

PEOPLES FINANCIAL SERVICES CORP.

Form 424B3

October 10, 2013

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Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-190587

## **Joint Proxy Statement/Prospectus For 4,466,086 Shares of**

### **Peoples Financial Services Corp. Common Stock**

### **Merger Proposal Your Vote Is Very Important**

To: The shareholders of Peoples Financial Services Corp. and Penseco Financial Services Corporation

The boards of directors of Peoples Financial Services Corp. and Penseco Financial Services Corporation have each unanimously approved a transaction in which Penseco will merge with and into Peoples. Pursuant to the terms of the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, Penseco will merge with and into Peoples, and Penn Security Bank and Trust Company, the wholly-owned subsidiary of Penseco will merge with and into Peoples Neighborhood Bank, the wholly-owned subsidiary of Peoples. The resulting bank will be named Peoples Security Bank and Trust Company.

In the merger, Penseco shareholders will receive 1.3636 shares of Peoples common stock for each share of Penseco common stock they own at the effective time of the merger, subject to adjustment in accordance with the merger agreement, and discussed in greater detail under Proposal: The Merger Terms of the Merger beginning on page 40. Penseco shareholders also will receive cash instead of any fractional shares they would have otherwise received in the merger. Peoples estimates that it will issue approximately 4,466,086 shares of Peoples common stock, \$2.00 par value per share, in the merger. Immediately following the merger, former Peoples shareholders are expected to own approximately 40.8% of Peoples common stock, and former Penseco shareholders are expected to own approximately 59.2% of Peoples common stock.

Peoples common stock is quoted on the OTCQB market place maintained by OTC Market Groups, Inc. under the symbol PFIS . On October 4, 2013, the closing price of Peoples common stock was \$35.00. The price of Peoples common stock will fluctuate between now and the closing of the merger. Penseco is quoted on the OTCQB market place maintained by OTC Market Groups, Inc. under the symbol PFNS . On October 4, 2013, the closing price of Penseco common stock was \$44.00. The price of Penseco common stock will fluctuate between now and the closing of the merger. We urge you to obtain current market quotations for both Peoples and Penseco common stock.

Peoples will hold a special meeting of its shareholders to vote on the approval and adoption of the merger agreement on November 15, 2013, 2013, at 10:00 a.m. at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822. Penseco will hold a special meeting of its shareholders to vote on the approval and adoption of the merger agreement on November 21, 2013, at 2:00 p.m. at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503. We cannot complete the merger unless the holders of at least a majority of the outstanding shares of Peoples common stock entitled to vote at the special meeting of shareholders approve and adopt the merger agreement and the merger agreement is approved and adopted by the affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock.

As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive cash payment of a statutorily determined fair value of your common stock in the event that the merger is consummated. The statutorily determined fair value could be more or less than the value of the merger consideration. For more information regarding dissenters rights, refer to Q-14: Do I have the right to dissent from the merger? on page 5 and Proposal: The Merger Rights of Dissenting Shareholders beginning on page 92.

Each of the Peoples and Penseco board of directors unanimously recommends that you vote FOR the approval and adoption of the merger agreement. All shareholders of Peoples and Penseco are invited to attend their respective special meeting in person. However, whether or not you plan to attend the special meeting, please take the time to ensure your shares are voted by submitting a proxy, either by mailing the enclosed proxy card or by following the instructions for internet or telephone submission.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common stock of Peoples to be issued in this merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The shares of Peoples common stock offered are not savings or deposit accounts or other obligations of either party or any of their banking or other subsidiaries, and they are not insured by any federal or state governmental agency.**

**Investing in Peoples common stock involves risks that are described in Risk Factors beginning on page 25.**

This joint proxy statement/prospectus is dated October 10, 2013 and is first being mailed to shareholders of Peoples and Pensco on or about October 11, 2013.

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**Peoples Financial Services Corp.**

**82 Franklin Avenue**

**Hallstead, PA 18822**

**Notice of Special Meeting of Shareholders**

**NOTICE IS HEREBY GIVEN** that a special meeting of shareholders of Peoples Financial Services Corp. will be held at 10:00 a.m., local time, on November 15, 2013 at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822, for the following purposes:

1. To approve and adopt the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, by and between Peoples Financial Services Corp. and Pensco Financial Services Corporation, which provides, among other things, for the merger of Pensco with and into Peoples, and the conversion of each share of Pensco common stock immediately outstanding prior to the merger into 1.3636 shares of Peoples common stock, all as described in the accompanying documents, and transactions in connection therewith;
2. To amend Article 4 of Peoples Articles of Incorporation to increase the number of authorized shares of Peoples common stock, \$2.00 par value per share, from 12,500,000 shares to 25,000,000 shares;
3. To approve on an advisory (non-binding) basis the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger;
4. To consider and vote upon a proposal to adjourn or postpone the special meeting of shareholders, if more time is needed, to allow Peoples time to solicit additional votes in favor of the merger agreement and the amendment to the articles of incorporation; and

5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. The Peoples board of directors unanimously recommends that you vote FOR the approval and adoption of the Agreement and Plan of Merger, FOR the approval and adoption of the amendment to the articles of incorporation, FOR the approval of the advisory (non-binding) resolution approving the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger, and FOR the approval of the proposal granting the Peoples board of directors discretionary authority to adjourn or postpone the special meeting, if necessary, as described in detail in the accompanying joint proxy statement/prospectus.

The Peoples board of directors has fixed the close of business on September 27, 2013, as the record date for determining shareholders entitled to notice of, and to vote at, the special meeting of shareholders.

***Your vote is important regardless of the number of shares you own. Peoples cannot complete the merger unless the merger agreement is approved and adopted by the affirmative vote of the holders of at least a majority of the outstanding shares of Peoples common stock entitled to vote on the merger agreement. If a Peoples shareholder does not vote by proxy or by attending the Peoples special meeting of shareholders and voting in person, it will have the same effect as voting against the merger.***

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

By Order of the Board of Directors,

Alan W. Dakey  
*President and Chief Executive Officer*

Hallstead, Pennsylvania

October 10, 2013

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**Penseco Financial Services Corporation**

**150 North Washington Avenue**

**Scranton, PA 18503**

**Notice of Special Meeting of Shareholders**

**NOTICE IS HEREBY GIVEN** that a special meeting of shareholders of Penseco Financial Services Corporation will be held at 2:00 p.m., local time, on November 21, 2013 at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503, for the following purposes:

1. a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, by and between Peoples Financial Services Corp. and Penseco Financial Services Corporation, which provides, among other things, for the merger of Penseco with and into Peoples, and the conversion of each share of Penseco common stock immediately outstanding prior to the merger into 1.3636 shares of Peoples common stock, all as described in the accompanying documents;
2. a proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger; and
3. a proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

In accordance with the Penseco's bylaws, only the business conducted at the special meeting will be the business brought before the special meeting pursuant to this notice.

The Penseco board of directors unanimously recommends that you vote **FOR** the proposal to approve and adopt the Agreement and Plan of Merger, **FOR** the proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger, and **FOR** the approval the proposal to adjourn the special meeting, if necessary.

Shareholders of record of the Penseco common stock of at the close of business on September 27, 2013 are entitled to vote at the Penseco special meeting and any adjournment or postponement of the special meeting.

***Your vote is important regardless of the number of shares you own. Penseco cannot complete the merger unless the merger agreement is approved and adopted by the affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock. If a Penseco shareholder does not vote by proxy or by attending the Penseco special meeting of shareholders and voting in person, it will have the same effect as voting against the merger.***

Whether or not you plan to attend the special meeting, the Penseco board of directors urges you to submit your proxy as soon as possible, either by completing, signing, dating, and returning the enclosed proxy in the enclosed postage-paid envelope or by following the internet and telephone instructions included in the attached materials. Submitting your proxy will not prevent you from voting in person at the special meeting, but it will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are registered in street name, you will need to follow the instructions provided by your broker, and you will need additional documentation from your broker in order to vote in person at the special meeting.

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By Order of the Board of Directors,

Craig W. Best  
*President and Chief Executive Officer*

Scranton, Pennsylvania

October 10, 2013

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**HOW TO OBTAIN MORE INFORMATION**

This document incorporates by reference important business and financial information about Penseco that is not included in or delivered with this document. You can obtain free copies of this information through the SEC website at <http://www.sec.gov> or by writing or calling:

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

Telephone number 570-346-7741

Attention: Marie L. Luciani, Investor Relations Officer, or Joan Rotondaro

**In order to obtain timely delivery of the documents, you must request the information no later than five business days before the date of Penseco's special meeting. This means that Penseco shareholders requesting documents must do so by November 14, 2013 in order to receive them before the Penseco special meeting.**

See "Where You Can Find More Information" on page 181 and "Incorporation of Certain Information by Reference" on page 181.

All information concerning Peoples and its subsidiaries has been furnished by Peoples and all information concerning Penseco and its subsidiaries has been furnished by Penseco.

**You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus when evaluating the merger agreement and the proposed merger. We have not authorized anyone to provide you with information that is different from what is contained in this joint proxy statement/prospectus. This proxy statement/prospectus is dated October 10, 2013. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this joint proxy statement/prospectus to shareholders of Peoples and Penseco nor the issuance of shares of Peoples common stock as contemplated by the merger agreement shall create any implication to the contrary.**

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**Questions and Answers about the Merger**

**Q-1: Why am I receiving this document?**

A: You are receiving this document because Peoples and Pensco signed an Agreement and Plan of Merger, dated as of June 28, 2013, as amended, which provides, among other things, for the merger of Pensco with and into Peoples, and the conversion of each share of Pensco common stock outstanding immediately prior to the consummation of the merger into 1.3636 shares of Peoples common stock.

