

PEOPLES FINANCIAL SERVICES CORP.
Form DEF 14A
March 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14-A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14a INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the Appropriate:

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

PEOPLES FINANCIAL SERVICES CORP.
(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee:

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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 - (4) Date filed:
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PEOPLES FINANCIAL SERVICES CORP.

82 FRANKLIN AVENUE
HALLSTEAD, PA 18822

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 23, 2011

The 2011 Annual Meeting of Shareholders of Peoples Financial Services Corp. will be held at the Shadowbrook Inn and Resort, 315 SR 6 E, Tunkhannock, Pennsylvania, on Saturday, April 23, 2011, beginning at 8:30 a.m.

ITEMS OF BUSINESS:

- 1) Election of three Class I Directors to hold office for three years from the date of election and until his successor(s) shall have been elected and qualified;
- 2) To hold an advisory vote on executive compensation;
- 3) To hold an advisory vote on the frequency of holding the advisory vote on executive compensation; and
- 4) Any other matters that properly come before the meeting.

All holders of common shares of record at the close of business on February 28, 2011, are entitled to vote at the Meeting and any postponements or adjournments of the Meeting.

The Company's 2010 Annual Report, which is not a part of the proxy soliciting material, is enclosed.

Proxy Materials can be accessed on the web at www.peoplesnatbank.com/investors

It is important that your shares be represented and voted at the Meeting!

Please vote your shares promptly: On line at www.voteproxy.com – follow the on-screen instructions and have your enclosed proxy card available when you access this web page; OR by telephone – follow instructions on your enclosed proxy card, OR mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope furnished for that purpose.

Any proxy may be revoked in the manner described in the accompanying Proxy Statement at any time prior to its exercise at the Meeting.

By order of the Board of Directors
Alan W. Dakey
President/CEO

March 23, 2011
Hallstead, Pennsylvania

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PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Peoples Financial Services Corp. (the “Company”), parent company of Peoples Neighborhood Bank (the “Bank”), and Peoples Financial Capital Corporation, for use at the Company’s Annual Meeting of Shareholders to be held on April 23, 2011, (the “Meeting”) at 8:30 a.m. E.S.T. at the Shadowbrook Inn and Resort, 315 SR 6 E, Tunkhannock, Pennsylvania. The Proxy Statement and the accompanying proxy are first being mailed to Shareholders of the Company on or about March 23, 2011.

PROXIES

The execution of the enclosed proxy will not affect a shareholder’s right to attend the Meeting and vote in person. Any Shareholder voting a proxy may revoke it at any time before it is exercised by submitting written notice of its revocation or a subsequently executed proxy to the Secretary of the Company, Debra E. Dissinger, PO Box A, Hallstead, Pennsylvania, 18822, or by attending the Meeting and electing to vote in person after giving written notice thereof to the Secretary of the Company. Shareholders of record at the close of business on February 28, 2011 are entitled to notice of, and to vote at, the Meeting. On that date, the Company had 3,142,106 shares of common stock outstanding (the “Common Stock”), par value \$2 per share, each of which will be entitled to one vote at the meeting.

If the enclosed proxy is appropriately executed in time to be voted at the Meeting, the shares represented by the proxy will be voted in accordance with the instructions marked thereon. Any proxy not specifying to the contrary will be voted FOR the election of the nominees for Class I Directors and FOR all other items of business.

Any Shareholder who wishes to withhold authority from the proxy holders to vote for the election of the Directors may do so by marking his or her proxy to that effect. No proxy may be voted for a greater number of persons than the number of nominees named. If the nominees should become unable to serve, the persons named in the proxy may vote for another nominee. The Company’s Board of Directors and Management, however, have no present reason to believe that the nominees listed will be unable to serve as Directors, if elected.

REQUIRED VOTE

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote generally for the election of Directors is necessary to constitute a quorum at the Meeting. Abstentions are counted as present and entitled to vote for purposes of determining a quorum.

Directors are elected by a plurality of the votes cast at the Meeting, and shareholders are not entitled to cumulate their votes for the election of Directors. The approval of the non-binding resolution on executive compensation requires a majority of all votes cast at the Meeting. The option of one year, two years or three years that receives the highest number of votes will be the frequency for the advisory vote on executive compensation. Abstentions and broker “non-votes” will not be considered as votes cast for purposes of the Meeting.

