

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended June 30, 2024

or

☐ Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the transition period from

001-36388
(Commission File Number)

PEOPLES FINANCIAL SERVICES CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of
incorporation)

150 North Washington Avenue, Scranton, PA
(Address of principal executive offices)

23-2391852
(IRS Employer
ID Number)

18503
(Zip code)

(570) 346-7741
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date:9,975,789 at August 1, 2024.

PEOPLES FINANCIAL SERVICES CORP.
FORM 10-Q

For the Quarter Ended June 30, 2024

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

	June 30, 2024	December 31, 2023
Assets:		
Cash and cash equivalents		
Cash and due from banks	\$ 41,234	\$ 33,524
Interest-bearing deposits in other banks	8,722	9,141
Federal funds sold		144,700
Total cash and cash equivalents	49,956	187,365
Investment securities:		
Available for sale: Amortized cost of \$439,189 and \$450,454, respectively, net of allowance for credit losses of \$0 at June 30, 2024 and December 31, 2023	385,240	398,927
Equity investments carried at fair value	78	98
Held to maturity: Fair value of \$68,224 and \$71,698, respectively, net of allowance for credit losses of \$0 at June 30, 2024 and December 31, 2023	81,598	84,851
Total investment securities	466,916	483,876
Loans	2,869,553	2,849,897
Less: allowance for credit losses	23,123	21,895
Net loans	2,846,430	2,828,002
Loans held for sale		250
Goodwill	63,370	63,370
Premises and equipment, net	58,565	61,276
Bank owned life insurance	49,955	49,397
Deferred tax assets	14,460	13,770
Accrued interest receivable	13,326	12,734
Other assets	53,077	42,249
Total assets	<u>\$ 3,616,055</u>	<u>\$ 3,742,289</u>
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 620,971	\$ 644,683
Interest-bearing	2,443,988	2,634,354
Total deposits	3,064,959	3,279,037
Short-term borrowings	104,250	17,590
Long-term debt	25,000	25,000
Subordinated debt	33,000	33,000
Accrued interest payable	5,507	5,765
Other liabilities	42,532	41,475
Total liabilities	<u>3,275,248</u>	<u>3,401,867</u>
Stockholders' equity:		
Common stock, par value \$2.00, authorized 25,000,000 shares, issued and outstanding 7,057,258 shares at June 30, 2024 and 7,040,852 shares at December 31, 2023	14,122	14,093
Capital surplus	122,449	122,130
Retained earnings	249,511	248,550
Accumulated other comprehensive loss	(45,275)	(44,351)
Total stockholders' equity	<u>340,807</u>	<u>340,422</u>
Total liabilities and stockholders' equity	<u>\$ 3,616,055</u>	<u>\$ 3,742,289</u>

See notes to unaudited consolidated financial statements

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

	Three Months Ended		Six Months Ended	
June 30,	2024	2023	2024	2023
Interest income:				
Interest and fees on loans:				
Taxable	\$ 34,406	\$ 32,139	\$ 68,447	\$ 62,188
Tax-exempt	1,399	1,405	2,817	2,794
Interest and dividends on investment securities:				
Taxable	1,904	1,929	3,822	4,053
Tax-exempt	371	378	742	835
Dividends	2	2	4	4
Interest on interest-bearing deposits in other banks	115	85	235	99
Interest on federal funds sold	179	798	1,306	1,041
Total interest income	<u>38,376</u>	<u>36,736</u>	<u>77,373</u>	<u>71,014</u>
Interest expense:				
Interest on deposits	18,114	13,714	36,818	23,324
Interest on short-term borrowings	633	213	895	1,299
Interest on long-term debt	269	269	539	296
Interest on subordinated debt	<u>444</u>	<u>444</u>	<u>887</u>	<u>887</u>
Total interest expense	<u>19,460</u>	<u>14,640</u>	<u>39,139</u>	<u>25,806</u>
Net interest income	18,916	22,096	38,234	45,208
Provision for (credit to) credit losses	<u>596</u>	<u>(2,201)</u>	<u>1,304</u>	<u>(937)</u>
Net interest income after provision for (credit to) credit losses	<u>18,320</u>	<u>24,297</u>	<u>36,930</u>	<u>46,145</u>
Noninterest income:				
Service charges, fees, commissions and other	1,885	1,982	3,921	3,947
Merchant services income	260	254	375	372
Commission and fees on fiduciary activities	517	528	1,068	1,085
Wealth management income	416	386	777	784
Mortgage banking income	87	105	179	208
Increase in cash surrender value of life insurance	286	262	565	520
Interest rate swap gain	102	23	78	246
Net (losses) gains on equity investment securities	(12)	12	(20)	(17)
Net gains on sale of investment securities available for sale				<u>81</u>
Total noninterest income	<u>3,541</u>	<u>3,552</u>	<u>6,943</u>	<u>7,226</u>
Noninterest expense:				
Salaries and employee benefits expense	8,450	8,482	17,289	17,562
Net occupancy and equipment expense	4,576	4,277	9,301	8,380
Acquisition related expenses	1,071	121	1,557	121
Amortization of intangible assets		28		57
Professional fees and outside services	779	507	1,467	1,270
FDIC insurance and assessments	504	556	1,098	1,057
Donations	433	467	842	865
Other expenses	<u>2,345</u>	<u>2,176</u>	<u>4,672</u>	<u>3,856</u>
Total noninterest expense	<u>18,158</u>	<u>16,614</u>	<u>36,226</u>	<u>33,168</u>
Income before income taxes	3,703	11,235	7,647	20,203
Provision for income tax expense	<u>421</u>	<u>1,810</u>	<u>899</u>	<u>3,199</u>
Net income	<u>3,282</u>	<u>9,425</u>	<u>6,748</u>	<u>17,004</u>
Other comprehensive (loss) income:				
Unrealized gain (loss) on investment securities available for sale	18	(5,148)	(2,423)	5,688
Reclassification adjustment for net gain on sales included in net income				(81)
Change in derivative fair value	<u>160</u>	<u>2,049</u>	<u>1,239</u>	<u>79</u>
Other comprehensive income (loss)	178	(3,099)	(1,184)	5,686
Income tax expense (benefit) related to other comprehensive income (loss)	<u>38</u>	<u>(668)</u>	<u>(260)</u>	<u>1,223</u>
Other comprehensive income (loss), net of income tax expense (benefit)	<u>140</u>	<u>(2,431)</u>	<u>(924)</u>	<u>4,463</u>
Comprehensive income	<u>\$ 3,422</u>	<u>\$ 6,994</u>	<u>\$ 5,824</u>	<u>\$ 21,467</u>

Per share data:

Net income:								
Basic	\$	0.47	\$	1.32	\$	0.96	\$	2.38
Diluted	\$	0.46	\$	1.31	\$	0.95	\$	2.37
Weighted average common shares outstanding:								
Basic		7,057,258		7,145,975		7,055,085		7,151,732
Diluted		7,114,115		7,177,915		7,108,113		7,188,384
Dividends declared	\$	0.41	\$	0.41	\$	0.82	\$	0.82

See notes to unaudited consolidated financial statements

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

(Dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2024	\$ 14,093	\$122,130	\$ 248,550	\$ (44,351)	\$ 340,422
Net income			3,466		3,466
Other comprehensive loss, net of tax				(1,064)	(1,064)
Cash dividends declared: \$0.41 per common share			(2,893)		(2,893)
Stock compensation, including tax effects and expenses		61			61
Restricted stock issued: 14,434 shares	29	(29)			
Balance, March 31, 2024	\$ 14,122	\$122,162	\$ 249,123	\$ (45,415)	\$ 339,992
Net income			3,282		3,282
Other comprehensive income, net of tax				140	140
Dividends declared: \$0.41 per share			(2,894)		(2,894)
Stock compensation, including tax effects and expenses		287			287
Balance, June 30, 2024	\$ 14,122	\$122,449	\$ 249,511	\$ (45,275)	\$ 340,807

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

Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands, except per share data)

For the Six Months Ended June 30,	2024	2023
Cash flows from operating activities:		
Net income	\$ 6,748	\$ 17,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,475	1,401
Amortization of right-of-use lease asset	282	244
Amortization of deferred loan fees, net	376	382
Amortization of intangibles		57
Amortization of low income housing partnerships	251	241
Provision for (credit to) credit losses	1,304	(937)
Net unrealized loss on equity investment securities	20	17
Loans originated for sale	(1,159)	(2,486)
Proceeds from sale of loans originated for sale	1,406	2,496
Net loss (gain) on sale of loans originated for sale	3	(10)
Net amortization of investment securities	425	533
Net gain on sale of investment securities available for sale		(81)
Gain on sale of premises and equipment	(4)	(14)
Increase in cash surrender value of life insurance	(565)	(520)
Deferred income tax (benefit) expense	(431)	607
Stock compensation, including tax effects and expenses	348	369
Net change in:		
Accrued interest receivable	(592)	309
Other assets	(6,565)	(2,436)
Accrued interest payable	(258)	3,798
Other liabilities	1,901	(3,412)
Net cash provided by operating activities	4,965	17,562
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale		67,363
Proceeds from repayments of investment securities:		
Available for sale	10,887	19,728
Held to maturity	3,206	2,911
Net (purchase) redemption of restricted equity securities	(2,556)	5,091
Net increase in loans	(20,136)	(113,538)
Purchases of premises and equipment	(614)	(4,476)
Proceeds from the sale of premises and equipment	44	14
Net cash used in investing activities	(9,169)	(22,907)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(214,078)	182,883
Proceeds from long-term debt		25,000
Repayment of long-term debt		(555)
Net increase (decrease) in short-term borrowings	86,660	(95,400)
Retirement of common stock		(1,897)
Cash dividends paid	(5,787)	(5,866)
Net cash (used in) provided by financing activities	(133,205)	104,165
Net (decrease) increase in cash and cash equivalents	(137,409)	98,820
Cash and cash equivalents at beginning of period	187,365	37,868
Cash and cash equivalents at end of period	\$ 49,956	\$ 136,688

Peoples Financial Services Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands, except per share data)

For the Six Months Ended June 30,	2024	2023
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$ 39,397	\$ 22,008
Income taxes	504	1,722
Noncash items:		
U.S. Treasury bond matured - receivable	5,000	
Transfers of fixed assets to other real estate	1,556	
Transfers of loans to other real estate	27	
Removal of right-of-use assets		(785)
Removal of lease liability		(820)

See notes to unaudited consolidated financial statements

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

1. Summary of significant accounting policies:

Nature of operations

Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Security Bank and Trust Company ("Peoples Bank"), collectively, the "Company" or "Peoples". The Company services its retail and commercial customers through forty four full-service community banking offices located within Allegheny, Bucks, Lackawanna, Lebanon, Lehigh, Luzerne, Monroe, Montgomery, Northampton, Susquehanna, Wayne and Wyoming Counties of Pennsylvania, Middlesex County of New Jersey and Broome County of New York.

Basis of presentation

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

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

Merger with FNCB Bancorp, Inc.

On July 1, 2024, the Company completed its previously announced merger with FNCB Bancorp, Inc. ("FNCB"), a Pennsylvania corporation and the parent company of FNCB Bank, a Pennsylvania-chartered bank ("FNCB Bank"), pursuant to the Agreement and Plan of Merger dated September 27, 2023 between Peoples and FNCB (the "Merger Agreement"). On July 1, 2024, FNCB merged with and into the Company, with the Company as the surviving entity. Immediately following the merger, FNCB Bank merged with and into Peoples Bank, with Peoples Bank as the surviving bank and a wholly-owned subsidiary of the Company. Under the terms of the Merger Agreement, the shareholders of FNCB as of the effective time of the merger received a fixed exchange ratio of 0.1460 shares of the Company's common stock for each share of the FNCB's common stock. The total aggregate consideration paid in the FNCB merger was 2,935,456 shares of the Company's common stock, which had a value of \$ 45.54 per share, which was the closing price of the Company's common stock on June 28, 2024, the last trading day prior to the consummation of the merger. Also included in the total consideration was cash in lieu of any fractional shares.

