and 2023.

For the three and nine months ended September 30, 2024, the average balances include \$1.2 billion in loans, \$177.0 million of investments, \$1.4 billion in deposits, \$226.3 million in borrowings, and \$8.0 million in junior subordinated debt acquired in the FNCB merger. For the three months ended September 30, FTE net interest income, a non-GAAP measure, increased \$18.2 million to \$40.0 million in 2024 from \$21.8 million in 2023. The net interest spread increased to 2.74% for the three months ended September 30, 2024 from 1.79% for the three months ended September 30, 2023 as the earning asset yield increased 123 basis points while the average rate paid on interest-bearing liabilities increased 28 basis points. The FTE net interest margin increased to 3.26% for the third quarter of 2024 from 2.44% for the comparable period of 2023. The increase in tax-equivalent net interest margin from the year ago period was primarily from a higher volume of earning assets and the net accretion impact of purchase accounting marks on loans, deposits and borrowings acquired and assumed in the FNCB merger, which totaled \$3.7 million of net interest income, and represented 30 basis points of tax-equivalent net interest margin.

For the three months ended September 30, FTE interest income on earning assets, a non-GAAP measure, increased \$29.8 million to \$69.0 million in 2024 as compared to \$39.2 million in 2023. The overall yield on earning assets, on a FTE basis, increased 123 basis points for the three months ended September 30, 2024 to 5.63% as compared to 4.40% for the three months ended September 30, 2023. The increase to FTE interest income is due to the increase in rates for newly acquired assets, and an increase in our earning asset base, including those acquired from the FNCB merger and rising rate indices. The overall yield earned on investments increased 127 basis points in the third quarter of 2024 to 3.02% from 1.75% for the third quarter of 2023 primarily as a result of a restructured portfolio mix and acquiring the investment portfolio at fair value based on current market rates. Average investment balances were \$158.1 million higher when comparing the current and year ago quarter. The yield on loans increased 124 basis points in the third quarter of 2024 to 6.09% from 4.85% for the third quarter of 2023 as a result of loans acquired in the FNCB merger, new loans originated at higher portfolio rates, floating and adjustable loans repricing higher, and the net accretion of the loan marks from the impact of purchase accounting which benefited the yield by 46 basis points. Average loan balances were \$1.2 billion higher when compared to the same quarter in 2023. Average federal funds sold decreased \$42.4 million to \$92.1 million for the three months ended September 30, 2024 and yielded 5.26%, as compared to \$134.6 million and a yield of 5.52% in the year ago period. We expect asset yields to stabilize as floating rate assets repricing downward

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(Dollars in thousands, except per share data)

from the FOMC action to cut rates 50 basis points in September will be offset by new loan originations booked at higher portfolio rates and lower yielding adjustable rate assets repricing higher than current stated rates.

Total interest expense increased \$11.5 million to \$29.0 million for the three months ended September 30, 2024 from \$17.5 million for the three months ended September 30, 2023. The total cost of funds increased 28 basis points for the three months ended September 30, 2024 to 2.89% as compared to 2.61% in the year ago period. The increase in costs was due to an increase to the average balance of higher priced brokered certificate of deposits, higher rates paid on both interest-bearing deposits and short term borrowings, combined with higher average balances in the current period. The impact of amortizing the marks due to purchase accounting on the time deposits, borrowings and junior subordinated debt added 10 basis points to the funding costs. Average rates paid on deposits increased as the result of higher market rates and local competition for deposits. We expect increased competition for funding to continue to impact costs during the remaining months of 2024.

Net interest income changes due to rate and volume for the nine months ended September 30

(Dollars in thousands)	2024 vs 2023 Increase (decrease) attributable to		
	Total	Rate	Volume
Interest income:			
Loans:			
Taxable	\$ 32,576	\$ 15,476	\$ 17,100
Tax-exempt	1,153	720	433
Investments:			
Taxable	2,643	2,287	356
Tax-exempt	(73)	(3)	(70)
Interest-bearing deposits	195	12	183
Federal funds sold	(390)	45	(435)
Total interest income	<u>36,104</u>	<u>18,537</u>	<u>17,567</u>
Interest expense:			
Money market accounts	6,657	4,252	2,405
NOW accounts	5,464	2,203	3,261
Savings accounts	3,248	3,341	(93)
Time deposits less than \$100	8,798	3,917	4,881
Time deposits \$100 or more	(756)	(2,543)	1,787
Short-term borrowings	(144)	169	(313)
Long-term debt	1,359	60	1,299
Subordinated debt			
Junior subordinated debt	260		260
Total interest expense	<u>24,886</u>	<u>11,399</u>	<u>13,487</u>
FTE net interest income changes (Non-GAAP)	<u>\$ 11,218</u>	<u>\$ 7,138</u>	<u>\$ 4,080</u>

FTE net interest income, a non-GAAP measure, was \$79.1 million in the nine months ended September 30, 2024 and \$67.9 million in the comparable period last year. There was both a positive volume and rate variance. The growth in average interest-bearing assets exceeded that of the growth in earning liabilities, and resulted in higher FTE net interest income, a non-GAAP measure, of \$4.1 million. A rate variance resulted in an increase in net interest income of \$7.1 million.

Average earning assets increased \$459.5 million to \$3.9 billion for the nine months ended September 30, 2024 and accounted for a \$17.6 million increase in interest income. Average taxable loans increased \$426.1 million, which caused interest income to increase \$17.1 million. Average tax-exempt loans increased \$17.1 million which caused interest

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income to increase \$0.4 million. Average taxable investments increased \$26.7 million comparing 2024 and 2023, which resulted in increased interest income of \$0.4 million while average tax-exempt investments decreased \$4.5 million, which resulted in a decrease to interest income of \$70 thousand. Average interest bearing deposits with banks increased \$4.5 million which resulted in an increase of \$0.2 million to interest income. Average federal funds sold decreased \$10.5 million for the nine months ended September 30, 2024 which resulted in a decrease of \$0.4 million to interest income.

Average interest-bearing liabilities rose \$527.7 million to \$3.1 billion for the nine months ended September 30, 2024 from \$2.6 billion for the nine months ended September 30, 2023 resulting in a net increase in interest expense of \$13.5 million. Interest-bearing deposit accounts, including money market, NOW and savings accounts increased \$271.5 million which resulted in a total increase in interest expense of \$5.6 million. In addition, large denomination time deposits averaged \$76.3 million more in the current period and caused interest expense to increase \$1.8 million. An increase of \$147.4 million in average time deposits less than \$100 thousand which included higher priced callable brokered CDs, resulted in an increase to interest expense of \$4.9 million. Short-term borrowings averaged \$6.8 million lower and decreased interest expense \$0.3 million while long-term borrowing increased \$36.6 million and resulted in an increase to interest expense of \$1.3 million.

For the nine months ended September 30, 2024, a favorable rate variance occurred, as the FTE yield on earning assets increased 72 basis points while there was a 68 basis point increase in the cost of funds. As a result, FTE net interest income increased \$7.1 million comparing the nine months ended September 30, 2024 and 2023. The FTE yield on earning assets was 5.01% in the 2024 period compared to 4.29% in 2023 resulting in an increase in interest income of \$18.5 million. The yield on the taxable investment portfolio increased 62 basis points to 2.30% during the nine months ended September 30, 2024 from 1.68% in the year ago period, resulting in an increase of \$2.3 million in interest income. The yield on the tax exempt investment portfolio remained flat at 2.22% during the nine months ended September 30, 2024 and in the year ago period. The FTE yield on the loan portfolio increased 73 basis points to 5.50% in 2024 from 4.77% in 2023 and resulted in an increase to interest income of \$16.2 million.

The yield on interest bearing deposits increased 70 basis points to 2.85% from 2.15% in the year ago period resulting in an increase in interest expense of \$11.2 million. The yield on long term borrowings increased 43 basis points to 4.67% from 4.33% in the year ago period but had a negligible effect to interest expense. The yield on short term borrowings increased 38 basis points to 5.31% from 4.93% in the year ago period and resulted in an increase to interest expense of \$0.2 million.

The average balances of assets and liabilities, corresponding interest income and expense and resulting average yields or rates paid are summarized as follows. Averages for earning assets include nonaccrual loans. Investment averages include available for sale securities at amortized cost. Income on investment securities and loans is adjusted to a FTE basis using the prevailing federal statutory tax rate of 21%.

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	Three months ended					
	September 30, 2024			September 30, 2023		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets:						
Earning assets:						
Loans:						
Taxable	\$ 3,790,138	\$ 59,411	6.24 %	\$ 2,627,700	\$ 33,095	5.00 %
Tax-exempt	278,496	2,910	4.16	226,628	1,786	3.13
Total loans	4,068,634	62,321	6.09	2,854,328	34,881	4.85
Investments:						
Taxable	611,032	4,793	3.12	454,727	1,920	1.68
Tax-exempt	89,532	520	2.31	87,731	475	2.15
Total investments	700,564	5,313	3.02	542,458	2,395	1.75
Interest-bearing deposits	10,820	151	5.55	6,893	91	5.24
Federal funds sold	92,171	1,218	5.26	134,583	1,873	5.52
Total earning assets	4,872,189	69,003	5.63 %	3,538,262	39,240	4.40 %
Less: allowance for credit losses	37,535			23,691		
Other assets	456,540			215,472		
Total assets	\$ 5,291,194	\$ 69,003		\$ 3,730,043	\$ 39,240	
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Money market accounts	\$ 906,842	\$ 8,231	3.61 %	\$ 697,387	\$ 5,945	3.38 %
Interest-bearing demand and NOW accounts						
	1,414,228	6,888	1.94	800,978	4,335	2.15
Savings accounts	518,038	3,420	2.63	462,468	272	0.23
Time deposits less than \$100	687,511	4,637	2.68	412,705	4,234	4.07
Time deposits \$100 or more	275,786	3,222	4.65	208,153	1,695	3.23
Total interest-bearing deposits	3,802,405	26,398	2.76	2,581,691	16,481	2.53
Short-term borrowings	43,895	550	4.98	21,759	291	5.31
Long-term debt	111,804	1,389	4.94	25,000	273	4.33
Subordinated debt	33,000	443	5.34	33,000	443	5.33
Junior subordinated debt	8,000	260	12.93			
Total borrowings	196,699	2,642	5.34	79,759	1,007	5.01
Total interest-bearing liabilities	3,999,104	29,040	2.89	2,661,450	17,488	2.61
Noninterest-bearing deposits	713,776			688,301		
Other liabilities	96,177			47,788		
Stockholders' equity	482,137			332,504		
Total liabilities and stockholders' equity	\$ 5,291,194			\$ 3,730,043		
Net interest income/spread		\$ 39,963	2.74 %		\$ 21,752	1.79 %
Net interest margin			3.26 %			2.44 %
Tax-equivalent adjustments:						
Loans		\$ 611			\$ 375	
Investments		109			100	
Total adjustments		\$ 720			\$ 475	