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

A: This document serves as both a proxy statement of Peoples and Pensco and a prospectus of Peoples. This document serves as a proxy statement because the Peoples and Pensco boards of directors are soliciting your proxy for use at the Peoples and Pensco special meetings of shareholders called to consider and vote on the merger agreement. This document serves as a prospectus because Peoples is offering shareholders of Pensco to exchange their shares of Pensco common stock for shares of Peoples common stock in the merger.

**Q-3: What items of business will Peoples and Pensco ask shareholders to consider at the special meetings?**

A: At the Peoples special meeting, shareholders are asked to vote in favor of approval and adoption of the merger agreement with Pensco. In addition, shareholders will be asked to vote in favor of an amendment to the articles of incorporation, cast an advisory (non-binding) vote on the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger, and vote in favor of a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies if we have not received sufficient votes to adopt the merger agreement at the time of the special meeting.

At the Pensco special meeting, shareholders are asked to vote in favor of approval and adoption of the merger agreement with Peoples. In addition, shareholders will be asked to cast an advisory (non-binding) vote on the golden parachute compensation, that is compensation based on or related to the proposed merger, payable to the named executive officers of Pensco in connection with the merger, and vote in favor of a proposal to adjourn or postpone our special meeting, if necessary, to solicit additional proxies if we have not received sufficient votes to adopt the merger agreement at the time of our special meeting.

**Q-4: Why are Peoples and Pensco proposing to merge?**

A: The boards of directors of Peoples and Pensco believe that a merger of the two companies will create a stronger and more capable entity than either Peoples or Pensco is likely to be alone. Each board of directors believes the merger will provide an opportunity for each company to capitalize on its resources in the short-term and strengthen their prospects for the continued growth over the long-term. The merger also involves certain risks, which are described under Risk Factors beginning on page 25.

**Q-5: Will Peoples Neighborhood Bank and Penn Security Bank and Trust Company change their names after the merger?**

A: Yes. Following the effective time of the merger of Pensco with and into Peoples, Penn Security Bank and Trust Company will merge with and into Peoples Neighborhood Bank. The resulting bank will be named Peoples Security Bank and Trust Company.



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### **Q-6: What do the Peoples and Penseco boards of directors recommend?**

A: The Peoples and Penseco boards of directors have approved the merger agreement and the merger, and each believes that the merger is in the best interests of Peoples and Penseco. Accordingly, the Peoples board of directors unanimously recommends that their shareholders vote FOR the approval and adoption of the merger agreement and the merger, FOR the approval and adoption of the amendment to the articles of incorporation, FOR the approval of the advisory (non-binding) resolution approving the golden parachute compensation payable to the named executive officers of Peoples and Penseco in connection with the merger, and FOR the approval of the proposal granting the Peoples board of directors discretionary authority to adjourn or postpone the special meeting, if necessary. The Penseco board of directors unanimously recommends that you vote FOR the proposal to approve and adopt the merger agreement, FOR the proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger, and FOR the approval of the proposal to adjourn the special meeting, if necessary.

### **Q-7: When do Peoples and Penseco expect to complete the merger?**

A: Peoples and Penseco expect to complete the merger shortly after all of the conditions to the merger are fulfilled, including obtaining the approval of Peoples shareholders, the approval of Penseco shareholders, and the approval of the applicable regulatory agencies. We anticipate this will occur in late 2013. Peoples and Penseco cannot assure you that they will obtain the necessary shareholder approvals and regulatory approvals or the other conditions precedent to the merger can or will be satisfied.

### **Q-8: What will Penseco shareholders receive in the merger?**

A: Record holders of Penseco common stock will receive 1.3636 shares of Peoples common stock for every share of Penseco common stock they own on the effective time of the merger and will receive cash instead of any fractional share they would have otherwise received in the merger. The exchange ratio is subject to adjustment as discussed in greater detail under Proposal: The Merger Terms of the Merger, beginning on page 40.

### **Q-9: Why is Peoples proposing to amend its articles of incorporation?**

A: Currently, Peoples articles of incorporation only permit the issuance of 12,500,000 shares of common stock. However, in order to effect the merger, Peoples will have to issue an additional 4,466,086 shares of common stock in addition to the current 3,087,206 shares of common stock outstanding and 5,800 shares of common stock reserved for issuance. While, Peoples will have enough common stock shares authorized to issue to effect the merger under the current articles of incorporation, in order to provide flexibility, the board of directors believes it is in the best interests of Peoples and its shareholders to have more shares authorized for any future financings, investment opportunities, acquisitions of other companies, declaration of stock dividends, stock splits or other distributions, or for other corporate purposes.

### **Q-10: Why am I being asked to cast an advisory (non-binding) vote to approve the golden parachute compensation payable to certain officers in connection with the merger?**

A: The SEC, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, adopted rules that require the companies to seek an advisory (non-binding) vote with respect to certain payments that will or may be made to each company's named executive officers in connection with the merger.



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### **Q-11: What will happen if shareholders do not approve the golden parachute compensation at the special meetings?**

A: Approval of the golden parachute compensation payable in connection with the merger is not a condition to completion of the merger. The votes with respect to the golden parachute compensation are advisory and will not be binding on either Peoples or Penseco (or the combined company that results from the merger) regardless of whether the merger agreement is approved and adopted. Accordingly, as the compensation to be paid to certain of the executives in connection with the merger is contractual, such compensation will or may be payable if the merger is completed regardless of the outcome of the advisory votes.

### **Q-12: Are there regulatory or other conditions to the merger occurring?**

A: Yes. The merger must be approved by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. As of the date of this joint proxy statement/prospectus, appropriate applications have been filed with these regulatory authorities. On October 7, 2013, Peoples received approval from the Federal Reserve Bank of Philadelphia, acting on delegated authority of the Federal Reserve Board, of its application to merge with Penseco.

Furthermore, the merger will only be completed if neither Peoples nor Penseco is in material breach of any of its representations, warranties, or obligations under the merger agreement. The merger is also subject to the condition that Peoples and Penseco each receive an opinion from their respective counsel that the merger will be treated as a reorganization under Section 368(a) of the Internal Revenue Code of 1986. The merger is also subject to certain other specified conditions. See Proposal: The Merger Terms of the Merger Conditions to Merger, beginning at page 77.

### **Q-13: What vote is required to approve the merger?**

A: Both Peoples shareholders and Penseco shareholders must adopt and approve the merger agreement in accordance with each of its articles of incorporation and bylaws. As the board of directors of Peoples has already approved the merger agreement by at least 66 2/3% of the board, the affirmative vote of the holders of at least a majority of the outstanding shares of Peoples common stock on the record date is necessary to approve and adopt the merger agreement. The affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock on the record date is necessary to approve and adopt the merger agreement.

### **Q-14: Do I have the right to dissent from the merger?**

A: Yes. As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive a cash payment of the statutorily determined fair value of your common stock in the event that the merger is consummated. The statutorily determined fair value could be more or less than the value of the merger consideration. In order to assert dissenters rights, shareholders must precisely follow the process described in Proposal: The Merger Rights of Dissenting Shareholders beginning on page 92 and in Annex D.

Generally, shareholders who wish to dissent must:

1. File with the corporation of which they are a shareholder a written notice of their intention to demand that they be paid the fair value for their shares of Peoples or Penseco common stock, as the case may be, rather than receive shares of Peoples common stock as described in the merger agreement prior to the respective vote of shareholders on the merger at the Peoples or Penseco special meeting called for such purpose.

2.

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The dissenting shareholders must effect no change in the beneficial ownership of their Peoples or Pensco common stock, as the case may be, from the date of the filing of the intention to demand payment through the effective time of the merger if the shareholders approve and adopt the merger and the merger agreement.

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3. Dissenting shareholders also must vote against the merger, abstain from voting for the merger or not vote their Peoples or Penseco common stock at the special meeting called for such purpose.

You also are encouraged to consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of these dissenters' rights and your ability to receive cash for the fair value of your common stock of either Peoples or Penseco.

### **Q-15: What do I need to do now?**

A: After you have carefully read these materials, indicate on the enclosed proxy card how you want to vote your shares of either Peoples or Penseco. Then sign, date, and mail the proxy card in the enclosed postage-paid envelope as soon as possible so your shares will be represented and voted at either the Peoples or Penseco special meeting. Alternatively, you can submit your proxy by following the internet or telephone instructions included in the following materials and on your proxy card.

### **Q-16: Should Penseco shareholders send in their stock certificates now?**

A: No. Penseco shareholders should not send in their stock certificates at this time. Penseco shareholders will receive instructions from the exchange agent at a later time. Peoples shareholders will not need to exchange their certificates. See Proposal The Merger Terms of the Merger Exchange Procedures on page 71.

Please do not send any stock certificates to Peoples, Penseco, or the exchange agent until you receive instructions.