The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Merger Agreement filed by the Company as Exhibit 2.1 to this Quarterly Report on Form 10-Q.

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

Third Quarter Dividend Declaration

On July 26, 2024, the Board of Directors declared a third quarter dividend of \$ 0.6175 per share. The dividend is payable on September 13, 2024 to shareholders of record as of August 30, 2024. The dividend represents an increase of 50.6% compared to the dividend declared in the second quarter of 2024 and the third quarter in the prior year, which increase was contemplated as part of the Merger Agreement between the Company and FNCB.

Recent accounting standards

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

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

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

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

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

2. Other comprehensive (loss) income:

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

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

(Dollars in thousands)	June 30, 2024	December 31, 2023
Net unrealized loss on investment securities available for sale	\$ (53,949)	\$ (51,527)
Income tax benefit	(11,800)	(11,270)
Net of income taxes	(42,149)	(40,257)
Benefit plan adjustments	(4,370)	(4,370)
Income tax benefit	(956)	(956)
Net of income taxes	(3,414)	(3,414)
Derivative adjustments	368	(871)
Income tax expense (benefit)	80	(191)
Net of income taxes	288	(680)
Accumulated other comprehensive loss	<u>\$ (45,275)</u>	<u>\$ (44,351)</u>

3. Earnings per share:

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

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

(Dollars in thousands, except per share data) For the Three Months Ended June 30,	2024		2023	
	Basic	Diluted	Basic	Diluted
Net income	\$ 3,282	\$ 3,282	\$ 9,425	\$ 9,425
Average common shares outstanding	7,057,258	7,114,115	7,145,975	7,177,915
Earnings per share	\$ 0.47	\$ 0.46	\$ 1.32	\$ 1.31

(Dollars in thousands, except per share data) For the Six Months Ended June 30,	2024		2023	
	Basic	Diluted	Basic	Diluted
Net income	\$ 6,748	\$ 6,748	\$ 17,004	\$ 17,004
Average common shares outstanding	7,055,085	7,108,113	7,151,732	7,188,384
Earnings per share	\$ 0.96	\$ 0.95	\$ 2.38	\$ 2.37

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

4. Investment securities:

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

(Dollars in thousands)	June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury securities	\$ 193,092	\$	\$ 13,085	\$ 180,007
U.S. government-sponsored enterprises	2,409		377	2,032
State and municipals:				
Taxable	67,761		10,924	56,837
Tax-exempt	74,877		9,873	65,004
Residential mortgage-backed securities:				
U.S. government agencies	638		34	604
U.S. government-sponsored enterprises	86,754		19,090	67,664
Commercial mortgage-backed securities:				
U.S. government-sponsored enterprises	9,658		294	9,364
Corporate debt securities	4,000		272	3,728
Total available for sale	<u>\$ 439,189</u>	<u>\$</u>	<u>\$ 53,949</u>	<u>\$ 385,240</u>
Held to maturity:				
Tax-exempt state and municipals	\$ 11,184	\$	\$ 873	\$ 10,311
Residential mortgage-backed securities:				
U.S. government agencies	14,554		2,706	11,848
U.S. government-sponsored enterprises	55,860		9,795	46,065
Total held to maturity	<u>\$ 81,598</u>	<u>\$</u>	<u>\$ 13,374</u>	<u>\$ 68,224</u>

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

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There were no investment sales during the six month period ended June 30, 2024. During the six month period ended June 30, 2023, investment securities, including U.S. Treasury bonds and mortgage-backed securities, with a par value of \$65.6 million were sold at a net gain of \$ 81 thousand. The proceeds were used to pay-down higher cost short-term borrowings.

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

(Dollars in thousands)	Amortized Cost	Fair Value
Within one year	\$ 43,852	\$ 42,651
After one but within five years	171,504	158,031
After five but within ten years	53,729	46,189
After ten years	70,645	58,705
	<u>339,730</u>	<u>305,576</u>
Mortgage-backed and other amortizing securities	99,459	79,664
Total	<u>\$ 439,189</u>	<u>\$ 385,240</u>

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

(Dollars in thousands)	Amortized Cost	Fair Value
After one but within five years	\$ 1,192	\$ 1,097
After five but within ten years	9,991	9,213
	<u>11,183</u>	<u>10,310</u>
Mortgage-backed securities	70,415	57,914
Total	<u>\$ 81,598</u>	<u>\$ 68,224</u>

Securities with a carrying value of \$313.3 million and \$322.4 million at June 30, 2024 and December 31, 2023, respectively, were pledged to secure public deposits and certain other deposits as required or permitted by law and pledged to the Discount Window at the Federal Reserve.

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

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

(Dollars in thousands)	June 30, 2024								
	Less than Twelve Months			Twelve Months or Longer			Total		
	Total # in a loss	Unrealized		Total # in a loss	Unrealized		Total # in a loss	Unrealized	
	Position	Fair Value	Losses	Position	Fair Value	Losses	Position	Fair Value	Losses
Securities Available for Sale									
U.S. Treasury securities		\$	\$	42	\$ 180,007	\$ 13,085	42	\$ 180,007	\$ 13,085
U.S. government-sponsored enterprises				2	2,032	377	2	2,032	377
State and municipals:									
Taxable				66	56,837	10,924	66	56,837	10,924
Tax-exempt				94	65,004	9,873	94	65,004	9,873
Residential mortgage-backed securities:									
U.S. government agencies				3	604	34	3	604	34
U.S. government-sponsored enterprises				30	67,664	19,090	30	67,664	19,090
Commercial mortgage-backed securities:									
U.S. government-sponsored enterprises				4	9,364	294	4	9,364	294
Corporate debt securities				6	3,728	272	6	3,728	272
Total		\$	\$	247	\$ 385,240	\$ 53,949	247	\$ 385,240	\$ 53,949

Securities Held to Maturity									
State and municipals:									
Tax-exempt	5	\$ 2,883	\$ 11	12	\$ 7,428	\$ 862	17	\$ 10,311	\$ 873
Residential mortgage-backed securities:									
U.S. government agencies				4	11,848	2,706	4	11,848	2,706
U.S. government-sponsored enterprises				8	46,065	9,795	8	46,065	9,795
Total	5	\$ 2,883	\$ 11	24	\$ 65,341	\$ 13,363	29	\$ 68,224	\$ 13,374

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

Securities Held to Maturity									
State and municipals:									
Tax-exempt	2	\$ 1,438	\$ 36	10	\$ 6,209	\$ 624	12	\$ 7,647	\$ 660
Residential mortgage-backed securities:									
U.S. government agencies				4	12,747	2,653	4	12,747	2,653
U.S. government-sponsored enterprises				8	48,409	9,841	8	48,409	9,841
Total	2	\$ 1,438	\$ 36	22	\$ 67,365	\$ 13,118	24	\$ 68,803	\$ 13,154



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

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

Cost method investments consist primarily of Federal Home Loan Bank ("FHLB") of Pittsburgh stock totaling \$ 7.7 million and \$5.2 million at June 30, 2024 and December 31, 2023, respectively, and are included in other assets in the Consolidated Balance Sheets. Cost method investments are evaluated for impairment whenever events or circumstances suggest that their carrying value may not be recoverable.

5. Loans, net and allowance for credit losses:

The major classifications of loans outstanding, net of deferred loan origination fees and costs at June 30, 2024 and December 31, 2023 are summarized as follows. The Company had net deferred loan origination fees of \$0.8 million and \$0.4 million at June 30, 2024 and December 31, 2023, respectively.

(Dollars in thousands)	June 30, 2024	December 31, 2023
Commercial and Industrial	\$ 461,014	\$ 368,411
Municipal	170,991	175,304
Total	632,005	543,715
Real estate		
Commercial	1,793,652	1,863,118
Residential	369,671	360,803
Total	2,163,323	2,223,921
Consumer		
Indirect Auto	66,792	75,389
Consumer Other	7,433	6,872
Total	74,225	82,261
Total	\$ 2,869,553	\$ 2,849,897

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

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unfunded loan commitments is reported on the consolidated balance sheets in other liabilities while the provision for credit losses related to unfunded commitments is reported in other noninterest expense in the consolidated statements of income and comprehensive income.

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans, available for sale securities, and held to maturity securities. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the Consolidated Balance Sheets, totaled \$11.4 million and \$9.7 million at June 30, 2024 and 2023 and is excluded from the estimate of credit losses. Accrued interest receivable on available for sale securities and held to maturity securities, also a component of accrued interest receivable on the Consolidated Balance Sheets, and totaled \$1.7 million and \$188 thousand, respectively, at June 30, 2024 and is excluded from the estimate of credit losses, as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. At June 30, 2023, accrued interest receivable on available for sale securities and held to maturity securities was \$1.5 million and \$198 thousand, respectively.

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

	June 30, 2024					
			Real estate			
(Dollars in thousands)	Commercial	Municipal	Commercial	Residential	Consumer	Total
Allowance for credit losses:						
Beginning Balance April 1, 2024	\$ 2,287	\$ 698	\$ 14,470	\$ 4,258	\$ 884	\$ 22,597
Charge-offs	(41)				(94)	(135)
Recoveries	25			2	38	65
(Credits) provisions	(100)	13	686	(30)	27	596
Ending balance	\$ 2,171	\$ 711	\$ 15,156	\$ 4,230	\$ 855	\$ 23,123

	June 30, 2023					
			Real estate			
(Dollars in thousands)	Commercial	Municipal	Commercial	Residential	Consumer	Total
Allowance for loan losses:						
Beginning Balance April 1, 2023	\$ 2,481	\$ 2,318	\$ 15,692	\$ 3,868	\$ 1,085	\$ 25,444
Charge-offs					(77)	(77)
Recoveries	5			3	44	52
Provisions (credits)	265	(1,491)	(731)	(104)	(140)	(2,201)
Ending balance	\$ 2,751	\$ 827	\$ 14,961	\$ 3,767	\$ 912	\$ 23,218

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June 30, 2024						
(Dollars in thousands)	Commercial	Municipal	Real estate		Consumer	Total
			Commercial	Residential		
Allowance for credit losses:						
Beginning Balance January 1, 2024	\$ 2,272	\$ 788	\$ 14,153	\$ 3,782	\$ 900	\$ 21,895
Charge-offs	(46)				(197)	(243)
Recoveries	80			4	83	167
(Credits) provisions	(135)	(77)	1,003	444	69	1,304
Ending balance	<u>\$ 2,171</u>	<u>\$ 711</u>	<u>\$ 15,156</u>	<u>\$ 4,230</u>	<u>\$ 855</u>	<u>\$ 23,123</u>

June 30, 2023						
(Dollars in thousands)	Commercial	Municipal	Real estate		Consumer	Total
			Commercial	Residential		
Allowance for credit losses:						
Beginning Balance January 1, 2023	\$ 4,365	\$ 1,247	\$ 17,915	\$ 3,072	\$ 873	\$ 27,472
Impact of adopting ASC 326	(1,683)	747	(3,344)	967	30	(3,283)
Beginning Balance January 1, 2023	2,682	1,994	14,571	4,039	903	24,189
Charge-offs	(4)				(148)	(152)
Recoveries	5		1	19	93	118
Provisions (credits)	68	(1,167)	389	(291)	64	(937)
Ending balance	<u>\$ 2,751</u>	<u>\$ 827</u>	<u>\$ 14,961</u>	<u>\$ 3,767</u>	<u>\$ 912</u>	<u>\$ 23,218</u>

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

(Dollars in thousands)	June 30, 2024					
	Commercial	Municipal	Real estate		Consumer	Total
			Commercial	Residential		
Allowance for credit losses:						
Ending balance	\$ 2,171	\$ 711	\$ 15,156	\$ 4,230	\$ 855	\$ 23,123
Ending balance: individually evaluated	7		415			422
Ending balance: collectively evaluated	\$ 2,164	\$ 711	\$ 14,741	\$ 4,230	\$ 855	\$ 22,701
Loans receivable:						
Ending balance	\$ 461,014	\$ 170,991	\$ 1,793,652	\$ 369,671	\$ 74,225	\$ 2,869,553
Individually evaluated - collateral dependent - real estate	378		5,139	1,327		6,844
Individually evaluated - collateral dependent - non-real estate	7					7
Collectively evaluated	460,629	170,991	1,788,513	368,344	74,225	2,862,702

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

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Nonaccrual Loans

The following table presents the Company's nonaccrual loans at June 30, 2024 and December 31, 2023.

