

PEOPLES FINANCIAL SERVICES CORP.  
Form DEF 14A  
April 09, 2019  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**PEOPLES FINANCIAL SERVICES CORP.**

(Name of Registrant as Specified In Its Charter)

NOT APPLICABLE

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
-

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
-

Table of Contents

**PEOPLES FINANCIAL SERVICES CORP.  
150 North Washington Avenue  
Scranton, Pennsylvania 18503**

April 9, 2019

To Our Shareholders:

You are cordially invited to attend the 2019 Annual Meeting of Shareholders of Peoples Financial Services Corp. to be held on Saturday, May 18, 2019 at 9:00 a.m. local time at Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania.

At the annual meeting, shareholders will be asked to consider and vote upon: the election of three directors to the Company's board of directors, each to serve until the 2022 annual meeting of shareholders and until his successor has been selected and qualified; a proposal to approve, on an advisory basis, the compensation of our named executive officers; the ratification of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and any other business as may properly be brought before the meeting.

On behalf of the board of directors, we urge you to submit your proxy by mail, telephone or internet as soon as possible, even if you currently plan to attend the annual meeting. This will not prevent you from voting in person at the meeting, but will assure that your vote is counted if you are unable to attend the annual meeting.

Your cooperation is appreciated, as shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast must be represented at the annual meeting, either in person or by proxy, to constitute a quorum for the conduct of business.

Very truly yours,

William E. Aubrey II  
Chairman of the Board

Craig W. Best  
President and Chief Executive Officer

Table of Contents

**PEOPLES FINANCIAL SERVICES CORP.  
150 North Washington Avenue  
Scranton, Pennsylvania 18503**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 18, 2019**

Notice is hereby given that the 2019 Annual Meeting of Shareholders of Peoples Financial Services Corp., referred to as we or the Company, will be held at Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania on Saturday, May 18, 2019, at 9:00 a.m. local time, for the purpose of considering and voting upon the following matters:

- Election of three directors to our board of directors, each to serve until the 2022 annual meeting of shareholders and until his successor has been elected and qualified;
- A proposal to approve, on an advisory basis, the compensation of our named executive officers;
- Ratification of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and
- Such other business as may properly come before the meeting.

Shareholders of record at the close of business on February 28, 2019 are entitled to notice of and to vote at the annual meeting. Whether or not you contemplate attending the annual meeting, the board of directors of the Company recommends that you execute and return the enclosed proxy by mail or submit your proxy by telephone or the internet. You may revoke your proxy at any time prior to the exercise of the proxy by delivering to the Company a later dated proxy, by delivering a later dated written notice of revocation to the Company, or by voting your shares in person at the annual meeting.

**Important Notice Regarding Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 18, 2019:**

Our proxy statement, annual report to shareholders, proxy card, and directions to attend the annual meeting are available at <http://www.astproxyportal.com/ast/08838/>.

BY ORDER OF THE BOARD OF DIRECTORS

DEBRA E. ADAMS

Secretary

April 9, 2019

---

Table of Contents

**PEOPLES FINANCIAL SERVICES CORP.  
150 North Washington Avenue  
Scranton, Pennsylvania 18503**

**PROXY STATEMENT FOR ANNUAL MEETING  
OF SHAREHOLDERS TO BE HELD ON MAY 18, 2019**

This proxy statement is being furnished to shareholders of Peoples Financial Services Corp., referred to as we or the Company, in connection with the solicitation by the board of directors of the Company of proxies to be voted at the annual meeting of shareholders to be held at Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania at 9:00 a.m. local time on Saturday, May 18, 2019, or such later date to which the annual meeting may be adjourned or postponed.

At the annual meeting, you will be asked to consider and vote upon the following matters:

- Election of three directors to the Company's board of directors each to serve until the 2022 annual meeting of shareholders and until his successor has been elected and qualified;
- A proposal to approve, on an advisory basis, the compensation of our named executive officers;
- Ratification of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and
- Such other business as may properly come before the meeting.

Information regarding the election of directors and the other proposals is included in this proxy statement. Shareholders should carefully read this proxy statement.

The first date on which this proxy statement and the enclosed form of proxy are being sent to the shareholders of the Company is on or about April 9, 2019.

---

Table of Contents

**TABLE OF CONTENTS**

<u>A Warning About Forward-Looking Statements</u>	ii
<u>Information About Voting</u>	1
<u>Proposal 1 Election of Directors</u>	4
<u>Proposal 2 To Approve, on an Advisory Basis, the Compensation of our Named Executive Officers</u>	8
<u>Proposal 3 Ratification of the Appointment of Baker Tilly Virchow Krause, LLP</u>	9
<u>Board of Directors and Committees</u>	11
<u>Security Ownership of Certain Beneficial Owners and Management</u>	18
<u>Executive Officers and Compensation</u>	19
<u>Certain Relationships and Related Transactions</u>	41
<u>Code of Ethics</u>	42
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	42
<u>Equity Compensation Plan Information</u>	42
<u>Shareholder Proposals</u>	43
<u>Reports and Other Documents</u>	44

Table of Contents

**A WARNING ABOUT FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements, in addition to historical information. Forward looking statements are typically identified by words or phrases such as believe, expect, anticipate, intend, estimate, project, and variations of such words and similar expressions, or future conditional verbs such as would, should, could, may, or similar expressions. Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, provide a safe harbor in regard to the inclusion of forward-looking statements in this document and any documents incorporated by reference.

You should note that many factors, some of which are discussed elsewhere in this document and in documents that are incorporated by reference, could affect the future financial results of Peoples Financial Services Corp. and its subsidiaries and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this document. These factors include, but are not limited, to the following:

- changes in interest rates;
- economic conditions, particularly in the Peoples Financial Services Corp. 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;
- 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 the Peoples Financial Services Corp. market area;
- the ability to achieve the intended benefits of, or other risks associated with, business combinations;
- changes in relevant accounting principles and guidelines;
- inability of third party service providers to perform;
- the ability to prevent, detect and respond to cyberattacks; and



- other factors that may be described in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q as filed with the Securities and Exchange Commission from time to time.

We caution that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, all of which change over time, and we assume no duty to update forward-looking statements, except as may be required by applicable law or regulation, and except as required by applicable law or regulation, we do not undertake, and specifically disclaim any obligation, to publicly release any revisions to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. We caution readers not to place undue reliance on any forward-looking statements. These statements speak only as of the date made, and we advise readers that various factors, including those described above, could affect our financial performance and could cause actual results or circumstances for future periods to differ materially from those anticipated or projected.

Table of Contents

**INFORMATION ABOUT VOTING**

How are proxies being solicited?

This proxy solicitation is being made by and at the direction of the board of directors of the Company, and we will pay all expenses relating to the solicitation. Proxies may be solicited by mail, personally, by telephone or by other electronic means by officers, directors and employees of the Company and its subsidiary, Peoples Security Bank and Trust Company, or the Bank, who will not be compensated for such solicitation activities. In addition, we have engaged Regan & Associates, Inc. (New York, NY) to assist us with the solicitation. We will pay Regan & Associates a fee of \$9,500 and reimburse them for their reasonable out-of-pocket expenses. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries for forwarding solicitation materials to the beneficial owners of shares held of record by such persons, and we will reimburse those persons for their reasonable expenses.

What is on the agenda for the annual meeting?

The agenda for the annual meeting includes the election of three directors to the Company's board of directors, each to serve until the 2022 annual meeting of shareholders and until his successor has been elected and qualified, a proposal to approve, on an advisory basis, the compensation of our named executive officers, the ratification of Baker Tilly Virchow Krause, LLP as our independent registered public account firm for the fiscal year ending December 31, 2019, and such other business as may properly come before the annual meeting. We are not aware of any such other business that may properly come before the annual meeting at the present time.

Who can vote?

You can vote at the annual meeting if you were a holder of our common stock at the close of business on the record date. The record date for the annual meeting is February 28, 2019. Each share of common stock you own as of the record date entitles you to one vote for each director to be elected in the election of directors and one vote on any other business as may properly come before the annual meeting. As of the record date, there were 7,399,053 shares of common stock outstanding and entitled to vote.

How do I vote if shares are held directly in my name?

If you hold your shares in certificate or direct registration system form, and not through a bank, brokerage firm or other nominee, you may vote your shares in one of the following ways:

- **By Mail.** If you choose to vote by mail, complete the enclosed proxy, date and sign it, and return it in the postage-paid envelope provided.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

- In Person. If you choose to vote in person, come to the annual meeting and cast your vote. If you attend the meeting, you may vote your shares in person even if you have previously submitted a proxy.
  - Telephonic voting. If you choose to vote by telephone, call toll-free 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call, and use the company number and account number shown on your proxy card.
  - Internet Voting. If you choose internet voting, access [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the company number and account number shown on your proxy card.
-

Table of Contents

You may submit your proxy by telephone or via internet until 11:59 PM EDT the day before the meeting.

How do I vote if shares are held in street name or through a bank, brokerage firm or other nominee?

If you hold your shares in street name or through a bank, brokerage firm or other nominee, you will need to vote your shares by providing voting instructions to your bank, brokerage firm or other nominee, in accordance with the voting instruction form provided to you by your bank, brokerage firm or other nominee, or by obtaining a legal proxy from your bank, brokerage firm or other nominee authorizing you to vote those shares at the annual meeting. Only with a legal proxy from your bank, brokerage firm or other nominee can you cast your vote in person at the annual meeting.

How will my proxy be voted?

If you hold your shares directly in your name, unless you indicate differently on your proxy, we plan to vote signed and returned proxies **FOR** the election of the board's director nominees named in this proxy statement, **FOR** the proposal to approve, on an advisory basis, the compensation of our named executive officers, and **FOR** the ratification of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

If you hold your shares of the Company's common stock in street name (that is, through a broker or other nominee), under applicable rules, brokers have the discretion to vote on routine matters, such as the ratification of the selection of accounting firms, but do not have discretion to vote on non-routine matters. Rules applicable to brokers consider uncontested elections of directors, matters related to executive compensation, and matters related to corporate governance to be considered non-routine. If you hold your shares in street name, but do not give your broker or other nominee instructions on how to vote your shares, votes may not be cast on your behalf. If your broker or other nominee submits a proxy but does not vote your shares on a particular proposal because it has not received voting instructions from you, your shares will be considered to be broker non-votes with regard to that matter.

At or after the annual meeting, a judge of elections will tabulate ballots cast by shareholders present and voting in person and votes cast by proxy.

What is a broker non-vote?

A broker non-vote occurs when a bank or brokerage firm holding shares on behalf of a shareholder does not receive voting instructions from the shareholder by a specified date before the annual meeting and the bank or brokerage firm is not permitted to vote, or otherwise does not vote, those undirected shares on specified matters. Thus, if you do not give your broker specific instructions, your shares may not be voted on those matters (so-called broker non-votes) and will not be counted in determining the number of shares necessary for approval. Broker non-votes are not considered to be votes cast and, therefore, generally have no effect on the outcome of elections of directors or other business which are determined based on votes cast. Shares represented by broker non-votes will be counted, however, in determining the number of shares of common stock

represented in person or by proxy and entitled to vote.

Can I revoke my proxy or change my vote after submitting my proxy?

Yes. Any shareholder giving a proxy has the right to attend the annual meeting and vote in person. A proxy may be revoked prior to the annual meeting if a later-dated proxy or a written revocation is sent to the Company at Peoples Financial Services Corp., 150 North Washington Avenue, Scranton,

Table of Contents

Pennsylvania 18503, Attn.: Secretary, and received prior to the annual meeting. In addition, a proxy may be revoked at the annual meeting by filing a later-dated proxy or by filing a written notice of such revocation with the Secretary of the Company at the annual meeting prior to the voting of such proxy.

What constitutes a quorum at the annual meeting and how are votes counted?

We need a quorum of shareholders to hold a valid annual meeting. A quorum will be present if shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast are represented in person or by proxy at the annual meeting. Abstentions and broker non-votes are counted as present for the purpose of establishing a quorum.

How many votes are required for the election of directors?

Directors are elected by a plurality vote of shares of common stock cast in person or by proxy at the annual meeting, provided that a quorum is present. A plurality means that the candidates for election as directors receiving the highest number of votes, up to the number of directors to be elected, shall be elected. Because the election of directors is based on a plurality of the votes cast, abstentions and broker non-votes have no effect on the outcome of the vote. Shareholders are not entitled to cumulative voting in the election of directors.

How many votes are required to approve, on an advisory basis, the compensation of our named executive officers?

As long as a quorum is present, the affirmative 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, is required to approve, on an advisory basis, the compensation of our named executive officers. Abstentions and broker non-votes will have the same effect as votes against this proposal.

How many votes are required for the ratification of the appointment of Baker Tilly Virchow Krause, LLP?

As long as a quorum is present, the affirmative 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, is required to ratify the appointment of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019. Abstentions and broker non-votes will have the same effect as votes against this proposal.

How many votes are required for any other proposals that may properly come before the annual meeting?

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

Any other proposals that may properly come before the annual meeting will be approved if 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 are voted in favor of the action, unless the question is one upon which a different vote is required by express provision of law or by our articles of incorporation or our bylaws. Abstentions and broker non-votes will have the same effect as votes against any proposal that requires approval by a majority of the votes which all shareholders are entitled to cast. Abstentions and broker non-votes are not considered votes cast, however, and, as such, have no effect on the outcome of any proposals which would be approved based on votes cast. We are not aware of any such other proposals that may properly come before the annual meeting at the present time.

Table of Contents

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our bylaws provide that the number of directors constituting the entire board will be not less than five nor more than twenty-five, with the exact number to be fixed from time to time by our board of directors.

Our bylaws also provide that our board of directors will be classified into three classes, each class to be as nearly equal in number, in respect to the time for which they severally hold office. At each annual meeting of shareholders, one class of directors is to be elected and each class of directors so elected will serve for a term of approximately three years. The number of directors currently comprising the entire board is eleven. In accordance with our mandatory retirement bylaw, Joseph G. Cesare, M.D. will retire at the expiration of his current term at the annual meeting. Based on the recommendation of our nominating and governance committee, our board of directors resolved to decrease the number of directors comprising the entire board from eleven to ten upon the expiration of Dr. Cesare's term. Accordingly, three nominees will be elected to the 2022 class of directors.

