Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

March 31		Three Months Ended 2020		2019
Interest income:				
Interest and fees on loans:				
Taxable	$	20,917	$	20,103
Tax-exempt		1,031		1,099
Interest and dividends on investment securities:				
Taxable		1,548		1,010
Tax-exempt		299		562
Dividends		23		19
Interest on interest-bearing deposits in other banks		24		8
Total interest income		23,842		22,801
Interest expense:				
Interest on deposits		3,503		3,411
Interest on short-term borrowings		573		813
Interest on long-term debt		205		280
Total interest expense		4,281		4,504
Net interest income		19,561		18,297
Provision for loan losses		3,500		1,050
Net interest income after provision for loan losses		16,061		17,247
Noninterest income:				
Service charges, fees and commissions		2,075		1,999
Merchant services income		114		198
Commissions and fees on fiduciary activities		506		507
Wealth management income		387		377
Mortgage banking income		137		148
Bank owned life insurance income		187		186
Net gains on investment securities		144		1
Total noninterest income		3,550		3,416
Noninterest expense:				
Salaries and employee benefits expense		7,856		7,595
Net occupancy and equipment expense		3,079		2,961
Amortization of intagible assets		154		192
Professional fees and outside services		365		331
FDIC insurance and assessments		74		259
Donations		338		332
Other expenses		1,785		1,820
Total noninterest expense		13,651		13,490
Income before income taxes		5,960		7,173
Income tax expense		679		761
Net income		5,281		6,412
Other comprehensive income (loss):				
Unrealized gain on investment securities available-for-sale		7,629		2,439
Reclassification adjustment for net gains on sales included in net income		(267)		
Change in derivative fair value		1,036		63
Income tax expense (benefit) related to other comprehensive income		1,765		526
Other comprehensive income (loss), net of income taxes		6,633		1,976
Comprehensive income	$	11,914	$	8,388
Per share data:				
Net income	$	0.72	$	0.87
Cash dividends declared	$	0.36	$	0.34
Average common shares outstanding		7,379,438		7,399,054

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

		March 31, 2020		December 31, 2019
Assets:				
Cash and due from banks	$	22,181	$	26,943
Interest-bearing deposits in other banks		13,146		4,210
Investment securities:				
Available-for-sale		302,884		330,478
Equity investments carried at fair value		299		423
Held-to-maturity: Fair value March 31, 2020, $7,687; December 31, 2019, $7,889		7,520		7,656
Total investment securities		310,703		338,557
Loans, net		2,023,155		1,938,240
Less: allowance for loan losses		25,686		22,677
Net loans		1,997,469		1,915,563
Loans held for sale		270		986
Premises and equipment, net		48,619		47,932
Accrued interest receivable		7,283		6,981
Goodwill		63,370		63,370
Intangible assets		1,411		1,565
Other assets		79,320		69,220
Total assets	$	2,543,772	$	2,475,327
Liabilities:				
Deposits:				
Noninterest-bearing	$	467,315	$	463,238
Interest-bearing		1,542,680		1,508,251
Total deposits		2,009,995		1,971,489
Short-term borrowings		164,150		152,150
Long-term debt		32,250		32,733
Accrued interest payable		1,336		1,277
Other liabilities		29,978		18,668
Total liabilities		2,327,709		2,176,317
Stockholders' equity:				
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,343,240 shares at March 31, 2020 and 7,388,480 December 31, 2019		14,670		14,777
Capital surplus		133,159		135,251
Retained earnings		154,806		152,187
Accumulated other comprehensive loss		3,428		(3,205)
Total stockholders' equity		306,063		299,010
Total liabilities and stockholders' equity	$	2,543,772	$	2,475,327

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

1. Basis Of Presentation

The accompanying unaudited consolidated financial statements of Peoples Financial Services Corp. and subsidiaries (collectively, the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), Regulation S-X and reporting practices applied in the banking industry. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the 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 with the current year’s presentation. These reclassifications did not have any effect on the operating results or financial position of the Company. The operating results and financial position of the Company at and for the quarter ended March 31, 2020, are not necessarily indicative of the results of operations and financial position that may be expected in the future.