COST OF PROXY SOLICITATION

The expense of soliciting proxies will be borne by the Company. It is expected that the solicitation of proxies will be primarily by mail. The Company’s Directors, Officers and Employees may also, but without compensation other than their regular compensation, solicit proxies by further mailings or personal conversations, or by telephone, fax, or other electronic means. This expense for 2010 was \$5,700.

ADVANCE NOTICE PROCEDURES

The By-laws of the Company permit nominations for election to the Board of Directors to be made by the Board of Directors or by any shareholder of the Company. All nominations are referred to the Board of Directors for consideration. There were no nominations by shareholders submitted to the Board for consideration.

The By-laws require that any nomination for Director by a shareholder (other than by the Board of Directors) must be made by notice, in writing, delivered to the Secretary of the Company not less than 60 days prior to the date of a Shareholders' Meeting. Any shareholder proposal for consideration at the Company's Annual Meeting of Shareholders to be held in 2012 must be received by the Company at its principal office not later than December 2, 2011 if it is to be considered for inclusion in the Company's 2012 proxy statement. All other shareholder proposals must be received between January 25, 2011 and February 24, 2012. A copy of the full text of the By-law provisions discussed above may be obtained by writing to the Corporate Secretary, PO Box A, Hallstead, Pennsylvania, 18822.

DIRECTOR SELECTION PROCESS

Working closely with the full Board, the Governance and Nominating Committee develops criteria for open Board positions, taking into account such factors as it deems appropriate, which may include: the current composition of the Board; the range of talents, experiences and skills that would best complement those already represented on the Board; the balance of management and independent Directors; and the need for financial or other specialized expertise. Applying these criteria, the Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. Once the Committee has identified a prospective nominee—including prospective nominees recommended by shareholders—it makes an initial determination as to whether to conduct a full evaluation. In making this determination, the Committee takes into account the information provided to the Committee with the recommendation of the candidate, as well as the Committee's own knowledge and information obtained through inquiries to third parties to the extent the Committee deems appropriate. The criteria include:

- the prospective nominee's standards of integrity, commitment and independence of thought and judgment;
- the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards;
- the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board and;
- the extent to which the prospective nominee helps the Board reflect the diversity of the Company's shareholders, employees, customers and the communities in which it operates.

If the Committee decides, on the basis of its preliminary review, to proceed with further consideration, members of the Committee, as well as other members of the Board as appropriate, interview the nominee. After completing this evaluation and interview, the Committee makes a recommendation to the full Board, which makes the final determination whether to nominate or appoint the new Director after considering the Committee's report. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Company's Secretary, or any member of the Governance and Nominating Committee, in writing with whatever supporting material the shareholder considers appropriate.

SHAREHOLDER COMMUNICATIONS

Shareholders and other parties interested in communicating directly with the Chairman of the Board or with the non-management Directors as a group may do so by writing to the Chairman of the Board, Peoples Financial Services Corp., PO Box A, Hallstead, Pennsylvania 18822. The Corporate Secretary of the Company reviews all such

correspondence and forwards to the Board a summary and/or copies of any such correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or Committees thereof or that she otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Company's internal auditors and handled in accordance with procedures established by the Audit Committee with respect to such matters.

GOVERNANCE OF THE COMPANY

Pursuant to Pennsylvania law and the Company's By-laws, the business, property and affairs of the Company are managed under the direction of the Board of Directors. Members of the Board are kept informed of the Company's business through discussions with the CEO and Officers, by reviewing materials provided to them, and by participation in meetings of the Board and its committees.

DIRECTOR ATTENDANCE

During 2010, all of the Directors of the Company attended at least 75% of the aggregate of all meetings of the Company's Board of Directors and Board committees on which they served. Each Director is expected to attend the Company's Annual Meetings. All Directors were present at the 2010 Annual Meeting.

DIRECTOR INDEPENDENCE

The provisions of the Company's Corporate Governance Guidelines regarding Director independence meet the independence standards of the NASDAQ.

Pursuant to the Guidelines, the Board undertook its annual review of Director independence in December 2010. During this review, the Board considered transactions and relationships between each Director or any member of his immediate family and the Company and its subsidiaries and affiliates. The Board also considered whether there were any transactions or relationships between Directors or any member of their immediate family (or any entity of which a Director or an immediate family member is an executive officer, general partner or significant equity holder) and members of the Company's senior management or their affiliates. As provided in the Guidelines, the purpose of this review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the Director is independent.