It is intended that the proxies solicited by the board of directors will be voted **FOR** the three director nominees named below (unless the shareholder otherwise directs). If, for any reason, any nominee becomes unavailable for election or service on the board, the proxy solicited by the board of directors will be voted for such substituted nominee as is selected by the board of directors. The board has no reason to believe that any of the named nominees are not available or will not serve if elected.

Nominees for Director - Term Expiring In 2022

The board has nominated incumbent directors William E. Aubrey II, Craig W. Best and Joseph T. Wright, Jr., Esquire for election to the board of directors at the 2019 annual meeting of shareholders, each to serve until the 2022 annual meeting of shareholders and until his successor has been elected and qualified. The names of the director nominees and certain information about them are set forth below:

*William E. Aubrey II*, age 56, has been a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company since 2006 and Chairman of the Board since 2008. He has been President and Chief Executive Officer of Gertrude Hawk Chocolates based in Dunmore, PA since 2003. The board has determined that Mr. Aubrey is qualified to be on the board due to his executive management experience gained by serving as a chief executive. He also brings knowledge gained by serving on the on the Board of Directors of United Gilsonite Laboratories in Scranton, PA and Rustic Crust in Pittsfield, NH. In addition, he has served on many community boards including past Chairman of Geisinger CMC Hospital, Keystone College, Holy Cross School System and the Everhart Museum. He holds an MBA and CPA.

*Craig W. Best*, age 58, was appointed as a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company in connection with the consummation of the Pensco merger in November 2013. Prior to that, he served as a director of Pensco Financial Services Corporation and Penn Security Bank and Trust Company since 2006. The Company has concluded that Mr. Best is qualified to serve as a director of the Company as a result of his leadership and prior experience in the banking industry. Mr. Best served as President and Chief Executive Officer of



Penseco Financial Services Corporation and Penn Security Bank and Trust Company from 2006 until the Penseco merger, at which time he was appointed as President and Chief Executive Officer of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company. Prior to joining Penseco, Mr. Best served as Chief Operating Officer of First Commonwealth Bank, a \$6.2 billion financial services institution headquartered in Indiana, Pennsylvania, from July 2000 to December 2005. During his employment with First Commonwealth Bank, Mr. Best was responsible for overseeing the day to day operations of all lines of

Table of Contents

business and administrative functions for First Commonwealth Bank. Before serving as Chief Operating Officer of First Commonwealth Bank, Mr. Best was President of NBOC, a \$1.0 billion division of First Commonwealth Bank. This collective experience, along with his knowledge of all aspects of the Company's and the Bank's business through his position as President and Chief Executive Officer, uniquely qualify Mr. Best for service on the Company's Board of Directors.

*Joseph T. Wright, Jr.*, age 63, has been a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company since 2009. He has been an attorney at law with Wright & Reihner PC since 1980. The board has determined that Mr. Wright is qualified to be on the board due to his experience and knowledge gained while being a practicing attorney for over thirty years with involvement in numerous financially complex matters related to disputes involving shareholders, employment matters, contracts, valuation issues, real estate matters, and general business issues related to risk assessment.

Continuing Directors

The names of our directors, whose current terms will continue after the 2019 annual meeting of shareholders, and certain information about them, are set forth below:

Term Expiring In 2020

*James G. Keisling*, age 71, was appointed as a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company in connection with the consummation of the Pensco merger in November 2013. Prior to that, he served as a director of Pensco Financial Services Corporation and Penn Security Bank and Trust Company since 1984. Our board of directors determined that Mr. Keisling is qualified to serve as a director of the Company as a result of his substantial small company management experience, specifically in the region in which the Bank conducts its business, and previous service as a director of Pensco and other public companies. Mr. Keisling is the Treasurer of Northeast Architectural Products, Inc., a manufacturer of hardscape masonry products located in Archbald, Pennsylvania. Through his employment with Northeast Architectural Products, Inc., Mr. Keisling is able to obtain insight regarding the local business and consumer environment that is valuable to the Board of Directors in its oversight of the Company's and Bank's operations. His service as a director of Pensco and Penn Security has enabled him to develop a knowledge of their former operations, which is beneficial to the Company's Board. In addition, Mr. Keisling served as a director of CPG International, Inc., a public company that manufactures plastic sheets products, from 2006 to 2008, and Vycom Corp., a public company that manufactures plastic sheets products, from 2006 to 2008.

*Ronald G. Kukuchka*, age 65, has been a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company since 2007. He has been President of Ace Robbins, Inc. since 1982. The board has determined that Mr. Kukuchka is qualified to be on the board due to his leadership skills gained from owning a successful petroleum company in our market area for over 34 years. He also brings experience gained by serving as director for the

Pennsylvania Marketers & Convenience Store Association, director of the Tunkhannock Fireman's Relief Association, and from being trustee of the Roy Piper Charitable Trust.

*Robert W. Naismith, Ph.D.*, age 74, was appointed as a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company in connection with the consummation of the Penseco merger in November 2013. Prior to that, he served as a director of Penseco Financial Services Corporation and Penn Security Bank and Trust Company since 1988. The Company has concluded that Dr. Naismith is qualified to serve as a director of the Company as a result of his substantial company management experience, particularly within the region in which the Bank conducts its business, including his previous experience in the financial and securities industry. Dr. Naismith is Chairman of JUJAMA,

Table of Contents

Inc., a web-based software company which provides networking software to the conference industry. The company is located in Scranton, Pennsylvania. Through his oversight of this company, Dr. Naismith is able to obtain insight regarding business to business trends and the local and national business environment that is valuable to the Board of Directors in its oversight of the Bank's operations. Dr. Naismith also serves as a director of Life Sciences Greenhouse of Central Pennsylvania and is a former director of The Commonwealth Medical College.

**George H. Stover, Jr.**, age 72, has been a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company since 1992. He was a real estate appraiser from 1972 until he retired December 2014. The board has determined that Mr. Stover is qualified to be on the board due to his leadership skills obtained from successfully operating his own insurance and real estate business for 40 years. In addition, Mr. Stover has expertise of real estate values due to being an experienced real estate appraiser.

Term Expiring In 2021

**Richard S. Lochen, Jr.**, age 55, has been a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company since 2003. He has been a Certified Public Accountant with the firm of Lochen & Chase PC since 1995. In May 2006, Mr. Lochen was appointed as President of Peoples Financial Services Corp. and its banking subsidiary (then known as Peoples National Bank) and served as President and Chief Executive Officer from January 2007 until November 2009. The board has determined that Mr. Lochen is qualified to be on the board due to his knowledge of auditing publicly-traded financial institutions that he gained during his career as a CPA, which included assisting in preparation of annual and quarterly filings with the SEC. He also brings executive leadership experience and understanding of the operations of Peoples gained from his past service as an officer of Peoples Financial Services Corp. and its banking subsidiary.

**James B. Nicholas**, age 67, was appointed as a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company in connection with the consummation of the Pensco merger in November 2013. Prior to that, he served as a director of Pensco Financial Services Corporation and Penn Security Bank and Trust Company since 1981. The Company has concluded that Mr. Nicholas is qualified to serve as a director of the Company as a result of his substantial small company management experience, particularly within the region in which the Bank conducts its business, and his familiarity with the operations of the former Penn Security Bank and Trust Company. Mr. Nicholas has served as the President of D.G. Nicholas Co., a wholesale auto parts company located in Scranton, Pennsylvania, since 1990. Through his oversight of D.G. Nicholas Co., Mr. Nicholas is able to obtain insight regarding the local business and consumer environment that is valuable to the Board of Directors in its oversight of the Company's and Bank's operations. His service as a director of Pensco and Penn Security has enabled him to develop a knowledge of their former operations, which is beneficial to the Company's Board.

**Steven L. Weinberger**, age 71, was appointed as a director of Peoples Financial Services Corp. and Peoples Security Bank and Trust Company in connection with the consummation of the Pensco merger in November 2013. Prior to that, he served as a director of Pensco Financial Services Corporation and Penn Security Bank and Trust Company since 1999. The Company has concluded that Mr. Weinberger is qualified to serve as a director of the Company as a result

of his substantial small company management experience, particularly within the region in which the Bank conducts its business, and his familiarity with the operations of Penn Security Bank and Trust Company. Mr. Weinberger has served as the President of G. Weinberger Company, a mechanical contracting company located in Old Forge, Pennsylvania, since 1981. Through his oversight of G. Weinberger Company, Mr. Weinberger is able to obtain insight regarding the local business and consumer environment that is valuable to the Board of Directors in its oversight of the Company's and Bank's operations. His service as a director of

Table of Contents

Penseco and Penn Security has enabled him to develop a knowledge of their former operations, which is beneficial to the Company's Board.

Recommendation

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF ITS NOMINEES TO THE BOARD OF DIRECTORS OF THE COMPANY TO SERVE UNTIL THE 2022 ANNUAL MEETING OF SHAREHOLDERS AND UNTIL HIS SUCCESSOR HAS BEEN ELECTED AND QUALIFIED.**

Table of Contents

**PROPOSAL 2 TO APPROVE, ON AN ADVISORY BASIS,  
THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

As required pursuant to Section 14A of the Securities Exchange Act of 1934, as amended (commonly referred to as the Exchange Act ), we are providing our shareholders with the opportunity to vote, on an advisory basis, on the compensation of our named executive officers as described in this proxy statement. This proposal, commonly known as a say-on-pay proposal, gives our shareholders the opportunity to express their views on the compensation of our named executive officers. We are currently soliciting this advisory vote on an annual basis.

Even though this say-on-pay vote is advisory and therefore will not be binding on us, the members of our compensation committee and board of directors value the opinions of our shareholders. Accordingly, to the extent there is a significant vote against the compensation of our named executive officers, we will consider our shareholders' concerns and the compensation committee will evaluate what actions may be appropriate to address those concerns.

Our executive compensation program is designed to attract, reward, and retain key employees, including our named executive officers, who are critical to our success. Under this program, our named executive officers are rewarded for the achievement of specific short-term and long-term goals that enhance shareholder value. Shareholders are urged to read the Compensation Discussion and Analysis and Executive Compensation sections of this proxy statement for greater detail about our executive compensation programs, including information about the fiscal year 2018 compensation of our named executive officers.

We are asking our shareholders to indicate their support for the compensation of our named executive officers as described in this proxy statement by voting in favor of the following resolution:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

Recommendation

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE, ON AN ADVISORY BASIS, THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS BY THE ADOPTION OF THE FOREGOING RESOLUTION.**

Table of Contents**PROPOSAL 3 RATIFICATION OF THE APPOINTMENT OF BAKER TILLY VIRCHOW KRAUSE, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019**

The audit committee of our board of directors has engaged Baker Tilly Virchow Krause, LLP, or Baker Tilly, to serve as our independent registered public accounting firm for the year ending December 31, 2019. Baker Tilly served as our independent registered public accounting firm for the Company for the fiscal year ended December 31, 2017 and 2018. Representatives of the firm are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The audit committee of our board of directors first engaged Baker Tilly on March 28, 2017, and on that date notified BDO USA, LLP, or BDO, of the audit committee's decision to dismiss BDO as our independent registered public accounting firm. Prior to engaging Baker Tilly, we did not consult with Baker Tilly regarding the application of accounting principles to a specific completed or contemplated transaction or regarding the type of audit opinions that might be rendered by Baker Tilly on our financial statements, and Baker Tilly did not provide any written or oral advice that was an important factor considered by us in reaching a decision as to any such accounting, auditing or financial reporting issue.

The report of independent registered public accounting firm of BDO regarding our financial statements for the fiscal years ended December 31, 2016 and 2015 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2016 and 2015, and during the interim period from December 31, 2016 through March 28, 2017, the date of termination, there were no disagreements with BDO on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of BDO would have caused it to make reference to such disagreement in its reports.

The following table presents the aggregate fees billed or expected to be billed to us by our principal independent registered public accounting firm for the fiscal years ended December 31, 2018 and 2017.

<u>Fee Category</u>	2018	2017
Audit Fees	\$ 231,500	\$ 231,000
Audit-Related Fees	5,850	5,487
Tax Fees		
All Other Fees		
Total Fees	\$ 237,350	\$ 236,487

Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.

Our audit committee's charter includes a formal policy concerning the pre-approval of audit and non-audit services (including the fees and terms thereof) to be provided by our independent registered public accounting firm, subject to the de minimis exception for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, which are approved by the audit committee prior to the completion of the audit. The policy requires that all services to be performed by Baker Tilly, including audit services, audit-related services and permitted non-audit services, be performed either pursuant to detailed pre-approval policies and procedures established by the committee as to the services to be performed, or upon presentation to and



pre-approval by the committee (subject to the de minimis exception). All services

Table of Contents

rendered by Baker Tilly are permissible under applicable laws and regulations, and the audit committee pre-approved all audit and audit-related services performed by Baker Tilly during 2018 and 2017.

Recommendation

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF BAKER TILLY VIRCHOW KRAUSE, LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019.**

Table of Contents

**BOARD OF DIRECTORS AND COMMITTEES**

Director Independence

Our common stock is listed on The Nasdaq Stock Market, LLC. Accordingly, our board evaluated the independence of each director and director nominee under the listing standards of The Nasdaq Stock Market, LLC. During this review, the board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. The board also considered whether there were any transactions or relationships between any director or any member of his or her immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner or significant equity holder) and members of our senior management or their affiliates.