(Dollars in thousands)	June 30, 2024		
	Total Nonaccrual Loans	Nonaccrual with an Allowance for Credit Losses	Nonaccrual with no Allowance for Credit Losses
Commercial	\$ 378	\$ 7	\$ 371
Municipal			
Real estate:			
Commercial	5,138	4,923	215
Residential	1,327		1,327
Consumer	274		274
Total	\$ 7,117	\$ 4,930	\$ 2,187

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

Interest income recorded on nonaccrual loans was \$43 thousand and \$35 thousand for the three months ended June 30, 2024 and June 30, 2023, respectively. Interest income recorded on nonaccrual loans was \$74 thousand and \$414 thousand for the six months ended June 30, 2024 and June 30, 2023, respectively.

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

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

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- Loss- A loan classified as Loss is considered uncollectible and of such little value that its continuance as bankable loan is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

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

	As of June 30, 2024						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior			Total
Commercial									
Pass	\$ 13,103	\$ 36,862	\$ 67,146	\$ 65,299	\$ 35,316	\$ 91,621	\$ 141,169	\$ 139	\$ 450,655
Special Mention	1,253	1,142	733	246	2,113	1,451	1,777		8,715
Substandard		32	62	40		497	1,013		1,644
Total Commercial	14,356	38,036	67,941	65,585	37,429	93,569	143,959	139	461,014
Municipal									
Pass	1,106	1,307	49,200	93,134	10,433	15,773	38		170,991
Special Mention									
Substandard									
Total Municipal	1,106	1,307	49,200	93,134	10,433	15,773	38		170,991
Commercial real estate									
Pass	67,209	131,565	532,372	437,529	127,512	461,610		92	1,757,889
Special Mention		2,360	967	1,138	1,061	19,988			25,514
Substandard		167	1,845	1,318	157	6,762			10,249
Total Commercial real estate	67,209	134,092	535,184	439,985	128,730	488,360		92	1,793,652
Residential real estate									
Pass	12,525	28,059	50,687	64,295	25,489	95,395	91,919	60	368,429
Special Mention									
Substandard		4			307	927	4		1,242
Total Residential real estate	12,525	28,063	50,687	64,295	25,796	96,322	91,923	60	369,671
Consumer									
Pass	7,199	22,998	24,658	9,795	3,842	3,942	1,517		73,951
Special Mention									
Substandard		60	31	115	35	33			274
Total Consumer	7,199	23,058	24,689	9,910	3,877	3,975	1,517		74,225
Total Loans	\$ 102,395	\$ 224,556	\$ 727,701	\$ 672,909	\$ 206,265	\$ 697,999	\$ 237,437	\$ 291	\$ 2,869,553
Gross charge-offs									
Commercial	\$	\$ 41	\$	\$	\$	\$ 5	\$	\$	\$ 46
Municipal									
Commercial real estate									
Residential real estate									
Consumer		15	81	60	11	30			197
Total Gross charge-offs	\$	\$ 56	\$ 81	\$ 60	\$ 11	\$ 35	\$	\$	\$ 243

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

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

June 30, 2024							
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	\$ 463	\$ 290	\$ 7	\$ 760	\$ 460,254	\$ 461,014	\$
Municipal					170,991	170,991	
Real estate:							
Commercial	3,871	2,086	4,003	9,960	1,783,692	1,793,652	
Residential	1,395	101	713	2,209	367,462	369,671	
Consumer	865	313	134	1,312	72,913	74,225	
Total	<u>\$ 6,594</u>	<u>\$ 2,790</u>	<u>\$ 4,857</u>	<u>\$ 14,241</u>	<u>\$ 2,855,312</u>	<u>\$ 2,869,553</u>	<u>\$</u>

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

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Allowance for Credit Losses on Off Balance Sheet Commitments

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

(Dollars in thousands)	For the three months ended	
	June 30, 2024	June 30, 2023
Beginning balance	\$ 530	\$ 264
Provision for (credit to) credit losses recorded in noninterest expense	(196)	(171)
Total allowance for credit losses on off balance sheet commitments	<u>\$ 334</u>	<u>\$ 93</u>

(Dollars in thousands)	For the six months ended	
	June 30, 2024	June 30, 2023
Beginning balance	\$ 43	\$ 179
Impact of adopting Topic 326		270
Provision for (credit to) credit losses recorded in noninterest expense	291	(356)
Total allowance for credit losses on off balance sheet commitments	<u>\$ 334</u>	<u>\$ 93</u>

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

(Dollars in thousands)	2024	2023
Commitments to extend credit	\$ 86,125	\$ 228,887
Unused portions of lines of credit	383,483	368,372
Standby letters of credit	43,659	52,826
	<u>\$ 513,267</u>	<u>\$ 650,085</u>

Modifications to Borrowers Experiencing Financial Difficulty

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

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

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

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6. Other assets:

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

(Dollars in thousands)	June 30, 2024	December 31, 2023
Other real estate owned	\$ 1,152	\$ 870
Mortgage servicing rights	852	870
Prepaid shares tax	819	949
Prepaid pension	4,018	3,764
Prepaid expenses	4,992	4,840
Restricted equity securities (FHLB and other)	7,736	5,180
Investment in low income housing partnership	4,890	5,015
Interest rate swaps ⁽¹⁾	20,958	19,278
Receivable - matured U.S. Treasury bond	5,000	
Other assets	2,660	2,353
Total	\$ 53,077	\$ 42,249

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

7. Fair value estimates:

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

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

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

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

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

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

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

During the periods ended June 30, 2024 and December 31, 2023 there were no transfers in or out of Level 3.

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

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

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

Assets and liabilities measured at fair value on a recurring basis at June 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands) June 30, 2024	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	\$ 180,007	\$ 180,007	\$	\$
U.S. government-sponsored enterprises	2,032		2,032	
State and municipals:				
Taxable	56,837		56,837	
Tax-exempt	65,004		65,004	
Mortgage-backed securities:				
U.S. government agencies	604		604	
U.S. government-sponsored enterprises	77,028		77,028	
Corporate debt securities	3,728		3,728	
Common equity securities	78	78		
Total investment securities	<u>\$ 385,318</u>	<u>\$ 180,085</u>	<u>\$ 205,233</u>	<u>\$</u>
Interest rate swap-other assets	<u>\$ 20,958</u>		<u>\$ 20,958</u>	
Interest rate swap-other liabilities	<u>\$ (20,538)</u>		<u>\$ (20,538)</u>	

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

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2024 and December 31, 2023 are summarized as follows:

(Dollars in thousands) June 30, 2024	Amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans individually evaluated for credit loss	\$ 6,851	\$	\$	\$ 6,851
Other real estate owned	\$ 1,152			\$ 1,152

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

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

(Dollars in thousands, except percents) June 30, 2024	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Loans individually evaluated for credit loss	\$ 6,851	Appraisal of collateral	Appraisal adjustments	22.8% to 94.0% (67.5)%
			Liquidation expenses	3.0% to 6.0% (5.6)%
Other real estate owned	\$ 1,152	Appraisal of collateral	Appraisal adjustments	1.0% to 1.0% (1.0)%
			Liquidation expenses	3.0% to 6.0% (4.5)%

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

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

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

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

(Dollars in thousands) June 30, 2024	Carrying Value	Fair Value	Fair Value Hierarchy		
			Quoted		
			Prices in		
			Active	Significant	
			Markets for	Other	Significant
Identical	Observable	Unobservable			
Assets	Inputs	Inputs			
(Level 1)	(Level 2)	(Level 3)			
Financial assets:					
Cash and due from banks	\$ 49,956	\$ 49,956	\$ 49,956	\$	\$
Investment securities:					
Available for sale	385,240	385,240	180,007	205,233	
Common equity securities	78	78	78		
Held to maturity	81,598	68,224		68,224	
Loans held for sale					
Net loans	2,846,430	2,646,017			2,646,017
Accrued interest receivable	13,326	13,326		13,326	
Mortgage servicing rights	852	1,709		1,709	
Restricted equity securities (FHLB and other)	7,736	7,736		7,736	
Other assets - interest rate swaps	20,958	20,958		20,958	
Total	<u>\$ 3,406,174</u>	<u>\$ 3,193,244</u>			
Financial liabilities:					
Deposits	\$ 3,064,959	\$ 3,059,952	\$	\$ 3,059,952	\$
Short-term borrowings	104,250	104,254		104,254	
Long-term debt	25,000	24,761		24,761	
Subordinated debt	33,000	43,284		43,284	
Accrued interest payable	5,507	5,507		5,507	
Other liabilities - interest rate swaps	20,538	20,538		20,538	
Total	<u>\$ 3,253,254</u>	<u>\$ 3,258,296</u>			

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

8. Employee benefit plans:

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

For the three and six months ended June 30, salaries and employee benefits expense includes approximately \$ 294 thousand and \$620 thousand in 2024 and \$360 thousand and \$837 thousand in 2023 relating to the employee benefit plans.

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

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(Dollars in thousands) Six Months Ended June 30,	Pension Benefits	
	2024	2023
Net periodic pension income:		
Interest cost	\$ 317	\$ 328
Expected return on plan assets	(641)	(585)
Amortization of unrecognized net loss	97	99
Net periodic pension income:	(227)	(158)

In May 2017, the Company's stockholders approved the 2017 equity incentive plan ("2017 Plan"). In May 2023, the Company's stockholders approved the 2023 equity incentive plan ("2023 Plan"). Under the 2017 Plan and 2023 Plan the Compensation Committee of the Board of Directors has the authority to, among other things:

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

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

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

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

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

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

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

The Company recognized net compensation costs of \$ 200 thousand and \$399 thousand for the three and six months ended June 30, 2024 for awards granted under the 2023 Plan and recognized compensation expense of \$84 thousand and \$167 thousand for the three and six months ended June 30, 2024 for the awards granted under the 2017 Plan. As of

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June 30, 2024, the Company had \$1.8 million of unrecognized compensation expense associated with restricted stock awards. The remaining cost is expected to be recognized over a weighted average vesting period of under 2.0 years.

9. Derivatives and hedging activities

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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

Fair Value Hedges of Interest Rate Risk

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

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

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As of June 30, 2024, the following amounts were recorded on the consolidated balance sheet related to cumulative basis adjustment for fair value hedges:

Line Item in the Consolidated Statement of Financial Position in Which the Hedged Item is Included	Amortized Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	
	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023
(Dollars in thousands)				
AFS Securities (1)	\$ 142,638	\$ 143,573	\$ (368)	\$ 871
Fixed Rate Loans (2)	49,897	50,462	(103)	462
Total	\$ 192,535	\$ 194,035	\$ (471)	\$ 1,333

(1) These amounts include the amortized cost basis of closed portfolios of fixed rate assets used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At June 30, 2024, the amortized cost basis of the closed portfolios used in these hedging relationships was \$142.6 million. The amounts of the designated hedged items were \$100.0 million.

(2) Fixed Rate Loan Assets. These amounts include the carrying value of fixed rate loan assets used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At June 30, 2024, the principal value of the hedged item was \$50.0 million.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings. As of June 30, 2024, the Company had 119 interest rate swaps with an aggregate notional amount of \$245.2 million related to this program.