As a result of this review, the Board affirmatively determined that William E. Aubrey II, Ronald G. Kukuchka, George H. Stover, Jr., Joseph T. Wright, Jr., and Earle A. Wootton are independent of the Company and its management under the standards set forth in the Corporate Governance Guidelines.

In determining the independence of each Director, the Board considered the following relationships, which it determined were immaterial to the Directors' independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have, during the last three years, purchased products and services from companies at which some of our Directors or their immediate family members were officers or employees during 2010. In each case, the amount paid to or received from these companies in each of the last three years did not approach the 2% of total revenue threshold in the Guidelines. The Board also considered employment relationships with immediate family members of Directors that involved compensation of less than the threshold of \$120,000 in the Company's Guidelines. The Board determined that none of the relationships it considered impaired the independence of the Directors.

CHAIRMAN OF THE BOARD

William E. Aubrey II is the Company's Chairman of the Board. The Chairman of the Board organizes Board activities to enable the Board to effectively provide oversight of management. To fulfill that role, the Chairman, among other things, creates and maintains an effective working relationship with the Chief Executive Officer and other members of management and with the other members of the Board, provides the Chief Executive Officer ongoing direction as to Board needs, interests and opinions, and assures that the Board agenda is appropriately directed to the matters of

greatest importance to the Company. In carrying out his responsibilities, the Chairman preserves the distinction between management and oversight, maintaining the responsibility of management to develop corporate strategy and the responsibility of the Board to review and express its views on corporate strategy. The functions of the Chairman include:

- Presiding over all meetings of the Board of Directors and shareholders, including regular executive sessions of non-management Directors of the Board;

- Establishing the annual agenda of the Board and agendas of each meeting in consultation with the Chief Executive Officer;
- Advising Committee Chairs, in consultation with the Chief Executive Officer, on meeting schedules, agendas and information needs for the Board committees;
- Defining the subject matter, quality, quantity and timeliness of the flow of information between management and the Board and overseeing the distribution of that information;
- Coordinating periodic reviews of management's strategic plan for the Company;
- Leading the Board review of the succession plan for the Chief Executive Officer and other key members of senior management;
- Coordinating the annual performance review of the Chief Executive Officer;
- Consulting with Committee Chairs about the retention of advisors and experts;
- Acting as the principal liaison between the independent Directors and the Chief Executive Officer on sensitive issues;
- Working with the Governance and Nominating Committee to develop and maintain the agreed-on definitions of the role of the Board and the organization processes and governance guidelines necessary to carry it out;
- After consulting with other Board members and the Chief Executive Officer, making recommendations to the Governance and Nominating Committee as to the membership of various Board Committees and Committee Chairs;
- Working with management on effective communication with shareholders, including being available for consultation and direct communication upon the reasonable request of major shareholders;
- Encouraging active participation by each member of the Board; and
- Performing such other duties and services as the Board may require.

The Company's Corporate Governance Guidelines specify that the Chairman of the Board will be an independent Director unless the Board determines that the best interests of the shareholders would be otherwise better served, in which case the Board will disclose in the Company's Proxy Statement the reasons for a different arrangement and appoint an independent director as Lead Director with duties and responsibilities requiring independence.

THE BOARD'S ROLE IN ENTERPRISE RISK OVERSIGHT

The Board of Directors has delegated responsibility for overseeing risk management for the Company to the Audit Committee. On a quarterly basis, the Company's Chief Risk Officer and the Company's Independent Auditors provide a comprehensive report to the Audit Committee. While the Audit Committee has primary responsibility for overseeing

risk management, our entire Board of Directors is actively involved in overseeing risk management for the Company. The full Board also engages in periodic discussions with the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer and other company officers as the Board may deem appropriate related to risk management. In addition, each Board Committee has been assigned oversight responsibility for specific areas of risk and risk management. The committees consider risks within their areas of responsibility, for instance the Compensation Committee considers risks that may result from changes in compensation programs, and our Loan & ALCO Committees focus on risk related to credit and interest rates, among others.

COMMITTEES OF THE BOARD OF DIRECTORS

The Company's Board of Directors met five times during 2010 and the Bank's Board of Directors met 13 times during 2010.

Committees are concurrent committees of Peoples Financial Services Corp. and Peoples Neighborhood Bank.