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(Dollars in thousands, except percents)	Nine months ended					
	September 30, 2024			September 30, 2023		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets:						
Earning assets:						
Loans:						
Taxable	\$ 3,022,988	\$ 127,859	5.65 %	\$ 2,596,848	\$ 95,283	4.91 %
Tax-exempt	242,293	6,476	3.57	225,178	5,323	3.16
Total loans	3,265,281	134,335	5.50	2,822,026	100,606	4.77
Investments:						
Taxable	501,100	8,620	2.30	474,425	5,977	1.68
Tax-exempt	87,612	1,459	2.22	92,111	1,532	2.22
Total investments	588,712	10,079	2.29	566,536	7,509	1.77
Interest-bearing deposits	9,541	385	5.39	5,004	190	5.08
Federal funds sold	61,635	2,524	5.47	72,098	2,914	5.40
Total interest-earning assets	3,925,169	147,323	5.01 %	3,465,664	111,219	4.29 %
Less: allowance for credit losses	27,660			24,711		
Other assets	294,186			211,537		
Total assets	<u>\$ 4,191,695</u>	<u>\$ 147,323</u>		<u>\$ 3,652,490</u>	<u>\$ 111,219</u>	
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Money market accounts	\$ 792,391	\$ 22,116	3.73 %	\$ 694,478	\$ 15,459	2.98 %
Interest-bearing demand and NOW accounts	977,722	16,125	2.20	768,277	10,661	1.86
Savings accounts	450,161	3,975	1.18	485,985	727	0.20
Time deposits less than \$100	475,194	17,778	5.00	327,810	8,980	3.66
Time deposits \$100 or more	271,765	3,222	1.58	195,450	3,978	2.72
Total interest-bearing deposits	2,967,233	63,216	2.85	2,472,000	39,805	2.15
Short-term borrowings	36,349	1,446	5.31	43,125	1,590	4.93
Long-term debt	54,147	1,928	4.76	17,576	569	4.33
Subordinated debt	33,000	1,330	5.38	33,000	1,330	5.39
Junior subordinated debt	2,692	260	12.90			
Total borrowings	126,188	4,964	5.25	93,701	3,489	4.98
Total interest-bearing liabilities	<u>3,093,421</u>	<u>68,180</u>	<u>2.94 %</u>	<u>2,565,701</u>	<u>\$ 43,294</u>	<u>2.26 %</u>
Noninterest-bearing deposits	650,446			714,779		
Other liabilities	59,622			42,101		
Stockholders' equity	388,206			329,909		
Total liabilities and stockholders' equity	<u>\$ 4,191,695</u>			<u>\$ 3,652,490</u>		
Net interest income/spread		<u>\$ 79,143</u>	<u>2.07 %</u>		<u>\$ 67,925</u>	<u>2.03 %</u>
Net interest margin (Non-GAAP)			<u>2.69 %</u>			<u>2.62 %</u>
Tax-equivalent adjustments:						
Loans		\$ 1,360			\$ 1,118	
Investments		306			322	
Total adjustments		<u>\$ 1,666</u>			<u>\$ 1,440</u>	

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Provision for Credit Losses:

Effective January 1, 2023 the Company transitioned to ASU 2016-13 Financial Instruments - Credit Losses (Topic 326), commonly referred to as CECL. Based on our most current evaluation, we believe that the allowance is adequate to absorb any known and inherent losses in the portfolio as of September 30, 2024.

For the three months ended September 30, 2024, \$14.5 million was recorded to the provision for credit losses compared to a credit of \$0.2 million in the year ago period. The current period provision included a non-recurring provision of \$14.3 million for FNCB non-PCD loans. Excluding the impact of the FNCB merger, the provision for credit losses for the three months ended September 30, 2024 was \$0.2 million.

For the nine months ended September 30, 2024, a provision for credit losses of \$15.8 million was recorded and included a \$14.3 million initial provision for non-PCD loans acquired in the FNCB merger. The provision in the prior nine month period included a credit of \$0.9 million which was attributed to various factors, including updated economic assumptions as well as changes in qualitative factors, portfolio composition and asset quality.

Noninterest Income:

Noninterest income for the three months ended September 30, 2024 and 2023 was \$5.7 million and \$3.7 million, respectively. The increase was primarily due to the FNCB merger and consisted of higher levels of service charges, fees, commissions and other income, wealth management fees and increased cash surrender value of life insurance. These increases were partially offset by lower interest rate swap revenue due to reduced origination volume.

Noninterest income was \$12.7 million for the nine months ended September 30, 2024 and \$10.9 million for the comparable period ended September 30, 2023. Services charges and fees increased \$1.5 million, wealth management income increased \$0.3 million and gains on equity securities increased \$0.2 million while interest rate swap revenue decreased \$0.5 million on lower loan origination volume and market value adjustments.

Noninterest Expenses:

In general, noninterest expense is categorized into three main groups: employee-related expenses, occupancy and equipment expenses, and other expenses. However, included in the current period are acquisition related expenses incurred in connection with our merger with FNCB. Employee-related expenses are costs associated with providing salaries, including payroll taxes and benefits, to our employees. Occupancy and equipment expenses, the costs related to the maintenance of facilities and equipment, include depreciation, general maintenance and repairs, real estate taxes, rental expense offset by any rental income, and utility costs. Other expenses include general operating expenses such as advertising, contractual services, insurance, including FDIC assessment, provision for unfunded commitments, other taxes and supplies. Several of these costs and expenses are variable while the remainder are fixed. We utilize budgets and other related strategies in an effort to control the variable expenses.

Noninterest expense increased \$18.4 million to \$35.5 million for the three months ended September 30, 2024, from \$17.1 million for the same period a year ago. Acquisition related expenses, such as legal and consulting, and core system de-conversion fees and advisory fees totaled \$9.7 million. Salaries and employee benefits were \$4.4 million higher due to the addition of 195 full time equivalent employees. Occupancy and equipment expenses increased \$2.1 million in the three months ended September 30, 2024 due to higher information technology (IT) expense and higher facilities costs from inflationary price pressure and the additional branches acquired in the FNCB merger.

Noninterest expense for the nine months ended September 30, 2024 was \$71.7 million, an increase of \$21.5 million or 42.8% from \$50.2 million for the nine months ended September 30, 2023. The increase was due primarily to higher acquisition related expenses, and higher expenses due to additional full time equivalent employees and facilities due to

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the FNCB merger. Salaries and employee benefits expenses increased \$4.1 million compared to the year ago period due to additional employees related to the merger. Occupancy and equipment expenses were higher by \$3.1 million in the nine months ended September 30, 2024 due to increased technology costs related to system integration and increased account and transaction volumes, and higher facilities costs. Acquisition related expenses totaled \$11.2 million compared to \$1.0 million a year ago.

Income Taxes:

We recorded an income tax benefit of \$0.7 million or 13.2% of pre-tax loss, and a \$1.3 million provision, or 16.5% of pre-tax income for the three ended September 30, 2024 and September 30, 2023 respectively. For the nine months ended September 30, 2024 we recorded a provision of \$0.2 million, or 9.1% of pretax income compared to \$4.5 million, or 16.1% of pretax income for the nine month period ended September 30, 2023. Lower income tax expense was due to lower pre-tax income for the three and nine months ended September 30, 2024.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk to our earnings and/or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily interest rate risk (“IRR”), which arises from our lending, investing and deposit gathering activities. Our market risk sensitive instruments consist of derivative and non-derivative financial instruments, none of which are entered into for trading purposes. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in reported earnings and/or the market value of net worth. Variations in interest rates affect the underlying economic value of assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves, change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value, and provide a basis for the expected change in future earnings related to interest rates. Interest rate changes affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. IRR is inherent in the role of banks as financial intermediaries.

A bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities. Interest rate risk is the risk of loss to future earnings due to changes in interest rates. The Asset Liability Management Committee (“ALCO”) is responsible for establishing policy guidelines on liquidity and acceptable exposure to interest rate risk. Generally quarterly, ALCO reports on the status of liquidity and interest rate risk matters to the Company’s board of directors. The objective of the ALCO is to manage assets and funding sources to produce results that are consistent with the Company’s liquidity, capital adequacy, growth, risk and profitability goals and are within policy limits.

The Company utilizes the pricing and structure of loans and deposits, the size and duration of the investment securities portfolio, the size and duration of the wholesale funding portfolio, and off-balance sheet interest rate contracts to manage interest rate risk. The off-balance sheet interest rate contracts may include interest rate swaps, caps and floors. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to terms of the contract. The notional amount of the interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged, and therefore, should not be taken as a measure of credit risk. See Note 13 to the Audited Consolidated Financial Statements contained in Part II, Item 8 of our Annual Report on Form 10-K for the period ended December 31, 2023 and Note 11 to the unaudited consolidated interim financial statements contained in Part I, Item 1 of this report for additional information.