As a result of this review, the board affirmatively determined that William E. Aubrey II, Joseph G. Cesare, M.D., James G. Keisling, Ronald G. Kukuchka, Richard S. Lochen, Jr., Robert W. Naismith, Ph.D., James B. Nicholas, George H. Stover, Jr. and Joseph T. Wright, Jr. are independent under the listing standards of The Nasdaq Stock Market, LLC. In addition, the board determined that each member of our nominating and governance, audit and compensation committees is independent in accordance with the additional independence criteria applicable to such committee members under the listing standards of The Nasdaq Stock Market, LLC, including the additional independence standards applicable to members of the audit and compensation committees. Craig W. Best, our President and Chief Executive Officer, and Steven L. Weinberger were determined to be not independent.

In determining the independence of our independent directors, we considered loan transactions, as more particularly described in Certain Relationships and Related Transactions, deposits with Peoples Security Bank and Trust Company, a lease agreement, pursuant to which we lease space in one of our branches, and certain arm s-length purchases of products from companies at which some of our directors or their immediate family members were officers or employees during 2018. The board determined that none of these relationships impaired the independence of the independent directors.

Board Meetings

During 2018, the board of directors held twelve meetings. Each of our directors attended at least 75 percent of the aggregate number of meetings held by the board of directors and the committees on which he served.

We have no formal policy with respect to director attendance at our annual meeting of shareholders. All of our directors attended our 2018 annual meeting of shareholders.

Board Leadership Structure and Role in Risk Oversight

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

The board of directors of the Company has determined that the separation of the offices of chairman of the board and chief executive officer enhances board independence and oversight. Moreover, the separation of the chairman of the board and chief executive officer allows the chief executive officer to better focus on his responsibilities relating to day-to-day management of the Company, enhancing shareholder value and expanding and strengthening the Company's franchise while allowing the chairman to lead the board in its fundamental role of providing advice to and independent oversight of management. Consistent with this determination, William E. Aubrey II serves as Chairman of the Board of the Company and Craig W. Best serves as President and Chief Executive Officer of the Company.

Table of Contents

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk, legal risk and reputational risk. Management, including our chief risk officer, is responsible for the day-to-day management of risks we face, while our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk management oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and risks facing the Company. Senior management attends board meetings and is available to address any questions or concerns raised by the board on risk management. The Chairman of the Board and independent members of the board of directors work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors.

Primary responsibility for areas of risk oversight is allocated among our standing committees as follows:

<b>Committee</b>	<b>Primary Areas of Risk Oversight</b>
Audit Committee	Risks and exposures associated with financial matters, particularly financial reporting, tax, accounting, disclosure, internal control over financial reporting, financial policies, investment guidelines and credit and liquidity matters.
Nominating and Governance Committee	Risks and exposures associated with leadership, succession planning and corporate governance.
Compensation Committee	Risks and exposures associated with executive compensation programs and arrangements, including incentive plans.

Compensation Risk Management

Our compensation committee has reviewed the compensation policies and practices of the Company and has determined that the policies and practices do not motivate imprudent risk taking and are not reasonably likely to have a material adverse effect on the Company. The compensation committee is aware that compensation arrangements, if not properly structured, may encourage inappropriate risk-taking. A long-standing example of how our compensation programs protect against imprudent risk taking is the clawback provision included in the Peoples Cash Incentive Program. In addition, since January 2017, we have maintained a compensation recoupment policy, which applies to all executive officers who receive cash or equity incentive awards.

Board Committees

As noted above, the board of directors of the Company conducts much of its business through committees of the board. During 2018, the board maintained standing audit, compensation and nominating committees.

Audit Committee

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

During the fiscal year ended December 31, 2018, directors Lochen, Keisling, Kukuchka, Naismith, and Nicholas comprised the audit committee.

Table of Contents

Each member of the audit committee was independent under the requirements of The Nasdaq Stock Market, LLC relating to audit committee members. The board of directors has determined that director Richard S. Lochen, Jr. qualifies as an audit committee financial expert, as defined under the rules of the Securities and Exchange Commission, or SEC. The audit committee met four times in 2018.

The audit committee is governed by a formal charter approved by the board of directors, a current copy of which is available via the Company's website, psbt.com, at the Governance Documents page under Investor Relations. The primary purposes, duties and responsibilities of the audit committee include:

- oversee our accounting and financial reporting processes, including management's preparation of financial reports and other financial information;
- oversee our management's maintenance of internal controls and procedures for financial reporting, accounting and financial reporting processes generally;
- assist our board of directors in its oversight of our compliance with legal and regulatory requirements;
- evaluate the independence and oversee the performance of our independent registered public accounting firm and oversee the audits of the financial statements of the Company;
- assist our board of directors in risk assessment and risk management;
- pre-approve all auditing services and permitted non-audit services (including the fees for such services and terms thereof) to be performed by our independent registered public accounting firm;
- establish and periodically review and, as appropriate, revise, procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- oversee our internal audit function; and
- oversee any related party transactions.

Audit Committee Report

In accordance with SEC regulations, the audit committee has prepared the following report. As part of its ongoing activities, the audit committee has:

- reviewed and discussed the audited consolidated financial statements of the Company at and for the year ended December 31, 2018, with management;
- discussed with Baker Tilly, the Company's independent registered public accounting firm, the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, Communications with Audit Committees; and
- received the written disclosures and letter from Baker Tilly required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and has discussed with Baker Tilly such firm's independence.



Table of Contents

Based upon its review and the considerations and discussions referenced above, the audit committee recommended to the board of directors that our audited consolidated financial statements be included in the Company's annual report on Form 10-K, as filed with the SEC on March 15, 2019.

Submitted by the Audit Committee:

Richard S. Lochen, Jr., Chairman  
James G. Keisling  
Ronald G. Kukuchka  
Robert W. Naismith, Ph.D.  
James B. Nicholas

*The foregoing Audit Committee Report shall not be deemed to be incorporated by reference into any filing made by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, notwithstanding any general statement contained in any such filing incorporating this proxy statement by reference, except to the extent the Company incorporates such report by specific reference.*

Compensation Committee

During the fiscal year ended December 31, 2018, the compensation committee of the board of directors consisted of directors Aubrey, Cesare, Keisling, Lochen, Naismith and Wright. During 2018, the compensation committee of the board of directors met three times.

The compensation committee is governed by a formal charter approved by the board of directors, a current copy of which is available via the Company's website, psbt.com, at the Governance Documents page under Investor Relations. The primary purposes, duties and responsibilities of the compensation committee include:

- review and approve the annual base salaries and annual incentive opportunities of our chief executive officer and other executive officers;
- review and approve incentive awards and opportunities, including both cash-based and equity-based awards and opportunities, any employment agreements and severance arrangements, any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits, and any special or supplemental compensation and benefits, in each case for our executive officers;
- review and make recommendations to our board of directors with respect to new compensation programs;
- review periodically the operation of our compensation programs;
- establish and periodically review policies for the administration of compensation programs;
- ensure that our compensation programs comport with our compensation philosophy;

- review and make recommendations to our board of directors with respect to director compensation;
- review and make recommendations to our board of directors with respect to our employee benefit plans;
- administer our compensation programs, including equity incentive programs, for all employees;
- review and provide guidance on our human resource programs, which may include talent review and leadership development and best place to work initiatives;
- oversee all matters relating to the outcome of shareholder advisory votes regarding executive compensation; and

Table of Contents

- oversee risks and exposures associated with leadership assessment, and compensation programs and arrangements, including incentive plans, and reviewing and evaluating our compensation policies and practices of compensating our employees, including non-executive officers, as they relate to risk management practices and risk-taking incentives.

Compensation Committee Report

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis that is required by the rules established by the SEC. Based on such review and discussions, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement. See Compensation Discussion and Analysis.

Submitted by the compensation committee:

Robert W. Naismith, Ph.D., Chairman  
William E. Aubrey II  
Joseph G. Cesare, M.D.  
James G. Keisling  
Richard S. Lochen, Jr.  
Joseph T. Wright, Jr.

*The foregoing Compensation Committee Report shall not be deemed to be incorporated by reference into any filing made by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, notwithstanding any general statement contained in any such filing incorporating this proxy statement by reference, except to the extent the Company incorporates such report by specific reference.*

Nominations and Shareholder Communications

During the fiscal year ended December 31, 2018, Aubrey, Cesare, Kukuchka, Nicholas, Stover and Wright comprised the nominating and corporate governance committee. During 2018, the nominating and corporate governance committee of the board of directors met three times.

The nominating and corporate governance committee is governed by a formal charter approved by the board of directors, a current copy of which is available via the Company's website, psbt.com, at the Governance Documents page under Investor Relations. The primary purposes, duties and responsibilities of the nominating and corporate governance committee include:

- recommend director nominees for selection by our board of directors;
- review recommendations from directors, shareholders, management, and other appropriate third parties for potential director candidates and collect and analyze information regarding their suitability;

- assist our board of directors in determining the size and composition of the board and its committees, and of the board of directors and committees of our subsidiaries;
- develop and make recommendations to our board of directors with respect to corporate governance guidelines and other governance policies;
- develop and recommend to the Board a policy with regard to the consideration of diversity in identifying director candidates, implement any approved diversity policy, evaluate candidates in accordance with such policy, and periodically assess the effectiveness of such policy;

Table of Contents

- identify and prioritize with management significant risks that we face and recommend to our board of directors whether the full board or a particular board committee should have primary responsibility for oversight of each such identified risk;
- keep apprised of requirements, trends and best practices in corporate governance;
- review and make recommendations to our board of directors with respect to any proposed changes to our articles of incorporation, bylaws, or committee charters; and
- develop and make recommendations to our board of directors with respect to key executive succession plans.

Nomination Process

Our nominating and corporate governance committee is responsible for recommending director nominees to our board of directors. The board of directors will consider director candidates recommended by shareholders. Any shareholder who wishes to recommend a director candidate for consideration may send notice to Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, Pennsylvania 18503, Attention: Investor Relations Officer. The notice should contain the information described in the section titled Shareholder Proposals, on page 43.

Process for Identifying and Evaluating Nominees

In selecting director candidates to be nominated for election at an annual meeting, the nominating and corporate governance committee begins by determining whether the incumbent directors whose terms expire at the meeting desire, and are qualified, to continue their service on the board. We are of the view that the repeated service of qualified incumbents promotes stability and continuity in the boardroom, giving us the benefit of the familiarity and insight into our affairs that our directors have accumulated during their tenure. Accordingly, it is the policy of the nominating and corporate governance committee, absent special circumstances, to nominate qualified incumbent directors who continue to satisfy the committee's criteria for membership on the Board; who the committee believes will continue to make important contributions to the Board; and who consent to stand for re-election and, if re-elected, to continue their service on the Board.

If there are Board positions for which the committee will identify and evaluate non-incumbent directors, it will proceed as follows:

*Identification.* For purposes of identifying nominees for the board of directors, the nominating and corporate governance committee relies on personal contacts of the committee and other members of the board of directors as well as its knowledge of members of the Company's market area. The nominating and corporate governance committee will also consider director candidates recommended by shareholders in accordance with the policy and procedures set forth above. The nominating and corporate governance committee may use an independent search firm in identifying nominees. However, the committee did not engage an independent search firm for this purpose during the year ended December 31, 2018 or in connection with the nominees for election at the 2019 annual meeting.

*Evaluation.* In evaluating potential nominees, the nominating and corporate governance committee determines whether the candidate is eligible and qualified for service on the board of directors by evaluating the candidate under the selection criteria set forth below under the heading *Minimum Qualifications* below. In addition, the nominating and corporate governance committee may conduct a background check and may interview the candidate. Candidates proposed by shareholders are considered under the same criteria, except that the committee may also consider the size and duration of the equity interest of the recommending shareholder in the Company and the extent to which the recommending shareholder intends to continue holding this interest.

Table of Contents

Minimum Qualifications

Our bylaws include a mandatory retirement policy applicable to our directors. Any director, upon reaching the mandatory retirement age of 73 years, will be permitted to serve as a director for the remainder of his or her term, after which he or she shall no longer be eligible to serve as a director.

The nominating and corporate governance committee has not adopted a specific set of minimum qualifications that must be met by nominees. Nominees are selected on the basis of their integrity, experience, achievements, judgment, intelligence, personal character and capacity to make independent analytical inquiries, ability and willingness to devote adequate time to Board duties, and the likelihood of being able to serve on the Board for a sustained period. In evaluating potential director nominees, our nominating and corporate governance committee (and its subcommittees) will evaluate an individual's specific qualities or skills including, but not limited to an individual's: contributions to the range of talent, skill and expertise of the Board; financial, regulatory and business experience, knowledge of the banking and financial services industries, familiarity with the operations of public companies and ability to read and understand financial statements; familiarity with our market area and participation in and ties to local businesses and local civic, charitable and religious organizations; personal and professional integrity, honesty and reputation; ability to represent the best interests of the Company's shareholders and the best interests of the Company and Bank; ability to devote sufficient time and energy to the performance of his or her duties; independence; and current equity holdings in the Company.

The nominating and corporate governance committee (and its subcommittees) will also consider any other factors it deems relevant, including competition, size of the board of directors, and regulatory disclosure obligations. The nominating and corporate governance committee will also consider the extent to which a candidate helps the board of directors reflect the diversity of the Company's shareholders, employees, customers, and communities. The committee also considers factors such as global experience, experience as a director of a public company, and knowledge of relevant industries.

In addition, prior to nominating an existing director for re-election to the board of directors, the committee will consider and review an existing director's Board and committee performance and his or her satisfaction of any minimum qualifications established by the committee.

Since January 2017, we have maintained a share ownership policy, which applies to our directors, as well as our senior executive officers. This policy requires our directors to beneficially own our common stock in an amount equal to four times their annual retainer for board service, and allows five years for our directors to reach compliance.

Shareholder Communications

Any shareholder who desires to send communications to our board of directors or to individual directors may do so by directing his or her communication to the following address: Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, Pennsylvania 18503, Attention: Investor Relations Officer. All shareholder communications, other than any communications we believe may pose a security risk, will be sent directly to board members.





Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of February 28, 2019, certain information concerning the ownership of shares of the common stock by any person who is known by us to own beneficially more than five percent of the issued and outstanding common stock, each director of the Company, each named executive officer identified below under the heading Executive Compensation beginning on page 28, and all directors and executive officers as a group.

