Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except share and per share data)

September 30	Three Months Ended 2020	Three Months Ended 2019	Nine Months Ended 2020	Nine Months Ended 2019
Interest income:				
Interest and fees on loans:				
Taxable	$ 20,901	$ 20,940	$ 62,978	$ 61,684
Tax-exempt	876	1,066	2,848	3,274
Interest and dividends on investment securities:				
Taxable	1,250	1,092	4,223	3,127
Tax-exempt	280	411	874	1,493
Dividends	23	19	71	60
Interest on interest-bearing deposits in other banks	4	27	27	50
Interest on federal funds sold	12	77	19	77
Total interest income	23,346	23,632	71,040	69,765
Interest expense:				
Interest on deposits	2,758	3,966	9,125	11,090
Interest on short-term borrowings	82	83	757	1,491
Interest on long-term debt	139	347	575	923
Interest on subordinated debt	443		591	
Total interest expense	3,422	4,396	11,048	13,504
Net interest income	19,924	19,236	59,992	56,261
Provision for loan losses	1,050	700	6,350	2,100
Net interest income after provision for loan losses	18,874	18,536	53,642	54,161
Noninterest income:				
Service charges, fees and commissions	1,584	1,806	4,622	5,505
Merchant services income	137	182	723	837
Commissions and fees on fiduciary activities	575	569	1,574	1,568
Wealth management income	272	395	890	1,142
Mortgage banking income	488	172	937	457
Bank owned life insurance income	192	189	572	567
Interest rate swap revenue	1,228	355	1,947	1,145
Net gains (losses) on investment securities	2	14	(82)	6
Net gain on sale of investment securities available-for-sale	457		724	23
Total noninterest income	4,935	3,682	11,907	11,250
Noninterest expense:				
Salaries and employee benefits expense	7,831	8,056	22,735	23,688
Net occupancy and equipment expense	3,131	2,997	9,252	8,807
Amortization of intangible assets	154	183	462	557
Professional fees and outside services	617	487	1,593	1,343
FDIC insurance and assessments	241	68	651	615
Donations	340	386	1,019	1,077
Other expenses	1,660	1,902	5,155	5,911
Total noninterest expense	13,974	14,079	40,867	41,998
Income before income taxes	9,835	8,139	24,682	23,413
Income tax expense	1,523	991	3,513	2,709
Net income	8,312	7,148	21,169	20,704
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available-for-sale	(639)	161	9,084	5,211
Reclassification adjustment for gains included in net income	(457)		(724)	(23)
Change in derivative fair value	(137)	153	356	659
Income tax expense (benefit) related to other comprehensive income (loss)	(259)	66	1,831	1,228
Other comprehensive income (loss), net of income taxes	(974)	248	6,885	4,619
Comprehensive income	$ 7,338	$ 7,396	$ 28,054	$ 25,323
Per share data:				
Net income:				
Basic	$ 1.14	$ 0.97	$ 2.89	$ 2.80
Diluted	$ 1.14	$ 0.96	$ 2.87	$ 2.79
Average common shares outstanding:				
Basic	7,277,189	7,394,992	7,332,539	7,397,768
Diluted	7,312,253	7,417,403	7,364,693	7,412,865
Dividends declared	$ 0.36	$ 0.34	$ 1.08	$ 1.02

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2020	December 31, 2019
Assets:		
Cash and due from banks	$ 42,940	$ 26,943
Interest-bearing deposits in other banks	20,972	4,210
Federal funds sold	102,300	
Investment securities:		
Available-for-sale	247,404	330,478
Equity investments carried at fair value	341	423
Held-to-maturity: Fair value September 30, 2020, $7,611; December 31, 2019, $7,889	7,297	7,656
Total investments	255,042	338,557
Loans held for sale	2,161	986
Loans, net	2,188,463	1,938,240
Less: allowance for loan losses	26,584	22,677
Net loans	2,161,879	1,915,563
Premises and equipment, net	47,926	47,932
Accrued interest receivable	8,595	6,981
Goodwill	63,370	63,370
Intangible assets	1,104	1,565
Other assets	99,373	69,220
Total assets	$ 2,805,662	$ 2,475,327
Liabilities:		
Deposits:		
Noninterest-bearing	$ 579,196	$ 463,238
Interest-bearing	1,777,688	1,508,251
Total deposits	2,356,884	1,971,489
Short-term borrowings	50,000	152,150
Long-term debt	20,269	32,733
Subordinated debt	33,000	
Accrued interest payable	1,289	1,277
Other liabilities	30,597	18,668
Total liabilities	2,492,039	2,176,317
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,242,326 shares at September 30, 2020 and 7,388,480 shares at December 31, 2019	14,468	14,777
Capital surplus	130,038	135,251
Retained earnings	165,437	152,187
Accumulated other comprehensive income (loss)	3,680	(3,205)
Total stockholders' equity	313,623	299,010
Total liabilities and stockholders' equity	$ 2,805,662	$ 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 September 30, 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)