The ALCO uses income simulation to measure interest rate risk inherent in the Company’s on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 24-month horizon and a 60-month horizon. The simulations assume that the size and general composition of the Company’s balance sheet remain static over the simulation horizons, with the exception of certain deposit mix shifts from low-cost time deposits to higher cost time deposits in selected interest rate scenarios. Additionally, the simulations take into account the specific repricing, maturity, call options, and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios. The characteristics of financial instrument classes are reviewed typically quarterly by the ALCO to ensure their accuracy and consistency.

The ALCO reviews simulation results to determine whether the Company’s exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. As of September 30, 2024 and December 31, 2023, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Company. All changes are measured in comparison to the projected net interest income that would result from an “unchanged” rate scenario where both interest rates and the composition of the Company’s balance sheet remain stable for a 24-month and 60-month period. In addition to measuring the change in net interest income as compared to an unchanged interest rate scenario, the ALCO also measures the trend of both net interest income and net interest margin over a 24-month and 60-month horizon to ensure the stability and adequacy of this source of earnings in different interest rate scenarios.

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Model results at September 30, 2024 indicated a higher starting level of net interest income (“NII”) compared to the July 31, 2024 model which included the larger earning asset base from the FNCB merger. The current model results include the positive impact of purchase accounting resulting from the net accretion of the fair value marks.

Our interest rate risk position exhibits a relatively well-matched position to both rising and falling interest rate environments in the first twelve months of the simulation while a sustained falling rate and parallel downward shifting yield curve presents the greatest potential risk to NII over the long-term horizon. A steeper yield curve mitigates a portion of the exposure to falling rates. After the first eighteen months of the model simulation, the benefit to NII increases in a rising rate environment as a result of the higher assumed replacement rates on assets repricing while funding costs stabilize. This position at September 30, 2024 is similar to our July 31, 2024 model results.

The ALCO regularly reviews a wide variety of interest rate shift scenario results to evaluate interest rate risk exposure, including scenarios showing the effect of steepening or flattening changes in the yield curve as well as parallel changes in interest rates of up to 400 basis points. Because income simulations assume that the Company’s balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

The FOMC has begun decreasing the federal funds rate in part due to lower inflation. Since September 2024, the FOMC has decreased the federal funds target rate by 75 basis points which has resulted in our floating rate loans repricing lower and negatively impacting NII. Management commenced reducing deposit rates prior to the FOMC actions and expects to continue to reduce rates to mitigate the impact on interest income from the asset side of the balance sheet. Management expects cash flow from the investment portfolio to reprice higher than current portfolio rates, adjustable rate loans to reprice higher than current portfolio rates and new loan originations be added at higher than current portfolio rates to mitigate the lower interest from the floating rate loans. If we are unable to reduce our deposit costs as expected or we experience an outflow of deposits due to lower rates which could result in a shift to higher costing funding sources, expected levels of NII will be reduced.

The projected impacts of instantaneous changes in interest rates on our net interest income and economic value of equity at September 30, 2024, based on our simulation model, as compared to our ALCO policy limits are summarized as follows:

Changes in Interest Rates (basis points)	September 30, 2024			
	% Change in			
	Net Interest Income		Economic Value of Equity	
	Metric	Policy	Metric	Policy
+400	(3.0)	(20.0)	26.1	(40.0)
+300	(2.3)	(20.0)	21.5	(30.0)
+200	(1.7)	(10.0)	15.7	(20.0)
+100	(0.1)	(10.0)	9.1	(10.0)
Static				
-100	1.1	(10.0)	(13.1)	(10.0)
-200	0.8	(10.0)	(32.3)	(20.0)
-300	0.7	(20.0)	(55.4)	(30.0)
-400	0.8	(20.0)	(90.6)	(40.0)

Our simulation model creates pro forma net interest income scenarios under various interest rate shocks. Given instantaneous and parallel shifts in general market rates of plus 100 basis points, our projected net interest income for the 12 months ending September 30, 2024, would decrease 0.1% from model results using current interest rates. Additional disclosures about market risk are included in Part II, Item 7 of our Annual Report on [Form 10-K for the year ended December 31, 2023](#), and in Part I, Item 2 of this quarterly report, in each case under the heading “Market Risk Sensitivity,” and are incorporated into this Item 3 by reference.

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Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

At September 30, 2024, the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based upon that evaluation, the CEO and CFO concluded that the disclosure controls and procedures, at September 30, 2024, were effective to provide reasonable assurance that information required to be disclosed in the Company’s reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to provide reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosure.

(b) Changes in internal control.

Effective on July 1, 2024, Peoples completed its merger with FNCB. During the third quarter of 2024, management commenced an evaluation of the design and operating effectiveness of internal controls over financial reporting related to the FNCB acquired business. The evaluation of changes to processes, technology systems, and other components of internal control over financial reporting related to the FNCB acquired business is ongoing. Except for the changes made in connection with the merger, there were no changes in the Company’s internal control over financial reporting in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of the Company’s business generates a certain amount of litigation involving matters arising out of the ordinary course of business. In the opinion of management, there were no legal proceedings that had or might have a material effect on the consolidated results of operations, liquidity, or the financial position of the Company during the nine-months ended September 30, 2024 and through the date of this quarterly report on Form 10-Q.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2023 (2023 Form 10-K) describes market, credit, and business operations risk factors that could affect our business, results of operations or financial condition. There have been no material changes from the risk factors as previously disclosed in our 2023 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended September 30, 2024, we did not issue or sell any shares of our Common Stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act.

There were no repurchases of our common stock during the three months ended September 30, 2024.

Item 3. Defaults upon Senior Securities.

None.

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Peoples Financial Services Corp.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the fiscal quarter ended September 30, 2024, none of the Company’s directors or officers informed management of the adoption or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408.

Item 6. Exhibits.

<u>Item Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of September 27, 2023, by and between Peoples Financial Services Corp. and FNCB Bancorp, Inc.* (incorporated by reference to Exhibit 2.1 to Peoples Financial Services Corp.’s Current Report on Form 8-K filed on September 27, 2023)
3.1*	Peoples Financial Services Corp. Second Amended and Restated Bylaws, as amended
4.1	Certain instruments relating to long-term debt of the registrant and its consolidated subsidiaries not being registered have been omitted in accordance with Item 601(b)(4)(iii) and (v) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
10.1†	Employment Agreement, dated as of July 26, 2024 by and among Peoples Security Bank and Trust Company, Peoples Financial Services Corp. and Gerard A. Champi (incorporated by reference to Exhibit 10.1 of Peoples’ Current Report on Form 8-K filed with the SEC on July 29, 2024).
10.2†	Employment Agreement between First National Community Bancorp, Inc., First National Community Bank and James M. Bone, Jr. (incorporated by reference to Exhibit 10.18 to FNCB’s Current Report on Form 8-K on October 2, 2015 (SEC File No. 000-53869))
10.3†	Amendment to Employment Agreement, dated September 27, 2023 by and among FNCB Bancorp, Inc., FNCB Bank and James M. Bone, Jr.(incorporated by reference to Exhibit 10.1 to FNCB’s Current Report on Form 8-K on September 27, 2023 (SEC File No. 001-38408))
10.4†	FNCB Bancorp, Inc. 2023 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to FNCB’s Registration Statement on Form S-8 on June 23, 2023 (SEC File No. 333-272878))
10.5†	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 4.2 to FNCB’s Registration Statement on Form S-8 on January 24, 2014 (SEC File No. 333-193545))
10.6†	Peoples Security Bank and Trust Company (formerly First National Community Bank) Supplemental Executive Retirement Plan, as amended (incorporated by reference to Exhibit 10-8 to FNCB’s Form 10-K for the year ended December 31, 2022, as filed on March 10, 2023 (SEC File No. 001-38408))
10.7*†	Third Amendment to the Peoples Security Bank and Trust Company (formerly FNCB Bank) Supplemental Executive Retirement Plan dated June 26, 2024

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Peoples Financial Services Corp.

10.8†	Executive Incentive Plan (incorporated by reference to Exhibit 10.14 to FNCB's Form 10-K for the year ended December 31, 2012, as filed on March 28, 2013 (SEC File No. 001-38408))
31.1	CEO Certification Pursuant to Rule 13a-14 (a)/15d-14 (a)
31.2	CFO Certification Pursuant to Rule 13a-14 (a)/15d-14 (a)
32	CEO and CFO Certifications Pursuant to Section 1350.
101	The following materials from Peoples Financial Services Corp. Quarterly Report on Form 10-Q for the period ended September 30, 2024, formatted in inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss) and Comprehensive (Loss) Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
	*The schedules and exhibits have been omitted pursuant to Item 601(b) (2) of Regulation S-K. Peoples Financial Services Corp. agrees to furnish a copy of such schedules and exhibits, or any section thereof, to the SEC upon request

*Filed herewith

†Management contract, compensatory plan or arrangement

Peoples Financial Services Corp.

SIGNATURES

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

Peoples Financial Services Corp.
(Registrant)

Date: November 14, 2024

/s/ Craig W. Best

Craig W. Best
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2024

/s/ John R. Anderson, III

John R. Anderson, III
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**SECOND AMENDED AND RESTATED BYLAWS OF
PEOPLES FINANCIAL SERVICES CORP.**

**Amended and Restated Effective October 27, 2023
As Amended Effective July 1, 2024**

**ARTICLE 1
CORPORATION OFFICE**

Section 1.1 The Corporation shall have and continuously maintain in Pennsylvania a registered office which may, but need not, be the same as its place of business and at an address to be designated from time to time by the Board of Directors.

Section 1.2 The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may require.