Name	Number of Shares Beneficially Owned+	Percentage of Ownership++
William E. Aubrey II	31,756.000	*
Craig W. Best	20,677.428(1)	*
Joseph G. Cesare, M.D.	155,218.000(2)	2.1%
James G. Keisling	61,234.000(3)	*
Ronald G. Kukuchka	27,202.061(4)	*
Richard S. Lochen, Jr.	11,169.624(5)	*
Robert W. Naismith, Ph.D.	40,951.000(6)	*
James B. Nicholas	26,031.906(7)	*
George H. Stover, Jr.	74,312.000(8)	1.0%
Steven L. Weinberger	38,090.000(9)	*
Joseph T. Wright, Jr.	29,738.508(10)	*
John R. Anderson III	1,410.655(11)	*
Michael L. Jake	2,987.003(12)	*
Neal D. Koplin	1,504.291(13)	*
Thomas P. Tulaney	24,706.884(14)	*
All directors and executive officers as a group (19 persons)	566,058.264	7.7%

+ Any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: voting power, which includes the power to vote, or to direct the voting of, our common stock; and/or, investment power, which includes the power to dispose, or to direct the disposition of, our common stock, is determined to be a beneficial owner of our common stock. All shares are subject to the named person's sole voting and investment power unless otherwise indicated.

++ Shares beneficially owned include options to purchase shares which are currently exercisable or which will be exercisable within 60 days of February 28, 2019. Percentage calculations are based on 7,399,053 shares outstanding at February 28, 2019, and presume that the identified individual or group exercises all of his, her or their respective warrants and options and that no other holders of warrants or options exercise their warrants or options.

\* Less than 1.0 percent.

- (1) Includes 1,267.645 shares under the Company's employee stock ownership plan ( ESOP ) which have been allocated to Mr. Best's account, 1,743.000 restricted shares and 17,226.000 shares in a self-directed IRA.
- (2) Includes 21,944.000 shares owned jointly by Dr. Cesare and his wife, 61,156.000 shares owned by Dr. Cesare's wife, and 68,874.000 shares owned by Tedesco Corp., over which Dr. Cesare's wife has investment control.
- (3) Includes 37,109.000 shares owned in a self-directed IRA and 24,125.000 shares in custodial accounts.
- (4) Includes 20,225.522 shares owned jointly by Mr. Kukuchka and his wife.
- (5) Includes 254.870 shares held by minor children, 5,577.754 shares owned jointly by Mr. Lochen and his wife, and 3,222.000 shares in a self-directed IRA.
- (6) Includes 25,204.000 shares owned jointly by Dr. Naismith and his wife, 409.000 shares owned by Dr. Naismith's wife, and 15,338.000 shares in a self-directed IRA.
- (7) Includes 2,131.305 shares in a self-directed IRA, 2,785.734 shares owned by Mr. Nicholas's wife, and 10,729.000 shares held in trust accounts.
- (8) Includes 74,312.000 shares owned jointly by Mr. Stover and his wife.
- (9) Includes 1,295.000 shares held in a trust account, 1,022.000 shares in a self-directed IRA, and 17,975.000 shares held in the following companies of which Mr. Weinberger has an interest: Harold Weinberger, Inc., J. Weinberger Partners and G. Weinberger Co.



Table of Contents

- (10) Includes 743.889 shares owned by Mr. Wright's minor child. 28,994.619 shares are pledged to Peoples Security Bank and Trust Company as security for certain credit facilities.
- (11) Includes 40.000 shares owned jointly by Mr. Anderson and his wife and 1,370.665 shares under the ESOP which have been allocated to Mr. Anderson's account.
- (12) Includes 1,781.374 shares owned jointly by Mr. Jake and his wife, 536.000 restricted shares and 545.922 shares under the ESOP which have been allocated to Mr. Jake's account.
- (13) Includes 400.000 shares in a self-directed IRA, 703.000 restricted shares and 239.567 shares under the ESOP which have been allocated to Mr. Koplin's account.
- (14) Includes 13,404.368 shares in a self-directed IRA, 817.000 restricted shares, 653.104 shares under the ESOP which have been allocated to Mr. Tulaney's account and 177.000 shares owned jointly by Mr. Tulaney and his wife.

**EXECUTIVE OFFICERS AND COMPENSATION**

Executive Officers

Following is information regarding our executive officers other than Craig W. Best, President and Chief Executive Officer. Information regarding Mr. Best is included under the heading Election of Directors Nominees for Director Term Expiring In 2022, beginning on page 4, and additional information regarding the compensation of our named executive officers is included under the heading Executive Compensation, beginning on page 28.

**John R. Anderson III**, Executive Vice President and Chief Financial Officer, of Peoples Security Bank and Trust Company, age 52. Mr. Anderson was appointed to his current position in March 2018, after serving as the Senior Vice President and Interim Principal Financial and Accounting Officer since April 2016. Prior to that he was Vice President/Planning and Statistical Analyst, of Penn Security Bank and Trust Company since May 2011. Prior to that he was Assistant Vice President/Financial Reporting Officer at Penn Security Bank since January 2006.

**Debra E. Adams**, Executive Vice President, Chief Operations Officer and Secretary of Peoples Security Bank and Trust Company, age 64. In her current role, which she has held since the Pensco merger in November 2013, Ms. Adams is our principal operating officer. Prior to the Pensco merger, Ms. Adams held various offices at Peoples Neighborhood Bank, most recently as Executive Vice President, Chief Operations Officer, and Chief Risk Officer. She began her employment with Peoples (then known as Peoples National Bank of Susquehanna) in 1990.

**Joseph M. Ferretti**, Executive Vice President and Senior Lending Officer, age 49. Mr. Ferretti was appointed to his current position in December 2013. Prior to that, he served as Executive Vice President/Chief Lending Officer of Peoples Neighborhood Bank, and Senior Vice President/Chief Credit Officer of Peoples Neighborhood Bank since 1997.

*Michael L. Jake*, Executive Vice President and Chief Risk Officer, age 66. Mr. Jake was appointed to his current position in connection with the Pensco merger in November 2013. Prior to that, he was Senior Vice President, Chief Risk Officer, of Penn Security Bank and Trust Company since April 2009. Prior to that, he was Chief Financial Officer at Old Forge Bank since 1994. Prior to 1994 Mr. Jake was the Northeastern Pennsylvania Region Audit Manager for Mellon Bank and PNC Bank.

*Timothy H. Kirtley*, Executive Vice President and Chief Credit Officer, age 48. Mr. Kirtley was appointed to his current position in July, 2016. Prior to joining Peoples Security Bank and Trust Company, he served as Executive Vice President and Chief Credit Officer of Peoples Bank, Marietta, Ohio from 2011 to 2016. From 2009 to 2011, Mr. Kirtley served as Executive Vice President, Chief

Table of Contents

Credit Officer of Delaware County Bank & Trust Co., in Lewis Center, Ohio. From 2007 to 2009, he served as Vice President, Regional Credit Officer and Commercial Real Estate for Fifth Third Bank in Columbus, Ohio. From 1992 to 2007, Mr. Kirtley served in various commercial banking and credit risk management capacities, the most recent of which was Vice President, Regional Credit Officer, Community Banking from 2002 to 2007 for U.S. Bank, N.A. in Columbus, Ohio.

*Neal D. Koplín*, Executive Vice President and Lehigh Valley Division Head, age 58. Mr. Koplín was appointed to his current position in August 2014. He served as Senior Vice President and Northern Region Manager of National Penn Bank's Commercial Real Estate Lending Group from 2004 until joining Peoples Security Bank. He was with National Penn Bank in various executive positions from 1982 until 2004.

*Lynn M. Thiel*, Executive Vice President and Chief Retail Officer, age 58. Ms. Thiel was appointed to her current position in connection with the Pensco merger in November 2013. Prior to that she was Executive Vice President, Retail Banking Division Head, of Penn Security Bank and Trust Company since June 2012. Prior to that, she served as Senior Vice President, Planning & Development Division Head between 2006 and 2012; and as Vice President & Compliance Officer between 2000 and 2006.

*Thomas P. Tulaney*, Senior Executive Vice President and Chief Operating Officer, age 59. Mr. Tulaney was appointed to his current position in May 2017. In December 2018, he assumed oversight of the Bank's Wealth Management Division. Prior to May 2017, and since the Pensco merger in November 2013, he served as our Executive Vice President and Chief Lending Officer, the same position he held with Pensco from March 2012. He joined Penn Security Bank and Trust Company in April 2011 as Executive Vice President and Deputy Chief Lending Officer. Before that, Mr. Tulaney was a Senior Executive Vice President and the Corporate Sales Division Manager of First National Community Bank, a position he held since 2008, when he was promoted from Executive Vice President. He was an employee of First National Community Bank from 1994 to 2011. Prior to 1994 Mr. Tulaney was a Senior Vice President of Third National Bank a division of Independence Bank Corp and a Regional Vice President of PNC Bank.

Compensation Discussion and Analysis

Overview of Objectives

The executive compensation program of Peoples is designed to provide a competitive base salary as well as to provide certain incentives to our named executive officers to effectively lead and manage the Company and its growth strategy. Decisions regarding executive compensation are determined by the compensation committee. In accordance with the compensation committee charter, the committee may refer any matter that it has the authority to approve, together with the committee's report and recommendation, to the full board for approval, unless such matter is required to be approved by an independent compensation committee by applicable law, regulation or listing standard.

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

The compensation program is designed to support annual and long-term Company goals that create sustainable profitable growth while providing long-term value to our shareholders. The objectives of our executive compensation programs are to:

- attract, motivate and retain highly qualified executives;
- link total compensation to both individual performance and the performance of the bank and holding company; and

Table of Contents

- appropriately balance short-term and long-term financial objectives, build shareholder value and reward individual, team and company performances.

We seek to pay for superior performance, both in achieving short-term goals and continuing to build a growing and sustainable financial institution on a long-term basis.

During the year ended December 31, 2018, we compensated our named executive officers, identified below, with a combination of base salary, performance-based cash incentive awards, discretionary bonus payments, time-vested and performance-based equity program, equity compensation through the employee stock ownership plan, or ESOP, and benefit plans and perquisites which the compensation committee believed were comparable to other financial institutions of similar size in our region.

Benchmarking

Periodically, the compensation committee compares our senior management compensation levels with comparable levels in industry benchmark studies and peer group data to gain a general knowledge of compensation programs in the industry. To do so, we participate in a survey provided by L.R. Webber Associates that benchmarks salary and benefits from Pennsylvania financial institutions who participate in the survey. The survey includes general compensation information and ranges for executives. The results are reported by bank asset size and geographic region. We use the survey data to compare the base salaries of our named executive positions to the range reported for those positions at other banking institutions with total asset size and geography similar to ours to determine whether we are compensating our named executive officers within the industry standard range.

For 2018, the compensation committee engaged Meridian Compensation Partners, LLC to analyze and review compensation of our executive officers. As further described below under the heading Components of the Compensation Program, the compensation committee has referred to data from the consultant to formulate decisions regarding Peoples executive compensation practices.

The compensation committee also considers salary levels for comparable positions in industries other than the financial services industry.

Components of the Compensation Program

During 2018, our executive compensation program included four key elements: base salary, annual cash incentives, equity awards and benefit plans.

Base Salary

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

Base salary is the basic element of our executive compensation program and the foundation for setting incentive cash compensation target awards. The compensation committee determines the range of base salary to offer to a new executive by evaluating the duties, complexities and responsibilities of the respective position; the level of experience required, and the compensation payable for positions having similar scope and accountability as our peer group of banks.

For 2018, our compensation committee reviewed each named executive officer's individual performance, length and nature of experience and competency, and the potential for advancement in determining the amount of pay adjustments to recommend to the board of directors. In connection with such review, the base compensation for Craig W. Best remained the same at \$425,000; Thomas P. Tulaney remained the same at \$275,000; Neal D. Koplin remained the same at \$240,000 and Michael L.



Table of Contents

Jake remained the same at \$183,000 for 2018. Mr. Anderson's base salary was increased from \$150,705 to \$165,000.

Cash Incentive Plan

We maintain an annual cash incentive plan (the Cash Incentive Plan) pursuant to which our named executive officers have the opportunity to earn performance-based incentive payments. Incentive compensation under the Cash Incentive Plan represents the at risk portion of an executive's pay subject to the achievement of performance goals. Annually, the compensation committee sets goals for the named executive officers to achieve in order to qualify for a cash incentive payment under the Cash Incentive Plan.

The following table provides information concerning the Cash Incentive Plan awards to our named executive officers during the year ended December 31, 2018:

<b>Named Executive Officer</b>	<b>Target/Maximum Cash Incentive Plan Payment (% of base salary)</b>	<b>Target/Maximum Cash Incentive Plan Payment (\$)</b>
Craig W. Best	35%	148,750
Thomas P. Tulaney	30%	82,500
Neal D. Koplín	25%	60,000
Michael L. Jake	20%	36,600
John R. Anderson III	20%	33,000

The Cash Incentive Plan rewards the attainment of company-wide performance goals, including growth in assets, loans, deposits, revenues and earnings per share, efficiency and asset quality, as well as individual performance goals. Our objective is to drive superior annual performance at both the company and individual levels. Performance goals for our Chief Executive Officer are set solely by the compensation committee, and performance goals for our other named executive officers are typically set by the compensation committee upon the recommendation of our Chief Executive Officer. Performance goals are typically communicated to officers during the first quarter of the year, and achievement of goals is evaluated by the compensation committee after year-end.

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

### Table of Contents

The following table sets forth the 2018 company performance goals, actual performance and achievement of company performance goals.