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reported periods. 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.

Consolidated Financial Highlights

(Dollars in thousands, except per share data)

Three Months Ended March 31	2020	2019	Change $	Change %
Financial Position:				
Assets	$ 2,543,772	$ 2,317,944	$ 225,828	9.74 %
Investment securities	310,703	278,838	31,865	11.43
Loans, net	2,023,155	1,849,602	173,553	9.38
Deposits	2,009,995	1,868,230	141,765	7.59
Stockholders' equity	306,063	284,569	21,494	7.55
Earning assets	2,347,004	2,130,128	216,876	10.18
Interest-bearing liabilities	$ 1,739,080	$ 1,581,846	$ 157,234	9.94 %
Financial Performance:				
Net interest income	$ 19,561	$ 18,297	$ 1,264	6.91 %
Provision for loan losses	3,500	1,050	2,450	233.33
Noninterest income	3,550	3,416	134	3.92
Noninterest expense	13,651	13,490	161	1.19
Income tax expense	679	761	(82)	(10.78)
Net income	5,281	6,412	(1,131)	(17.64)
Comprehensive income	$ 11,914	$ 8,388	$ 3,525	42.02 %
Financial Ratios:				
Net income as a percentage of average total assets	0.86 %	1.13 %		
Net income as a percentage of average stockholders' equity	7.05	9.26		
Stockholders' equity as a percentage of total assets	12.03	12.28		
Net interest income as a percentage of average earning assets	3.50	3.58		
Loans, net as a percentage of deposits	100.65	99.00		
Net loans charged-off as a percentage of average loans, net	0.10 %	0.07 %		
Per Share Data:				
Net income	$ 0.72	$ 0.87		
Cash dividends declared	0.36	0.34		
Stockholders' equity	$ 41.68	$ 38.46		

Note: Tax-equivalent adjustment was calculated using the prevailing statutory rate.

Dear Fellow Shareholder:

On March 11, 2020, the World Health Organization declared a coronavirus, identified as COVID-19, a global pandemic. As the COVID-19 events unfolded throughout the first quarter of 2020, the Company implemented its pandemic plan and executed various strategies and protocols intended to protect its employees, maintain services for customers, assure the functional continuity of the Company's operating systems, controls and processes, and mitigate financial risks posed by changing market conditions. The Company imposed business travel restrictions, implemented quarantine and work from home protocols and physically separated, to the extent possible, the critical operations site workforce that are unable to work remotely. To limit the risk of virus spread, the Company implemented drive-thru only and by appointment operating protocols for its bank branch network. The Company also maintained active communications with its primary regulatory agencies and critical vendors in an effort to assure that all mission-critical activities and functions would be performed in line with regulatory expectations and the Company's service standards.

Your Company recorded net income of $5.3 million, or $0.72 per share for the three months ended March 31, 2020, compared to $6.4 million, or $0.87 per share for the comparable period in 2019. Net interest income increased $1.3 million or 6.9% for the three months ended March 31, 2020 versus the year ago period while noninterest income increased $0.1 million, or 3.9%, and noninterest expense increased $0.2 million, or 1.2% when comparing the same period last year. The provision for loan losses increased $2.4 million due to the economic uncertainty related to COVID-19.

Total assets increased $68.4 million or 11.1% annualized in 2020. For the quarter ended March 31, 2020, loans, net have increased $84.9 million or 17.6% annualized and total deposits have increased $38.5 million or 7.9% annualized. Stockholders' equity equaled $306.1 million or $41.68 per share at March 31, 2020 compared to $284.6 million or $38.46 per share at year-end 2019. Dividends declared amounted to $0.36 per share representing a dividend payout ratio of 50.0%.