**ARTICLE 2
SHAREHOLDERS' MEETINGS**

Section 2.1 All meetings of the shareholders shall be held at such time and place as may be fixed from time to time by the Board of Directors; provided, however, if a meeting is held by means of the Internet or other electronic communications technology in a fashion pursuant to which shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders and pose questions to the directors, the meeting need not be held at a particular geographic location. If no place is so fixed for a meeting, it shall be held at the Corporation's then principal executive office.

Section 2.2 The annual meeting of the shareholders shall be held no later than the thirtieth (30th) day of May in each year. At an annual meeting of shareholders, only such business (other than elections of directors, which must be made in compliance with, and shall be exclusively governed by, Section 11.1) shall be conducted as shall have been properly brought before the annual meeting (i) pursuant to the Corporation's notice of the meeting, (ii) by or at the direction of the Board of Directors, (iii) by the chairman of the meeting, or (iv) by any shareholder of the Corporation who is a shareholder of record both at the time of giving of the notice provided for in Section 2.6 and at the time of the annual meeting, who shall be entitled to vote at such meeting and who shall have complied with the notice procedures set forth in Section 2.6. Clause (iv) in the immediately preceding sentence shall be the exclusive means for a shareholder to submit such business (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and included in the Corporation's notice of meeting) before an annual meeting of shareholders.

Section 2.3 Special meetings of the shareholders may be called at any time by only the chairman of the Board, the President, a majority of the Board of Directors or of its Executive Committee. At any time, upon written request of any person or persons who have duly called a special meeting, it shall be the duty of the secretary to fix the date of the meeting, to be held not more than sixty (60) days after the receipt of the request and to give due notice thereof.

If the secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons calling the meeting may do so.

Section 2.4 Written notice of all meetings, other than adjourned meetings of shareholders, shall set forth the place (or if held by means of the Internet or other electronic communications technology, the means of remote communications by which shareholders and proxyholders may be deemed to be present in person and vote at such meeting), date and hour (each, as determined in accordance with Section 2.1), and, in case of special meetings of shareholders, the general nature of the business to be transacted in accordance with any requirements set forth in the Pennsylvania Business Corporation Law of 1988 (as amended from time to time, the "PBCL"). Each such notice shall be served upon, or mailed, postage prepaid, or telegraphed, charges prepaid, at least ten (10) days before such meeting, unless a greater period of notice is required by statute or by these Bylaws, to each shareholder entitled to vote thereat at such address as appears on the transfer books of the Corporation. If such notice is mailed, it shall be deemed to have been given to a shareholder when deposited in the United States mail, postage prepaid, directed to the shareholder at the address of such shareholder as it appears on the record of shareholders of the Corporation or supplied by such shareholder to the Corporation for the purpose of notice. Notice given by electronic transmission shall be deemed given (i) if by facsimile, when directed to a number at which the shareholder has consented to receive such notice; (ii) if by electronic mail, when directed to an electronic mail address at which the shareholder consented to receive such notice; (iii) if by posting on an electronic network together with separate notice to the shareholder of such specific posting, upon the later of (A) such posting and (B) giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the shareholder. No notice of any meeting of shareholders need be given to any shareholder who properly waives notice, whether before or after the meeting and whether in writing or by electronic transmission or otherwise. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in a waiver of notice. The attendance, in person or by proxy, of any shareholder at any meeting of shareholders shall constitute a proper waiver of notice of such meeting, except if the shareholder attends a meeting solely for the express purpose of objecting, prior to or at the commencement of such meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 2.5 The officer presiding over a shareholders' meeting shall have any and all powers and authority necessary, in such officer's sole discretion, to conduct an orderly meeting, preserve order and determine any and all procedural matters. The officer presiding over a shareholders' meeting may also establish such rules and regulations for the conduct of the meeting as such officer may deem to be reasonably necessary or desirable for the orderly and expeditious conduct of the meeting, including the ability to impose reasonable limits on the amount of time at the meeting taken up in remarks by any one shareholder or group of shareholders. In addition, until the business to be completed at a meeting of shareholders is completed, the officer presiding over the shareholders' meeting is expressly authorized to temporarily adjourn and postpone the meeting from time to time subject to any limitations for adjournment specified elsewhere in these Bylaws. At every meeting of the shareholders, the Chairman of the Board, or in his absence, one of the following persons present shall act as chairman in the order stated, shall preside: any presiding officer designated by the Board of Directors, the President or the vice presidents in their order of earliest election to that office; and the Secretary, or in his absence, a person appointed by the chairman, shall act as secretary.

Section 2.6

(a) Except as otherwise provided by law or in these Bylaws, or except as permitted by the presiding officer of the meeting in the exercise of such officer's sole discretion in any specific instance, the business which shall be voted upon or discussed at any annual or special meeting of the shareholders shall (i) have been specified in the written notice of the meeting (or any supplement thereto) given by the Corporation, (ii) be brought before the meeting at the direction of the Board of Directors, or (iii) in the case of an annual meeting of shareholders, have been specified in a written notice given to the Corporation by or on behalf of any shareholder who shall have been a shareholder of record on the record date for such meeting and who shall continue to be entitled to vote thereat (the "Shareholder Notice"), in accordance with all of the requirements set forth below.

(b) Each Shareholder Notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation addressed to the attention of the President or Secretary (i) in the case of an annual meeting that is called for a date that is within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting of shareholders, not less than sixty (60) days nor more than ninety (90) days prior to such anniversary date, provided, that a proposal submitted by a shareholder for inclusion in the Corporation's proxy statement for an annual meeting which is appropriate for inclusion therein and otherwise complies with Exchange Act Rule 14a-8 (including timeliness), or any successor rule, shall be deemed to have also been submitted timely pursuant to these by laws and (ii) in the case of an annual meeting that is called for a date that is not within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting, or in the case of a special meeting, not later than the close of business on the fifth (5th) day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure of the meeting date (which shall include disclosure of the meeting date given to a national securities exchange or the Financial Industry Regulatory Authority) was made. Each such Shareholder Notice must set forth (i) the name and address of the shareholder who intends to bring the business before the meeting ("Proposing Shareholder"); (ii) the name and address of any Shareholder Associated Person (as defined below), if different than the Proposing Shareholder, or any of the shares of the Corporation which are owned of record and beneficially by the Proposing Shareholder and the number which are owned beneficially by any Shareholder Associated Person; (iii) any interest (other than an interest solely as a shareholder) which the Proposing Shareholder or a Shareholder Associated Person has in the business being proposed by the Proposing Shareholder; (iv) a description of all agreements, arrangements and understandings between the Proposing Shareholder and any Shareholder Associated Person on the one hand and any other person or persons (naming such person or persons) pursuant to which the proposal in the Shareholder Notice is being made on the other hand, and a representation that the Proposing Shareholder will notify the Corporation in writing of any such agreement, arrangement or understanding in effect as of the close of business on the record date for the meeting promptly, and in no event later than ten (10) days, following the later of the record date or the date notice of the record date is first publicly disclosed; (v) a description of the business which the Proposing Shareholder seeks to bring before the meeting, the reason for doing so and, if a specific action is to be proposed, the text of the resolution or resolutions which the Proposing Shareholder proposes that the Corporation adopt;(vi) a representation that the Proposing Shareholder is at the time of giving the

Shareholder Notice, was or will be on the record date for the meeting, and will be on the meeting date a holder of record of shares of the Corporation entitled to vote at such meeting, and intends to appear in person or by proxy at the meeting to bring the business specified in the Shareholder Notice before the meeting; (vii) a representation that the Proposing Shareholder will notify the Corporation in writing of the number and class of shares owned beneficially or of record by the Proposing Shareholder and any Shareholder Associated Person as of the close of business on the record date for the meeting promptly, and in no event later than ten (10) days, following the later of the record date or the date notice of the record date is first publicly disclosed; (viii) such other information regarding or each matter of business to be proposed by such Proposing Shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (the "Commission") had the matter been proposed, or intended to be proposed by the Board of Directors; and (ix) the information required by Section 2.6(c), and a representation that the Proposing Shareholder will notify the Corporation in writing of any changes in that information as of the close of business on the record date for the meeting promptly, and in no event later than ten (10) days, following the later of the record date or the date notice of the record date is first publicly disclosed. This Section 2.6 shall be the exclusive means for a Proposing Shareholder to submit other business (other than matters properly brought under Rule 14a-8 under the Exchange Act, and included in the Corporation's notice of meeting) before any shareholder meeting. The presiding officer of the meeting may, in such officer's sole discretion, refuse to acknowledge any business proposed by a shareholder which the presiding officer determines is not made in compliance with the foregoing procedure. The provisions of this Section 2.6 shall also govern what constitutes timely notice for purposes of Rule 14a-4(c) of the Exchange Act.