Performance Measure	2018 Performance Goal	2018 Actual Performance	Weighting of Goal (% of Total Potential Payment)	Earned
EPS Growth (\$)	3.37	3.37	35	35
Revenue Growth (\$000)	84,390	84,998	10	10
Expense to Asset Ratio (%)	2.21	2.29	10	
Loan Growth (\$000)	1,816,360	1,823,266	10	10
Deposit Growth (\$000)	1,826,935	1,875,022	10	10
Asset Growth (\$000)	2,341,996	2,288,313	10	
<b>Asset quality</b>				
Non-performing loans/Avg. loans +OREO (%)	.91	.57	7.5	7.5
Net charge-offs/average loans (%)	.10	.10	7.5	7.5
Total			100	80

Additional details regarding the Cash Incentive Plan awards are included in the 2018 Summary Compensation and Grants of Plan-Based Awards tables and the accompany narrative disclosure beginning on page 28.

### Equity Awards

In April 2018, the compensation committee granted equity awards as part of its incentive compensation program. The compensation committee approved a mix of long-term equity incentives with the majority consisting of performance-based restricted stock units (RSUs) (70% of the total equity award) and the remainder consisting of time-vested restricted stock (30% of the total equity award). This design is intended to represent best practice and provide long-term incentive opportunity that rewards long-term, sustained performance, is aligned with shareholder interests and promotes the long-term success of the Company.

Performance-based RSUs vest over a three-year cumulative performance period beginning January 1, 2018 and ending December 31, 2020. The potential number of shares that can vest ranges from 0% to 150% of the target levels

depending on achievement of 3-year Cumulative Earnings Per Share (EPS) and cumulative Average Return on Equity (ROE) goals set by the compensation committee. These goals were selected to represent performance drivers that align with our shareholder value. In order to vest, performance must be at or above the threshold performance set by the compensation committee.

Table of Contents

Time-vested restricted stock vests over three years subject to the executive officer's continued employment by us. This component reinforces our goal of equity ownership, shareholder alignment and provides additional retention value for our executive officers.

Below is a summary of the 2018 grants issued to the named executive officers.

Executive	Performance-Based RSUs		Restricted Stock	
	Target Units (#)	Grant Value(1)	Shares (#)	Grant Value(1)
Craig W. Best	2,338	\$ 104,135	1,002	\$ 44,629
Thomas P. Tulaney	1,191	\$ 53,047	510	\$ 22,715
Neal D. Koplin	943	\$ 42,001	404	\$ 17,994
Michael L. Jake	719	\$ 32,024	308	\$ 13,718

(1) Grant values based on the closing price of \$44.54 per share of our common stock on the grant dates of April 11, 2018.

Clawback Agreements

Pursuant to the terms of the Cash Incentive Plan, all executives are subject to a clawback provision. The clawback provision allows us to recover any overpayment under the Cash Incentive Plan in the event that we are required to restate our financial statements because of any material noncompliance with a financial reporting requirement. If within the previous three years a participant received an award based upon erroneous data, the participant is required to return any amount received in excess of what would have been paid to the participant under the accounting restatement. In the event that the restatement is due to a participant's misconduct or fraudulent activity, then the participant is required to return the entire amount received based upon the erroneous data. Mr. Best has a substantially similar provision included in his employment agreement. In addition, since January 2017, we have maintained a compensation recoupment policy, which applies to all executive officers who receive cash or equity incentive awards. Under this policy, if we restate our financial statements or determine that any performance metric or metrics pursuant to which incentive compensation was awarded was materially inaccurate, we will require each current or former executive officer who received incentive compensation within the preceding three years to reimburse us to the extent that the incentive compensation received exceeded that which would have been paid if it were based upon the financial statements as so restated or upon the accurate performance metric or metrics.

Benefits

*ESOP.* We maintain an employee stock ownership plan, or ESOP, as a long-term incentive to focus executives on long-term value creation and to provide balance to the annual Cash Incentive Plan. The ESOP covers substantially all employees who meet the eligibility requirements and is intended to incentivize and reward all employees, including the named executive officers, based upon our long-term success as measured by shareholder return.

*401(k) Plan.* We maintain a profit sharing plan, the Peoples Security 401(k) Plan, under the provisions of Section 401(k) of the Internal Revenue Code (as amended, the Code ) in an effort to provide employees with a means and an incentive to save for retirement and also to provide tax-deferred compensation, not to exceed the amounts allowed under the Code as an incentive to save for retirement. All named executive officers participate in the Peoples Security 401(k) Plan on the same basis as other employees participating in the plan.

*Pension Plan.* The Company also maintains the Employees Pension Plan, a legacy defined benefit pension plan assumed in connection with the Pensco merger, which was amended in June 2008 to cease benefit accruals.

Table of Contents

*Health and Welfare Benefits.* Named executive officers participate in the Company's other benefit plans on the same terms as other employees. These plans include medical, dental, vision, disability, life insurance and flex spending account benefits and are standard in the industry.

*Supplemental Employee Retirement Plans.* Peoples maintain supplemental employee retirement plans, or SERPs, for certain executive officers, including Messrs. Tulaney, Koplín and Jake, the primary intent of which is retention. Under their respective SERPs, Messrs. Tulaney, Koplín and Jake are eligible to receive certain retirement benefits that accrue based on their service to the Company and are payable at retirement, or earlier under a qualifying termination of employment. See additional discussion below under the heading Pension Benefits.

*Deferred Compensation Plans.* We also maintain the Deferred Compensation Plan No. 1 and Deferred Compensation Plan No. 2 under which we make certain contributions for Mr. Best in accordance with his employment agreement. See additional discussion below under the heading Non-Qualified Deferred Compensation.

*Chief Executive Officer Supplemental Retirement Benefits.* We provide our Chief Executive Officer with certain retirement benefits under an Excess Benefit Plan formerly maintained by Pensco which was assumed in connection with the Pensco merger. This plan provides Mr. Best with additional benefits in excess of those accrued under the 401(k) Plan and ESOP due to the limit on compensation contained in Section 401(a)(17) of the Code. See additional discussion below under the heading Non-Qualified Deferred Compensation.

*Split Dollar Insurance Agreements.* We provide split-dollar life insurance to Messrs. Best and Jake. As of December 31, 2018, Mr. Jake's beneficiaries would have been entitled to a death benefit of \$174,711. See additional discussion below under the headings Craig W. Best Employment Agreement.

Perquisites

The compensation committee regularly reviews our executive perquisites and believes they are appropriate and modest when compared to peers and are necessary to attract and retain high-caliber talent. During 2018, we provided a vehicle allowance or use of a company vehicle to Messrs. Best, Tulaney and Koplín, as they are required to entertain business clients or otherwise travel in connection with their duties. The compensation committee also believes that country clubs can serve as appropriate forums for building client relationships and for community interaction. We reimburse Messrs. Best, Tulaney, Koplín and Anderson for the cost of country and dining club memberships.

The Role of Management in Determining Compensation

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

For 2018, our compensation committee set performance goals, including company-wide performance goals under the Cash Incentive Plan and the equity incentive awards. The compensation committee did not set additional individual performance goals for the Chief Executive Officer, believing that the Chief Executive Officer should be evaluated on the basis of company performance. Individual performance goals for our other named executive officers were set by the compensation committee upon the recommendation of our Chief Executive Officer. Our Chief Executive Officer reviewed each of the other named executive officer's annual performance, discusses the performance review with the compensation committee, and makes recommendations to the compensation committee with respect to the compensation of the other named executive officers. Our Chief Executive Officer does not participate in discussions on his own compensation.

Table of Contents

The Role of the Compensation Committee

In accordance with the compensation committee charter, among other things, the compensation committee is responsible for the review and approval of our named executive officers' base salaries and incentive opportunities, the administration of our benefit plans, and the recommendation to our board of directors of new compensation programs or changes in existing compensation programs. The committee may refer any matter that it has the authority to approve, together with the committee's report and recommendation, to the full board for approval, unless such matter is required to be approved by an independent compensation committee by applicable law, regulation or listing standard. As a matter of practice, the committee routinely refers key items pertaining to executive compensation, such as base salary increases, the size and performance targets associated with awards under the Cash Incentive Plan and equity incentives, and the offering of special retirement agreements, to the board with recommendation of the committee.

Operating within the framework of duties and responsibilities established by the board, the compensation committee's role is to assure our compensation strategy is aligned with the long-term interests of the shareholders and members; our compensation structure is fair and reasonable; and compensation reflects both corporate and individual performance.

Compensation Committee Consultants

The compensation committee's charter provides that the compensation committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the compensation committee. The Company must provide for appropriate funding, as determined by the compensation committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any other adviser retained by the compensation committee. Prior to engaging any compensation consultant, legal counsel or other adviser (other than in-house legal counsel), the compensation committee must conduct an independence assessment with respect to such adviser.

At the end of 2017 and for 2018, the compensation committee engaged Meridian Compensation Partners, LLC, or Meridian, to analyze and review compensation of our executive officers. The compensation committee also engaged Meridian to review our director compensation in 2018.

Accounting and Tax Treatments

All elements of compensation generate charges to earnings under generally accepted accounting principles (GAAP). Generally, no adjustment is made to compensation based on accounting factors, but the tax effects of various types of compensation are considered.

Company Stock Ownership



## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

We believe that it is important that our named executive officers and directors own shares of our common stock. Since January 2017, we have maintained a share ownership policy, which is applicable to our executive officers and directors. Under the terms of the policy, executive officers who receive equity incentive awards are expected to beneficially own shares of our common stock having a fair market value equal to or greater than twice their respective annual base salaries, and have five years to achieve compliance. In addition, under the terms of Mr. Best's employment agreement, his failure to own shares of our common stock having a fair market value equal to or greater than his annual base salary would be cause for termination.

Table of Contents

Severance and Change in Control Benefits

We recognize that an important consideration in our ability to attract, retain and motivate key personnel is our ability to minimize the impact on our management team of the possible disruption associated with our exploration of strategic opportunities. Accordingly, we believe that it is in our best interest and the best interest of our shareholders to provide our key personnel with reasonable financial arrangements in the event of termination of employment following a change in control or involuntary termination of employment for reasons other than cause so that they are able to focus fully on the merits of any potential change in control situation without undue concern for the loss of their jobs. All of our named executive officers with employment agreements have provisions in their respective agreements that provide for certain benefits in the event of voluntary or involuntary termination following a change in control transaction. These provisions, along with certain benefits estimates, are described under the heading Other Potential Post-Termination Benefits below and under the headings Craig W. Best Employment Agreement, Thomas P. Tulaney Employment Agreement and Neal D. Koplin Employment Agreement. Messrs. Jake and Anderson do not have employment agreements but are covered by a severance policy applicable to our employees generally.

Many of the plans that we maintain and in which our named executive officers participate include provisions which accelerate vesting or payment of benefits upon a change in control and are described under the heading Other Potential Post-Termination Benefits below.

Table of ContentsExecutive Compensation

Our principal executive officer is Craig W. Best, President and Chief Executive Officer, and our principal financial officer is John R. Anderson III, Executive Vice President and Chief Financial Officer. Messrs. Best and Anderson, together with Thomas P. Tulaney, Neal D. Koplin and Michael L. Jake, are referred to as our named executive officers. The following tables and narratives set forth certain information regarding the compensation of our named executive officers.

**2018 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Change in	All Other Compensation (\$)	Total (\$)
						Pension Value and Nonqualified Deferred Compensation Earnings (\$)		
Craig W. Best President and Chief Executive Officer	2018	425,000		200,831	119,000	132,437	41,129(2)	918,397
	2017	425,000	31,000	200,810	119,000	149,862	26,810	952,482
	2016	400,000			115,500	128,298	26,836	670,634
Thomas P. Tulaney Senior Executive Vice President Chief Operating Officer	2018	275,000	14,688	102,264	66,000	126,638	41,711(3)	626,301
	2017	275,000	33,250	83,352	66,000	120,475	35,413	613,490
	2016	247,000	8,868		61,132	114,610	37,070	468,680
Neal D. Koplin Executive Vice President and Lehigh Valley Division President	2018	240,000		80,974	45,900	56,480	42,409(4)	465,763
	2017	240,000	36,000	80,983	48,000	40,905	36,392	482,280
	2016	200,000	37,750		41,250		35,752	314,752
Michael L. Jake Executive Vice President and Chief Risk Officer	2018	183,000	22,072	61,777	29,280	94,441	14,567(5)	405,137
	2017	183,000	3,660	67,257	29,280	90,744	13,272	387,213
John R. Anderson III Executive Vice President and Chief Financial Officer	2018	165,000			23,760	-1,349	16,973(6)	204,384
	2017	150,705	10,000		24,113	5,889	12,995	204,002
	2016	127,900	25,000			1,649	9,616	164,165

(1) The entries in the stock awards column reflect the grant date fair value of awards of time-vested restricted stock and performance-based restricted stock units, as calculated for financial statement reporting purposes in accordance with Accounting Standards Codification (ASC) No. 718, Compensation Stock Compensation. See Note 1 of the Notes to Consolidated Financial Statements for the fiscal year ended December 31, 2018 for a discussion of the relevant assumptions used to determine the valuation of our stock awards for accounting purposes. The value of the performance-based restricted stock units at the grant date assumes that the maximum level of performance conditions will be achieved.

(2) For 2018, includes country club membership \$6,582; automobile allowance \$14,621; 401(k) safe harbor contribution of \$8,250; 401(k) match \$8,250; ESOP \$2,750 and life insurance \$676.

- (3) For 2018, includes country club membership \$12,476; automobile allowance \$9,985; 401(k) safe harbor \$8,250; 401(k) match \$8,250 and ESOP \$2,750.
- (4) For 2018, includes country club membership \$9,749; automobile allowance \$14,460; 401(k) safe harbor \$8,250; 401(k) match \$7,200 and ESOP \$2,750.
- (5) For 2018, includes 401(k) safe harbor \$6,478; 401(k) match \$5,490; ESOP \$2,159 and life insurance \$440.
- (6) For 2018, includes country club membership \$3,652; 401(k) safe harbor \$5,709; 401(k) match \$5,709 and ESOP \$1,903.