### **Q-17: Can I change my vote after I have submitted my proxy?**

A: Yes. There are three ways for you to revoke your proxy and change your vote:

1. You may submit a later-dated, proxy before Peoples' or Penseco's special meeting, as either relates to you.
2. You may revoke your proxy by written notice delivered at any time prior to the vote on the merger including delivery at the special meeting of shareholders. Peoples shareholders should deliver this notice to the Corporate Secretary, and Penseco shareholders should deliver this notice to the Secretary.
3. You may attend the Peoples or Penseco special meeting and vote in person. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

### **Q-18: What are the material U.S. federal income tax consequences of the merger to Penseco shareholders?**

A: The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the holders of Penseco common stock generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Penseco common stock for shares of Peoples common stock in the merger, except with respect to any cash received in lieu of fractional shares. This tax treatment may not apply to all Penseco shareholders.



**We urge you to consult your tax advisor for a full understanding of the tax consequences of the merger to you. Tax matters are very complicated and, in many cases, tax consequences of the**

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merger will depend on your particular facts and circumstances. See **Proposal The Merger Material U.S. Federal Income Tax Consequences**, beginning at page 89.

**Q-19: What happens if my stock certificates are held in street name by my broker, bank, or other nominee?**

A: Your broker, bank, or other nominee will not vote your shares unless you provide instructions to your broker, bank, or other nominee on how to vote. You should fill out the voter instruction form sent to you by your broker, bank, or other nominee with this document.

**Q-20: Whom should I call with questions or to obtain additional copies of this document?**

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

**For Peoples Shareholders:**

Scott A. Seasock

Senior Vice President and Chief Financial Officer

Peoples Financial Services Corp.

82 Franklin Avenue

Hallstead, PA 18822

(570) 897-2175

**For Penseco Shareholders:**

Marie L. Luciani

Investor Relations Officer

or Joan Rotondaro

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

(570) 346-7741

In addition, you may also contact Regan & Associates, Inc., Peoples and Penseco's proxy solicitor at the following address and telephone number:

Regan & Associates, Inc.

505 Eighth Avenue, Suite 800, New York, New York 10018

(212) 587-3005

info@reganproxy.com

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### **Summary**

*This summary highlights selected information from this document. It does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents referred to in this document before you decide how to vote. Together these documents will give you a more complete description of the proposed transaction. Page references are included in this summary to direct you to more thorough descriptions of the topics provided elsewhere in these materials.*

### **The Special Meetings of Shareholders**

#### **Peoples special meeting of shareholders to be held November 15, 2013 (see page 34).**

Peoples will hold a special meeting of shareholders on November 15, 2013, at 10:00 a.m., local time, at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822.

#### **Penseco special meeting of shareholders to be held November 21, 2013 (see page 37).**

Penseco will hold a special meeting of shareholders on November 21, 2013, at 2:00 p.m., local time, at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503.

#### **Peoples record date set at September 27, 2013; one vote per share of Peoples common stock (see page 34).**

If you owned shares of Peoples common stock at the close of business on September 27, 2013, you are entitled to notice of, and to vote at, the special meeting of shareholders. You will have one vote at the special meeting for each share of Peoples common stock you owned on September 27, 2013. On September 27, 2013, there were 3,087,406 shares of Peoples common stock outstanding.

#### **Penseco record date set at September 27, 2013; one vote per share of Penseco common stock (see page 37).**

If you owned shares of Penseco common stock at the close of business on September 27, 2013, you are entitled to notice of, and to vote at, the special meeting of shareholders. You will have one vote at the special meeting for each share of Penseco common stock you owned on September 27, 2013. On September 27, 2013, there were 3,285,145 shares of Penseco common stock outstanding.

### **The Companies**

#### **Peoples Financial Services Corp.**

**82 Franklin Avenue**

**Hallstead, PA 18822**

**(570) 879-2175**

Peoples Financial Services Corp., with assets of approximately \$689.0 million as of June 30, 2013, is the holding company for Peoples Neighborhood Bank. Peoples stock is quoted on the OTCQB market place under the symbol **PFIS**. For more information, visit Peoples Neighborhood Bank website at [www.peoplesnatbank.com](http://www.peoplesnatbank.com). The information on Peoples website is not incorporated into this joint proxy statement/prospectus.

#### **Penseco Financial Services Corporation**

**150 North Washington Avenue**

**Scranton, PA 18503**

**(570) 346-7741**



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Penseco Financial Services Corporation, with assets of approximately \$919.7 million as of June 30, 2013, is the holding company for Penn Security Bank and Trust Company. Penseco stock is quoted on the OTCQB market place under the symbol PFNS. For more information, visit the Penseco website at [www.pennsecurity.com](http://www.pennsecurity.com). The information on Penseco's website is not incorporated into this joint proxy statement/prospectus.

### **We propose that Penseco merge with and into Peoples (see page 40).**

Under the terms of the merger agreement, Penseco will merge with and into Peoples. As soon as practicable but no earlier than the first business day after the merger, Penn Security Bank and Trust Company will merge with and into Peoples Neighborhood Bank, and the resulting institution will be named Peoples Security Bank and Trust Company. A copy of the merger agreement is attached to this document as Annex A and a copy of the plan of merger for the banks is attached as Exhibit 3 to the merger agreement.

### **The boards of directors of Peoples and Penseco are unanimously recommending a vote in favor of the merger and believe that a merger of the two companies will create a stronger and more capable entity than either Peoples or Penseco is likely to be alone.**

Both boards of directors of Peoples and Penseco are unanimously recommending its respective shareholders vote in favor of the merger. The reasons we are recommending approval of the merger include the potential revenue and cost synergies and the resulting increase in earnings and expansion of market diversity. Each board of directors believes the merger will provide an opportunity for the combined company to capitalize on its assets in the short-term and strengthen their prospects for continued growth over the long-term. We believe this growth will be sufficient to overcome the costs arising from the merger. Furthermore, since the two companies serve markets that are geographically complementary to the other, the combined entity would have a more diverse market concentration than either of the two companies on their own.

### **Penseco shareholders will receive shares of Peoples common stock (see page 70).**

At the effective time of the merger, each outstanding share of Penseco common stock will be converted into and become the right to receive 1.3636 shares of Peoples common stock. The exchange ratio is subject to adjustment as discussed in greater detail under Proposal: The Merger Terms of the Merger, beginning on page 70. Peoples will not issue fractional shares of its common stock as part of the merger and will instead pay cash for any fractional share of common stock a shareholder of Penseco would have otherwise received in the merger.

### **Peoples has received an opinion from its financial advisor that the exchange ratio is fair, from a financial point of view, to the shareholders of Peoples (see page 51).**

In connection with the merger, the board of directors of Peoples received a written opinion from Peoples' financial advisor, Boenning & Scattergood, Inc., as to the fairness, from a financial point of view, of the exchange ratio to the shareholders of Peoples. The full text of the opinion of Boenning & Scattergood, dated as of June 28, 2013, is included in this document as Annex B. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations of the review undertaken by Boenning & Scattergood. The opinion of Boenning & Scattergood is directed to Peoples' board of directors and does not constitute a recommendation to you or any other shareholder as to how to vote with respect to the merger or any other matter relating to the proposed merger. Boenning & Scattergood will receive a fee for its services, including rendering the fairness opinion, in connection with the merger.

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**Penseco has received an opinion from its financial advisor that the exchange ratio is fair, from a financial point of view, to the shareholders of Penseco (see page 62).**

In connection with the merger, the board of directors of Penseco received a written opinion from Penseco's financial advisor, Griffin Financial Group, LLC, as to the fairness of the exchange ratio, from a financial point of view, to the shareholders of Penseco. The full text of the opinion of Griffin, dated as of June 28, 2013, is included in this document as Annex C. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations of the review undertaken by Griffin. The opinion of Griffin is directed to Penseco's board of directors and does not constitute a recommendation to you or any other shareholder as to how to vote with respect to the merger, the form of consideration to be received in the merger, or any other matter relating to the proposed merger. Griffin will receive a fee for its services, including rendering the fairness opinion, in connection with the merger.

**Peoples engaged Penseco's financial consultant to assist management in preparing *pro forma* financial information.**

In connection with the evaluation of a potential transaction with Peoples, Penseco engaged Cedar Hill Advisors, LLC to assist it in preparing certain financial modeling. Subsequently, in connection with the preparation of this joint proxy statement/prospectus, related registration statement and other regulatory applications, Peoples engaged Cedar Hill to assist management in the preparation of certain *pro forma* financial information related to the merger presented elsewhere in this document. Peoples and Penseco are aware of the potential conflicts that might arise from each of them engaging Cedar Hill in the same transaction, albeit for different purposes.

**Peoples Shareholder Vote Required (see page 35).**

*Approval and Adoption of the Merger Agreement.* Since Peoples' board of directors unanimously approved the merger agreement and merger, Peoples' articles of incorporation require the approval and adoption of the merger agreement and the merger by an affirmative vote, in person or by proxy, of at least a majority of the outstanding shares of Peoples common stock on the record date.

*Approval and Adoption of the Amendment to the Articles of Incorporation.* The affirmative vote of a majority of the shares of Peoples common stock voted at the special meeting of shareholders is required to approve and adopt the amendment to Peoples' articles of incorporation to increase the number of authorized shares of common stock from 12,500,000 to 25,000,000.