(c) A notice submitted by a Proposing Shareholder under this Section 2.6 must describe in reasonable detail, with respect to the Proposing Shareholder and any Shareholder Associated Person: (i) any class or series and number of the Corporation's securities, including shares of the Corporation and Derivative Instruments (as defined below), directly or indirectly beneficially owned by the Proposing Shareholder or a Shareholder Associated Person, or any other direct or indirect opportunity for the Proposing Shareholder or Shareholder Associated Person to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation; (ii) any interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which the Proposing Shareholder or Shareholder Associated Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (iii) any hedging or other transaction or series of transactions that has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including, without limitation, any put, short position or any borrowing or lending of shares) that has been made by or on behalf of, a Proposing Shareholder or any Shareholder Associated Person, the effect or intent of which is to mitigate loss to, or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, the Proposing Shareholder or any Shareholder Associated Person with respect to any share of the Corporation; (iv) any proxy, contract, arrangement, understanding, or relationship pursuant to which such Proposing Shareholder or Shareholder Associated Person has a right to vote any shares of any class or series of the Corporation's capital stock; (v) any short interest of such Proposing Shareholder or Shareholder Associated Person in any security of the Corporation (for purposes of this Section 2.6(c), a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding,

relationship, or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security); (vi) any rights to dividends on any securities of the Corporation owned beneficially by such Proposing Shareholder or Shareholder Associated Person that are separated or separable from the underlying securities of the Corporation; (vii) any proportionate interest in shares of any class or series of the Corporation's capital stock or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such Proposing Shareholder or Shareholder Associated Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (viii) any performance-related fees (other than an asset-based fee) to which such Proposing Shareholder or Shareholder Associated Person is entitled based on any increase or decrease in the value of securities of the Corporation or Derivative Instruments as of the date of such notice, including any such interests held by members of the immediate family of such Proposing Shareholder or Shareholder Associated Person sharing the same household (which information shall be supplemented by such Proposing Shareholder and Shareholder Associated Person not later than ten (10) days after the record date for the meeting to disclose such ownership as of the record date); (ix) any significant equity interests or any Derivative Instruments or short interests in any principal competitor of the Corporation held by such Proposing Shareholder or Shareholder Associated Person; (x) any direct or indirect interest of such Proposing Shareholder or any Shareholder Associated Person in any contract with the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement); (xi) all information that would be required to be set forth in a Schedule 13D filed pursuant to Rule 13d-1(a) or an amendment pursuant to Rule 13d-2(a) if such a statement were required to be filed under the Exchange Act and the rules and regulations promulgated thereunder by such Proposing Shareholder or Shareholder Associated Person, if any; (xii) any other information relating to such Proposing Shareholder or Shareholder Associated Person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of Directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; (xiii) any material interest of the Proposing Shareholder or Shareholder Associated Person on whose behalf the proposal is made in such business; (xiv) a description of all agreements, arrangements and understandings between such Proposing Shareholder or such Shareholder Associated Person and any other person or persons (including their names) in connection with the proposal of such business; (xv) a representation that the Proposing Shareholder is a holder of record of capital stock of the Corporation, is entitled to vote at such meeting and intends to appear, in person or by proxy, at the meeting to propose such business; and (xvi) a representation as to whether the shareholder or such Shareholder Associated Person is or intends to be part of a group that intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal and/or (B) otherwise to solicit proxies from shareholders in support of such proposal.

(d) As used in this Section 2.6, the following terms have the meanings indicated: (i) "Derivative Instrument" means an option, warrant, convertible security, stock appreciation right, or other right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to the value of any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the

Corporation, whether or not such instrument or right is subject to settlement in the underlying class or series of shares of the Corporation or otherwise; and (ii) “Shareholder Associated Person” of a Proposing Shareholder means (i) any person controlling, controlled by, under common control with, or acting in concert with, the Proposing Shareholder, (ii) any beneficial owner of shares of the Corporation owned of record or beneficially by the Proposing Shareholder, (iii) any entity of which the Proposing Shareholder is an employee, officer, member, partner, trustee, director or, except for entities the shares of which are registered under the Exchange Act, a shareholder, and (iv) any person controlling, controlled by or under common control with, the Shareholder Associated Person.

ARTICLE 3 QUORUM OF SHAREHOLDERS

Section 3.1 The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on the particular matter shall constitute a quorum for purposes of considering such matter, and unless otherwise provided by statute the acts of such shareholders at a duly organized meeting shall be the acts of the shareholders. If, however, any meeting of shareholders cannot be organized because of lack of a quorum, those present, in person or by proxy, shall have the power, except as otherwise provided by statute, to adjourn the meeting to such time and place as they may determine, without notice other than an announcement at the meeting, until the requisite number of shareholders for a quorum shall be present, in person or by proxy, except that in the case of any meeting called for the election of directors such meeting may be adjourned only for periods not exceeding fifteen (15) days as the holders, present in person or by proxy, of shares entitled to cast at least a majority of the votes which all shareholders are entitled to cast, shall direct, and those who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors. At any adjourned meeting at which a quorum shall be present or so represented, any business may be transacted which might have been transacted at the original meeting if a quorum had been present. The shareholders present, in person or by proxy, at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

ARTICLE 4 VOTING RIGHTS

Section 4.1 Except as may be otherwise provided by statute or by the Articles of Incorporation of the Corporation (as amended from time to time, the “Articles of Incorporation”), at every shareholders’ meeting, every shareholder entitled to vote thereat shall have the right to one vote for every share having voting power standing in his name on the books of the Corporation on the record dated fixed for the meeting. No share shall be voted at any meeting if any installment is due and unpaid thereon.

Section 4.2 When a quorum is present at any meeting, the vote of the holders, present in person or by proxy, of shares entitled to cast at least a majority of the votes which all shareholders are entitled to cast, shall decide any question brought before such meeting except as may be otherwise provided by statute or by the Articles of Incorporation.

Section 4.3 Upon demand made by a shareholder entitled to vote at any election for directors before the voting begins, the election shall be by ballot.

ARTICLE 5 PROXIES

Section 5.1 Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder or his duly authorized attorney-in-fact and filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Corporation. No unrevoked proxy shall be valid after eleven (11) months from the date of its execution, unless a longer time is expressly provided therein, but in no event shall a proxy, unless coupled with an interest, be voted after three (3) years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker, unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation.

Section 5.2 Any shareholder directly or indirectly soliciting proxies from other shareholders must use a proxy card color other than white, which shall be reserved for exclusive use by the Corporation.

ARTICLE 6 RECORD DATE

Section 6.1 The Board of Directors may fix a time, not more than ninety (90) days prior to the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares. In such case, only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid. The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of such period, and in such case written or printed notice thereof shall be mailed at least ten (10) days before closing thereof to each shareholder of record at the address appearing on the records of the Corporation or supplied by him to the Corporation for the purpose of notice. While the stock transfer books of the Corporation are closed, no transfer of shares shall be made thereon. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to receive notice of, and vote at, a shareholders' meeting, transferees of shares which are transferred on the books of the Corporation within ten (10) days next preceding the date of such meeting shall not be entitled to notice of or to vote at such meeting.

ARTICLE 7
VOTING LISTS

Section 7.1 The officer or agent having charge of the transfer books for shares of the Corporation shall make, at least five (5) days before each meeting of shareholders, a complete alphabetical list of the shareholders entitled to vote at the meeting, with their addresses and the number of shares held by each, which list shall be kept on file at the registered office or principal place of business of the Corporation and shall be subject to inspection by any shareholder during the entire meeting. The original transfer books for shares of the Corporation, or a duplicate thereof kept in this Commonwealth, shall be prima facie evidence as to who are the shareholders entitled to exercise the rights of a shareholder.

ARTICLE 8
JUDGES OF ELECTION

Section 8.1 In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the Chairman of any such meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the holders of shares, present in person or by proxy, entitled to cast at least nine (9) votes which all shareholders are entitled to cast shall determine whether one (1) or three (3) judges are to be appointed. No person who is a candidate for office shall act as a judge. The judges of election shall do all such acts as may be proper to conduct the election or vote, and such other duties as may be prescribed by statute, with fairness to all shareholders, and if requested by the Chairman of the meeting or any shareholder or his proxy, shall make a written report of any matter determined by them and execute a certificate of any fact found by them. If there are three (3) judges of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

ARTICLE 9
PARTICIPATION IN MEETINGS BY ELECTRONIC MEANS

Section 9.1 The presiding officer may permit, on such conditions as may be determined by him, one or more shareholders or proxyholders to participate in a meeting of shareholders, count for the purposes of determining a quorum thereat and exercise all rights and privileges to which such person or persons might be entitled were such person or persons, as the case may be, personally in attendance at such meeting (including the right to vote or to consent to or dissent from any action) by means of conference telephone or other electronic means, including the Internet. Unless the Board of Directors so permits by resolution or the presiding officer so permits, no person may participate in a meeting of shareholders by means of a conference telephone or other electronic means, including the Internet.

ARTICLE 10
CONSENT OF SHAREHOLDERS IN LIEU OF MEETING

Section 10.1 Any action required to be taken at a meeting of shareholders, or of a class of shareholders, may be taken without a meeting, if a consent or consents in writing setting forth the action so taken shall be signed by all of the shareholders who would be entitled to vote at a meeting for such purpose and shall be filed with the Secretary of the Corporation.

ARTICLE 11
DIRECTORS

Section 11.1

(a) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as Directors. For purposes of this Section 11.1, a “nominee” shall include any person being considered to fill a vacancy on the Board of Directors.

(b) Nominations of persons who satisfy the eligibility requirements of subsection (d) of this Section 11.1 for the election of Directors may be made by the Board of Directors, by a committee appointed by the Board of Directors with authority from the Board of Directors to do so, or by any shareholder who complies with subsection (c) of this Section 11.1.

(c) Nominations of persons who satisfy the eligibility requirements of subsection (d) of this Section 11.1 for the election of Directors may be made by any person that (i) is a shareholder of record both at the time of giving of the notice provided for in this Section 11.1 and at the time of the annual meeting, (ii) is entitled to vote for the election of Directors at the annual meeting and (iii) complies with the notice procedures set forth in this Section 11.1. Nomination for the election of Directors pursuant to this subsection (c) of this Section 11.1 is the exclusive means for a shareholder to make nominations before a meeting of shareholders. For nominations to be properly brought before a meeting of shareholders pursuant to subsection (c) of this Section 11.1, such nomination (other than a nomination to fill a vacancy resulting from removal from office by a vote of the shareholders under Section 1726(a) of the PBCL) may be made by a shareholder only if:

i. Advance written notice of a proposed nomination by a shareholder setting forth the information required under subsection (e) of this Section 11.1 is delivered or mailed by certified mail to the Secretary in accordance with the time periods set forth in Section 2.6(b);

ii. Any update or supplement to the notice delivered pursuant to Section 11.1(c)(i) above is delivered pursuant to the requirements of subsections (f) and (g) of this Section 11.1;

iii. The nominating shareholder has complied in all respects with the requirements of Section 14 of the Exchange Act, including without limitation, the requirements of Rule 14a-19 (as such rule and regulations may be amended from time to time by the Commission, including any Commission staff interpretation relating thereto); and

iv. The Board of Directors or an executive officer designated thereby has determined that the shareholder has reasonably satisfied the requirements of this Section 11.1.