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

Fair Values of Derivative Instruments on the Balance Sheet

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

Fair Values of Derivative Instruments										
(Dollars in thousands)	Derivative Assets					Derivative Liabilities				
	As of June 30, 2024			As of December 31, 2023 ⁽¹⁾		As of June 30, 2024			As of December 31, 2023	
	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments										
Interest Rate Products	\$150,000	Other Assets	\$ 518	Other Assets	\$	Other Liabilities	\$ 0	Other Liabilities	\$ 1,270	
Total derivatives designated as hedging instruments			\$ 518				\$ 0			\$ 1,270
Derivatives not designated as hedging instruments										
Interest Rate Products	\$237,083	Other Assets	\$ 21,513	Other Assets	\$ 19,833	\$237,083	Other Liabilities	\$ 21,093	Other Liabilities	\$ 19,364
Other Contracts	8,131	Other Assets	2	Other Assets	3	7,303	Other Liabilities		Other Liabilities	
Total derivatives not designated as hedging instruments			\$ 21,515		\$ 19,836		\$ 21,093		\$ 19,364	

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

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

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

(Dollars in thousands)	Amount of (Loss) Recognized in OCI on Derivative	Amount of (Loss) Recognized in OCI Included Component	Amount of (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Three months ended June 30, 2024							
Derivatives in Cash Flow Hedging Relationships							
Interest Rate Products	\$	\$	\$	Interest Income	\$	\$	\$
Total	\$	\$	\$		\$	\$	\$

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

(Dollars in thousands)	Amount of (Loss) Recognized in OCI on Derivative	Amount of (Loss) Recognized in OCI Included Component	Amount of (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Six months ended June 30, 2024							
Derivatives in Cash Flow Hedging Relationships							
Interest Rate Products	\$	\$	\$	Interest Income	\$	\$	\$
Total	\$	\$	\$		\$	\$	\$

(Dollars in thousands)	Amount of (Loss) Recognized in OCI on Derivative	Amount of (Loss) Recognized in OCI Included Component	Amount of (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income	Amount of (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Six months ended June 30, 2023							
Derivatives in Cash Flow Hedging Relationships							
Interest Rate Products	\$ (1)	\$	\$ (1)	Interest Income	\$ (32)	\$	\$ (32)
Total	\$ (1)	\$	\$ (1)		\$ (32)	\$	\$ (32)

* Amounts disclosed are gross and not net of taxes.

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

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

(Dollars in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the three months ended June 30, 2024 2023	
	Interest Income	Interest Income
Total amounts of income and expense line items presented in the statements of income and comprehensive income in which the effects of fair value or cash flow hedges are recorded.	\$ 226	\$ 115
The effects of fair value and cash flow hedging:		
Gain or (loss) on fair value hedging relationships		
Interest contracts		
Hedged items	(160)	(2,034)
Derivatives designated as hedging instruments	386	2,165
Derivatives designated as hedging instruments		
Gain or (loss) on cash flow hedging relationships		
Interest contracts		
Amount of (loss) gain reclassified from AOCI into income		(16)
Amount of gain reclassified from AOCI into income - Included Component		
Amount of (loss) reclassified from AOCI into income - Excluded Component	\$	\$ (16)

(Dollars in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships For the six months ended June 30, 2024 2023	
	Interest Income	Interest Income
Total amounts of income and expense line items presented in the statements of income and comprehensive income in which the effects of fair value or cash flow hedges are recorded.	\$ 448	\$ 130
The effects of fair value and cash flow hedging:		
Gain or (loss) on fair value hedging relationships		
Interest contracts		
Hedged items	(1,239)	(48)
Derivatives designated as hedging instruments	1,687	210
in earnings based on an amortization approach		
Gain or (loss) on cash flow hedging relationships		
Interest contracts		
Amount excluded from effectiveness testing recognized		
Amount of gain reclassified from AOCI into income - Included Component		
Amount of (loss) reclassified from AOCI into income - Excluded Component	\$	\$ (32)

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

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

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

		Amount of Gain or (Loss)	Amount of Gain or (Loss)	Amount of Gain	Amount of Gain or (Loss)
	Location of Gain or (Loss)	Recognized in Income on Derivative Three Months Ended June 30, 2024	Recognized in Income on Derivative Six Months Ended June 30, 2024	Recognized in Income on Derivative Three Months Ended June 30, 2023	Recognized in Income on Derivative Six Months Ended June 30, 2023
(Dollars in thousands)					
Derivatives Not Designated as Hedging Instruments:					
Interest Rate Products	Other income / (expense)	\$ (8)	\$ (50)	\$ 23	\$ (138)
Other Contracts	Other income / (expense)		(1)	30	30
Total		<u>\$ (8)</u>	<u>\$ (51)</u>	<u>\$ 53</u>	<u>\$ (108)</u>
Fee Income	Fee income	<u>\$ 110</u>	<u>\$ 128</u>	<u>\$</u>	<u>\$ 384</u>

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

Offsetting Derivatives

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

Offsetting of Derivative Assets

as of June 30, 2024

(Dollars in thousands)	Gross Amounts Not Offset in the Balance Sheet					
	Gross	Gross Amounts	Net Amounts	Financial	Cash Collateral	Net
	Amounts of Recognized Assets	Offset in the Balance Sheet	of Assets presented in the Balance Sheet	Instruments	Posted	Amount
Derivatives	\$ 22,031	\$	\$ 22,031	\$	\$ 20,350	\$ 1,681

Offsetting of Derivative Liabilities

as of June 30, 2024

(Dollars in thousands)	Gross Amounts Not Offset in the Balance Sheet					
	Gross	Gross Amounts	Net Amounts	Financial	Cash Collateral	Net
	Amounts of Recognized Liabilities	Offset in the Balance Sheet	of Liabilities presented in the Balance Sheet	Instruments	Posted*	Amount
Derivatives	\$ 21,093	\$	\$ 21,093	\$ 21,093	\$	\$

*Cash collateral of \$270 was paid in June 2024, but not presented as an offset above.

Offsetting of Derivative Assets

as of December 31, 2023

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

Offsetting of Derivative Liabilities

as of December 31, 2023

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

Credit-risk-related Contingent Features

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

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

As of June 30, 2024, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$330 thousand. As of December 31, 2023, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$2.7 million. The Company has minimum

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

collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of \$270 thousand against its obligations under these agreements at June 30, 2024. Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the agreement. The cash collateral is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the cash collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above. If the Company had breached any of these provisions it could have been required to settle its obligations under the agreements at the termination value.

10. Deposits

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

(Dollars in thousands)	June 30, 2024	December 31, 2023
Interest-bearing deposits:		
Money market accounts	\$ 690,631	\$ 782,243
NOW accounts	715,890	796,426
Savings accounts	397,827	429,011
Time deposits less than \$250	504,879	505,409
Time deposits \$250 or more	134,761	121,265
Total interest-bearing deposits	2,443,988	2,634,354
Noninterest-bearing deposits	620,971	644,683
Total deposits	<u>\$ 3,064,959</u>	<u>\$ 3,279,037</u>

The deposit base consisted of 42.8% retail accounts, 34.7% commercial accounts, 14.4% municipal relationships and 8.1% brokered deposits at June 30, 2024. At June 30, 2024, total estimated uninsured deposits, were approximately \$744.7 million, or approximately 24.3% of total deposits; as compared to approximately \$ 883.5 million, or 26.9% of total deposits at December 31, 2023. Included in the uninsured total at June 30, 2024 is \$292.9 million of municipal deposits collateralized by letters of credit issued by the FHLB and pledged investment securities, and \$.7 million of affiliate company deposits. As an additional resource to our uninsured depositors, we offer all depositors access to IntraFi's CDARS and ICS programs which allows deposit customers to obtain full FDIC deposit insurance while maintaining the deposit relationship with our Bank.

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

(Dollars in thousands)	
2025	\$ 375,157
2026	108,595
2027	48,579
2028	95,187
2029	6,192
Thereafter	5,930
	<u>\$ 639,640</u>

11. Borrowings

Short-term borrowings consist of FHLB advances representing overnight borrowings or with stated original terms of less than twelve months and other borrowings related to collateral held from derivative counterparties. Total short-term borrowings at June 30, 2024 were \$104.3 million and consisted primarily of overnight FHLB advances as compared to \$17.6 million at December 31, 2023. Other borrowings, which include cash collateral pledged by derivative

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

counterparties to offset interest rate exposure, totaled \$20.4 million at June 30, 2024 and \$ 17.6 million at December 31, 2023.

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

At and for the six months ended June 30, 2024					
	Ending Balance	Average Balance	Maximum Month-End Balance	Weighted Average Rate for the Year	Weighted Average Rate at End of the Period
(Dollars in thousands, except percents)					
Other borrowings	\$ 20,350	\$ 20,861	\$ 25,050	5.39 %	5.33 %
FHLB advances	83,900	11,674	83,900	5.78	5.67
Total short-term borrowings	\$ 104,250	\$ 32,535	\$ 108,950	5.53 %	5.60 %

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

The Company has an agreement with the FHLB which allows for borrowings up to its maximum borrowing capacity based on a percentage of qualifying collateral assets. At June 30, 2024, the maximum borrowing capacity was \$1.3 billion of which \$108.9 million was outstanding in borrowings and \$ 239.5 million was used to issue standby letters of credit to collateralize public fund deposits. At December 31, 2023, the maximum borrowing capacity was \$1.2 billion of which \$25.0 million was outstanding in long-term debt and \$ 345.4 million was used to issue standby letters of credit to collateralize public fund deposits.

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

In addition to borrowings from FHLB and correspondent bank lines of credit, we have availability through the Federal Reserve Bank's Discount Window and Bank Term Funding Program ("BTFP") of \$413.5 million at June 30, 2024. The FRB's borrower-in-custody program allows depository institutions to pledge loans as collateral for Discount Window advances while retaining possession of the loan documentation. At June 30, 2024, \$331.2 million in loans were pledged as collateral for the borrower-in-custody program and provided \$235.4 million in borrowing capacity. At June 30, 2024, securities with a current par value of \$166.0 million were pledged at the Discount Window resulting in borrowing capacity of \$153.1 million. An additional \$25.0 million in securities were pledged at the BTFP at June 30, 2024 in anticipation of the merger with FNCB and the assumption of their BTFP debt.

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

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

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

(Dollars in thousands, except percents)	Interest Rate		June 30, 2024	December 31, 2023
	Fixed			
March 2025	4.37 %	\$	10,000	\$ 10,000
March 2026	4.20		15,000	15,000
		\$	<u>25,000</u>	<u>\$ 25,000</u>

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

(Dollars in thousands)	
2025	\$ 10,000
2026	15,000
	<u>\$ 25,000</u>

The advances from the FHLB totaling \$25.0 million are not convertible and have a fixed rate.

12. Subordinated debt

On June 1, 2020, the Company sold \$33.0 million aggregate principal amount of Subordinated Notes due 2030 (the "2020 Notes") to accredited investors. The 2020 Notes qualify as Tier 2 capital for regulatory capital purposes.

The 2020 Notes bear interest at a rate of 5.375% per year for the first five years and then float based on a benchmark rate (as defined), provided that the interest rate applicable to the outstanding principal balance during the period the 2020 Notes are floating will at no time be less than 4.75%. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2020, for the first five years after issuance and will be payable quarterly in arrears thereafter on March 1, June 1, September 1, and December 1. The 2020 Notes will mature on June 1, 2030 and are redeemable in whole or in part, without premium or penalty, at any time on or after June 1, 2025 and prior to June 1, 2030. Additionally, if all or any portion of the 2020 Notes cease to be deemed Tier 2 Capital, the Company may redeem, in whole and not in part, at any time upon giving not less than ten days' notice, an amount equal to one hundred percent (100%) of the principal amount outstanding plus accrued but unpaid interest to but excluding the date fixed for redemption.

Holders of the 2020 Notes may not accelerate the maturity of the 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar proceeding by or against the Company or Peoples Bank.

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

13. Subsequent events

On July 1, 2024, the Company completed its previously announced merger with FNCB, pursuant to which FNCB merged with and into the Company, and FNCB Bank merged with and into Peoples Bank.