*Advisory (Non-binding) Vote Regarding Golden Parachute Compensation.* The affirmative vote of a majority of the votes cast by the holders of Peoples common stock entitled to vote on that matter at a shareholders' meeting at which a quorum is present, is required to approve on an advisory (non-binding) basis, golden parachute compensation payable to the named executive officers of Peoples and Penseco in connection with the merger.

*Discretionary Authority to Adjourn the Special Meeting.* The affirmative vote of the holders of a majority of the votes cast by the holders of Peoples common stock entitled to vote on the adjournment proposal is required to approve the proposal to grant discretionary authority to the Peoples board of directors to adjourn the special meeting if necessary to solicit additional proxies from Peoples shareholders in the event a quorum is present at our special meeting but there are insufficient votes to adopt the merger agreement.

Each holder of shares of Peoples common stock outstanding on the record date will be entitled to one vote for each share held of record. The vote required for approval and adoption of the merger agreement is a

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percentage of all outstanding shares of Peoples common stock. Therefore, abstentions will have the same effect as a vote against the merger agreement and the merger. Brokers who hold Peoples common stock as nominees on your behalf will not have authority to vote your shares with respect to the merger agreement or the merger unless you provide voting instructions in accordance with the directions provided by your broker. Failure to provide your broker with voting instructions will have the same effect as a vote against the merger agreement.

### **Penseco Shareholder Vote Required (see page 37).**

*Approval and Adoption of the Merger Agreement.* Penseco's articles of incorporation require the approval and adoption of the merger agreement and the merger by an affirmative vote of at least 75% of the shares of Penseco common stock outstanding on the record date.

*Advisory (Non-binding) Vote Regarding Golden Parachute Compensation.* In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve, on an advisory basis, the compensation of Penseco's named executive officers that is based on or related to the proposed merger.

*Discretionary Authority to Adjourn the Special Meeting.* In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

Each holder of shares of Penseco common stock outstanding on the record date will be entitled to one vote for each share held of record. The vote required for approval and adoption of the merger agreement is a percentage of all outstanding shares of Penseco common stock. Therefore, abstentions will have the same effect as a vote against the merger agreement and the merger. Brokers who hold Penseco common stock as nominees on your behalf will not have authority to vote your shares with respect to the merger agreement or the merger unless you provide voting instructions in accordance with the directions provided by your broker. Failure to provide your broker with voting instructions will have the same effect as a vote against the merger agreement.

### **Peoples directors and executive officers have agreed to vote in favor of the merger (see page 35).**

On September 30, 2013, the directors and executive officers of Peoples had sole or shared voting power over 222,791 shares, or 7.21 %, of the outstanding shares of Peoples common stock. These directors and officers of Peoples have agreed to vote these shares of Peoples common stock in favor of approving and adopting of the merger agreement.

### **Penseco directors and executive officers have agreed to vote in favor of the merger (see page 37).**

On September 30, 2013, the directors and executive officers of Penseco had sole or shared voting power over 413,701 shares, or 12.6%, of the outstanding shares of Penseco common stock. These directors and officers of Penseco have agreed with Peoples to vote these shares of Penseco common stock in favor of approving and adopting the merger agreement.

### **Peoples and Penseco directors and management may have interests in the merger that differ from your interests (see page 83).**

The directors and certain officers of each of Peoples and Penseco and their subsidiaries have interests in the merger as directors and employees that are different from or in addition to yours as a Peoples or Penseco

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shareholder. These interests include, among others, provisions in the merger agreement regarding the resulting Peoples and Peoples Security Bank and Trust Company boards, as well as change in control agreements, employment agreements, supplemental executive retirement plans, deferred compensation plans, indemnification, insurance, stock options, restricted stock plans, and eligibility to participate in various employee benefit plans. For purposes of the Peoples agreements and plans generally, and for certain Pensco agreements and plans, the completion of the transactions contemplated by the merger agreement will constitute a change in control. Alan Dakey is expected to enter into a consulting agreement wherein he will assist with the integration of Penn Security Bank and Trust Company into Peoples Neighborhood Bank for a six month period following the merger for which he will be paid \$95,000. Mr. Ferretti will be offered a new employment agreement which will provide for a base salary of \$175,000, a maximum bonus of twenty (20%) percent of his salary, and a supplemental executive retirement plan providing for a benefit of \$40,000 for 10 years. If the merger would have closed on June 20, 2013, Mr. Dakey would have received approximately \$668,420 (subject to a gross down) as payment under his employment agreement and supplemental executive retirement plan and Mr. Ferretti would have received approximately \$381,537 as payment under his supplemental executive retirement plan and a retention bonus. Mr. Seasock will receive approximately \$151,943 as a payment under his supplemental executive retirement plan and Ms. Dissinger will become fully vested in her supplemental executive retirement plan which will pay her \$20,000 per year for 15 years beginning when she reaches age 65. The Peoples directors will become vested in a director retirement plan, if not already vested, which will pay each director \$150 for each year of service for ten years. Mr. Scanlon will receive approximately \$38,191 which represents the value of his vested account balance under Pensco's executive deferred compensation plan. These additional interests may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a shareholder.

Each of Peoples and Pensco's board of directors was aware of these interests and considered them in approving and recommending the merger agreement.

**Peoples and Pensco must obtain regulatory approval and satisfy other conditions before the merger is complete (see page 77).**

Peoples and Pensco's obligations to complete the merger and the bank merger are subject to various conditions that are usual and customary for this kind of transaction. These conditions include obtaining approval from the Federal Reserve Board, the FDIC and the Pennsylvania Department of Banking and Securities. As of the date of this document, appropriate applications for approval have been filed. On October 7, 2013, Peoples received approval from the Federal Reserve Bank of Philadelphia, acting on delegated authority of the Federal Reserve Board, of its application to merge with Pensco. In addition to the required regulatory approvals, the merger will only be completed if certain conditions are met. See Proposal The Merger Terms of the Merger Conditions to Merger .

**Amendment or termination of the merger agreement is possible (see page 79).**

Peoples and Pensco can agree to amend the merger agreement in any way, except that, after approval by Peoples and Pensco shareholders at their special meetings, Peoples and Pensco cannot change the amount of Peoples common stock Pensco shareholders will receive in the transaction from what is provided in the merger agreement. On September 17, 2013, Peoples and Pensco entered into an Amendment No. 1 to the Agreement and Plan of Merger which would permit Peoples to pursue a listing of its common stock on either The Nasdaq Stock Market, Inc. or the New York Stock Exchange following the merger.

Peoples and Pensco may agree to terminate the merger agreement and not complete the merger at any time before the merger is completed. Each company also may unilaterally terminate the merger agreement in certain circumstances. These include the failure to complete the merger by March 31, 2014, unless the terminating company's breach is the reason the merger has not been completed.



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### **Rights of Penseco shareholders differ from those of Peoples shareholders (see page 171).**

When the merger is complete, Penseco shareholders will automatically become Peoples shareholders. The rights of Penseco shareholders differ from the rights of Peoples shareholders in certain important ways. Many of these differences have to do with provisions in Penseco's articles of incorporation and bylaws that differ from those of Peoples. See [Comparison of Shareholders' Rights](#).

### **Material U.S. federal income tax consequences of the merger (see page 89).**

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the holders of Penseco common stock generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Penseco common stock for shares of Peoples common stock in the merger, except with respect to any cash received in lieu of fractional shares. This tax treatment may not apply to all Penseco shareholders.

**We urge you to consult your tax advisor for a full understanding of the specific tax consequences of the merger to you. Tax matters are very complicated and, in many cases, tax consequences of the merger will depend on your particular facts and circumstances. See [Proposal The Merger Material U.S. Federal Income Tax Consequences](#), beginning at page 89.**

### **Peoples and Penseco shareholders are entitled to dissenters' rights (see page 92).**

As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive a cash payment for the statutorily determined fair value of your common stock in the event that the merger is completed. The statutorily determined fair value could be more or less than the value of the merger consideration. In order to assert dissenters' rights, shareholders must precisely follow the process described in [Proposal The Merger Rights of Dissenting Shareholders](#) and in Annex D. These sources describe provisions of Pennsylvania law related to dissenters' rights. You also are encouraged to consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of these dissenters' rights and your ability to receive cash for the statutorily determined fair value of your common stock of either Peoples or Penseco.

### **Peoples will pursue a Nasdaq or NYSE listing of its common stock (see page 91).**

Peoples and Penseco have agreed to use their commercially reasonable best efforts to obtain a listing for trading of Peoples common stock on The Nasdaq Stock Market, Inc. (Nasdaq) or the New York Stock Exchange (NYSE) as soon as practical after the effective time of the merger. However, Peoples common stock may not become listed on Nasdaq, NYSE, or any other exchange. See page 32 of [Risk Factors](#).

### **Peoples and Penseco will maintain a significant presence in their communities (see page 77).**

For at least three years after the effective time of the merger, the headquarters and loan operations of the companied company and bank will be located in Scranton, Pennsylvania, and the deposit operations and data processing of the companied company and bank will be located in Hallstead, Pennsylvania.

## **Market Price and Dividend Information**

### *Peoples*

As of September 30, 2013, there were 3,087,406 shares of Peoples common stock outstanding, which were held by approximately 1,044 holders of record and outstanding options that were exercisable on that date (or within 60 days of that date) for 5,600 additional shares of Peoples common stock. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms, and others.