(d) To be eligible to be a nominee for election as a Director pursuant to this Section 11.1, the prospective nominee (whether nominated by or at the direction of the Board of Directors or by a shareholder), or someone acting on such prospective nominee's behalf, must deliver (with respect to any nomination by a shareholder pursuant to this Section 11.1, in accordance with any applicable time periods prescribed for delivery of notice under this Section 11.1) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request). Upon request, the prospective nominee must also provide a written representation and agreement, in the form provided by the Secretary upon written request, that such prospective nominee:

i. is not and will not become a party to (1) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such prospective nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (2) any Voting Commitment that could limit or interfere with such prospective nominee's ability to comply, if elected as a director of the Corporation, with such prospective nominee's fiduciary duties under applicable laws;

ii. is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein; and

iii. would be in compliance if elected as a director of the Corporation, and will comply with all applicable corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

(e) Any shareholder who intends to nominate or to cause to have nominated any candidate for election to the Board of Directors (other than any candidate proposed by the Corporation's then existing Board of Directors) shall so notify the Secretary of the Corporation in accordance with Section 2.6(b). Such notification, in addition to complying with the requirements of Sections 2.6(b) and 2.6(c), shall contain the following information to the extent known by the notifying shareholder:

- i. the name and address of each proposed nominee;
- ii. the age of each proposed nominee;
- iii. the principal occupation of each proposed nominee;
- iv. the number of shares of the Corporation owned by each proposed nominee;

- v. the total number of shares, to the knowledge of the notifying shareholder, which will be voted for each proposed nominee;
- vi. the name and residence address of the notifying shareholder;
- vii. the number of shares of the Corporation owned by the notifying shareholder
- viii. all information relating to such person that would be required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Exchange Act (including such person's written consent to (A) being named as a nominee in any proxy materials relating to the Corporation's next annual meeting or special meeting, as applicable, and (B) to serving as a Director if elected); and
- ix. a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner on whose behalf the nomination is being made, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and such nominees' respective affiliates and associates, or others acting in concert therewith, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant.

(f) The shareholder and any Shareholder Associated Person shall update and supplement the notice required by this Section 11.1 by giving notice that the information provided or required to be provided in such notice shall be true and correct (1) as of the record date for the meeting and (2) as of the date that is ten (10) business days prior to the meeting or any adjournment, postponement or recess thereof. Such updates and supplements shall be delivered or mailed by certified mail to the Secretary and received at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment, postponement or recess thereof) not later than five (5) business days prior to the date for the meeting or, if practicable, any adjournment, postponement or recess thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned, postponed or recessed). No such supplement or update may include any new nominees who were not named in the original notice of nomination or to be deemed to cure any defects or limit the remedies (including without limitation under these Bylaws) available to the Corporation relating to any defect.

(g) In addition, the shareholder making such nomination shall promptly provide any other information reasonably requested by the Corporation, including information to determine (1) the eligibility of such proposed nominee to serve as an independent Director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee; (2) whether the proposed nominee has any direct or indirect relationship with the Corporation other than those relationships that have been deemed categorically immaterial pursuant to the Corporation's corporate governance guidelines or its related party transaction policy; (3) whether the proposed nominee would, by serving on the Board of Directors, violate or cause the Corporation to be in violation of these Bylaws, the Articles of Incorporation, the rules and listing standards of the principal U.S. exchange upon which the common stock of the Corporation is listed or any applicable law, rule or regulation, and (4) whether the proposed nominee is or has been subject to any event specified in Item 401(f) of Regulation S-K (or successor rule) of the Commission.

(h) A shareholder who has delivered a notice of nomination pursuant to this Section 11.1 shall promptly certify to the Corporation in writing that it has complied with the requirements of Rule 14a-19 promulgated under the Exchange Act and deliver no later than five (5) business days prior to the annual meeting or special meeting, as applicable, reasonable evidence that it has complied with such requirements.

(i) Notwithstanding anything to the contrary in these Bylaws, unless otherwise required by law, if any shareholder (i) provides notice pursuant to Rule 14a-19 promulgated under the Exchange Act and (ii) subsequently (1) notifies the Corporation that such shareholder no longer intends to solicit proxies in support of director nominees other than the Corporation's director nominees in accordance with Rule 14a-19, (2) fails to comply with the requirements of Rule 14a-19 or (3) fails to provide reasonable evidence sufficient to satisfy the Corporation that such requirements have been met, such shareholder's nomination(s) shall be deemed null and void and the Corporation shall disregard any proxies or votes solicited for any nominee proposed by such shareholder.

(j) The presiding officer may, if the facts warrant, determine that any proposed nomination was not properly brought before the annual meeting in accordance with the provisions of this Section 11.1; and if the presiding officer shall so determine, the presiding officer shall so declare to the meeting, and any such nomination not properly brought before the meeting shall not be considered. A shareholder proposing a nomination for Director shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 11.1; provided, however, that any references in these Bylaws to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit the applicable requirements pursuant to this Section 11.1.

(k) In the event that the same person is nominated by more than one shareholder, if at least one nomination for such person complies with this Section 11.1, the nomination shall be honored and all votes cast for such nominee shall be counted.

(l) Subject to Rules 14a-8 and 14a-19 promulgated under the Exchange Act, nothing in these Bylaws shall be construed to permit any shareholder, or give any shareholder the right to include or have disseminated or described in any proxy materials relating to the Corporation's next annual meeting or special meeting, as applicable, any nomination of a director or directors or any other business proposal.

Section 11.2 The number of directors that shall constitute the whole Board of Directors shall be not less than five (5) nor more than twenty-five (25). The Board of Directors shall be classified into three (3) classes, each class to be as nearly equal in number as possible and each class to be elected for a term of three (3) years. The terms of the respective classes shall expire in successive years. Each class shall be elected in a separate election. At each annual meeting of shareholders thereafter, successors to the class of directors whose term shall then expire shall be elected to hold office for a term of three (3) years, so that the term of office of one class of directors shall expire in each year. Within the foregoing limits, the Board of Directors may from time to time fix the number of directors and their respective classifications. Except as otherwise provided in Section 11.5, no person may serve as a director after the age of 73 years old.

Section 11.3

(a) For all purposes of this Section 11.3, unless specified otherwise, capitalized terms shall have the meanings ascribed to them in the Agreement and Plan of Merger, dated as of September 27, 2023 (the "Merger Agreement"), by and between the Corporation and FNCB Bancorp, Inc. ("FNCB"), as the same may be amended from time to time.

(b) The Board of Directors has resolved that, effective as of the Effective Time, (i) Mr. William E. Aubrey, II shall continue to serve as Chairman of the Board of Directors of the Corporation, and (ii) Mr. Louis A. DeNaples, Sr., shall become the Vice Chairman of the Board of Directors of the Corporation.

(c) In accordance with the provisions of Section 11.2 of these Bylaws, and effective as of the Effective Time, the Board of Directors of the Corporation shall be comprised of sixteen (16) directors, of which eight (8) shall be members of the Board of Directors of the Corporation as of immediately prior to the Effective Time, designated by the Corporation (the "Continuing PFIS Directors"), and eight (8) shall be members of the Board of Directors of FNCB as of immediately prior to the Effective Time, designated by FNCB (the "Continuing FNCB Directors"). Each director of the Corporation immediately after the Effective Time shall hold office until his or her successor is elected and qualified or otherwise in accordance with the Articles of Incorporation and these Bylaws.

(d) This Section 11.3 shall remain in effect until the date that is three (3) years after the Closing Date (the "Expiration Date"), *provided, however*, that this Section 11.3 may be amended or waived by the approval of at least eighty percent (80%) of the members of the Corporation's Board of Directors then in office. In the event of any inconsistency between any provision of this Section 11.3 and any other provision of these Bylaws or the Corporation's other constituent documents, the provisions of this Section 11.3 shall control.

(e) From and after the Effective Time through the Expiration Date, no vacancy on the Board of Directors of the Corporation created by the cessation of service of a director shall be filled by the applicable Board of Directors and the applicable Board of Directors shall not nominate any individual to fill such vacancy, unless (x) in the case of a vacancy created by the cessation of service of a Continuing PFIS Director, not less than a majority of the Continuing PFIS Directors have approved the appointment or nomination (as applicable) of the individual appointed or nominated (as applicable) to fill such vacancy, in which case the Continuing FNCB Directors shall vote to approve the appointment or nomination (as applicable) of such individual, and (y) in the case of a vacancy created by the cessation of service of a Continuing FNCB Director, not less than a majority of the Continuing FNCB Directors have approved the appointment or nomination (as applicable) of the individual appointed or nominated (as applicable) to fill such vacancy, in which case the Continuing PFIS Directors shall vote to approve the appointment or nomination (as applicable) of such individual; provided, that any such appointment or nomination pursuant to clause (x) or (y) shall be made in accordance with applicable Laws and the rules of the Nasdaq Stock Market (or other national securities exchange on which the Corporation's securities are listed). For purposes of this Section 11.3(e), the terms "Continuing PFIS Directors" and "Continuing FNCB Directors" shall mean, respectively, the directors of the Corporation and FNCB who were selected to be directors of the Corporation by the Corporation or FNCB, as the case may be, as of the Effective Time, pursuant to Exhibit E of the Merger Agreement, and any directors of the Corporation who were subsequently appointed or nominated and elected to fill a vacancy created by the cessation of service of a Continuing PFIS Director or a Continuing FNCB Director, as applicable, pursuant to this Section 11.3(e) or the provisions of Exhibit E of the Merger Agreement, as applicable.

Section 11.4 The Board of Directors may declare vacant the office of a director if he or she is declared of unsound mind by an order of court or convicted of a felony or for any other proper cause or if, within thirty (30) days after notice of election, he or she does not accept such office either in writing or by attending a meeting of the Board of Directors.