Table of Contents**Grants of Plan-Based Awards**

The following table provides information concerning grants of plan-based awards made to our named executive officers during the year ended December 31, 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock (#)	Grant Date Fair Value of Stock Awards \$(1)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Craig W. Best	4/11/2018		148,750	148,750					
	4/11/2018				1,168	2,338	3,507		156,202
	4/11/2018							1,002	44,629
Thomas P. Tulaney	4/11/2018		82,500	82,500					
	4/11/2018				596	1,190	1,786		79,548
	4/11/2018							510	22,715
Neal D. Koplin	4/11/2018		60,000	60,000					
	4/11/2018				472	942	1,414		62,979
	4/11/2018							404	17,994
Michael L. Jake	4/11/2018		36,600	36,600					
	4/11/2018				360	720	1,079		48,059
	4/11/2018							308	13,718
John R Anderson	4/11/2018		33,000	33,000					

(1) Grant date values based on the maximum payoff of equity incentive plan awards and the closing prices of \$44.54 per share of our common stock on the grant date of April 11, 2018.

The table above includes the fiscal 2018 threshold, target and maximum payouts designated under our Cash Incentive Plan, the threshold, target and maximum payouts designated under performance-based restricted stock units issued under the 2017 Equity Incentive Plan, and the number of time-vested restricted stock awards issued under the 2017 Equity Incentive Plan.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

With respect to the Cash Incentive Plan, the target and maximum payouts for Messrs. Tulaney and Koplin were determined as a percentage of their base salaries in accordance with their respective employment agreements. The target and maximum payouts for Messrs. Jake and Anderson was set by the compensation committee at 20 percent of their base salaries. The target and maximum payout for Mr. Best was set by the compensation committee at 35 percent of his base salary. As described above in Compensation Discussion and Analysis, based on 2018

company performance, 80 percent of the incentive payments based on company performance goals were earned under the Cash Incentive Plan.

With respect to the equity awards, the compensation committee approved a mix of long-term equity incentives with the majority consisting of performance-based restricted stock units (RSUs) (70% of the total equity award) and the remainder consisting of time-vested restricted stock (30% of the total equity award). As described above in Compensation Discussion and Analysis, the performance-based RSUs vest over a three-year cumulative performance period beginning January 1, 2018 and ending December 31, 2020. The potential number of shares that can vest ranges from 0% to 150% of the target levels depending on achievement of 3-year Cumulative Earnings Per Share (EPS) and cumulative Average Return on Equity (ROE) goals set by the compensation committee.

Table of Contents

We are a party to employment agreements with certain of our named executive officers, which are described in the following sections. These employment agreements control many aspects of the compensation of our named executive officers.

Craig W. Best Employment Agreement

We are party to an amended and restated employment agreement with our President and Chief Executive Officer, Craig W. Best dated January 3, 2011, as amended as of December 31, 2015 (the Best Employment Agreement ).

The Best Employment Agreement provided for an annual base salary, which is subject to annual review by the compensation committee. In 2018, Mr. Best's annual base salary remained the same at \$425,000. In the event of an across-the-board salary reduction affecting all of the Company's management employees, we may decrease Mr. Best's base salary.

The Best Employment Agreement also provides that Mr. Best will be eligible to:

- receive an annual cash incentive payment equal to a percentage of his base salary, which percentage will be determined by the compensation committee from time to time;
- participate in certain deferred compensation plans maintained by the Company; and
- participate in our long-term incentive equity-based compensation plans.

Under the Best Employment Agreement, the Company agreed to purchase and maintain a term life insurance policy with a death benefit of \$500,000 payable upon Mr. Best's death. The Company also agrees to provide Mr. Best with the use of an automobile, along with reasonable insurance and maintenance costs, as well as reimbursement for country and dining club memberships and reasonable business expenses.

The Best Employment Agreement provides that any excess annual incentive cash payments and excess long-term incentive awards (each as defined in the Best Employment Agreement) paid to Mr. Best are subject to clawback provisions in the incentive plans pursuant to which the board of directors may request reimbursement for such payments from Mr. Best in the event that the Bank's financial statements are the subject of a restatement that is required by applicable law.

Mr. Best's employment is on an at will basis, and each of the Company, the Bank and Mr. Best may terminate the Employment Agreement at any time and for any reason (subject to Mr. Best's right to any severance payments). Under the Best Employment Agreement, and in the event that Mr. Best's employment is terminated involuntarily without Cause (as defined in the Best Employment Agreement) or voluntarily for Good Reason (as defined in the Best Employment Agreement), the Company and the Bank are obligated to, among other things, make monthly payments to Mr. Best for two (2) years following the termination equal to the sum of 1/12th of Mr. Best's base salary at the time of termination and 1/12th of the average annual bonus paid in the three calendar years ending before the date of

termination, make monthly payments equal to the amount of the COBRA continuation premium for a period of two (2) years following termination and pay up to \$30,000 to an outplacement firm of Mr. Best's choice for outplacement services. In the event that Mr. Best is terminated without Cause or resigns for Good Reason within three (3) years following a Change of Control (as defined in the Best Employment Agreement), he will be entitled to the salary and bonus payments described above for a period of three (3) years following termination (in lieu of two (2) years) and monthly payments equal to the amount of the COBRA applicable premium for a period of three (3) years following termination (in lieu of two (2) years). Payment of severance under the Best Employment Agreement is in each case contingent upon Mr. Best's execution and delivery of a release agreement to the Company and the Bank.



Table of Contents

The Best Employment Agreement contains customary confidentiality and restrictive covenant provisions. For a period of 12 months following termination of employment for any reason, Mr. Best has agreed that he will not: (1) solicit customers, potential customers or suppliers for or on behalf of a competing business (as defined under the Best Employment Agreement); (2) recruit employees of the Bank or Company for a competing business; or (3) serve as a director, officer, employee or investor in a competing business.

Thomas P. Tulaney Employment Agreement

We are party to an employment agreement with our Senior Executive Vice President, Chief Operating Officer, Thomas P. Tulaney, dated May 30, 2012 (the Tulaney Employment Agreement ). The initial term of the Tulaney Employment Agreement ended on May 29, 2016. Such term will renew automatically for subsequent one-year terms unless either party terminates the agreement earlier in accordance with the provisions of the Tulaney Employment Agreement.

The Tulaney Employment Agreement provided for an annual base salary, which is subject to annual review by the compensation committee. In 2018, Mr. Tulaney s annual base salary remained the same at \$275,000. In the event of an across-the-board salary reduction affecting all of the Company s management employees, we may decrease Mr. Tulaney s base salary. The Tulaney Employment Agreement also provides that Mr. Tulaney will be eligible to:

- receive an annual cash incentive payment targeted at 30 percent of his base salary, with the actual payment based on achievement of corporate and individual performance goals, as determined by the compensation committee from time to time;
- participate in his SERP arrangement; and
- participate in our long-term incentive equity-based compensation plans.

Under the Tulaney Employment Agreement, in the event that Mr. Tulaney s employment is terminated without Cause (as defined in the Tulaney Employment Agreement) or he voluntarily resigns for Good Reason (as defined in the Tulaney Employment Agreement), we are obligated to, among other things, make monthly payments to Mr. Tulaney for one (1) year following the termination equal to sum of 1/12th of Mr. Tulaney s base salary at the time of termination and 1/12th of the average incentive payment that Mr. Tulaney had received in the immediately preceding three (3) years, and make monthly COBRA continuation premium payments for eighteen (18) months. In the event that Mr. Tulaney is terminated without Cause or he resigns with Good Reason within two (2) years following a Change of Control (as defined in the Tulaney Employment Agreement), he will be entitled to the salary and incentive payments described above for a period of two (2) years following termination (in lieu of one (1) year) and COBRA continuation premium payments for two (2) years (in lieu of eighteen (18) months). Payment of severance under the Tulaney Employment Agreement is in each case contingent upon Mr. Tulaney s execution and delivery of a release agreement to the Company and the Bank.

The Tulaney Employment Agreement contains customary confidentiality and restrictive covenant provisions. For a period of 12 months following termination of employment for any reason other than a Change of Control (in which case the applicable period is 24 months),

Mr. Tulaney has agreed that he will not: (1) solicit customers, potential customers or suppliers for or on behalf of a competing business (as defined under the agreement); (2) recruit employees of the Bank or Company for a competing business; or (3) serve as a director, officer, employee or investor, or otherwise engage, in a competing business.

Table of Contents

Neal D. Koplin Employment Agreement

We are party to an employment agreement dated August 27, 2014, with Neal D. Koplin, our Executive Vice President and Lehigh Valley Division Head (the "Koplin Employment Agreement"). The initial term of the Koplin Employment Agreement will end on August 11, 2017. Such term will renew automatically for subsequent one-year terms unless either party terminates the agreement earlier in accordance with the provisions of the Koplin Employment Agreement.

Mr. Koplin's annual base salary remained the same at \$240,000 in 2018. The Koplin Employment Agreement also provides that Mr. Koplin will be eligible to:

- receive an annual cash incentive payment targeted at 25 percent of his base salary, with the actual payment based on achievement of corporate and individual performance goals, as determined by the compensation committee from time to time;
- receive additional bonus compensation of \$39,500, \$34,000, \$20,000 and \$10,000, on April 15, 2015, 2016, 2017 and 2018, respectively (provided he remains employed);
- participate in his SERP arrangement; and
- participate in our long-term incentive equity-based compensation plans.

Under the Koplin Employment Agreement, in the event that Mr. Koplin's employment is terminated without Cause (as defined in the Koplin Employment Agreement), we are obligated to, among other things, make monthly payments to Mr. Koplin for one (1) year following the termination equal to 1/12th of Mr. Koplin's base salary at the time of termination. In the event that Mr. Koplin is terminated within 24 months following a Change of Control (as defined in the Koplin Employment Agreement) or resigns for Good Reason (as defined in the Koplin Employment Agreement), he will be entitled to the salary payments described above for a period of three (3) years following termination (in lieu of one (1) year). Payment of severance under the Koplin Employment Agreement is in each case contingent upon Mr. Koplin's execution and delivery of a release agreement to the Company and the Bank.

The Koplin Employment Agreement contains customary confidentiality and non-solicitation provisions. For a period of 12 months following termination of employment for any reason other than a Change of Control (in which case the applicable period is 36 months), Mr. Koplin has agreed that he will not solicit customers, potential customers or suppliers for or on behalf of a competing business (as defined under the agreement), and will not recruit employees of the Bank or Company for a competing business.

The Company also agrees to provide Mr. Koplin with a monthly automobile allowance, as well as reimbursement for a country club membership and reasonable business expenses.



Table of Contents**Outstanding Equity Awards at Fiscal Year End**

The following table sets forth information concerning equity awards outstanding as of December 31, 2018.

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(6)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(5)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(6)
Craig W. Best(1)	1,743	76,797	4,930	217,221
Thomas P. Tulaney(2)	817	35,997	2,266	99,842
Neal D. Koplín(3)	703	30,974	1,988	87,572
Michael L. Jake(4)	536	23,616	1,518	66,883

(1) Mr. Best's outstanding equity awards consist of 741 shares of restricted stock, subject to vesting in two annual installments on March 13, 2019 and 2020; 1,002 shares of restricted stock, subject to vesting in three annual installments on April 11, 2019, 2020 and 2021; 2,592 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2019; and 2,338 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2020.

(2) Mr. Tulaney's outstanding equity awards consist of 307 shares of restricted stock, subject to vesting in two annual installments on March 13, 2019 and 2020; 510 shares of restricted stock, subject to vesting in three annual installments on April 11, 2019, 2020 and 2021; 1,076 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2019; and 1,190 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2020.

(3) Mr. Koplín's outstanding equity awards consist of 299 shares of restricted stock, subject to vesting in two annual installments on March 13, 2019 and 2020; 404 shares of restricted stock, subject to vesting in three annual installments on April 11, 2019, 2020 and 2021; 1,046 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2019; and 942 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2020.

(4) Mr. Jake's outstanding equity awards consist of 228 shares of restricted stock, subject to vesting in two annual installments on March 13, 2019 and 2020; 308 shares of restricted stock, subject to vesting in three annual installments on April 11, 2019, 2020 and 2021; 798 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2019; and 720 unearned performance-based restricted stock units that would be earned for achieving target performance goals over a three-year period ending December 31, 2020.

- (5) These amounts reflect a portion of the unvested RSUs that may become vested based on the our actual performance over the applicable performance periods. For purposes of calculating the amounts set forth in the table and based on performance through December 31, 2018, it is assumed that the RSUs will be earned at target; however, the number of shares actually earned will depend upon actual performance over the applicable performance periods.
- (6) Market value is based on a closing price of \$44.06 per share of our common stock on December 31, 2018.

**Stock Vested**

The following table sets forth information concerning restricted stock that vested during the fiscal year ended December 31, 2018.

<b>Name</b>	<b>Number of Shares Acquired on Vesting (#)</b>	<b>Value Realized on Vesting \$(1)</b>
Craig W. Best	370	17,431
Thomas P. Tulaney	154	7,255
Neal D. Koplín	149	7,019
Michael L. Jake	114	5,371

- 
- (1) Based on the closing price of \$47.11 per share of our common stock on the vesting date, March 13, 2018.

Table of Contents**Pension Benefits**

The following table sets forth information concerning our plans that provide for payments or other benefits at, following, or in connection with, retirement for each of the named executive officers.

Name	Plan Name	Number of Years of Credited Service (#)(1)	Present Value of Accumulated Benefit (\$)(2)	Payment During Last Fiscal Year \$(3)
Craig W. Best	Penseco Employees Pension Plan	3	87,960	
John R. Anderson III	Penseco Employees Pension Plan	18	64,595	
Thomas P. Tulaney	Executive Supplemental Retirement Plan	7	736,260	
Neal D. Koplin	Executive Supplemental Retirement Plan	2	97,385	
Michael L. Jake	Executive Supplemental Retirement Plan	4	265,243	

(1) Represents the number of benefit years of service credited to the executive officer under the plan, computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the registrant's audited financial statements for the last completed fiscal year. The Penseco Employees Pension Plan was frozen as of June 2008, and no additional years of services are being credited under such plan.