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Additionally, a substantial source of Peoples' income from which it can pay dividends is the receipt of dividends from Peoples Neighborhood Bank. The availability of dividends from Peoples Neighborhood Bank is limited by various statutes and regulations. It also is possible, depending on the financial condition of Peoples Neighborhood Bank, and other factors, that the applicable regulatory authorities could assert that payment of dividends or other payments is an unsafe or unsound banking practice. In the event that Peoples Neighborhood Bank is unable to pay dividends to Peoples, Peoples may not be able to pay dividends on its common stock.

Peoples common stock is listed on the OTCQB market place under the symbol PFIS. The following table shows, for the indicated periods, the high and low sales prices per share for Peoples common stock as reported on the OTCQB market place and dividends declared per share of Peoples common stock. These prices may include retail markups, markdowns, or commissions.

	High	Low	Dividend Declared
<b>2013</b>			
First Quarter	\$ 34.00	\$ 30.05	\$ 0.23
Second Quarter	39.90	33.00	0.23
Third Quarter	35.50	33.50	0.23
Fourth Quarter (through October 4, 2013)	35.00	34.00	
<b>2012</b>			
First Quarter	\$ 29.00	\$ 27.50	\$ 0.21
Second Quarter	30.00	28.00	0.21
Third Quarter	31.00	28.80	0.22
Fourth Quarter	31.00	29.50	0.22
<b>2011</b>			
First Quarter	\$ 28.00	\$ 26.31	\$ 0.20
Second Quarter	27.50	25.50	0.20
Third Quarter	28.25	26.90	0.20
Fourth Quarter	28.25	27.05	0.20

On June 28, 2013, the last full trading day before the public announcement of the execution of the merger agreement, and on October 4, 2013, the latest practicable trading day before the printing of this document, the high, low and closing sales prices for Peoples common stock were as follows:

	June 28, 2013			October 4, 2013		
	High	Low	Closing	High	Low	Closing
Peoples Common Stock	\$ 35.25	\$ 35.25	\$ 35.25	\$ 35.00	\$ 35.00	\$ 35.00
<i>Penseco</i>						

As of September 30, 2013, there were 3,285,145 shares of Penseco common stock outstanding which were held by approximately 1,075 holders of record. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms, and others.

Penseco common stock is listed on the OTCQB market place under the symbol PFNS. The following table shows, for the indicated periods, the high and low sales prices per share for Penseco common stock as

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reported on the OTCQB market place and dividends declared per share of Penseco common stock. These prices may include retail markups, markdowns, or commissions.

	High	Low	Dividend Declared
<b>2013</b>			
First Quarter	\$ 38.00	\$ 37.00	\$ 0.42
Second Quarter	41.50	37.10	0.42
Third Quarter	45.50	40.50	0.42
Fourth Quarter (through October 4, 2013)	45.00	43.85	
<b>2012</b>			
First Quarter	\$ 40.00	\$ 36.58	\$ 0.42
Second Quarter	41.00	37.50	0.42
Third Quarter	38.35	36.90	0.42
Fourth Quarter	39.00	36.95	0.42
<b>2011</b>			
First Quarter	\$ 40.00	\$ 35.55	\$ 0.42
Second Quarter	39.25	37.00	0.42
Third Quarter	40.00	36.25	0.42
Fourth Quarter	39.00	36.87	0.42

On June 28, 2013, the last full trading day before the public announcement of the execution of the merger agreement, and on October 4, 2013, the latest practicable trading day before the printing of this document, the high, low and closing sales prices for Penseco common stock were as follows:

	June 28, 2013			October 4, 2013		
	High	Low	Closing	High	Low	Closing
Penseco Common Stock	\$ 41.50	\$ 38.00	\$ 41.50	\$ 44.00	\$ 44.00	\$ 44.00

Pursuant to the merger agreement, Peoples and Penseco have agreed to coordinate with one another with respect to regular quarterly dividends to ensure that holders of Penseco common stock do not receive two dividends, or fail to receive one dividend, for any quarter with respect to their shares of Penseco common stock and any shares of Peoples common stock received in the merger. In addition, Peoples and Penseco have agreed that for at least five years after the merger, Peoples will pay a quarterly cash dividend in an amount no less than \$.31 per share, provided that sufficient funds are legally available for payment of dividends and that Peoples and the combined bank remains well-capitalized in accordance with applicable regulatory guidelines. The post-merger quarterly dividend may only be reduced below \$.31 per share upon the approval of 80% of the board of directors.

**Comparative Market Value**

The following table sets forth the market value per share of Peoples and Penseco common stock and the equivalent market value per share of Penseco common stock on June 28, 2013 (the date of the public announcement of the merger) and October 4, 2013 (the latest practicable trading day prior to the date of this document). The equivalent market value is based upon an assumed exchange ratio of 1.3636 shares of Peoples common stock multiplied by the closing sales price of Peoples common stock on the specified date.

	Peoples Historical	Penseco Historical	Penseco Equivalent Market Value
June 28, 2013	\$ 35.25	\$ 41.50	\$ 48.07
October 4, 2013	\$ 35.00	\$ 44.00	\$ 47.73



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**Advisory (Non-binding) Votes on Golden Parachute Compensation (Pages 179 and 180)**

In accordance with SEC rules, Peoples and Pensco are providing shareholders with the opportunity to vote to approve on an advisory (non-binding) basis, certain payments that will or may be made to certain named executive officers in connection with the merger, as reported in the Summary of Golden Parachute Arrangements tables on pages 84 and 86, and the associated narrative discussions.

**Adjournment or Postponement Proposals (Page 180)**

You are being asked to approve a proposal to grant the Peoples and Pensco boards of directors discretionary authority to adjourn or postpone the special meetings, if necessary, to solicit additional proxies from their shareholders for the merger proposal in the event a quorum is present at the special meeting but there are insufficient votes to adopt the merger agreement.

**Table of Contents****Selected Historical Consolidated Financial Data of Peoples**

The following is a summary of consolidated financial information with respect to Peoples as of and for the six months ended June 30, 2013 and 2012, and as of and for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008. The results for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. This information is derived from, and should be read in conjunction with, Peoples' consolidated financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Six Months Ended June 30, 2013 and 2012, Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2012 and 2011, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2011 and 2010, each of which can be found elsewhere in this joint proxy statement/prospectus. In the opinion of management of Peoples, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2012 and 2011, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2011 and 2010, each of which can be found elsewhere in this joint proxy statement/prospectus. In the opinion of management of Peoples, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

(Dollars in thousands, except per share data)	Year Ended December 31,	2012	2011	2010	2009	2008	(Unaudited) As of or for the 6 months ended June 30,	
							2013	2012
<b>Condensed statements of financial performance:</b>								
Interest income		\$ 27,779	\$ 27,350	\$ 25,577	\$ 24,273	\$ 25,479	\$ 14,111	\$ 13,955
Interest expense		5,112	5,639	6,498	7,258	9,154	2,148	2,573
Net interest income		22,667	21,711	19,079	17,015	16,325	11,963	11,382
Provision for loan losses		1,695	1,794	2,202	1,735	713	330	1,035
Net interest income after provision for loan losses		20,972	19,917	16,877	15,280	15,612	11,633	10,347
Noninterest income (loss)		4,846	5,567	4,290	3,082	(1,809)	2,348	2,573
Noninterest expense		14,713	15,310	13,245	12,390	10,677	8,109	7,212
Income before income taxes		11,105	10,174	7,922	5,972	3,126	5,872	5,708
Provision for income tax expense		1,985	2,357	1,437	923	87	1,310	1,004
Net income		\$ 9,120	\$ 7,817	\$ 6,485	\$ 5,049	\$ 3,039	\$ 4,562	\$ 4,704
<b>Condensed statements of financial position:</b>								
Investment securities		\$ 147,780	\$ 139,899	\$ 121,772	\$ 130,506	\$ 107,589	\$ 138,758	\$ 128,596
Net loans		459,192	439,754	386,672	332,196	313,606	485,478	451,138
Other assets		64,551	41,751	50,143	53,781	51,181	64,738	58,980
Total assets		\$ 671,523	\$ 621,404	\$ 558,587	\$ 516,483	\$ 472,376	\$ 688,974	\$ 638,714
Deposits		\$ 574,311	\$ 494,283	\$ 438,734	\$ 410,038	\$ 371,268	\$ 596,935	\$ 538,111
Short-term borrowings		12,764	43,791	38,724	20,439	18,432	17,972	13,233
Long-term debt		13,130	18,927	27,336	38,750	39,691	2,717	18,533
Other liabilities		5,122	4,790	3,277	2,286	3,265	3,760	4,961
Stockholders' equity		66,196	59,613	50,516	44,970	39,720	67,590	63,876
Total liabilities and stockholders' equity		\$ 671,523	\$ 621,404	\$ 558,587	\$ 516,483	\$ 472,376	\$ 688,974	\$ 638,714