Pursuant to the terms of the Merger Agreement, each outstanding share of FNCB's common stock was converted into the right to receive 0.146 shares of the Company's common stock. The value of the total transaction consideration was approximately \$133.7 million. The consideration included the issuance of 2,935,456 shares of the Company's common stock, which had a value of \$45.54 per share, which was the closing price of the Company's common stock on June 28, 2024, the last trading day prior to the consummation of the acquisition. Also included in the total consideration was cash in lieu of any fractional shares.

(Dollars in thousands)

Purchase Price:

Peoples Financial Services Corp. common stock paid at closing price of \$ 45.54 as of June 30, 2024	\$	133,681
Cash consideration (cash in lieu for fractional shares)		32
Total purchase price	\$	<u>133,713</u>

Sales of Acquired Securities

As of July 2, 2024, the Company sold \$ 271.2 million par value of available for sale securities, which were acquired from FNCB on July 1, 2024, for net proceeds of \$241.2 million and used \$189 million of the proceeds to reduce FHLB advances.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Cautionary Note Regarding Forward-Looking Statements:

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

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

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

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

Critical Accounting Policies:

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

Operating Environment:

In 2024, the economy appears to be expanding at a solid pace with reduced inflation and strong employment data. As of August 1, 2024, factors supporting this include:

- Gross domestic product ("GDP") – Real GDP rose at a 2.8 percent annualized pace in the second quarter after increasing 1.4 percent in the first quarter. The increase was a result of increases in consumer spending, private inventory investment and nonresidential fixed investment.
- Core Consumer Price Index ("CPI") – Core CPI, which excludes food and energy, was 3.3 percent for the 12 months ending June 30, 2024 and was driven by increased shelter expenses. When including food and energy, CPI was 3.0 percent.
- Personal Consumption Expenditures Index ("PCE") – PCE, a measure of the prices that people living in the U.S. pay for goods and services, increased 2.5 percent in June compared to a year ago. Excluding food and energy, PCE increased 2.6 percent.
- Tight Labor Market – The unemployment rate was 4.1 percent in June, its highest point in more than two years. Demand for labor has decreased and wage growth has slowed.

Concerns over the high inflation rate have resulted in central bankers in the U.S. increasing interest rates seven times in 2022 and an additional four times in 2023 for a total of 525 basis points. Rates have remained constant since late July 2023. While we experienced strong loan growth early in 2023, lending has tempered as higher rates affected borrowers demand for credit. Additionally, the Company has intentionally prioritized increasing liquidity over loan growth. We have seen lower mortgage origination and sales volume as interest rates on mortgage loans have reached 20 year highs during 2023. Conversely, competition and subsequent costs of deposits have increased throughout most of 2023 and 2024. While inflation decreased during 2023 from levels of the previous year, they remain above the Federal Open Market Committee's ("FOMC") long-term desired 2 percent level for items other than food and energy. The FOMC has stated that they will continue to monitor economic data and will hold the fed funds rate at 5.25 percent to 5.50 percent until inflation is sustainably at 2.0 percent.

Goodwill:

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

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

Review of Financial Position:

Total assets decreased \$126.2 million or 6.8% annualized from December 31, 2023, to \$3.6 billion at June 30, 2024. The decrease in assets during the six months was primarily due to decreases in federal funds sold, utilized in part to fund loan growth and seasonal outflow of deposits. Total loans increased \$19.7 million since December 31, 2023 and totaled \$2.9 billion at June 30, 2024. Investments decreased \$17.0 million due primarily to maturities, principal payments and adjustments in market value. There were no Federal funds sold balances at June 30, 2024 compared to a balance of \$144.7 million at December 31, 2023.

Deposits decreased \$214.1 million to \$3.1 billion at June 30, 2024 from \$3.3 billion at December 31, 2023, due in part to seasonal municipal deposit outflows. Interest-bearing deposits decreased \$190.4 million to \$2.4 billion compared to \$2.6 billion at December 31, 2023. Non-interest bearing deposits decreased \$23.7 million to \$621.0 million from \$644.7 million as of December 31, 2023. Total short-term borrowings at June 30, 2024 were \$104.3 million, an increase of \$86.7 million from \$17.6 million at December 31, 2023. Long term debt and subordinated debentures remained unchanged at \$25.0 million and \$33.0 million respectively at June 30, 2024 and December 31, 2023. Total stockholders' equity increased \$0.4 million from \$340.4 million at year-end 2023 to \$340.8 million at June 30, 2024 due to net income, partially offset by an increase to accumulated other comprehensive loss resulting from an increase in unrealized loss on available for sale investment securities and the payment of the dividends.

The unrealized losses on the held to maturity portfolio totaled \$13.4 million and \$13.2 million at June 30, 2024 and December 31, 2023, respectively. For the six months ended June 30, 2024, total assets averaged \$3.6 billion, and increased \$29.8 million from the same period of 2023.

Investment Portfolio:

The majority of the investment portfolio is classified as available for sale, which allows for greater flexibility in using the investment portfolio for liquidity purposes by allowing securities to be sold when market opportunities occur. Investment securities available for sale totaled \$385.2 million at June 30, 2024, a decrease of \$13.7 million, or 3.4% from \$398.9 million at December 31, 2023. The decrease was primarily due to maturities and principal payments combined with a decrease in fair value due to market value adjustments.

Investment securities held to maturity, which consisted of 86.3% of mortgage-backed securities issued or guaranteed by U.S. Government agency and U.S. Government-sponsored entities, totaled \$81.6 million at June 30, 2024, a decrease of \$3.3 million, or 3.4% from \$84.9 million at December 31, 2023. Held to maturity securities had a market value of \$68.2 million at June 30, 2024 compared to \$71.7 million at December 31, 2023.

For the six months ended June 30, 2024, the investment portfolio averaged \$531.7 million, a decrease of \$47.1 million or 8.1% compared to \$578.8 million for the same period last year. Average tax-exempt municipal bonds have decreased \$7.7 million or 8.2% to \$86.6 million for the six months ended June 30, 2024 from \$94.3 million during the comparable period of 2023. The FTE yield on the investment portfolio increased 2 basis points to 1.80% for the six months ended June 30, 2024, from 1.78% for the comparable period of 2023.

Securities available for sale are carried at fair value, with unrealized gains or losses net of deferred income taxes reported in the Accumulated Other Comprehensive Loss component of stockholders' equity. We reported net unrealized losses, included as a separate component of stockholders' equity of \$42.1 million net of a deferred income tax benefit of \$11.8 million at June 30, 2024, and net unrealized losses of \$40.3 million, net of deferred income tax benefit of \$11.3 million, at December 31, 2023.

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

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

Loan Portfolio:

Total loans increased \$19.7 million or 1.4% annualized since December 31, 2023 and totaled \$2.9 billion at June 30, 2024. This level of loan growth is consistent with the Company's current balance sheet strategy to slow loan growth and build on balance sheet liquidity. The loan growth that was achieved was due primarily to increases in commercial and industrial loans.

Commercial and industrial loans increased \$88.3 million, or 32.6% annualized, to \$632.0 million at June 30, 2024 compared to \$543.7 million at December 31, 2023.

Commercial real estate loans decreased \$69.5 million or 7.5% annualized, to \$1.8 billion at June 30, 2024 compared to \$1.9 billion at December 31, 2023.

Consumer loans decreased \$8.0 million, or 19.6% on an annualized basis, to \$74.2 million at June 30, 2024 compared to \$82.3 million at December 31, 2023, from a decrease of \$8.6 million in the indirect auto loans portfolio, partially offset by an increase in the remainder of our consumer portfolios.

Residential real estate loans increased \$8.9 million, or 4.9% on an annualized basis, to \$369.7 million at June 30, 2024 compared to \$360.8 million at December 31, 2023. The increase in residential mortgages was due to increased home equity line activity.

For the six months ended June 30, 2024, total loans averaged \$2.9 billion, an increase of \$53.2 million or 1.9% compared to \$2.8 billion for the same period of 2023. The FTE yield on the entire loan portfolio was 5.07% for the six months ended June 30, 2024, a 35 basis point increase from the comparable period last year. The increase in yield was primarily due to the FOMC interest rate increases in 2022 and through July 2023 and the corresponding effect those increases had on our offering rates on new originations and the indices at which our adjustable and floating rate loans reprice.

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

Unused commitments at June 30, 2024, totaled \$513.3 million, consisting of \$469.6 million in unfunded commitments of existing loan facilities and \$43.7 million in standby letters of credit. Due to fixed maturity dates, specified conditions within these instruments, and the ultimate needs of our customers, many will expire without being drawn upon. We believe that amounts actually drawn upon can be funded in the normal course of operations and, therefore, do not represent a significant liquidity risk to us. In comparison, unused commitments at December 31, 2023 totaled \$587.6 million, consisting of \$525.4 million in unfunded commitments of existing loans and \$62.2 million in standby letters of credit.

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

Asset Quality:

Distribution of nonperforming assets

(Dollars in thousands, except percents)	June 30, 2024	December 31, 2023
Nonaccrual loans	\$ 7,117	\$ 3,962
Accruing loans past due 90 days or more:		986
Total nonperforming loans	7,117	4,948
Foreclosed assets	27	
Total nonperforming assets	\$ 7,144	\$ 4,948
Total loans held for investment	\$ 2,869,553	\$ 2,849,897
Allowance for credit losses	23,123	21,895
Allowance for credit losses as a percentage of loans held for investment	0.81 %	0.77 %
Allowance for credit losses as a percentage of nonaccrual loans	324.90 %	552.62 %
Nonaccrual loans as a percentage of loans held for investment	0.25 %	0.14 %
Nonperforming loans as a percentage of loans, net	0.25 %	0.17 %
Nonperforming assets as a percentage of total assets	0.20 %	0.13 %

Nonperforming assets increased by \$2.2 million during the first six months of 2024. Nonperforming assets totaled \$7.1 million or 0.20% of total assets at June 30, 2024, an increase from \$4.9 million or 0.13% of total assets at December 31, 2023.

Loans on nonaccrual status increased \$3.2 million to \$7.1 million at June 30, 2024 from \$4.0 million at December 31, 2023. Nonaccrual loans increased due primarily to placing a collateral dependent real estate loan on nonaccrual as the primary source of repayment is in doubt and there are limited secondary sources of repayment. Potential loss is mitigated as the loan carries a 70 percent guarantee of a government agency for a significant amount of the outstanding balance. There was one foreclosed property at June 30, 2024 in the amount of \$27 thousand. There were no foreclosed properties at December 31, 2023.

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

The allowance for credit losses equaled \$23.1 million or 0.81% of loans, net at June 30, 2024 compared to \$21.9 million or 0.77% of loans, net, at December 31, 2023. Loans charged-off, net of recoveries, for the six months ended June 30, 2024, equaled \$76 thousand and less than 0.01% of average loans, compared to \$34 thousand and less than 0.01% of average loans for the comparable period last year.

Deposits:

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

For the six months ended June 30, 2024, total deposits decreased \$214.1 million or 13.1% annualized to \$3.1 billion from \$3.3 billion at December 31, 2023. Noninterest-bearing deposits decreased \$23.7 million, or 7.4% annualized and interest-bearing deposits decreased \$190.4 million, or 14.5% annualized during the six months ended June 30, 2024. The

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decrease in deposits was due to an \$80.7 million decrease in retail and commercial accounts, a \$121.3 million decrease in municipal deposits, and a \$12.1 million decrease in brokered deposits.

Interest-bearing checking, NOW, and money market accounts decreased \$172.1 million to \$1.4 billion at June 30, 2024 from \$1.6 billion at December 31, 2023 due in part to seasonal municipal outflows and depositors shifting to higher earning products both internally and externally. Savings accounts decreased \$31.2 million to \$397.8 million as of June 30, 2024 from \$429.0 million at December 31, 2023 as depositors moved funds to higher rate products. Time deposits less than \$250 thousand decreased \$0.5 million to \$504.9 million at June 30, 2024, from \$505.4 million at December 31, 2023. Time deposits \$250 thousand or more increased \$13.5 million to \$134.8 million at June 30, 2024 from \$121.3 million at year end 2023.