Section 11.5 All Directors, upon reaching the mandatory retirement age of 73 years, shall be permitted to serve as a director for the remainder of their term after which they shall no longer be eligible to serve as a director. Notwithstanding the foregoing, each director appointed to the Corporation's Board of Directors in connection with the merger contemplated by the Merger Agreement and Section 11.3 hereof who is age 73 or older at the Effective Time, and each incumbent director at the Effective Time who will be age 73 or older at the expiration of his or her term in effect on the date of the Merger Agreement, shall be eligible to stand for election to one additional three (3) year term, regardless of their age, in each case, unless the Board of Directors of the Corporation shall determine otherwise upon the approval of 80% of the directors of the entire Board of Directors.

ARTICLE 12
VACANCIES ON BOARD OF DIRECTORS

Section 12.1 Except as provided in Section 11.3 above, vacancies on the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled by a majority of the remaining members of the Board of Directors, though less than a quorum, and each person so appointed shall be a director until the expiration of the term of office of the class of directors to which he was appointed.

ARTICLE 13
POWERS OF BOARD OF DIRECTORS

Section 13.1 The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws directed or required to be exercised and done by the shareholders.

Section 13.2 The Board of Directors shall have the power and authority to appoint an Executive Committee and such other committees as may be deemed necessary by the Board of Directors for the efficient operation of the Corporation. The Executive Committee shall consist of the Chairman of the Board, if any, the Vice Chairman of the Board, if any, the President and not less than one (1) nor more than three (3) other directors (which other directors shall not be employees of the Corporation or any of its subsidiaries). The Executive Committee shall meet at such time as may be fixed by the Board of Directors, or upon call of the Chairman of the Board or the President. A majority of members of the Executive Committee shall constitute a quorum. The Executive Committee shall have and exercise the authority of the Board of Directors in the intervals between the meetings of the Board of Directors as far as may be permitted by law.

ARTICLE 14
MEETINGS OF THE BOARD OF DIRECTORS

Section 14.1 An organization meeting may be held immediately following the annual shareholders' meeting without the necessity of notice to the directors to constitute a legally convened meeting, or the directors may meet at such time and place as may be fixed by either a notice or waiver of notice or consent signed by all of such directors.

Section 14.2 Regular meetings of the Board of Directors shall be held not less often than semi-annually at a time and place determined by the Board of Directors at the preceding meeting. One or more directors may participate in any meeting of the Board of Directors, or of any committee thereof, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another.

Section 14.3 Special meetings of the Board of Directors may be called by the Chairman of the Board or the President on one day's notice to each director, either personally or by mail, courier service, facsimile transmission, email or other electronic communication, or telephone; special meetings shall be called by the Chairman of the Board or the President in like manner and on like notice upon the written request of three (3) directors.

Section 14.4 At all meetings of the Board of Directors, a majority of the directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at a meeting in person or by conference telephone or similar communications equipment at which a quorum is present in person or by such communications equipment shall be the acts of the Board of Directors, except as may be otherwise specifically provided by statute or by the Articles of Incorporation or by these Bylaws. If a quorum shall not be present in person or by communications equipment at any meeting of the directors, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or as permitted herein.

ARTICLE 15
INFORMAL ACTION BY THE BOARD OF DIRECTORS

Section 15.1 If all the directors shall severally or collectively consent in writing, to any action to be taken by the Corporation, such action shall be as valid corporate action as though it had been authorized at a meeting of the Board of Directors.

ARTICLE 16
COMPENSATION OF DIRECTORS

Section 16.1 Directors, as such, may receive a stated salary for their services or a fixed sum and expenses for attendance at regular and special meetings, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefore.

ARTICLE 17
OFFICERS

Section 17.1 The officers of the Corporation shall be elected by the Board of Directors at its organization meeting and shall be a President, a Secretary and a Treasurer. At its option, the Board of Directors may elect a Chairman of the Board. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary, who shall hold their offices for such terms, have such authority and perform such duties as may from time to time be prescribed by the Board of Directors. Any two (2) or more offices may be held by the same person.

Section 17.2 The compensation of all officers of the Corporation shall be fixed by the Board of Directors.

Section 17.3 The Board of Directors may remove any officer or agent elected or appointed, at any time and within the period, if any, for which such person was elected or employed whenever in the Board of Directors' judgment it is in the best interests of the Corporation, and all persons shall be elected and employed subject to the provisions thereof. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

ARTICLE 18
THE CHAIRMAN OF THE BOARD

Section 18.1 The Chairman of the Board shall preside at all meetings of shareholders and directors. He shall supervise the carrying out of the policies adopted or approved by the Board of Directors. He shall have general executive powers, as well as the specific powers conferred by these Bylaws. He shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to him by the Board of Directors.

ARTICLE 19
THE PRESIDENT

Section 19.1 The President shall be the chief executive officer of the Corporation. The President shall (a) have general and active management of the business of the Corporation, (b) see that orders and resolutions of the Board of Directors are put into effect, subject, however, to the right of the Board of Directors to delegate any specific powers, except such as may be by statute exclusively conferred on the president, to any other officer or officers of the Corporation and (c) execute bonds, mortgages and other contracts requiring a seal under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. In the absence or incapacity of the Chairman of the Board, the President shall preside at meetings of the shareholders and directors. If there is no Chairman of the Board, the President shall have and exercise all powers conferred by these Bylaws or otherwise on the Chairman of the Board.

ARTICLE 20
THE VICE PRESIDENT

Section 20.1 The Vice President or, if more than one, the Vice Presidents in the order established by the Board of Directors shall, in the absence or incapacity of the President, exercise all powers and perform the duties of the President. The Vice Presidents, respectively, shall also have such other authority and perform such other duties as may be provided in these Bylaws or as shall be determined by the Board of Directors or the President. Any Vice President may, in the discretion of the Board of Directors, be designated as “executive,” “senior,” or by departmental or functional classification.

ARTICLE 21
THE SECRETARY

Section 21.1 The Secretary shall attend all meetings of the shareholders and directors and keep accurate records thereof in one or more minute books kept for that purpose and shall perform the duties customarily performed by the secretary of a Corporation and such other duties as may be assigned to the Secretary by the Board of Directors or the President.

ARTICLE 22
THE TREASURER

Section 22.1 The Treasurer shall (a) have the custody of the corporate funds and securities, (b) keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and (c) perform such other duties as may be assigned to him by the Board of Directors or the President. He shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

ARTICLE 23
ASSISTANT OFFICERS

Section 23.1 Each assistant officer shall assist in the performance of the duties of the officer to whom he is assistant and shall perform such duties in the absence of the officer. He shall perform such additional duties as the Board of Directors, the President or the officer to whom he is assistant may from time to time assign. Such officers may be given such functional titles as the Board of Directors shall from time to time determine.

ARTICLE 24
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 24.1 The Corporation shall indemnify, to the fullest extent permitted by Pennsylvania law and federal law, any director, officer and/or employee, or any former director, officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director, officer and /or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 24.2 The Corporation shall indemnify, to the fullest extent permitted by Pennsylvania law and federal law, any director, officer and/or employee, who was or is a party to, or is threatened by to be made a party to, or who is called as a witness in connection with any threatened, pending or completed action or suit by or in the right of the Corporation to procure a

judgment in its favor by reason of the fact that such person is or was a director, officer and/or employee or agent of another Corporation, partnership, joint venture, trust or other enterprise against amounts paid in settlement and expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense or settlement of, or serving as a witness in, such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and except that no indemnification shall be made in respect of any such claim, issue or matter as to which such person shall have been adjudged to be liable for misconduct in the performance of his duty to the Corporation.

Section 24.3 Except as may be otherwise ordered by a court, there shall be a presumption that any director, officer and/or employee is entitled to indemnification as provided in Sections 24.1 and 24.2 of this Article unless either a majority of the directors who are not involved in such proceedings ("disinterested directors") or, if there are less than three (3) disinterested directors, then the holders of one-third of the outstanding shares of the Corporation determine that the person is not entitled to such presumption by certifying such determination in writing to the Secretary of the Corporation. In such event the disinterested director(s) or, in the event of certification by shareholders, the Secretary of the Corporation shall request of independent counsel, who may be the outside general counsel of the Corporation, a written opinion as to whether or not the parties involved are entitled to indemnification under Sections 24.1 and 24.2 of this Article.

Section 24.4 Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided under Section 24.3 of this Article upon receipt of an undertaking by or on behalf of the director, officer and/or employee to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this Article.

Section 24.5 The indemnification provided by this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity while serving as a director, officer and/or employee and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer and/or employee and shall inure to the benefit of the heirs and personal representatives of such a person.

ARTICLE 25
RESERVED

ARTICLE 26
SHARE CERTIFICATES

Section 26.1 The share certificates of the Corporation shall be numbered and registered in a share register as they are issued, shall bear the name of the registered holder, the number and class of shares represented thereby, the par value of each share or a statement that such shares are without par value, as the case may be, shall be signed by the President or a Vice President and the Secretary or the Treasurer or any other person properly authorized by the Board of Directors; and shall bear the corporate seal, which seal may be a facsimile engraved or printed. Where the certificate is signed by a transfer agent or a registrar, the signature of any corporate officer on such certificate may be a facsimile, engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer because of death, resignation or otherwise before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of its issue.

Section 26.2 Notwithstanding anything herein to the contrary, any or all classes and series of shares, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board of Directors, except that shares represented by a certificate that is issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates. The rights and obligations of the holders of shares represented by certificates and the rights and obligations of the holders of uncertificated shares of the same class shall be identical. Notwithstanding anything herein to the contrary, the provisions of Section 26.1 shall not apply to uncertificated shares and, in lieu thereof, the Board of Directors shall adopt alternative procedures for registration of transfers.