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Year Ended December 31,							(Unaudited)	
	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,		
							2013	2012
<b>Per share data:</b>								
Net income	\$ 2.93	\$ 2.49	\$ 2.07	\$ 1.61	\$ 0.97	\$ 1.48	\$ 1.51	
Cash dividends declared	\$ 0.86	\$ 0.80	\$ 0.79	\$ 0.76	\$ 0.76	\$ 0.46	\$ 0.42	
Stockholders' equity	\$ 21.46	\$ 19.11	\$ 16.07	\$ 14.34	\$ 12.69	\$ 21.89	\$ 20.48	
Cash dividends declared as a percentage of net income	29.40%	32.28%	38.24%	47.15%	79.53%	31.13%	27.81%	
Average common shares outstanding	3,117,098	3,136,663	3,139,606	3,133,518	3,128,170	3,085,216	3,118,269	
<b>Selected ratios (based on average balances) (unaudited):</b>								
Net income as a percentage of total assets	1.42%	1.33%	1.18%	1.07%	0.68%	1.37%	1.51%	
Net income as a percentage of stockholders' equity	14.91	14.80	13.87	12.62	7.53	14.02	16.02	
Stockholders' equity as a percentage of total assets	9.55	8.99	8.53	8.50	9.01	9.77	9.42	
Tier I capital as a percentage of adjusted total assets	9.17	9.42	9.19	9.92	9.31	12.11	11.88	
Net interest income as a percentage of earning assets	3.97	4.18	4.00	4.23	4.25	3.99	4.10	
Loans, net, as a percentage of deposits	87.03%	89.70%	84.67%	87.33%	86.38%	82.85%	91.12%	
<b>Selected ratios and data (based on period end balances):</b>								
Tier I capital as a percentage of risk-weighted assets	12.11%	11.57%	11.72%	12.30%	12.26%	9.54%	9.33%	
Total capital as a percentage of risk-weighted assets	13.36	12.69	12.68	13.18	13.10	13.38	13.07	
Allowance for loan losses as a percentage of loans, net (unaudited)	1.41	1.20	1.05	0.99	0.95	1.37	1.29	
Nonperforming loans as a percentage of loans, net (unaudited)	2.24%	2.30%	1.77%	0.99%	1.63%	2.39%	2.14%	
Note: Average balances were calculated using average daily balances. Average balances for loans include nonaccrual loans. Tax-equivalent adjustments were calculated using the prevailing statutory rate of 34.0 percent.								



**Table of Contents****Selected Historical Consolidated Financial Data of Penseco**

The following selected financial information for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008 is derived from audited consolidated financial statements of Penseco. The financial information as of and for the six months ended June 30, 2013 and 2012 is derived from unaudited financial statements. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. Penseco's management prepared the unaudited information on the same basis as it prepared Penseco's audited consolidated financial statements. In the opinion of Penseco's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Penseco's consolidated financial statements and related notes included in Penseco's Annual Report on Form 10-K for the year ended December 31, 2012, and Penseco's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which are incorporated by reference herein and from which this information is derived. Please see "Where You Can Find More Information" on page 181.

(in thousands, except per share amounts)

**RESULTS OF OPERATIONS:**

	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,	
						2013	2012
Interest Income	\$ 37,591	\$ 39,707	\$ 41,745	\$ 40,151	\$ 33,898	\$ 17,627	\$ 19,148
Interest Expense	5,362	7,339	8,356	9,580	10,830	1,994	2,888
Net Interest Income	32,229	32,368	33,389	30,571	23,068	15,633	16,260
Provision for Loan and Lease Losses	924	2,381	1,999	2,260	861	800	306
Net Interest Income after Provision for Loan and Lease Losses	31,305	29,987	31,390	28,311	22,207	14,833	15,954
Non-Interest Income	11,441	12,619	12,152	10,369	11,036	5,883	5,516
Non-Interest Expenses	29,099	29,041	28,689	28,640	22,384	13,981	14,601
Income Taxes	3,058	3,034	3,287	1,813	2,386	1,370	1,540
Net Income	\$ 10,589	\$ 10,531	\$ 11,566	\$ 8,227	\$ 8,473	\$ 5,365	\$ 5,329

**BALANCE SHEET AMOUNTS (As of December 31):**

Assets	\$ 918,042	\$ 925,532	\$ 916,837	\$ 884,034	\$ 629,627	\$ 919,669	\$ 914,343
Investment Securities	177,293	191,208	217,044	195,930	151,912	172,218	184,886
Net Loans	616,580	624,811	608,605	597,670	435,873	634,801	632,032
Deposits	721,948	720,518	691,032	645,434	424,725	733,134	712,400
Long-Term Borrowings	45,397	58,220	68,835	68,094	72,720	35,633	51,792
Stockholders' Equity	\$ 132,446	\$ 127,333	\$ 120,466	\$ 116,024	\$ 72,361	\$ 132,885	\$ 130,367

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	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,	
						2013	2012
<b>PER SHARE AMOUNTS:</b>							
Earnings per Share Basic	\$ 3.23	\$ 3.21	\$ 3.53	\$ 2.75	\$ 3.94	\$ 1.64	\$ 1.63
Earnings per Share Diluted	\$ 3.23	\$ 3.21	\$ 3.53	\$ 2.75	\$ 3.94	\$ 1.64	\$ 1.63
Dividends per Share	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.66	\$ 0.84	\$ 0.84
Book Value per Share	\$ 40.43	\$ 38.87	\$ 36.77	\$ 38.75	\$ 33.69	\$ 40.56	\$ 39.79
Weighted Average Common Shares							
Outstanding Basic	3,276,079	3,276,079	3,276,079	2,994,059	2,148,000	3,276,079	3,276,079
Weighted Average Common Shares							
Outstanding Diluted	3,276,411	3,276,079	3,276,079	2,994,059	2,148,000	3,277,516	3,276,100
<b>FINANCIAL RATIOS:</b>							
Net Interest Margin (1)	4.05%	4.02%	4.39%	4.50%	4.34%	3.92%	4.09%
Return on Average Assets	1.14	1.13	1.30	1.02	1.37	1.16	1.15
Return on Average Equity	8.07	8.45	9.73	7.89	11.90	8.01	8.24
Average Equity to Average Assets	14.18	13.37	13.38	12.94	11.54	14.47	13.99
Dividend Payout Ratio	52.01%	52.34%	47.59%	61.09%	42.13%	51.22%	51.53%

(1) Net interest margin is presented on a tax equivalent basis.

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**Selected Unaudited *Pro Forma* Combined Financial Data for Peoples**

The following table shows information about the combined company's financial condition and results of operations, after giving effect to the merger. This information is called unaudited *pro forma* financial information in this document. The information under "Combined Income Statement" in the table below gives effect to the *pro forma* results for the six months ended June 30, 2013 and the year ended December 31, 2012. The information under "Combined Balance Sheet" in the table below assumes the merger was completed on June 30, 2013. This *pro forma* financial information assumes that the merger is accounted for as a reverse merger using the acquisition method of accounting and represents a current estimate of the financial information based on available financial information of Peoples and Pensco. See "Proposal: The Merger Accounting Treatment" on page 89.

The unaudited *pro forma* combined financial information includes adjustments to reflect the assets and liabilities of Peoples at their estimated fair values at or near June 30, 2013. The unaudited *pro forma* data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the merger or consider any potential impacts of current market conditions or the merger on revenues, expense efficiencies, asset dispositions and share repurchases, among other factors, nor the impact of possible business model changes. As a result, unaudited *pro forma* data is presented for illustrative purposes only and does not represent an attempt to predict or suggest future results.

The information presented below should be read together with the historical consolidated financial statements of Peoples and Pensco, including the related notes, and together with the consolidated historical financial data for Peoples and Pensco and the other *pro forma* financial information, including the related notes, appearing elsewhere in this document. See "Unaudited *Pro Forma* Combined Financial Information" beginning on page F-66 in the joint proxy statement/prospectus. In addition, as explained in more detail in the accompanying notes to the unaudited *pro forma* financial information found elsewhere in this joint proxy statement/prospectus, the allocation of the purchase price reflected in the Selected Unaudited *Pro Forma* Combined Financial Data is subject to adjustment and will vary from the actual purchase price allocation that will be recorded upon completion of the merger based upon changes in the balance sheet including fair value estimates.

**Table of Contents****Selected Unaudited Pro Forma Combined Financial Data**

(\$ In Thousands, Except Per Share Data)

	For the Year Ended December 31, 2012	For the Six Months Ended June 30, 2013
<b>Combined Income Statement (1)(2):</b>		
Interest income	\$ 65,150	\$ 31,628
Interest expense	9,316	3,563
Net interest income	55,834	28,065
Provision for loan losses	2,619	1,130
Net interest income after provision for loan losses	53,215	26,935
Noninterest income	16,287	8,231
Noninterest expenses	44,649	22,464
Income before income taxes	24,853	12,702
Provision for Income tax expense	5,078	2,706
Net income	\$ 19,775	\$ 9,996
<b>Combined Balance Sheets:</b>		
Investment securities		\$ 310,564
Net loans		1,121,001
Other assets		207,908
Total assets		\$ 1,639,473
Total deposits		\$ 1,333,144
Short-term borrowing		26,160
Long-term borrowing		38,350
Other liabilities		15,894
Stockholders' equity		225,925
Total liabilities and stockholders' equity		\$ 1,639,473

**Table of Contents****Comparative Pro Forma Per Share Data**

Presented below is the Penseco and Peoples historical per share financial data, the unaudited *pro forma* combined per share financial data, and the Penseco *pro forma* equivalent per share financial data for the six months ended June 30, 2013 and the year ended December 31, 2012. This information should be considered together with the financial statements and related notes of Penseco and Peoples and with the unaudited *pro forma* combined financial data included under *Unaudited Pro Forma Combined Financial Information* found elsewhere in this joint proxy statement/prospectus.