The Executive Committee did not meet in 2010. This committee consists of the Board Chairman, if any, the Vice Chairman, if any, and the President plus not less than one, but no more than three other Directors. The Executive Committee meets on an as-necessary basis and may exercise the authority of the Board to the extent permitted by law during intervals between meetings of the Board. This committee may also be assigned other duties by the Bank's Board.

The Compensation Committee met one time during 2010. This committee consists of three independent Board members. It reviews and recommends compensation policies and plans. The Compensation Committee Charter is posted on our website at www.peoplesnatbank.com/investors.

The Audit/Compliance Committee met four times during 2010. This committee supervises the compliance and internal audit program of the Bank and recommends the appointment of, and serves as the principal liaison between, the Board and the Company's independent accountants. It also reports to the Board on the general financial condition of the Bank. During the year, the Board examined the composition of the Audit Committee and confirmed that the members are "independent" as defined in the NASDAQ listing standards. Director Earle Wootton was determined to qualify, and agreed to serve, as the Audit Committee's "financial expert" as defined by SEC regulations for 2010. The Audit Committee Charter is posted on our website at www.peoplesnatbank.com/investors.

The Nominating and Governance Committee met one time during 2010. This committee is comprised of three members of the Board. It identifies individuals qualified to become Board members, consistent with criteria approved by the Board, oversees the organization of the Board to discharge the Board's duties and responsibilities properly and effectively, and ensures that proper attention is given, and effective responses are made to shareowner concerns regarding corporate governance. The members of this committee are "independent directors" as defined in the NASDAQ listing standards. The Nominating Committee Charter is posted on our website at www.peoplesnatbank.com/investors.

The Asset/Liability Committee met 12 times in 2010. The primary objectives of the Asset/Liability management process include: optimize earnings and return on assets and equity within acceptable and controllable levels; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain policy and procedures that are consistent with the short- and long-term strategic goals of the Board of Directors. To this end, the Asset/Liability Committee is responsible for risk management within the following key areas: interest rate; price; liquidity; investment/credit; and budget. The committee meets monthly and consists of the Board of Directors and Key Bank Officers.

The Human Resources and Marketing Committee met four times during 2010. This committee is responsible for sound human resources management and training e.g., in employment, compensation, and performance appraisals. This committee is also responsible for evaluation, planning and supervision of the marketing and advertising of the Bank's products and services, and also oversees community involvement and other public relations activities. The Human Resources and Marketing Committee meets on a quarterly basis with the Board of Directors and Key Bank Officers.

The Loan Administration Committee met four times during 2010. This committee assists the Bank's Board of Directors in discharging its responsibility for the lending activities of the Bank by reviewing loans, lines of credits, floor plans, customers' financial statements, and by monitoring loan review and compliance. The Loan Administration Committee recommends lending authorizations and is responsible for assuring that the Bank's loan activities are carried out in accordance with loan policies. This committee is also responsible for insuring the adequacy of the Bank's loan loss reserve. The Loan Administration Committee meets with the Chief Credit Officer and other Executive Officers on a quarterly basis.

The Branch Office Committees each met 7 times during 2010. These committees consist of the Directors assigned to or representing a particular community office. These committees meet with the Branch Manager, Executive Officers and Associate Directors of that office to discuss the progress and/or problems of the particular office they represent. The Committee may make recommendations on unlimited matters concerning that office for consideration at the monthly Board of Director's Meeting.

COMPENSATION OF DIRECTORS

Each member of the Board of Directors receives \$500 for each Bank Board meeting. All members receive \$200 for each committee meeting they attend and \$300 for each branch meeting they attend, with the exception of the CEO. All Directors receive a retainer of \$14,000 per year, with the exception of the CEO. The Chairman receives an additional \$800 per month. The Audit Committee Chairman receives an additional \$250 per audit committee meeting.

DIRECTORS' STOCK OPTIONS

No stock options were granted to the Directors in 2010.

DIRECTORS' RETIREMENT

The Company provides a retirement benefit to its non-employee Directors. The plan requires a minimum of ten years of service. After the tenth year, the Director is granted an annual retirement distribution of \$150 times the Director's number of years of service on the Board. This benefit is payable to the Director or beneficiary for a ten-year period following retirement. The Company has a mandatory retirement age of 70. During 2010, the Company charged \$8,250 to expenses for this benefit.

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation		All Other Compensation (1)	Total
					Earnings			
William E. Aubrey II	\$ 36,000	0	0	0	0	0	0	\$ 36,000
Alan W. Dakey	\$ 6,000							