ARTICLE 27
TRANSFER OF SHARES

Section 27.1 Upon surrender to the Corporation of a share certificate duly endorsed by the person named in the certificate or by attorney duly appointed in writing and accompanied where necessary by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate cancelled and the transfer recorded upon the share register of the Corporation. No transfer shall be made if it would be inconsistent with the provisions of Article 8 of the Pennsylvania Uniform Commercial Code.

ARTICLE 28
LOST CERTIFICATES

Section 28.1 Where a shareholder of the Corporation alleges the loss, theft or destruction of one or more certificates for shares of the Corporation and requests the issuance of a substitute certificate therefore, the Board of Directors may direct a new certificate of the same tenor and for the same number of shares to be issued to such person upon such person's making of an affidavit in form satisfactory to the Board of Directors setting forth the facts in connection therewith, provided that prior to the receipt of such request the Corporation shall not have either registered a transfer of such certificate or received notice that such certificate has been acquired by a bona fide purchaser. When authorizing such issue of a new certificate the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his heirs or legal representatives, as the case may be, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such form and with surety or sureties, with fixed or open penalty, as shall be satisfactory to the Board of Directors, as indemnity for any liability or expense which it may incur by reason of the original certificate remaining outstanding.

ARTICLE 29
DIVIDENDS

Section 29.1 The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of the Corporation in cash, property or shares of the Corporation, as long as any dividend shall not be in violation of law or the Articles of Incorporation.

Section 29.2 Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purposes as the Board of Directors shall believe to be for the best interests of the Corporation, and the Board of Directors may reduce or abolish any such reserve in the manner in which it was created.

ARTICLE 30
FINANCIAL REPORT TO SHAREHOLDERS

Section 30.1 The President and the Board of Directors shall present at each annual meeting of the shareholders a full and complete statement of the business and affairs of the Corporation for the preceding year.

ARTICLE 31
INSTRUMENTS

Section 31.1 All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other persons as the President or the Board of Directors may from time to time designate.

Section 31.2 All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies and other instruments and documents may be signed, executed, acknowledged, verified, delivered or accepted, including those in connection with the fiduciary powers of the Corporation, on behalf of the Corporation by the President or other persons as may be designated by him.

ARTICLE 32
VENUE

Section 32.1 Unless the Corporation consents in writing to the selection of an alternate forum, the state courts of the Commonwealth of Pennsylvania in and for Lackawanna County shall be the sole and exclusive forum, to the fullest extent permitted by law, for (i) any derivative action or proceeding brought on behalf of the Corporation; (ii) any action asserting a claim of a breach of fiduciary duty owed by any director or officer of the Corporation to the Corporation or the Corporation's shareholders; (iii) any action asserting a claim against the Corporation arising pursuant to any provision of the Business Corporation Law of the Commonwealth of Pennsylvania, the Articles of Incorporation of the Corporation or these Bylaws; (iv) any action seeking to interpret, apply, enforce or determine the validity of the Article of Incorporation or the Bylaws of the Corporation; or (v) any action asserting a claim against the Corporation governed by the internal affairs doctrine.

Section 32.2 Unless the Corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended. Any person or entity purchasing or otherwise acquiring any interest in any securities of the Corporation shall be deemed to have notice of and consented to this Section 32.2.

ARTICLE 33
FISCAL YEAR

Section 33.1 The fiscal year of the Corporation shall be the calendar year.

ARTICLE 34
SEAL

Section 34.1 The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Pennsylvania." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed in any manner reproduced.

ARTICLE 35
NOTICES AND WAIVERS THEREOF

Section 35.1 Whenever, under the provisions of applicable law or of the Articles of Incorporation or of these Bylaws, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof through the mail by first class or express mail postage prepaid, or courier service, charges prepaid, facsimile transmission, email or other electronic communication, to his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice. If the notice is sent by mail or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or the courier service for transmission to such person. If notice is sent by facsimile transmission, email or other electronic communication it shall have been deemed to have been given to the person entitled thereto when sent. Such notice shall specify the place, day and hour of the meeting and, in the case of a special meeting of shareholders, the general nature of the business to be transacted.

Section 35.2 Any written notice required to be given to any person may be waived in writing signed by the person entitled to such notice whether before or after the time stated therein. Attendance of any person entitled to notice whether in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Where written notice is required of any meeting, the waiver thereof must specify the purpose only if it is for a special meeting of the shareholders.

ARTICLE 36
AMENDMENTS

Section 36.1 These Bylaws may be altered, amended or repealed by (a) the affirmative vote of the shareholders entitled to cast at least seventy-five percent (75%) of the votes which all shareholders are then entitled to cast at any regular or special meeting duly convened after notice to the shareholders of that purpose or (b) by the affirmative vote of a majority of the members of the Board of Directors, except Article 11 of these Bylaws which for three (3) years following the Effective Time require the affirmative vote of eighty percent (80%) or more of the members of the Board of Directors, at any regular or special meeting thereof duly convened after notice to the directors of that purpose, subject always to the power of the shareholders to change such action of the Board of Directors by the affirmative vote of the shareholders entitled to cast at least seventy-five percent (75%) of the votes which all shareholders are then entitled to cast.

THIRD AMENDMENT**TO THE****FNCB BANK SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

THIS THIRD AMENDMENT to the FNCB Bank Supplemental Executive Retirement Plan (the “Plan”) is made June 26, 2024, by FNCB Bank (the “Bank”), a state-chartered bank organized and existing under the laws of the Commonwealth of Pennsylvania.

RECITALS:

WHEREAS, the Plan was adopted by the Bank on October 1, 2015, and was subsequently amended twice;

WHEREAS, the Bank has the authority to amend the Plan pursuant to Article X;

WHEREAS, effective July 1, 2024, the Bank anticipates merging with Peoples Security Bank and Trust Company, with the surviving entity of such merger to be known as Peoples Security Bank and Trust Company (the “Successor Bank”);

WHEREAS, the Bank desires to amend the Plan to reflect the fact that, effective on and after the aforementioned merger, the Plan shall be sponsored and maintained by the Successor Bank; and

WHEREAS, the Bank desires to amend the Plan to modify (i) the definition of “Eligible Employee” and (ii) the rules regarding crediting of interest to participants’ accounts under the Plan.

NOW, THEREFORE, contingent in all respects upon the occurrence of the aforementioned merger, the Plan is hereby amended as follows:

1. By deleting the first paragraph of Article I (Establishment and Purpose) and replacing it with the following:

“The First National Community Bank established the First National Community Bank Supplemental Executive Retirement Plan (the “Plan”), originally effective October 1, 2015. Effective, June 29, 2016, the First National Community Bank was converted to a Pennsylvania state-charted bank and changed its name to FNCB Bank, and the Plan was amended to change the Plan name and reflect the change in Plan sponsor. Effective July 1, 2024, FNCB Bank was merged with Peoples Security Bank and Trust Company, with the surviving entity of such merger known as Peoples Security Bank and Trust Company (the “Bank”), and the Plan was further amended to change the Plan name and reflect the change in Plan sponsor.”

2. By adding the following sentence to the end of Section 2.22 (Eligible Employee):

“Notwithstanding the foregoing, only those employees of the Bank who were Employees of FNCB Bank prior to its merger with Peoples Security Bank and Trust Company shall be eligible to be an Eligible Employee, and in no event shall any employee of Peoples Security Bank and Trust Company (or an affiliate) be or become an Eligible Employee under the Plan, or be deemed eligible to participate in the Plan, pursuant to an individual agreement between such employee and Peoples Financial Services Corp. or Peoples Security Bank and Trust Company (or any of their respective affiliates) unless such agreement: (i) was entered into after the aforementioned merger; and (ii) specifically provides for participation in this Plan.”

3. By adding the following sentence to the end of Section 8.3 (Interest Credits):

“Effective July 1, 2024, in the event of a lump sum distribution of a Participant’s Account prior to the last day of a Plan Year (i.e. prior to December 31st), such Participant’s Account shall be credited with a prorated Interest Credit for the year in which distribution occurs provided that: (i) such proration shall be based on a fraction where the numerator is the number of days in the Plan Year occurring before the date of distribution and the denominator is 365 days; and (ii) the annual interest rate is the sum of (1) 1% and (2) the average of the one year Treasury Bill rates in effect on and between the first and fifteenth day of the month proceeding the month in which the distribution occurs.”

4. By deleting the phrase “FNCB Bank Supplemental Executive Retirement Plan” and inserting in its place “Peoples Security Bank and Trust Company Supplemental Executive Retirement Plan” wherever the former phrase occurs in the Plan; and

5. By deleting the phrase “FNCB Bank” and inserting in its place “Peoples Security Bank and Trust Company” wherever the former phrase occurs in the Plan (other than the first paragraph of Article I, as amended by this Third Amendment).

Except as otherwise amended by this Third Amendment, all provision of the Plan shall remain in full force and effect and the Plan and all amendments shall be construed together and considered on and the same agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, FNCB Bank executes this Third Amendment as of the date first written above.

FNCB Bank:

By: /s/ James M. Bone, Jr.
Name: James M. Bone, Jr.
Title: Executive Vice President and Chief
Financial Officer

[Signature Pate to Third Amendment to SERP]

CERTIFICATION

I, Craig W. Best, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2024, of Peoples Financial Services Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13A-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in the quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Craig W. Best

Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2024

CERTIFICATION

I, John R. Anderson, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2024, of Peoples Financial Services Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13A-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in the quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John R. Anderson, III

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 14, 2024

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report on Form 10-Q of Peoples Financial Services Corp. (the “Company”) for the period ended September 30, 2024, as filed with the Securities and Exchange Commission (the “Report”), I, Craig W. Best, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Craig W. Best

Chief Executive Officer
(Principal Executive Officer)
Date: November 14, 2024

/s/ John R. Anderson, III

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
Date: November 14, 2024

A signed copy of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