Nine months ended September 30,	2020	2019	Change $	Change %
Financial Position:				
Assets	$ 2,805,662	$ 2,372,699	$ 432,963	18.25 %
Investment securities	255,042	276,928	(21,886)	(7.90)
Loans, net	2,188,463	1,881,090	307,373	16.34
Deposits	2,356,884	2,001,285	355,599	17.77
Stockholders' equity	313,623	296,167	17,456	5.89
Earning assets	2,566,777	2,173,393	393,384	18.10
Interest-bearing liabilities	$ 1,880,957	$ 1,613,212	$ 267,745	16.60 %
Financial Performance:				
Net interest income	$ 59,992	$ 56,261	$ 3,731	6.63 %
Provision for loan losses	6,350	2,100	4,250	202.38
Noninterest income	11,907	11,250	657	5.84
Noninterest expense	40,867	41,998	(1,131)	(2.69)
Income tax expense	3,513	2,709	804	29.68
Net income	21,169	20,704	465	2.25
Comprehensive income	$ 28,054	$ 25,323	$ 2,731	10.78 %
Financial Ratios:				
Net income as a percentage of average total assets	1.07 %	1.19 %		
Net income as a percentage of average stockholders' equity	9.20	9.63		
Stockholders' equity as a percentage of total assets	11.18	12.48		
Net interest income as a percentage of average earning assets	3.35	3.60		
Loans, net as a percentage of deposits	92.85	93.99		
Net loans charged-off as a percentage of average loans, net	0.16 %	0.08 %		
Per Share Data:				
Net income	$ 2.89	$ 2.80		
Cash dividends declared	1.08	1.02		
Stockholders' equity	$ 43.30	$ 40.08		

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

Dear Fellow Shareholder:

As the COVID-19 events continue to fold in 2020, our priority remains maintaining the safety and well-being of our employees, customers and their families. We continue the implementation of our pandemic plan and execution of various strategies and protocols intended to protect our employees, maintain services for our customers, assure the functional continuity of our operating systems, controls and processes, and mitigate financial risks posed by changing market conditions. We continue to impose business travel restrictions, implement quarantine and work from home protocols and physically separate, to the extent possible, the critical operations site workforce that are unable to work remotely. To limit the risk of virus spread, drive-thru only and by appointment operating protocols for our branch network are implemented and updated when necessary. We follow the recommendations of our state and local governments as to conducting business and maintaining safety protocols.

During this very challenging environment, your Company recorded net income of $21.2 million, or $2.87 per diluted share for the nine months ended September 30, 2020, compared to $20.7 million, or $2.79 per diluted share for the comparable period in 2019. The increase in earnings was the result of an increase in our pre-provision net interest income of $3.7 million, or 6.6%, the result of lower funding costs of $2.5 million and higher average earning assets of $294.1 million, an increase of $0.7 million from gains realized on the sale of debt securities, and lower noninterest expenses of $1.1 million. Partially offsetting the increase was a higher provision for loan losses of $4.3 million, primarily due to changes in several qualitative factors included in our allowance for loan losses methodology during the first half of 2020 relating to the impact of COVID-19.

Total assets increased $330.3 million or 13.3% in 2020. For the nine months ended September 30, 2020, total loans have increased $250.2 million or 12.9% primarily due to our participation in the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), Paycheck Protection Program ("PPP"), a low-interest loan program administered by the U.S. Small Business Administration. Our loan officers assisted our commercial customers through the application process and, most recently, the forgiveness process, and through September 30, 2020 we had originated and approved PPP loans totaling $217.5 million. The PPP loans were substantially all made to our small business customers who have been impacted by COVID-19. Total deposits increased $385.4 million or 19.5% due to organic growth of customer relationships throughout all our markets, higher customer savings rates, seasonal inflows of public fund deposits and PPP loan proceeds retained coupled with additional deposits by our commercial borrowers. Stockholders' equity equaled $313.6 million or $43.30 per share at September 30, 2020 compared to $299.0 million or $40.47 per share at year-end 2019. Dividends declared amounted to $1.08 per share representing a dividend payout ratio of 37.6%.

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 https://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
Chief Executive Officer

Board of Directors

Offices

Abington	(570) 587-4898	Hop Bottom	(570) 289-4124
Airport Road	(610) 691-1202	King of Prussia	(610) 205-1880
Binghamton/ West Side	(607) 729-3832	Kingston	(570) 288-0128
Central City Scranton	(570) 346-7741	Meshoppen	(570) 833-5171
Central PA Business Center	(717) 279-2200	Minooka	(570) 955-1883
Conklin	(607) 722-2114	Montrose	(570) 278-4100
Doylestown	(215) 348-8207	Moscow	(570) 842-7626
East Scranton	(570) 342-9101	Mount Pocono	(570) 839-8732
Emrick Boulevard	(610) 317-4690	Nicholson	(570) 942-2265
Glenburn	(570) 585-5130	Old Forge	(570) 457-8345
Green Ridge	(570) 346-4695	Peckville	(570) 383-2154
Hallstead	(570) 879-2195	Susquehanna	(570) 853-4901
		Tilghman Street	(610) 398-9680
		Tunkhannock	(570) 836-2135

Common Stock Information

	High	Low	Dividends Declared
Third Quarter, 2020	$39.38	$32.51	$0.36
Second Quarter, 2020	39.40	30.24	0.36
First Quarter, 2020	50.10	35.60	0.36
Fourth Quarter, 2019	$53.43	$44.46	$0.35

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. trades 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 x2317.

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 the 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 https://www.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

September 30, 2020