(2) Reflects the actuarial present value of the named executive officer's accumulated benefit under the plan(s), computed as of the same measurement date used for financial statement reporting purposes with respect to the registrant's audited financial statements for the last completed fiscal year.

(3) Represents the dollar amount of any payments and benefits paid to the named executive officer during the 2018 fiscal year.

The information in the foregoing table for Messrs. Best and Anderson includes information related to the Penseco Employees Pension Plan, a qualified defined benefit retirement plan. As of June 2008, no further benefits are being accrued in this plan. The plan provided for fixed benefits payable for life upon retirement at the age of 65, based on length of service and compensation levels as defined in the plan. The information in the table has been determined using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements. Messrs. Best and Anderson participate in the Employees Pension Plan on the same basis as all other former Penseco employees who were participants as of June 2008, and receive only those benefits that are available to all such other employees.

Under his SERP arrangement, Mr. Tulaney is eligible to earn a benefit of \$114,600 per year commencing upon his retirement at age 65 and continuing for twenty years. Mr. Tulaney may receive lesser or equal benefits upon a qualifying termination of employment that occurs prior to Mr. Tulaney reaching age 65.

Under his SERP arrangement, Mr. Koplin is eligible to earn a benefit of \$62,000 per year commencing upon his retirement at age 65 and continuing for fifteen years. Mr. Koplin may receive lesser or equal benefits upon a qualifying termination of employment that occurs prior to Mr. Koplin reaching age 65.

Under his SERP arrangement, Mr. Jake is eligible to earn a benefit of \$40,000 per year commencing upon his retirement at age 67 and continuing for ten years. Mr. Jake may receive lesser or equal benefits upon a qualifying termination of employment that occurs prior to Mr. Jake reaching age 67.



Table of Contents**Non-Qualified Deferred Compensation**

The following table sets forth non-qualified deferred compensation contributions during the year ended December 31, 2018.

Name	Company Contributions in 2018(\$)	Aggregate Earnings in 2018(\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at December 31, 2018(\$)
Craig W. Best	21,000(1)			115,914
Craig W. Best	26,000(2)		(3)	226,534
Craig W. Best	80,000(4)	26,988(5)		736,485

- 
- (1) Represents Company contributions under the Excess Benefit Plan, which contributions are included in All Other Compensation in the *Summary Compensation Table* set forth above.
- (2) Represents Company contributions under the Deferred Compensation Plan No. 1, which contributions are included in Deferred Compensation in the *Summary Compensation Table* set forth above.
- (3) Represents earnings on balances in the Deferred Compensation Plan No. 1.
- (4) Represents Company contributions under the Deferred Compensation Plan No. 2, which contributions are included in Deferred Compensation in the *Summary Compensation Table* set forth above.
- (5) Represents earnings on balances in the Deferred Compensation Plan No. 2.

*Excess Benefit Plan.* The company contribution set forth in the table above represents our contribution pursuant to the Excess Benefit Plan maintained for Mr. Best. This plan provides Mr. Best with additional benefits in excess of those accrued under the Peoples Security 401(k) Plan and ESOP. The plan provides Mr. Best with benefits in an amount which is equivalent to the excess, if any, of the matching and ESOP contributions he would have been entitled to receive under the 401(k) Plan and ESOP if those plans were administered without regard to the limitations required by Section 401(a)(17) of the Code and any regulations thereunder, over the amount he is entitled to receive under those plans for the applicable plan year. The Excess Benefit Plan is intended to be an unfunded excess benefit plan.

The benefit described above is to be computed as of the date of Mr. Best's separation from service. The accrued benefit will become payable if Mr. Best separates from service for any reason. If a change in control (as defined in the Excess Benefit Plan) occurs, the accrued benefit at the date of the change in control shall be valued and payable according to the provisions set forth below as if the change in control constituted a separation from service.

Mr. Best, or his beneficiaries, will be entitled to receive, by virtue of his separation from service, a distribution in an aggregate amount equal to his accrued benefit. The actuarial equivalent of his accrued benefit will be distributed in a single lump sum payment within five days following

the date that is six months after the date Mr. Best separates from service.

If Mr. Best dies before terminating his employment with the Bank and before the commencement of payments under the Excess Benefit Plan, the actuarial equivalent of the entire value of his accrued benefit will be paid, in a single lump sum, within sixty days following the date of his death, to his designated beneficiaries.

If Mr. Best's employment had terminated on December 31, 2018 his accrued benefit under the Excess Benefit Plan would have been \$115,914.

*Deferred Compensation Plan No. 2.* The Deferred Compensation Plan No. 2 is an account-based deferred compensation arrangement contemplated by the amendment and restatement of Mr. Best's employment agreement on January 3, 2011. Pursuant to the agreement, the Deferred Compensation Plan No. 2 provides Mr. Best an opportunity to defer base salary and bonus compensation and required the

Table of Contents

Company to make contributions to Mr. Best's account in the amount of \$61,375 on or around the time his employment agreement was amended and restated, followed by credits of \$60,000 each August 1 beginning in 2011 and ending in 2014. The plan was amended August 31, 2014 and, as amended, requires an annual contribution of \$80,000 per year from 2015 through 2019 subject to Mr. Best's continued employment. Notional interest will be credited to such deferred amounts and Mr. Best's account will be distributed upon his retirement or other separation from service, or upon his death or a change in control if earlier. The company contribution set forth in the table above represents our contribution following the merger.

Other Potential Post-Termination Benefits

*Payments Made Upon Termination of Employment.* The following chart summarizes the total benefits payable to the named executive officers upon a termination of employment, assuming that the termination occurred on December 31, 2018 and based on a closing price of \$44.06 per share of our common stock on December 31, 2018:

Name	Termination Without Cause	Termination for Good Reason	Termination After a Change in Control
Craig W. Best	2,254,025	2,254,025	2,926,417
Thomas P. Tulaney	1,552,519	1,552,519	2,671,688
Neal D. Koplín	369,225		1,432,193
Michael L. Jake	412,680		531,418
John R. Anderson III	82,500		82,500

*Payments Made Upon Termination for Cause.* Under the employment agreements with Messrs. Best, Tulaney and Koplín, we may terminate their employment for cause (as defined in the agreement) at any time. Each of Messrs. Jake and Anderson is an at-will employee without an employment agreement. If any of the named executive officers is terminated for cause, he will receive only accrued compensation and vested benefits through his termination date.

*Payments Made Upon Termination Without Cause or For Good Reason.* *Craig W. Best* Upon termination by the Company without cause (as defined in his employment agreement) or voluntary termination by Mr. Best with good reason (constructive termination), he will receive his accrued compensation and other benefits through his termination date, along with a severance payment equal to 24 months of payments based upon base salary and average annual bonus and \$30,000 in outplacement assistance to be paid by us to a firm selected by Mr. Best. In addition, the Company will pay the applicable premium otherwise payable for COBRA continuation coverage for the executive, his spouse and dependents for a period of 24 months following termination. If the Company terminated Mr. Best's employment without cause or he resigned with good reason on December 31, 2018, the cash severance payment due under his employment agreement (based solely on Mr. Best's then current cash compensation and average incentive and bonus payments, without regard to future adjustments, incentives or bonuses) would have been \$1,106,333. In addition, Mr. Best would have received the outplacement assistance noted above, payment of health insurance premiums valued at \$38,760, and payment of accrued benefits of \$115,914 under the Excess Benefit Plan, \$226,533 under Deferred Compensation Plan No. 1 and \$736,485 under Deferred Compensation Plan No. 2. The Best Employment Agreement provides that payment of severance is contingent upon Mr. Best's execution and delivery of a release agreement to the Company and the Bank.

*Thomas P. Tulaney* Pursuant to the terms of his employment agreement, upon termination by the Company without cause (as defined in his employment agreement) or voluntary termination by Mr. Tulaney with good reason (constructive termination), he will receive his accrued compensation and other benefits through his termination date, along with a severance payment equal to 12 months of payments

Table of Contents

based upon base salary and average annual incentive payments. In addition, the Company will pay the applicable premium otherwise payable for COBRA continuation coverage for the executive, his spouse and dependents for a period of 18 months following termination. If the Company terminated Mr. Tulaney's employment without cause or he resigned with good reason on December 31, 2018, the cash severance payment due under his employment agreement (based solely on Mr. Tulaney's then current base salary and average incentive payment, without regard to future adjustments or incentives) would have been \$358,313. In addition, Mr. Tulaney would have received payment of health insurance premiums valued at \$32,886, and \$58,066 per year, payable in monthly installments for twenty years, under his SERP.

The Tulaney Employment Agreement provides that payment of severance is contingent upon Mr. Tulaney's execution and delivery of a release agreement to the Company and the Bank.

*Neal D. Koplin* - Pursuant to the terms of his employment agreement, upon termination by the Company without cause (as defined in his employment agreement), we are obligated to, among other things, make monthly payments to Mr. Koplin for one (1) year following the termination equal to 1/12th of Mr. Koplin's base salary at the time of termination. If the company terminated Mr. Koplin's employment without cause on December 31, 2018, the cash severance payment due under his employment agreement (based solely on Mr. Koplin's then current base salary, without regard to future base salary adjustments) would have been \$240,000. Payment of severance under the Koplin Employment Agreement is contingent upon Mr. Koplin's execution and delivery of a release agreement to the Company and the Bank. In addition, Mr. Koplin would have received \$8,615 per year, payable in monthly installments for fifteen years, under his SERP.

*Michael L. Jake* Upon termination by the Company without cause, Mr. Jake will receive his accrued compensation and other benefits through his termination date, along with a severance benefits available under a policy applicable to employees generally, namely two weeks of severance pay for each year of employment, subject to a maximum of twenty-six weeks. In addition, Mr. Jake would have received \$32,118 per year, payable in monthly installments for ten years, under his SERP.

*John R. Anderson III* Upon termination by the Company without cause, Mr. Anderson will receive his accrued compensation and other benefits through his termination date, along with a severance benefits available under a policy applicable to employees generally, namely two weeks of severance pay for each year of employment, subject to a maximum of twenty-six weeks.

***Payments Made Upon Disability or Death.*** The employment agreements with Messrs. Best, Tulaney and Koplin provide that, upon termination due to the executive's death or disability, he will receive only accrued compensation and vested benefits through his termination date.

If Mr. Best's employment terminated December 31, 2018 due to his death or disability, he would be entitled to receive payment of accrued benefits of \$115,914 under the Excess Benefit Plan, \$226,533 under Deferred Compensation Plan No. 1 and \$736,485 under Deferred Compensation Plan No. 2. In addition, he would have received accelerated vesting of \$76,797 in restricted stock and accelerated vesting of

## Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form DEF 14A

\$110,458 in RSUs. For purposes of calculating accelerated vesting of RSUs, based on performance through December 31, 2018, it is assumed that the RSUs will be earned at target.

If Mr. Tulaney's employment terminated December 31, 2018 due to his death or disability, under his SERP he would be entitled to receive, respectively, \$114,600 per year or \$58,066 per year, in either case payable in monthly installments for twenty years. In addition, he would have received accelerated vesting of \$35,997 in restricted stock and accelerated vesting of \$49,039 in RSUs.

Table of Contents

If Mr. Koplin's employment terminated December 31, 2018 due to his death or disability, under his SERP he would be entitled to receive, respectively, \$62,000 per year or \$3,619 per year, in either case payable in monthly installments for fifteen years. In addition, he would have received accelerated vesting of \$30,974 in restricted stock and accelerated vesting of \$44,545 in RSUs.

If Mr. Jake's employment terminated December 31, 2018 due to his death or disability, under his SERP he would be entitled to receive, \$40,000 per year, payable in monthly installments for ten years. In addition, he would have received accelerated vesting of \$23,616 in restricted stock and accelerated vesting of \$34,014 in RSUs.

***Payments Made Upon a Change in Control.*** In accordance with the terms of their employment agreements, our named executive officers are entitled to the following payments upon termination in connection with a change of control:

***Craig W. Best*** If we terminate Mr. Best without cause or Mr. Best terminates for good reason within 36 months of a change in control, he will receive, in addition to previously accrued compensation and benefits, monthly severance payments for 36 months following termination, equal to the sum of 1/12th of the executive's base salary at the time of termination and 1/12th of the average bonus and incentive payment that Mr. Best received over the prior three years. In addition, the Company will pay the applicable premium otherwise payable for COBRA continuation coverage for the executive, his spouse and dependents for a period of 36 months following termination. If the payments or benefits payable to Mr. Best in connection with a change in control would be subject to the excise tax on golden parachutes imposed under Section 4999 of the Internal Revenue Code, or be non-deductible by us under Section 280G of the Internal Revenue Code, then those payments or benefits will be reduced to an amount that will not exceed the Section 280G and Section 4999 limits under the Internal Revenue Code. If Mr. Best was terminated without cause or resigned for good reason on December 31, 2018 following a change in control, the cash severance payment due under his employment agreement (based solely on Mr. Best's then current base salary and average bonus and incentive payment, without regard to future adjustments, bonuses or incentives) would have been \$1,659,500. In addition, Mr. Best would have received payment of health insurance premiums valued at \$58,140, and payment of accrued benefits of \$115,914 under the Excess Benefit Plan, \$226,533 under Deferred Compensation Plan No. 1 and \$736,485 under Deferred Compensation Plan No. 2. In the event that Mr. Best had been terminated without cause or had resigned for good reason on December 31, 2018, within 12 months following a change of control, he would have received accelerated vesting of \$19,386 in restricted stock and accelerated vesting of \$110,458 in RSUs.