**Unaudited Pro Forma Per Share Data****For The Six Months Ended June 30, 2013**

(\$ In Thousands, Except Per Share Data)

	Accounting Acquirer Penseco Financial Services Corporation	Accounting Acquiree Peoples Financial Services Corp.	Pro Forma Peoples Combined (1)(2)(3)(4)	Pro Forma Equivalent Penseco Share (5)
<b>Earnings per share:</b>				
<b>For the six months ended June 30, 2013</b>				
Net income per share (Basic)	\$ 1.64	\$ 1.48	\$ 1.33	\$ 1.81
Net income per share (Diluted)	\$ 1.64	\$ 1.48	\$ 1.33	\$ 1.81
<b>Dividends Declared:</b>				
<b>For the six months ended June 30, 2013</b>				
	\$ 0.84	\$ 0.46	\$ 0.62	\$ 0.85
<b>Book Value:</b>				
<b>As of June 30, 2013</b>				
	\$ 40.56	\$ 21.89	\$ 29.96	\$ 40.85
<b>Tangible Book Value:</b>				
<b>As of June 30, 2013</b>				
	\$ 32.28	\$ 21.74	\$ 22.39	\$ 30.53

**Unaudited Pro Forma Per Share Data****For The Year Ended December 31, 2012**

(Amounts In Thousands, except per share data)

	Accounting Acquirer Penseco Financial Services Corporation	Accounting Acquiree Peoples Financial Services Corp.	Pro Forma Peoples Combined (1)(2)(3)(4)	Pro Forma Equivalent Penseco Share (5)
<b>Earnings per share:</b>				
<b>For the year ended December 31, 2012</b>				
Net income (loss) per share (Basic)	\$ 3.23	\$ 2.93	\$ 2.61	\$ 3.56
Net income (loss) per share (Diluted)	\$ 3.23	\$ 2.93	\$ 2.61	\$ 3.56
<b>Dividends Declared:</b>				
<b>For the year ended December 31, 2012</b>				
	\$ 1.68	\$ 0.86	\$ 1.24	\$ 1.69
<b>Book Value:</b>				
<b>As of December 31, 2012</b>				
	\$ 40.43	\$ 21.46	\$ 29.73	\$ 40.54
<b>Tangible Book Value:</b>				
<b>As of December 31, 2012</b>				
	\$ 32.11	\$ 21.29	\$ 22.13	\$ 30.18



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- (1) The pro forma combined basic earnings and diluted earnings per share of Peoples common stock is based on the pro forma combined net income for Peoples and Penseco divided by the pro forma common shares or diluted common shares of the combined entities. The pro forma information includes adjustments related to the fair value of assets and liabilities of Peoples and is subject to adjustment as additional information becomes available and as additional analysis are performed.
- (2) The pro forma earnings per share information does not include anticipated cost savings or revenue enhancements, nor does it include one-time merger and integration expenses which will be expensed against income. Peoples and Penseco currently anticipates potential annual pre-tax cost savings following the merger will be approximately \$7.1 million pre-tax, which are expectedly to largely be realized within one year after the merger, but there is no assurance that the anticipated cost savings will be realized on the anticipated time schedule or at all.
- (3) The pro forma combined balance sheet and book value per share data does include the impact of merger expenses on the balance sheet with Peoples after tax charges currently estimated at \$1.1 million, illustrated as a pro forma fair value liability accrual, and Penseco's after-tax estimated charges of \$0.9 million, illustrated as a pro forma adjustment to retained earnings. The pro forma combined book value and tangible book value per share of Peoples common stock is based on the pro forma combined common stockholders' equity of Peoples and Penseco divided by total pro forma common shares of the combined entities.
- (4) Pursuant to the merger agreement, Peoples and Penseco have agreed that for at least five years after the merger, Peoples will pay a quarterly cash dividend in an amount no less than \$0.31 per share, provided that sufficient funds are legally available for payment of dividends and that Peoples and the combined bank remains well-capitalized in accordance with applicable regulatory guidelines. The post-merger quarterly dividend may only be reduced below \$.31 per share upon the approval of 80% of the board of directors, accordingly the pro forma Peoples dividend is illustrated at \$0.31 per quarter.
- (5) Pro forma equivalent Penseco per share amount is calculated by multiplying the pro forma combined per share amount by the assumed exchange ratio of 1.3636.

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### **Risk Factors**

In addition to the other information included and incorporated by reference into this joint proxy statement/prospectus, including the matters addressed in A Warning About Forward-Looking Information, on page 34, Peoples and Penseco shareholders should carefully consider the matters described below to determine whether to approve and adopt the merger agreement.

#### **Risks Relating to the Merger**

*Because the market price of Peoples common stock will fluctuate, Penseco shareholders cannot be sure of the trading price of the merger consideration they will receive.*

Upon completion of the merger, each share of Penseco common stock will be converted into the right to receive merger consideration consisting of shares of Peoples common stock. The exchange ratio in the merger agreement will not be adjusted in the event of any change in the stock prices of Peoples or Penseco prior to the merger. There also will be a period of time between the date when shareholders of each of Peoples and Penseco vote on the merger agreement and the date when the merger is completed. The relative prices of Peoples and Penseco common stock may vary between the date of this joint proxy statement/prospectus, the dates of the special meetings, and the date of completion of the merger. The market price of Peoples and Penseco common stock may change as a result of a variety of factors, including general market and economic conditions, changes in its business, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of Peoples or Penseco and are not necessarily related to a change in the financial performance or condition of Peoples or Penseco. As Peoples and Penseco market share prices fluctuate, based on numerous factors, the value of the shares of Peoples common stock that a Penseco shareholder will receive will correspondingly fluctuate. In addition, Peoples is not listed and does not trade on a national exchange. It is impossible to predict accurately the market price of Peoples common stock after completion of the merger. Accordingly, the prices of Peoples and Penseco common stock on the dates of the special meetings may not be indicative of their prices immediately prior to completion of the merger and the price of Peoples common stock after the merger is completed.

See Summary Market Price and Dividend Information . We urge you to obtain current market quotations for Peoples common stock.

*The combined company will incur significant transaction and merger-related costs in connection with the merger.*

Peoples and Penseco expect to incur costs associated with combining the operations of the two companies. Peoples and Penseco have just recently begun collecting information in order to formulate detailed integration plans to deliver planned synergies. Additional unanticipated costs may be incurred in the integration of the businesses of Peoples and Penseco. Whether or not the merger is consummated, Peoples and Penseco will incur substantial expenses, such as legal, accounting, printing and financial advisory fees, in pursuing the merger. Although Peoples and Penseco expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

*Some of the conditions to closing of the merger may result in delay or prevent completion of the merger, which may adversely affect the value of our companies securities.*

Completion of the merger is conditioned upon the receipt of certain governmental consents and approvals, including consents and approvals required by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. Failure to obtain these consents would prevent consummation of the merger. Even if the approvals are obtained, the effort



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involved may delay consummation of the merger. Governmental authorities may also impose conditions in connection with the merger that may adversely affect the combined company's operations after the merger. However, neither Peoples nor Penseco is required to take any action or agree to any condition or restriction in connection with obtaining any approvals that would reasonably be expected to have a material adverse effect on Penseco, Peoples or the combined company.

### ***The merger may distract our management from their other responsibilities.***

The merger could cause the management of the companies to focus their time and energies on matters related to the merger that otherwise would be directed to the companies' business and operations. Any such distraction on the part of management, if significant, could affect management's ability to service existing business and develop new business and adversely affect the combined company's business and earnings following the merger.

### ***Peoples and Penseco directors and executive officers may have interests in the merger that differ from your interests.***

Some of Peoples' and Penseco's directors and executive officers have interests in the transaction other than their interests as shareholders. For example, after the merger of Peoples and Penseco, six (6) current directors of Peoples and eight (8) current directors of Penseco will continue to serve on Peoples' combined board of directors. In addition:

William E. Aubrey II shall serve as the chairman of the board of Peoples and the board of directors has agreed to reappoint him until the Peoples 2017 Annual Meeting of Shareholders.

Alan W. Dakey, a director and the President and Chief Executive Officer of Peoples previously entered into an employment agreement with Peoples that would provide him with severance payments upon a termination after a change in control. The consummation of the merger will also afford him vested benefits and payments in certain benefit plans.

Alan Dakey is expected to enter into a consulting agreement wherein he will assist with the integration of Penn Security Bank and Trust Company into Peoples Neighborhood Bank for a six month period following the merger for which he will be paid \$95,000.

Peoples Neighborhood Bank and Penn Security Bank and Trust Company employees will be immediately eligible for participation in all benefit plans on the terms of such benefit plans.

Alan W. Dakey, Scott A. Seasock, and Joseph M. Ferretti will receive the actuarially equivalent of their retirement benefits under their respective supplemental executive retirement plan agreements.

Debra E. Dissinger will become vested in her supplemental executive retirement plan agreement.

Joseph M. Ferretti will be offered a new employment agreement providing for certain benefits and an increase in base salary.

The Peoples directors will become fully vested in the Peoples Directors' Retirement Plan.

Peoples and/or Penseco may award retention bonuses to certain employees, who have not yet been identified.

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Peoples has offered employment to Craig W. Best and Thomas P. Tulaney and other Pensco executive officers and will retain the employment of Scott A. Seasock, Joseph M. Ferretti and Debra E. Dissinger.