The deposit base consisted of 42.8% retail accounts, 34.7% commercial accounts, 14.4% municipal relationships and 8.1% brokered deposits at June 30, 2024. At June 30, 2024, total estimated uninsured deposits were approximately \$744.7 million, or 24.3% of total deposits; as compared to approximately \$883.5 million, or 26.9% of total deposits at December 31, 2023. Included in the uninsured total at June 30, 2024 is \$292.9 million of municipal deposits collateralized by letters of credit issued by the FHLB and pledged investment securities, and \$0.7 million of affiliate company deposits. As an additional resource to our uninsured depositors, we offer all depositors access to IntraFi's CDARS and ICS programs which allows deposit customers to obtain full FDIC deposit insurance while maintaining their relationship with our Bank.

For the six months ended June 30, interest-bearing deposits averaged \$2.5 billion in 2024 compared to \$2.4 billion in 2023, an increase of \$128.8 million or 5.3%. The cost of interest-bearing deposits was 2.91% in 2024 compared to 1.95% for the same period last year. For the first six months, the cost of total deposits, including noninterest-bearing deposits, was 2.33% in 2024 and 1.49% in 2023. The higher costs are due primarily to increases in interest rates paid in order to attract and retain current balances.

Borrowings:

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

Overall, total borrowings were \$162.3 million at June 30, 2024, which included short-term borrowings, long-term debt, other borrowings and subordinated debt, compared to \$75.6 million at December 31, 2023, an increase of \$86.7 million. At June 30, 2024, other borrowings, which include cash collateral pledged by derivative counterparties to offset interest rate exposure, totaled \$20.4 million compared to \$17.6 million at December 31, 2023. Higher market interest rates resulted in heightened exposure requiring an increase to pledged cash collateral. FHLB short-term borrowings totaled \$83.9 million at June 30, 2024, compared to none at December 31, 2023, as the increase was due to funding the outflow of deposits. Long-term debt was \$25.0 million at June 30, 2024 and at year end 2023. Subordinated debt outstanding at June 30, 2024 and December 31, 2023 was \$33.0 million.

Market Risk Sensitivity:

Market risk is the risk to our earnings or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily IRR associated with our lending, investing and deposit-gathering activities. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in our reported earnings and/or the market value of our net worth. Variations in interest rates affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. Interest rate changes also affect

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the underlying economic value of our assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves, change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value and provide a basis for the expected change in future earnings related to interest rates. IRR is inherent in the role of banks as financial intermediaries. However, a bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities.

Market interest rates increased rapidly during 2022 and continued to increase through July 2023 as the FOMC raised the federal funds rate. A total of seven increases for a total of 425 basis points occurred in 2022, and four additional increases totaling 100 basis points were made through July 31, 2023, resulting in a total of 525 basis points since the beginning of the FOMC's initiative to curb inflation. Due to these factors, IRR and effectively managing it are very important to both bank management and regulators. Bank regulations require us to develop and maintain an IRR management program, overseen by our board of directors and senior management, that involves a comprehensive risk management process in order to effectively identify, measure, monitor and control risk. Should bank regulatory agencies identify a material weakness in our risk management process or high exposure relative to our capital, bank regulatory agencies may take action to remedy these shortcomings. Moreover, the level of IRR exposure and the quality of our risk management process is a determining factor when evaluating capital adequacy.

The ALCO, comprised of members of our board of directors, senior management and other appropriate officers, oversees our IRR management program. Specifically, ALCO analyzes economic data and market interest rate trends, as well as competitive pressures, and utilizes computerized modeling techniques to reveal potential exposure to IRR. This allows us to monitor and attempt to control the influence these factors may have on our rate-sensitive assets ("RSA") and rate-sensitive liabilities ("RSL"), and overall operating results and financial position. One such technique utilizes a static gap model that considers repricing frequencies of RSA and RSL in order to monitor IRR. Gap analysis attempts to measure our interest rate exposure by calculating the net amount of RSA and RSL that reprice within specific time intervals. A positive gap occurs when the amount of RSA repricing in a specific period is greater than the amount of RSL repricing within that same time frame and is indicated by an RSA/RSL ratio greater than 1.0. A negative gap occurs when the amount of RSL repricing is greater than the amount of RSA and is indicated by an RSA/RSL ratio of less than 1.0. A positive gap implies that earnings will be impacted favorably if interest rates rise and adversely if interest rates fall during the period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes.

Our cumulative one-year RSA/RSL ratio equaled 1.10% at June 30, 2024, an increase from 0.73% at December 31, 2023. As previously mentioned, a positive gap indicates that if interest rates increase, our earnings would likely be favorably impacted. Given the current economic conditions and outlook, we should experience increased net interest income. The overall focus of ALCO is to maintain a well-balanced interest rate risk position in order to safeguard future earnings. The current position at June 30, 2024, indicates that the amount of RSA repricing within one year would exceed that of RSL, thereby causing net interest income to increase as market rates increase. However, these forward-looking statements are qualified in the aforementioned section entitled "Cautionary Note Regarding Forward-Looking Statements" in this Management's Discussion and Analysis.

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

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

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

Liquidity:

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

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

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

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

Our ALCO generally meets quarterly, and most recently met in May to review our interest rate risk profile, capital adequacy and liquidity. At June 30, 2024, the Company's cash and due from banks balances were \$50.0 million. Our maximum borrowing capacity with the FHLB as of June 30, 2024 was \$1.3 billion, of which \$108.9 million was outstanding in borrowings, \$239.5 million was outstanding in the form of irrevocable standby letters of credit, and \$924.4 million was available. Additionally, the Company maintains \$413.5 million of availability at the Federal Reserve Bank's Discount Window, through the pledging of securities and through a borrower-in-custody of collateral arrangement, which enables us to pledge certain loans not being used as collateral elsewhere. The Company also maintains an available for sale investment securities portfolio, comprised primarily of highly liquid U.S. Treasury securities, highly-rated municipal securities and U.S. agency-backed mortgage backed securities. This portfolio serves as an additional source of liquidity and capital. At June 30, 2024, the Company's available for sale investment securities portfolio totaled \$385.2 million, \$83.1 million of which were unencumbered. We believe our liquidity is adequate to meet both present and future financial obligations and commitments on a timely basis.

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We employ a number of analytical techniques in assessing the adequacy of our liquidity position. One such technique is the use of ratio analysis to determine the extent of our reliance on noncore funds to fund our investments and loans maturing after June 30, 2024. Our noncore funds at June 30, 2024, were comprised of time deposits in denominations of \$100 thousand or more, brokered deposits and other borrowings. These funds are not considered to be a strong source of liquidity because they are very interest rate sensitive and are considered to be highly volatile. At June 30, 2024, our net noncore funding dependence ratio, the difference between noncore funds and short-term investments to long-term assets, was 18.9%, while our net short-term noncore funding dependence ratio, noncore funds maturing within one-year, less short-term investments to long-term assets equaled 10.2%. Comparatively, our overall noncore dependence ratio at year-end 2023 was 12.1% and our net short-term noncore funding dependence ratio was 4.7%, indicating that our reliance on noncore funds has increased overall due to exhausting our federal funds sold balance of \$144.7 million and increasing short-term borrowings to fund the outflow of deposits during the first six months of 2024.

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents from operating, investing and financing activities. Cash and cash equivalents, consisting of cash on hand, cash items in the process of collection, deposit balances with other banks and federal funds sold, decreased \$137.4 million during the six months ended June 30, 2024. Cash and cash equivalents increased \$98.8 million for the same period last year. For the six months ended June 30, 2024, net cash outflows of \$133.2 million from financing activities and \$9.2 million from investing activities were partially offset by net cash inflows of \$5.0 million from operating activities. For the same period of 2023, net cash inflows of \$17.6 million from operating activities and \$104.2 million from financing activities were partially offset by net cash outflows of \$22.9 million from investing activities.

Operating activities provided net cash of \$5.0 million for the six months ended June 30, 2024, and \$17.6 million for the corresponding six months of 2023. Net income, adjusted for the effects of gains and losses along with noncash transactions such as depreciation and the provision for credit losses, is the primary source of funds from operations.

Investing activities primarily include transactions related to our lending activities and investment portfolio. Investing activities used net cash of \$9.2 million for the six months ended June 30, 2024, compared to using net cash of \$22.9 million for the same period of 2023. A net increase in loans was the primary factor causing the net cash outflow from investing activities in both periods. The current period included proceeds of \$10.9 million from the maturities, calls and principal payments of investments, while the year ago period included proceeds from the sale of investment securities to fund a portion of the strong loan growth.

Financing activities used net cash of \$133.2 million for the six months ended June 30, 2024, and provided net cash of \$104.2 million for the corresponding six months of 2023. In 2024, deposit decreases caused the net cash outflow in financing activity. The year ago period included new long-term borrowings and the addition of brokered deposits to build our cash position. While a portion of the outflow is seasonal, we continue to seek deposits from new markets and customers as well as existing customers, including municipalities and school districts.

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

Capital:

Stockholders' equity totaled \$340.8 million or \$48.29 per share at June 30, 2024, compared to \$340.4 million or \$48.35 per share at December 31, 2023. Stockholders' equity increased during the six month period ended June 30, 2024 primarily due to earnings, offset by a dividend payout of \$5.8 million and an increase to other comprehensive loss of \$0.9 million, due to changes in market values of available for sale securities.

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Dividends declared equaled \$0.82 per share for the six months ended June 30, 2024 and \$0.82 per share for the same period of 2023. The dividend payout ratio was 85.4% for the six months ended June 30, 2024 and 34.5% for the same period of 2023. The Company has paid cash dividends since its formation as a bank holding company in 1986. The Board declared on July 26, 2024 a third quarter dividend of \$0.6175 per share payable on September 13, 2024 to shareholders of record as of August 30, 2024. The increase in the quarterly cash dividend was contemplated as part of the Merger Agreement between the Company and FNCB. It is the present intention of the Board of Directors to continue this dividend payment policy. Further dividends, however, must necessarily depend upon earnings, financial condition, appropriate legal restrictions and other factors relevant at the time the Board of Directors considers payment of dividends.

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

The adequacy of capital is reviewed on an ongoing basis with reference to the size, composition and quality of resources and regulatory guidelines. We seek to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings. At June 30, 2024, Peoples Bank's Tier 1 capital to total average assets was 9.82% as compared to 9.34% at December 31, 2023. Peoples Bank's Tier 1 capital to risk weighted asset ratio was 13.09% and the total capital to risk weighted asset ratio was 13.95% at June 30, 2024. These ratios were 13.01% and 13.82% at December 31, 2023. Peoples Bank's common equity Tier 1 to risk weighted asset ratio was 13.09% at June 30, 2024 compared to 13.01% at December 31, 2023. Peoples Bank met all capital adequacy requirements and was deemed to be well-capitalized under regulatory standards at June 30, 2024.

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Review of Financial Performance:

Peoples reported net income of \$3.3 million or \$0.46 per diluted share for the three months ended June 30, 2024, a 65.2% decrease when compared to \$9.4 million or \$1.31 per share for the comparable period of 2023. Quarterly net income included lower net interest income of \$3.2 million due to higher deposit costs. Noninterest income was in line with the year ago period. Non-interest expenses increased by \$1.5 million, which included merger related expenses of \$1.0 million, increases to occupancy and equipment expenses of \$0.3 million, higher professional services expenses of \$0.2 million, and \$0.2 million in higher other expenses. Provision for income tax decreased by \$1.4 million on lower earnings.

Peoples reported net income of \$6.7 million, or \$0.95 per diluted share for the six months ended June 30, 2024, a decrease of 60.3% when compared to \$17.0 million, or \$2.37 per diluted share for the comparable period of 2023. The decrease in earnings in the six months ended June 30, 2024 is a result of lower net interest income of \$7.0 million as higher interest income on earning assets, due to increased loan rates, was more than offset by increased funding costs, higher operating expenses of \$3.1 million, a \$2.2 million increase to the provision for credit losses, and a decrease of \$0.3 million in non-interest income. Higher noninterest expenses were mainly due to \$1.5 million in merger related expenses, higher occupancy and equipment related expenses of \$0.9 million, and higher other expenses of \$0.8 million, partially offset by a decrease of \$0.3 million in salaries and benefits.