On behalf of the Board of Directors, I would like to thank you for your continued interest and support and would encourage you to visit our website http://www.psbt.com which contains updated, pertinent information about your Company. In addition, please remember that management is always available and willing to discuss any questions you may have regarding your investment in Peoples Financial Services Corp. We are here to provide the financial services you depend on.

Best Regards,

Craig W. Best
President and Chief Executive Officer

Board of Directors

William E. Aubrey II
Chairman
Craig W. Best
President | CEO
Sandra L. Bodnyk
James G. Keisling
Ronald G. Kukuchka
Richard S. Lochen, Jr.
Robert W. Naismith, Ph.D.
James B. Nicholas
George H. Stover, Jr.
Steven L. Weinberger
Joseph T. Wright, Jr., Esq.

Offices

Abington	(570) 587-4898	King of Prussia	(610) 205-1880
Airport Road	(610) 691-1202	Kingston	(570) 288-0128
Binghamton West Side	(607) 729-3832	Meshoppen	(570) 833-5171
Central City Scranton	(570) 346-7741	Minooka	(570) 955-1883
Central PA Business Center	(717) 279-2200	Montrose	(570) 278-4100
		Moscow	(570) 842-7626
Conklin	(607) 722-2114	Mount Pocono	(570) 839-8732
Doylestown	(215) 348-8207	Nicholson	(570) 942-2265
Duryea	(570) 457-1120	Old Forge	(570) 451-7200
East Scranton	(570) 342-9101	Peckville	(570) 383-2154
Emrick Blvd	(610) 317-4690	South Scranton	(570) 343-1151
Glenburn	(570) 585-5130	Susquehanna	(570) 853-4901
Gouldsboro	(570) 842-6473	Tilghman Street	(610) 398-9680
Green Ridge	(570) 346-4695	Tunkhannock	(570) 836-2135
Hallstead	(570) 879-2195	Wealth Management	(866) 334-6979
Hop Bottom	(570) 289-4124		

Common Stock Information

	High	Low	Dividends Declared
First Quarter, 2020	$50.10	$35.60	$0.36
Fourth Quarter, 2019	53.43	44.46	0.35
Third Quarter, 2019	48.38	42.90	0.34
Second Quarter, 2019	$45.41	$42.00	$0.34

Market Makers

Boenning & Scattergood, Inc.	(610) 862-5368
Griffin Financial Group, LLC	(757) 955-8444
Keefe, Bruyette & Woods	(212) 887-8996
Piper Sandler	(800) 635-6851

The common stock of Peoples Financial Services Corp. is quoted on the NASDAQ under the symbol PFIS. Stockholders, analysts, portfolio managers and others seeking financial information should contact John R. Anderson III, Executive Vice President, Chief Financial Officer at (570) 346-7741 extension 2317.

Dividend Reinvestment

American Stock Transfer and Trust Company administers a Dividend Reinvestment Plan whereby stockholders may increase their investment in additional shares of common stock. Contact American Stock Transfer and Trust Company, Dividend Reinvestment Department, 6201 15th Avenue, Brooklyn, NY 11219 at (800) 937-5449, for additional information.

Dividend Direct Deposit

Peoples Financial Services Corp. stockholders not participating in full Dividend Reinvestment Plan may opt to have their dividends deposited directly into their bank account by contacting American Stock Transfer and Trust Company at (800) 937-5449.

World Wide Web Information

The Company files reports, proxy and information statements and other information electronically with the Securities and Exchange Commission ("SEC") through the Electronic Data Gathering Analysis and Retrieval filing system. Stockholders and other interested parties may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm EST. Information on the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The SEC's website address is http://www.sec.gov. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with the SEC may be obtained without charge by writing to Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, PA 18503 Attn: Marie L. Luciani, Investor Relations Officer at (570) 346-7741 x2352 or through our website at http://www.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

March 31, 2020