***Thomas P. Tulaney*** Pursuant to the terms of his employment agreement, if we terminate Mr. Tulaney without cause or Mr. Tulaney terminates for good reason within 24 months of a change in control, he will receive, in addition to previously accrued compensation and benefits, monthly severance payments for 24 months following termination, equal to the sum of 1/12th of the executive's base salary at the time of termination and 1/12th of average annual incentive payments. In addition, the Company will pay the applicable premium otherwise payable for COBRA continuation coverage for Mr. Tulaney, his spouse and dependents for a period of 24 months following termination. Mr. Tulaney will immediately vest in all outstanding stock-based compensation awards upon termination in connection with a change in control. If Mr. Tulaney was terminated without cause or resigned for good reason on December 31, 2018 following a change in control, the cash severance payment due under his employment agreement (based solely on Mr. Tulaney's then current base salary and average incentive payment, without regard to future adjustments or incentives) would have been \$716,625. In addition, Mr. Tulaney would have received payment of

health insurance premiums valued at \$43,848, accelerated vesting of \$8,856 in restricted stock and accelerated vesting of \$49,039 in RSUs, and \$92,666 per year, payable in monthly installments for twenty years, under his SERP. If the payments or benefits payable to Mr. Tulaney under his employment agreement in connection with a change in control would be subject to the



Table of Contents

excise tax on golden parachutes imposed under Section 4999 of the Internal Revenue Code, or be non-deductible by us under Section 280G of the Internal Revenue Code, then those payments or benefits will be reduced to an amount that will not exceed the Section 280G and Section 4999 limits under the Internal Revenue Code.

*Neal D. Koplin* In the event that Mr. Koplin is terminated within 24 months following a Change of Control (as defined in the Koplin Employment Agreement) or resigns for Good Reason (as defined in the Koplin Employment Agreement), he will be entitled to the salary payments described above for a period of three (3) years following termination (in lieu of one (1) year). Payment of severance under the Koplin Employment Agreement is in each case contingent upon Mr. Koplin's execution and delivery of a release agreement to the Company and the Bank. If Mr. Koplin was terminated without cause or resigned for good reason on December 31, 2018 following a change in control, the cash severance due to Mr. Koplin under his employment agreement would have been \$720,000. If the payments or benefits payable to Mr. Koplin under his employment agreement in connection with a change in control would be subject to the excise tax on golden parachutes imposed under Section 4999 of the Internal Revenue Code, or be non-deductible by us under Section 280G of the Internal Revenue Code, then those payments or benefits will be reduced to an amount that will not exceed the Section 280G and Section 4999 limits under the Internal Revenue Code. In addition, Mr. Koplin would have received accelerated vesting of \$7,799 in restricted stock and accelerated vesting of \$44,545 in RSUs, and \$43,990 per year, payable in monthly installments for fifteen years, under his SERP.

*Michael L. Jake* In the event that Mr. Jake had been terminated without cause or had resigned for good reason on December 31, 2018, within 12 months following a change of control, he would have received accelerated vesting of \$5,904 in restricted stock and accelerated vesting of \$34,014 in RSUs and, if he had experienced any separation from service on December 31, 2018, within 24 months following a change in control, he would have received \$40,000 per year, payable in monthly installments for ten years, under his SERP. Under a policy applicable to employees, generally, if he was terminated without cause (whether or not following a change in control), Mr. Jake would receive severance benefits equal to two weeks of severance pay for each year of employment, subject to a maximum of twenty-six weeks.

*John R. Anderson III* Upon termination by the Company without cause (whether or not following a change in control), Mr. Anderson will receive his accrued compensation and other benefits through his termination date, along with a severance benefits available under a policy applicable to employees, generally, namely two weeks of severance pay for each year of employment, subject to a maximum of twenty-six weeks.

Pay Ratio Disclosure

We identified our median employee as of December 31, 2018, using our entire employee population, other than our principal executive officer, and the total base salary or wages, plus bonus, earned by those employees during the 2018 calendar year. We calculated the total compensation of our median employee in the same manner that the total compensation of our principal executive officer is calculated in the summary compensation table, although the median employee's total compensation consisted solely of salary, bonus and contributions to our ESOP and 401(k) plan. Based on this methodology, the 2018 total compensation of our median employee was \$35,741. The 2018 total compensation of our principal executive officer was \$918,397 and the ratio of the median employee's total compensation to our principal executive officer's total

compensation for 2018 was 1:25.7.

Table of Contents**2018 Director Compensation**

The following table sets forth information concerning the compensation received by individuals who served as directors (other than Craig W. Best) during the year ended December 31, 2018.

Name	Fees Earned or Paid in Cash (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(1)	Total (\$)
William E. Aubrey II	59,068	803	94	59,965
Joseph G. Cesare, M.D.	47,719	3,603	391	51,713
James G. Keisling	41,519	8,731		50,232
Ronald G. Kukuchka	39,169	1,602	195	40,966
Richard S. Lochen, Jr.	49,751	835	94	50,680
Robert W. Naismith, Ph.D.	37,513	7,761		45,274
James B. Nicholas	49,832	5,746		55,578
Emily S. Perry	9,700	6,638		16,338
George H. Stover, Jr.	41,469	6,791	373	48,633
Steven L. Weinberger	35,632	4,442		40,074
Earle A. Wootton	12,550	1,870	771	15,191
Joseph T. Wright, Jr.	48,719	1,164	178	50,061

(1) Amount reflects 2018 imputed income on supplemental life insurance split-dollar arrangements.

Each non-employee director receives \$1,000 for attendance at each board meeting, \$500 for each committee meeting, and \$300 for each branch meeting. All non-employee directors receive a retainer of \$20,000 per year. The Chairman of the Board receives a retainer of \$40,000 per year, and the Audit Committee Chairman receives an additional \$417 per month; the Compensation Committee Chairman receives an additional \$292 per month; the Nominating and Corporate Governance Committee Chairman receives an additional \$250 per month; the Trust Committee Chairman receives an additional \$209 per month; the Asset Liability Management Committee Chairman receives an additional \$209 per month and the Asset Quality/Credit Committee Chairman receives an additional \$209 per month.

We maintain a director supplemental life insurance plan. All directors are eligible for the life insurance benefit, subject to medical underwriting acceptance. The plan currently insures seven directors. The director life insurance benefit of up to \$100,000 per participating director is provided through a single premium bank-owned life insurance, or BOLI, program because BOLI is a more cost-effective way of providing the benefits. The eligible participating directors are not required to pay any premiums on the life insurance policy, but have the imputed value of the insurance coverage included in their taxable income.

We also maintain a deferred compensation plan for directors. All current non-employee directors are eligible to participate in the plan. The plan allows for deferrals by participants of up to 100 percent of their director's fees and there is no maximum dollar limit on the amount that may be deferred each year. Participants are permitted to change their percentage of deferral annually. The participants are always 100 percent vested in the amounts they defer and earnings are credited to their accounts at market rates. Participants are entitled to receive a distribution from their account upon a termination of service, a change in control, or a specified date as allowed within the plan.

The Company provides a retirement benefit to its non-employee directors. Upon vesting, based on either a change in control or ten years of service, a director is eligible to receive an annual cash payment equal to the product of the director's number of years of service multiplied by \$150, payable for a ten years period following retirement from board service.

Table of Contents

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Bank has made, and expects to continue to make, loans in the future to our directors and executive officers and their family members, and to firms, corporations, and other entities in which they and their family members maintain interests. All such loans require the prior approval of our board of directors. None of such loans are, as of the date of this proxy statement, or were at December 31, 2018, nonaccrual, past due, restructured or potential problems, and all of such loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Company or the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

Thomas P. Tulaney II is the son of Thomas P. Tulaney, one of our named executive officers, and is employed as a vice president of the Bank. Thomas P. Tulaney II's compensation and benefit package totaled \$138,252 during the 2018 fiscal year.

Except for loan transactions and employment described above, deposits with the Bank, and transactions where the rates or charges were determined by competitive bids, there were no transactions since the beginning of our last fiscal year, and there are no currently proposed transactions, in which we were or are to be a participant, the amount involved exceeds \$120,000, and in which any related person who is also an executive officer had or will have a direct or indirect material interest.

The Bank has a formal process with respect to the review and approval of loans extended by it to related persons. In accordance with these procedures, all transactions with related persons must be approved or ratified by disinterested members of board of directors. All loans and commitments to lend included in such transactions were made under substantially the same terms, including interest rates, collateral, and repayment terms as those prevailing at the time for comparable transactions with other persons not related to the Bank and do not involve more than the normal risk of collection or present other unfavorable features.

Our code of business conduct and ethics, audit committee charter, and loan policy and procedures related to the approval of loans set forth our policies and procedures for the review, approval, or ratification of any transactions with related persons. Any transaction that involves the purchase from, sale to, or joint ownership with, a related person, of an interest in real or personal property must receive any required approvals of regulatory authorities confirming that the terms of such transactions are fair to, and in the best interests of the Company or the Bank; be supported by an independent appraisal not prepared by a related person or an employee of the Company or the Bank; and be approved in advance by a resolution duly adopted, with full disclosure, by our audit committee. Any extension of credit to a related person must be approved in advance by a resolution duly adopted after full disclosure by a majority of the entire board of directors of the Bank, with each interested director abstaining from participating, directly or indirectly, in the vote. All other transactions not expressly described in our code of conduct and ethics, in which any related person will have a direct or indirect material interest, are subject to review and approval by our audit committee.

Compensation Committee Interlocks and Insider Participants

During 2018, directors Aubrey, Cesare, Keisling, Lochen, Naismith and Wright served as members of our compensation committee. Except for Mr. Lochen, who served as an executive officer of the Company from 2006 until 2010, no member of the compensation committee has ever served as an officer or employee of the Company or its subsidiaries. During 2018, there were no compensation committee interlocks between the Company or its subsidiaries and any other entity involving the Company or its subsidiaries or any such entity's executive officers or directors.



Table of Contents**CODE OF ETHICS**

We have adopted a code of conduct and ethics that applies to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer and other senior financial officers. Our code of conduct and ethics is available via our website, psbt.com, at the Governance Documents page under Investor Relations.

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

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who own more than ten percent of a registered class of the Company's equity securities (ten-percent holders) to file reports of ownership and changes in ownership with the SEC. Officers, directors and ten-percent holders are required by regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and representations that no other reports were required, during the fiscal year ended December 31, 2018, each of the Company's officers, directors, and greater than ten-percent holders complied with all Section 16(a) filing requirements applicable to him or her, except that the Form 4s for Messrs. Best, Tulaney, Koplín, Jake and Ferretti, reporting awards of restricted stock were filed late, and one purchase by Mr. Aubrey was not reported on a timely basis.

**EQUITY COMPENSATION PLAN INFORMATION**

The table below sets forth information with respect to compensation plans under which equity securities of the Company were authorized for issuance as of December 31, 2018. As of January 15, 2019, no equity securities are authorized for issuance under the 2008 Long-Term Incentive Plan.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)</b>
<i>Equity Compensation Plans Equity compensation plans approved by security holders:</i>			
2017 Equity Incentive Plan		N/A	86,994(1)
<i>Equity compensation plans not approved by security holders: None</i>			
<i>Total</i>		N/A	

(1) The 2017 Equity Incentive Plan provides for the grant of the following equity-based and cash-based incentive awards to participants: stock options, stock appreciation rights, restricted stock, restricted stock units, cash awards and performance awards.





Table of Contents

**SHAREHOLDER PROPOSALS**

Nominations of persons for election to the board of directors and the proposal of business to be considered by the shareholders at an annual meeting of shareholders may be made by any shareholder of the Company who was a shareholder of record at the time of the notice for the annual meeting, who is entitled to vote at the annual meeting, and who complies with the notice procedures set forth in our bylaws.

For director nominations or other proposals to be properly brought before the 2020 annual meeting by a shareholder, the shareholder must give written notice to the Secretary of the Company at Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, Pennsylvania 18503, by March 19, 2020, and any proposal other than a director nomination must be a proper matter for shareholder action, and not otherwise excludable under the rules and regulations of the SEC. In order for a shareholder proposal other than a director nomination to be included in the Company's proxy statement for the 2020 annual meeting of shareholders, in addition to meeting all of the requirements set forth in our bylaws, and all requirements of applicable securities laws, we must receive the proposal by December 10, 2019.

A shareholder's 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 the beneficial owner, if different than the Proposing Shareholder, or any of the shares of Peoples common stock which are owned of record and beneficially by the Proposing Shareholder and the number which are owned beneficially by any beneficial owner; (iii) any interest (other than an interest solely as a shareholder) which the Proposing Shareholder or a beneficial owner has in the business being proposed by the Proposing Shareholder; (iv) a description of all arrangements and understandings between the Proposing Shareholder and any beneficial owner and any other person or persons (naming such person or persons) pursuant to which the proposal in the shareholder notice is being made; (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 Company adopt; and (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 Company 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. 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.

Table of Contents

**REPORTS AND OTHER DOCUMENTS**

Annual Report

A copy of the Company's 2018 Annual Report to Shareholders accompanies this proxy statement. **On written request, we will provide, without charge, a copy of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC (including a list briefly describing the exhibits thereto), to any record holder or beneficial owner of common stock on February 28, 2019, the record date for the annual meeting, or to any person who subsequently becomes such a record holder or beneficial owner. Additionally, our proxy statement, annual report to shareholders, and proxy card are available at <http://www.astproxyportal.com/ast/08838/>.** Requests should be directed to the attention of the Secretary of the Company at Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, Pennsylvania 18503.

Security Holders Sharing an Address

Only one copy of this proxy statement and the accompanying 2018 Annual Report to Shareholders is being delivered to multiple shareholders sharing an address unless we have previously received contrary instructions from one or more of such shareholders. On written or oral request to the Secretary of the Company at Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, Pennsylvania 18503, we will deliver promptly a separate copy of this proxy statement and the accompanying 2018 Annual Report to Shareholders to a shareholder at a shared address to which a single copy of the documents was delivered. Shareholders sharing an address who wish, in the future, to receive separate copies or a single copy of our proxy statements and annual reports should provide written or oral notice to the Secretary of the Company at the address and telephone number set forth above.

BY ORDER OF THE BOARD OF DIRECTORS

DEBRA E. ADAMS  
Secretary