Return on average assets ("ROA") measures our net income in relation to total assets. Our annualized ROA was 0.37% for the second quarter of 2024 compared to 1.04% for the same period of 2023. Return on average equity ("ROE") indicates how effectively we can generate net income on the capital invested by stockholders. Our annualized ROE was 3.88% for the second quarter of 2024 compared to 11.42% for the comparable period in 2023. The declines in our annualized ROA and ROE were due primarily to a lower level of net income.

Non-GAAP Financial Measures:

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

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

(Dollars in thousands)

Three Months Ended June 30,	2024	2023
Interest income (GAAP)	\$ 38,376	\$ 36,736
Adjustment to FTE	471	478
Interest income adjusted to FTE (non-GAAP)	38,847	37,214
Interest expense	19,460	14,640
Net interest income adjusted to FTE (non-GAAP)	\$ 19,387	\$ 22,574

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Six Months Ended June 30,	2024	2023
Interest income (GAAP)	\$ 77,373	\$ 71,014
Adjustment to FTE	946	965
Interest income adjusted to FTE (non-GAAP)	78,319	71,979
Interest expense	39,139	25,806
Net interest income adjusted to FTE (non-GAAP)	\$ 39,180	\$ 46,173

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

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

(Dollars in thousands, except percents)

Three Months Ended June 30,	2024	2023
Efficiency ratio (non-GAAP):		
Noninterest expense (GAAP)	\$ 18,158	\$ 16,614
Less: amortization of intangible assets expense		28
Less: acquisition related expenses	1,071	121
Noninterest expense adjusted (non-GAAP)	17,087	16,465
Net interest income (GAAP)	18,916	22,096
Plus: taxable equivalent adjustment	470	478
Noninterest income (GAAP)	3,541	3,552
Less: net losses on equity securities	(12)	12
Net interest income (FTE) plus noninterest income (non-GAAP)	\$ 22,939	\$ 26,114
Efficiency ratio (non-GAAP)	74.5 %	63.1 %

(Dollars in thousands, except percents)

Six Months Ended June 30,	2024	2023
Efficiency ratio (non-GAAP):		
Noninterest expense (GAAP)	\$ 36,226	\$ 33,168
Less: amortization of intangible assets expense		57
Less: acquisition related expenses	1,557	121
Noninterest expense adjusted (non-GAAP)	34,669	32,990
Net interest income (GAAP)	38,234	45,208
Plus: taxable equivalent adjustment	946	965
Noninterest income (GAAP)	6,943	7,226
Less: net losses on equity securities	(20)	(17)
Less: gains (losses) on sale of available for sale securities		81
Net interest income (FTE) plus noninterest income (non-GAAP)	\$ 46,143	\$ 53,335
Efficiency ratio (non-GAAP)	75.1 %	61.9 %

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Net Interest Income:

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

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

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

For the three months ended June 30, FTE net interest income, a non-GAAP measure, decreased \$3.2 million to \$19.4 million in 2024 from \$22.6 million in 2023. The net interest spread decreased to 1.57% for the three months ended June 30, 2024 from 2.02% for the three months ended June 30, 2023 as the earning asset yield increased 27 basis points while the average rate paid on interest-bearing liabilities increased 72 basis points. The FTE net interest margin decreased to 2.29% for the second quarter of 2024 from 2.61% for the comparable period of 2023.

For the three months ended June 30, FTE interest income on earning assets, a non-GAAP measure, increased \$1.6 million to \$38.8 million in 2024 as compared to \$37.2 million in 2023. The overall yield on earning assets, on a FTE basis, increased 27 basis points for the three months ended June 30, 2024 to 4.58% as compared to 4.31% for the three months ended June 30, 2023. The increase to FTE interest income is due to the increase in rates for newly acquired assets and rising rate indices, partially offset by a decrease in our earning asset base of \$56.0 million. The overall yield earned on investments increased 7 basis points in the second quarter of 2024 to 1.80% from 1.73% for the second quarter of 2023 as a result of maturities and payments to lower yielding securities. Average investment balances were \$28.5 million lower when comparing the current and year ago quarter. The yield on loans increased 30 basis points in the second quarter of 2024 to 5.09% from 4.79% for the second quarter of 2023 as a result of new loans and loans repricing higher. Average loan balances were \$19.0 million higher when compared to the same quarter in 2023. Average federal funds sold decreased \$48.4 million to \$12.7 million for the three months ended June 30, 2024 and yielded 5.68%, as compared to \$61.1 million and a yield of 5.24% in the year ago period. We expect asset yields to move upward gradually as asset cash flow reprices higher due to higher market rates.

Total interest expense increased \$4.8 million to \$19.5 million for the three months ended June 30, 2024 from \$14.6 million for the three months ended June 30, 2023. The total cost of funds increased 72 basis points for the three months ended June 30, 2024 to 3.01% as compared to 2.29% in the year ago period. The increase in costs was due to an increase to the average balance of higher priced brokered certificate of deposits, higher rates paid on both interest-bearing deposits and short term borrowings, combined with higher average balances in the current period. Average rates

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paid on deposits increased as the result of higher market rates and local competition for deposits. We expect increased competition for funding to continue to impact costs during the remaining months of 2024.

Net interest income changes due to rate and volume for the six months ended June 30

(Dollars in thousands)	2024 vs 2023		
	Increase (decrease)		
	attributable to		
	Total	Rate	Volume
Interest income:			
Loans:			
Taxable	\$ 6,259	\$ 4,860	\$ 1,399
Tax-exempt	29	41	(12)
Investments:			
Taxable	(231)	224	(455)
Tax-exempt	(118)	(37)	(81)
Interest-bearing deposits	136	8	128
Federal funds sold	265	85	180
Total interest income	6,340	5,181	1,159
Interest expense:			
Money market accounts	4,370	3,756	614
NOW accounts	2,911	2,866	45
Savings accounts	100	295	(195)
Time deposits less than \$100	3,555	1,206	2,349
Time deposits \$100 or more	2,558	1,950	608
Short-term borrowings	(404)	430	(834)
Long-term debt	243		243
Total interest expense	13,333	10,503	2,830
FTE net interest income changes (Non-GAAP)	<u>\$ (6,993)</u>	<u>\$ (5,322)</u>	<u>\$ (1,671)</u>

FTE net interest income, a non-GAAP measure, was \$39.2 million in the six months ended June 30, 2024 and \$46.2 million in the comparable period last year. There was a negative volume and rate variance. The growth in average interest-bearing liabilities exceeded that of the growth in earning assets, and resulted in lower FTE net interest income, a non-GAAP measure, of \$1.7 million. A rate variance resulted in a decrease in net interest income of \$5.3 million.

Average earning assets increased \$17.5 million to \$3.4 billion for the six months ended June 30, 2024 and accounted for a \$1.2 million increase in interest income. Average taxable loans increased \$53.7 million, which caused interest income to increase \$1.4 million. Average tax-exempt loans decreased \$0.5 million which caused interest income to decrease \$12 thousand. Average taxable investments decreased \$39.4 million comparing 2024 and 2023, which resulted in decreased interest income of \$0.5 million while average tax-exempt investments decreased \$7.7 million, which resulted in a decrease to interest income of \$81 thousand. Average interest bearing deposits increased \$4.9 million which resulted in an increase of \$0.1 million to interest income. Average federal funds sold increased \$6.5 million for the six months ended June 30, 2024 which resulted in an increase of \$0.2 million to interest income.

Average interest-bearing liabilities rose \$118.6 million to \$2.6 billion for the six months ended June 30, 2024 from \$2.5 billion for the six months ended June 30, 2023 resulting in a net increase in interest expense of \$2.8 million. Interest-bearing deposit accounts, including money market, NOW and savings accounts decreased \$35.1 million. In addition, large denomination time deposits averaged \$42.5 million more in the current period and caused interest expense to increase \$0.6 million. An increase of \$121.5 million in average time deposits less than \$100 thousand which included higher priced callable brokered CDs, resulted in an increase to interest expense of \$2.3 million. In addition, short-term

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

borrowings averaged \$21.5 million lower and decreased interest expense \$0.8 million while long-term borrowing increased \$11.2 million and resulted in an increase to interest expense of \$0.2 million.

For the six months ended June 30, 2024, an unfavorable rate variance occurred, as the FTE yield on earning assets increased 34 basis points while there was a 92 basis point increase in the cost of funds. As a result, FTE net interest income decreased \$5.3 million comparing the six months ended June 30, 2024 and 2023. The FTE yield on earning assets was 4.57% in the 2024 period compared to 4.23% in 2023 resulting in an increase in interest income of \$5.2 million. The yield on the taxable investment portfolio increased 4 basis points to 1.73% during the six months ended June 30, 2024 from 1.69% in the year ago period, resulting in an increase of \$0.2 million in interest income. The yield on the tax exempt investment portfolio decreased 8 basis points to 2.18% during the six months ended June 30, 2024 from 2.26% in the year ago period, resulting in a decrease of \$37 thousand in interest income. The FTE yield on the loan portfolio increased 35 basis points to 5.07% in 2024 from 4.72% in 2023 and resulted in an increase to interest income of \$4.9 million.

The yield on interest bearing deposits increased 96 basis points to 2.91% from 1.95% in the year ago period resulting in an increase in interest expense of \$10.1 million. The yield on long term borrowings increased 2 basis points to 4.34% from 4.32% in the year ago period but had a negligible effect to interest expense. The yield on short term borrowings increased 68 basis points to 5.53% from 4.85% in the year ago period and resulted in an increase to interest expense of \$0.4 million.

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

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

	Three months ended					
	June 30, 2024			June 30, 2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:						
Earning assets:						
Loans:						
Taxable	\$ 2,637,164	\$ 34,406	5.25 %	\$ 2,615,881	\$ 32,139	4.93 %
Tax-exempt	222,655	1,771	3.20	224,960	1,780	3.17
Total loans	2,859,819	36,177	5.09	2,840,841	33,919	4.79
Investments:						
Taxable	443,146	1,906	1.73	469,712	1,931	1.65
Tax-exempt	86,418	470	2.19	88,371	481	2.18
Total investments	529,564	2,376	1.80	558,083	2,412	1.73
Interest-bearing deposits	8,763	115	5.28	6,839	85	4.99
Federal funds sold	12,672	179	5.68	61,093	798	5.24
Total earning assets	3,410,818	38,847	4.58 %	3,466,856	37,214	4.31 %
Less: allowance for credit losses	23,046			25,895		
Other assets	221,294			209,915		
Total assets	<u>\$ 3,609,066</u>	<u>\$ 38,847</u>		<u>\$ 3,650,876</u>	<u>\$ 37,214</u>	
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Money market accounts	\$ 714,669	\$ 6,749	3.80 %	\$ 664,451	\$ 4,958	2.99 %
Interest-bearing demand and NOW accounts	729,196	4,400	2.43	771,690	3,537	1.84
Savings accounts	408,883	280	0.28	483,385	239	0.20
Time deposits less than \$100	403,069	3,964	3.96	375,799	3,620	3.86
Time deposits \$100 or more	240,481	2,721	4.55	198,355	1,360	2.75
Total interest-bearing deposits	2,496,298	18,114	2.92	2,493,680	13,714	2.21
Short-term borrowings	45,383	633	5.61	16,854	213	5.07
Long-term debt	25,000	269	4.33	25,000	269	4.32
Subordinated debt	33,000	444	5.41	33,000	444	5.40
Total borrowings	103,383	1,346	5.24	74,854	926	4.96
Total interest-bearing liabilities	2,599,681	19,460	3.01	2,568,534	14,640	2.29
Noninterest-bearing deposits	620,256			711,729		
Other liabilities	48,630			39,494		
Stockholders' equity	340,499			331,119		
Total liabilities and stockholders' equity	<u>\$ 3,609,066</u>			<u>\$ 3,650,876</u>		
Net interest income/spread		<u>\$ 19,387</u>	<u>1.57 %</u>		<u>\$ 22,574</u>	<u>2.02 %</u>
Net interest margin			2.29 %			2.61 %
Tax-equivalent adjustments:						
Loans		\$ 372			\$ 375	
Investments		99			103	
Total adjustments		<u>\$ 471</u>			<u>\$ 478</u>	