These and certain other additional interests of Peoples and Pensco s directors and executive officers are described in detail in Proposal The Merger Interests of Directors, Officers, and Others in the Merger, found elsewhere in this document. These circumstances may cause some of Peoples and Pensco s directors and executive officers to view the proposed merger differently than you view it.

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***The fairness opinions obtained by Peoples and Penseco from their financial advisors will not reflect changes in circumstances after the date of the fairness opinions.***

Boenning & Scattergood, Inc., Peoples' financial advisor in connection with the merger, and Griffin Financial Group, LLC, Penseco's financial advisor in connection with the merger have delivered to the boards of directors of Peoples and Penseco, respectively, their opinions dated as of June 28, 2013. Both opinions state that as of the date of such opinions, and based upon and subject to the factors and assumptions set forth therein, the merger consideration to be paid to the holders of the outstanding shares of Penseco common stock pursuant to the merger agreement was fair from a financial point of view to the shareholders of Peoples and Penseco. As a result, Peoples and Penseco shareholders should be aware that the opinions do not address the fairness of the merger consideration at any time other than as of June 28, 2013. The opinions do not reflect changes that may occur or may have occurred after the date of such opinions, including changes to the operations and prospects of Peoples or Penseco, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinions are based, may materially alter or affect the estimated valuation conclusions reached in such opinions for Peoples and Penseco shareholders.

***The unaudited pro forma financial data included in this joint proxy statement/prospectus are preliminary and our actual financial position and results of operations after the merger may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.***

The unaudited *pro forma* financial data in this joint proxy statement/prospectus are presented for illustrative purposes only and are not necessarily indicative of what the combined company's actual financial position or results of operations would have been had the merger been completed on the dates indicated. The *pro forma* financial data reflect adjustments, which are based upon preliminary estimates, to record Peoples' identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Peoples as of the date of the completion of the merger. Accordingly, the final purchase accounting adjustments may differ materially from the *pro forma* adjustments reflected in this document.

***After the merger is complete, Penseco shareholders will become Peoples shareholders and will have different rights than their current rights.***

Upon completion of the merger, Penseco shareholders will become Peoples shareholders. Differences in Penseco's articles of incorporation and bylaws and Peoples' articles of incorporation and bylaws will result in changes to the rights of Penseco shareholders who become Peoples shareholders. For more information, see *Comparison of Shareholders' Rights*, beginning on page 171 of this document. Shareholders of Penseco may conclude that their current rights under Penseco's articles of incorporation and bylaws are more advantageous than the rights they may have as a Peoples shareholder under Peoples' articles of incorporation and bylaws.

***Upon completion of the merger, Peoples shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.***

Peoples shareholders currently have the right to vote in the election of the board of directors of Peoples and on other matters affecting Peoples. When the merger occurs, the shares of Peoples common stock held by the current Peoples shareholders will represent a percentage ownership of the combined company that is much smaller than the shareholder's current percentage ownership of Peoples. In fact, it is expected that the former shareholders of Peoples as a group will own only approximately 41% of the outstanding shares of Peoples immediately after the merger. Because of this, Peoples' shareholders will have less influence on the management and policies of the combined company than they now have on the management and policies of Peoples. In addition, the initial board of directors of the combined company will include 14 members, eight of whom are current members of the Penseco board of directors.

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### ***If the merger is not completed, Peoples and Penseco will have incurred substantial expenses without realizing the expected benefits.***

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

### ***The merger agreement limits the ability of Peoples and Penseco to pursue alternatives to the merger.***

The merger agreement contains no shop provisions that, subject to specified exceptions, limit the ability of Peoples and Penseco to solicit, encourage, discuss, recommend or commit to alternative acquisition proposals, as well as a termination fee that is payable by Penseco under certain circumstances. These provisions might discourage potential competing transaction partners that might have an interest in acquiring all or a significant part of Peoples or Penseco from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing transaction partner proposing to pay a lower per share price to acquire Peoples or Penseco than it might otherwise have proposed to pay.

### ***Failure to complete the merger in certain circumstances could require Peoples or Penseco to pay a termination fee.***

If the merger should fail to occur in certain circumstances that relate to a possible combination of Peoples or Penseco with another acquirer, Peoples or Penseco may be obligated to pay the other \$3,700,000 as a termination fee. See Proposal The Merger Terms of the Merger Termination Fee .

## **Risks Relating to Peoples and Its Business**

### ***The soundness of other financial services institutions may adversely affect our credit risk.***

We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition.

### ***Peoples is subject to credit risk which may negatively affect our financial condition and results of operations.***

As of June 30, 2013, approximately 72.5% of Peoples' loan portfolio consisted of commercial and industrial, construction, and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because Peoples' loan portfolio contains a significant number of commercial and industrial, construction, and commercial real estate loans some of which have large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on Peoples' financial condition and results of operations.

### ***Peoples' ability to pay dividends is subject to limitations.***

The merger agreement contemplates that, unless 80% of the board of directors determines otherwise, the combined company will pay a quarterly cash dividend in an amount no less than \$0.31 per share for five years

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after the effective time of the merger, provided that sufficient funds are legally available, and that Peoples and Peoples Security Bank and Trust Company remain well-capitalized in accordance with applicable regulatory guidelines.

After the merger, Peoples will continue to be a bank holding company and its operations will continue to be conducted by direct and indirect subsidiaries, each of which is a separate and distinct legal entity. Substantially all of Peoples' assets are and will be held by its direct and indirect subsidiaries.

Peoples' ability to pay dividends depends on its receipt of dividends from its direct and indirect subsidiaries. After the merger, its principal banking subsidiary, Peoples Security Bank and Trust Company, will be its primary source of dividends. As a state chartered bank, Peoples Security Bank and Trust Company will be subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code.

Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that Peoples' subsidiaries will be able to pay the dividends contemplated by the merger agreement or other dividends in the future or that Peoples will generate adequate cash flow to pay dividends in the future. Peoples' failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

### ***Changes in interest rates could adversely impact our financial condition and results of operations.***

Peoples' ability to make a profit, like that of most financial institutions, substantially depends upon its net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. However, certain assets and liabilities may react differently to changes in market interest rates. Further, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets may lag behind. Additionally, some assets such as adjustable-rate mortgages have features, and rate caps, which restrict changes in their interest rates.

Factors such as inflation, recession, unemployment, money supply, global disorder such as that experienced as a result of the terrorist activity on September 11, 2001, instability in domestic and foreign financial markets, and other factors beyond our control, may affect interest rates. Changes in market interest rates will also affect the level of voluntary prepayments on loans and the receipt of payments on mortgage-backed securities, resulting in the receipt of proceeds that may have to be reinvested at a lower rate than the loan or mortgage-backed security being prepaid. Although Peoples pursues an asset-liability management strategy designed to control its risk from changes in market interest rates, changes in interest rates can still have a material adverse effect on our profitability.

### ***If we have higher loan losses than we have allowed for, our earnings could materially decrease.***

Our loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment. We may therefore experience significant credit losses which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio and adjustment may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase the level of our provision for loan losses. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease our net income.

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### ***Our results of operations may be materially and adversely affected by other-than-temporary impairment charges relating to our investment portfolio.***

Numerous factors, including the lack of liquidity for re-sales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. Investments are evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term other than temporary indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment.

Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. If an impairment charge is significant enough, it could affect our ability to pay dividends, which could materially adversely affect us and our ability to pay dividends to shareholders. Significant impairment charges could also negatively impact our regulatory capital ratios and result in us not being classified as well-capitalized for regulatory purposes.

### ***Post-merger integration and change of Peoples' historical business model may fail to achieve expected results.***

The success of the transaction depends heavily on a smooth integration and post-merger operations of the combined Peoples Security Bank and Trust Company. Benefits of the transaction to shareholders may not be realized if the post-merger integration is not well executed or well received by each company's historical customers. This risk is exacerbated by a material change in the business processes that have been historically operated by Pensco to those of Peoples.

### ***Peoples may fail to realize the cost savings it expects to achieve from the merger.***

The success of the merger will depend, in part, on Peoples' ability to realize the estimated cost savings from combining the businesses of Peoples and Pensco. While we believe that the cost savings estimates are achievable, it is possible that the potential cost savings could be more difficult to achieve than we anticipate. Peoples' cost savings estimates also depend on its ability to combine the businesses of Peoples and Pensco in a manner that permits those cost savings to be realized. If our estimates are incorrect or we are unable to combine the two companies successfully, the anticipated cost savings may not be realized fully or at all, or may take longer to realize than expected.

### ***Combining Peoples and Pensco into Peoples may be more difficult, costly or time-consuming than expected.***

Peoples and Pensco have operated, and, until the completion of the merger, will continue to operate, independently. The integration process could result in the loss of key employees, the disruption of each company's ongoing business, inconsistencies in standards, controls, procedures and policies that adversely affect either company's ability to maintain relationships with clients and employees or achieve the anticipated benefits of the merger. As with any merger of financial institutions, there also may be disruptions that cause Peoples and Pensco to lose customers or cause customers to withdraw their deposits from Peoples or Pensco, or other unintended consequences that could have a material adverse effect on Peoples' results of operations or financial condition.

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*We may incur significant costs to ensure compliance with corporate governance and accounting requirements.*

We expect to incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including require