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

(Dollars in thousands, except percents)	Six months ended					
	June 30, 2024			June 30, 2023		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets:						
Earning assets:						
Loans:						
Taxable	\$ 2,634,859	\$ 68,447	5.22 %	\$ 2,581,167	\$ 62,188	4.86 %
Tax-exempt	223,974	3,566	3.20	224,442	3,537	3.18
Total loans	2,858,833	72,013	5.07	2,805,609	65,725	4.72
Investments:						
Taxable	445,071	3,826	1.73	484,437	4,057	1.69
Tax-exempt	86,641	939	2.18	94,337	1,057	2.26
Total investments	531,712	4,765	1.80	578,774	5,114	1.78
Interest-bearing deposits	8,894	235	5.31	4,044	99	4.94
Federal funds sold	46,813	1,306	5.61	40,338	1,041	5.20
Total interest-earning assets	3,446,252	78,319	4.57 %	3,428,765	71,979	4.23 %
Less: allowance for credit losses	22,668			25,230		
Other assets	219,324			209,535		
Total assets	<u>\$ 3,642,908</u>	<u>\$ 78,319</u>		<u>\$ 3,613,070</u>	<u>\$ 71,979</u>	
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Money market accounts	\$ 734,779	\$ 13,884	3.80 %	\$ 692,999	\$ 9,514	2.77 %
Interest-bearing demand and NOW accounts	756,827	9,237	2.45	751,655	6,326	1.70
Savings accounts	415,849	555	0.27	497,939	455	0.18
Time deposits less than \$100	406,131	8,301	4.11	284,659	4,746	3.36
Time deposits \$100 or more	231,470	4,841	4.21	188,993	2,283	2.44
Total interest-bearing deposits	2,545,056	36,818	2.91	2,416,245	23,324	1.95
Short-term borrowings	32,535	895	5.53	53,985	1,299	4.85
Long-term debt	25,000	539	4.34	13,803	296	4.32
Subordinated debt	33,000	887	5.41	33,000	887	5.42
Total borrowings	90,535	2,321	5.16	100,788	2,482	4.97
Total interest-bearing liabilities	2,635,591	\$ 39,139	2.99 %	2,517,033	\$ 25,806	2.07 %
Noninterest-bearing deposits	618,433			728,238		
Other liabilities	48,159			39,208		
Stockholders' equity	340,725			328,591		
Total liabilities and stockholders' equity	<u>\$ 3,642,908</u>			<u>\$ 3,613,070</u>		
Net interest income/spread		<u>\$ 39,180</u>	<u>1.58 %</u>		<u>\$ 46,173</u>	<u>2.16 %</u>
Net interest margin (Non-GAAP)			2.29 %			2.72 %
Tax-equivalent adjustments:						
Loans		\$ 749			\$ 743	
Investments		197			222	
Total adjustments		<u>\$ 946</u>			<u>\$ 965</u>	

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Dollars in thousands, except per share data)

Provision for Credit Losses:

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

For the three months ended June 30, 2024, \$0.6 million was recorded to the provision for credit losses compared to a credit of \$2.2 million in the year ago period. The current period provision was due to a higher calculated allowance for credit losses and the establishment of a specific reserve for an individually evaluated loan, along with higher pooled loan reserves. Although the current overall model loss rate declined due to an improving economic forecast and a reduction in the existing loan portfolio, additional reserves were required due to loan growth. The prior period reversal was due to the impact of various factors, such as updated economic assumptions as well as changes in qualitative adjustments, portfolio composition, and asset quality. Changes to qualitative factors related to lower loan growth, offset by banking industry concerns, resulted in a lower expected credit loss.

For the six months ended June 30, 2024, a provision for credit losses of \$1.3 million was recorded due to the establishment of a specific reserve for an individually evaluated loan along with higher pooled loan reserves. Pooled loan reserves increased due to loan growth and a higher model loss rate that was primarily attributed to the loan portfolio's favorable performance versus peers, and new loan originations. The provision in the prior six month period included a credit of \$0.9 million which was attributed to various factors, including updated economic assumptions as well as changes in qualitative factors, portfolio composition and asset quality.

Noninterest Income:

Noninterest income for the three months ended June 30, 2024 was \$3.5 million, relatively unchanged from the same quarter a year ago. Decreases to service charges, fees, and commissions, were partially offset by increases in interest rate swap revenue.

Noninterest income was \$6.9 million for the six months ended June 30, 2024 and \$7.2 million for the comparable period ended June 30, 2023. The primary driver of the decrease was a \$0.2 million reduction in interest rate swap revenue. The year ago period also included a gain of \$81 thousand on the sale of available for sale investment securities.

Noninterest Expenses:

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

Noninterest expense increased \$1.5 million or 9.3% to \$18.2 million for the three months ended June 30, 2024, from \$16.6 million for the same period a year ago. Acquisition related expenses, such as legal and consulting, totaled \$1.1 million in the current three month period compared to \$0.1 million in the same period a year ago. Salaries and employee benefits were flat at \$8.5 million in the current and year ago periods. Occupancy and equipment expenses were higher by \$0.3 million in the current period due to technology related enhancements and increases to property maintenance

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Dollars in thousands, except per share data)

expense due in part to inflationary price increases. Other expenses increased \$0.4 million primarily due to the write-down of the Company's former East Stroudsburg branch.

Noninterest expense for the six months ended June 30, 2024 was \$36.2 million, an increase of \$3.1 million or 9.2% from \$33.2 million for the six months ended June 30, 2023. The increase was due primarily to \$0.9 million in higher occupancy and technology related expenses, \$1.4 million in acquisition related expenses, and an increase of \$0.8 million in other expenses, which include a \$0.4 million write-down the aforementioned former branch and a \$0.6 million increase to the provision for unfunded commitments.

Income Taxes:

We recorded income tax expense of \$0.4 million or 11.4% of pre-tax income, and \$0.9 million or 11.8% for the three and six months ended June 30, 2024. This compares to the three and six month period ended June 30, 2023 in which we recorded tax expense of \$1.8 million or 16.1% of pre-tax income, and \$3.2 million or 15.8% of pre-tax income, respectively. Lower income tax expense was due to lower pre-tax income for the six months ended June 30, 2024 compared to the prior year's period.

Peoples Financial Services Corp.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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

The Company utilizes the pricing and structure of loans and deposits, the size and duration of the investment securities portfolio, the size and duration of the wholesale funding portfolio, and off-balance sheet interest rate contracts to manage interest rate risk. The off-balance sheet interest rate contracts may include interest rate swaps, caps and floors. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to terms of the contract. The notional amount of the interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged, and therefore, should not be taken as a measure of credit risk. See Note 14 to the Audited Consolidated Financial Statements and Note 9 to the unaudited consolidated interim financial statements contained in Part I, Item 1 of this report for additional information.

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

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

Peoples Financial Services Corp.

Model results at June 30, 2024 indicated a lower starting level of net interest income (“NII”) compared to the March 31, 2024 model as a shift in balance sheet mix and higher assumed market rates was offset by a decline in earning assets and higher interest-bearing liability costs which lead to the balance sheet spread remaining static.

After the first eighteen months of the model simulation, the benefit to NII increases as a result of the higher assumed replacement rates on assets resulting from the FOMC’s increase to the federal funds rate of 525 basis points since March 2022. Our interest rate risk position exhibits a relatively well-matched position to both rising and falling interest rate environments in the first year of simulation while a sustained falling rate environment presents the greatest potential risk to NII over the longer-term horizon. This position at June 30, 2024 is similar to our March 31, 2024 results.

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

Since 2022, the FOMC has increased the federal funds target rate in part to mitigate historically high inflation. Through July 31, 2023, there were eleven rate increases totaling 525 basis points. Although we have realized higher rates on our existing adjustable rate loans and new originations, our average funding costs have increased at a faster pace than the loan yields as rate-sensitive customers sought higher returns. We expect our funding costs to stabilize in the near term, as market rates appear to have peaked and the FOMC has paused its rate increases. Additionally, if deposit costs have to be increased more than the simulation assumptions and/or we experience a shift from non-maturity deposits to higher costing time deposits, net interest income would be reduced from projected levels.

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

Changes in Interest Rates (basis points)	June 30, 2024			
	% Change in			
	Net Interest Income		Economic Value of Equity	
	Metric	Policy	Metric	Policy
+400	(7.2)	(20.0)	18.9	(40.0)
+300	(5.6)	(20.0)	15.2	(30.0)
+200	(4.1)	(10.0)	10.3	(20.0)
+100	(1.7)	(10.0)	7.0	(10.0)
Static				
-100	3.3	(10.0)	(9.6)	(10.0)
-200	5.2	(10.0)	(25.3)	(20.0)
-300	6.7	(20.0)	(46.7)	(30.0)
-400	7.3	(20.0)	(75.7)	(40.0)

Our simulation model creates pro forma net interest income scenarios under various interest rate shocks. Given instantaneous and parallel shifts in general market rates of plus 100 basis points, our projected net interest income for the 12 months ending June 30, 2024, would decrease 1.7% from model results using current interest rates. Additional disclosures about market risk are included in Part II, Item 7 of our Annual Report on [Form 10-K for the year ended December 31, 2023](#), and in Part I, Item 2 of this quarterly report, in each case under the heading “Market Risk Sensitivity,” and are incorporated into this Item 3 by reference.

The Company has certain loans and derivative instruments whose interest rate is indexed to the London Inter Bank Offered Rate (“LIBOR”). The LIBOR index was discontinued for U.S. Dollar settings effective June 30, 2023. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Funding Rate (“SOFR”) replace USDLIBOR. The Company has contracts that are indexed to USD-LIBOR. The Company formed a LIBOR transition team to monitor this activity. The Company has transitioned its LIBOR-indexed loans to alternative indexes, including prime and Term SOFR, and adjusting the spread to maintain the overall yield.

Peoples Financial Services Corp.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal control.

There were no changes in the Company's internal control over financial reporting in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

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

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Peoples Financial Services Corp.

Item 5. Other Information.

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

Item 6. Exhibits.

Item Number	Description
2.1	Agreement and Plan of Merger, dated as of September 27, 2023, by and between Peoples Financial Services Corp. and FNCB Bancorp, Inc.* (incorporated by reference to Exhibit 2.1 to Peoples Financial Services Corp.'s Current Report on Form 8-K filed on September 27, 2023)
31.1	CEO Certification Pursuant to Rule 13a-14 (a) /15d-14 (a)
31.2	CFO Certification Pursuant to Rule 13a-14 (a) /15d-14 (a)
32	CEO and CFO Certifications Pursuant to Section 1350.
101	The following materials from Peoples Financial Services Corp. Quarterly Report on Form 10-Q for the period ended June 30, 2024, formatted in inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive (Loss) Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*The schedules and exhibits have been omitted pursuant to Item 601(b) (2) of Regulation S-K. Peoples Financial Services Corp. agrees to furnish a copy of such schedules and exhibits, or any section thereof, to the SEC upon request

Peoples Financial Services Corp.

SIGNATURES

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

Peoples Financial Services Corp.
(Registrant)

Date: August 7, 2024

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

Date: August 7, 2024

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

CERTIFICATION

I, Craig W. Best, certify that:

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

/s/ Craig W. Best

Chief Executive Officer

(Principal Executive Officer)

Date: August 7, 2024

CERTIFICATION

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

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

/s/ John R. Anderson, III

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

Date: August 7, 2024

SECTION 1350 CERTIFICATIONS

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

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

/s/ Craig W. Best

Chief Executive Officer
(Principal Executive Officer)
Date: August 7, 2024

/s/ John R. Anderson, III

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
Date: August 7, 2024

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