Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
September 30	2021	2020	2021	2020
Interest income:				
Interest and fees on loans:				
Taxable	$ 21,276	$ 20,901	$ 62,205	$ 62,978
Tax-exempt	1,024	876	2,859	2,848
Interest and dividends on investment securities:				
Taxable	1,285	1,250	3,804	4,223
Tax-exempt	432	280	1,233	874
Dividends	24	23	72	71
Interest on interest-bearing deposits in other banks	2	4	6	27
Interest on federal funds sold	124	12	228	19
Total interest income	24,167	23,346	70,407	71,040
Interest expense:				
Interest on deposits	1,698	2,758	5,731	9,125
Interest on short-term borrowings	1	82	78	757
Interest on long-term debt	40	139	225	575
Interest on subordinated debt	443	443	1,330	591
Total interest expense	2,182	3,422	7,364	11,048
Net interest income	21,985	19,924	63,043	59,992
Provision for loan losses	400	1,050		6,350
Net interest income after provision for loan losses	21,585	18,874	63,043	53,642
Noninterest income:				
Service charges, fees and commissions	1,667	1,584	4,476	4,622
Merchant services income	158	137	759	723
Commissions and fees on fiduciary activities	639	575	1,725	1,574
Wealth management income	432	272	1,207	890
Mortgage banking income	244	488	764	937
Life insurance investment income	225	192	669	572
Interest rate swap revenue	79	1,228	744	1,947
Net gains (losses) on equity investment securities	5	2	9	(82)
Net gain on sale of investment securities available-for-sale		457		724
Total noninterest income	3,449	4,935	10,353	11,907
Noninterest expense:				
Salaries and employee benefits expense	7,829	7,831	21,649	22,735
Net occupancy and equipment expense	3,150	3,131	9,464	9,252
Amortization of intangible assets	125	154	375	462
Professional fees and outside services	629	617	1,645	1,593
FDIC insurance and assessments	305	241	836	651
Donations	366	340	1,084	1,019
Other expenses	1,887	1,660	5,395	5,155
Total noninterest expense	14,291	13,974	40,448	40,867
Income before income taxes	10,743	9,835	32,948	24,682
Income tax expense	1,647	1,523	5,843	3,513
Net income	9,096	8,312	27,105	21,169
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available-for-sale	(3,130)	(639)	(8,409)	9,084
Reclassification adjustment for gains included in net income		(457)		(724)
Change in derivative fair value	(128)	(137)	(22)	356
Income tax expense (benefit)	(684)	(259)	(1,771)	1,831
Other comprehensive income (loss), net of income taxes	(2,574)	(974)	(6,660)	6,885
Comprehensive income	$ 6,522	$ 7,338	$ 20,445	$ 28,054
Per share data:				
Net Income, Basic	$ 1.26	$ 1.14	$ 3.76	$ 2.89
Net Income, Diluted	$ 1.26	$ 1.14	$ 3.74	$ 2.87
Cash dividends declared	$ 0.38	$ 0.36	$ 1.12	$ 1.08
Average common shares outstanding, Basic	7,198,125	7,277,189	7,204,399	7,332,539
Average common shares outstanding, Diluted	7,233,189	7,312,253	7,239,463	7,364,693

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2021	December 31, 2020
Assets:		
Cash and due from banks	$ 33,662	$ 29,287
Interest-bearing deposits in other banks	7,425	15,905
Federal funds sold	319,500	183,000
Investment securities:		
Available-for-sale	461,372	295,911
Equity investments carried at fair value	147	138
Held-to-maturity: Fair value September 30, 2021, $32,556; December 31, 2020, $7,513	32,848	7,225
Total investments	494,367	303,274
Loans held for sale	997	837
Loans, net	2,205,661	2,177,982
Less: allowance for loan losses	26,693	27,344
Net loans	2,178,968	2,150,638
Premises and equipment, net	50,682	47,045
Accrued interest receivable	8,280	8,255
Goodwill	63,370	63,370
Intangible assets	584	960
Bank owned life insurance	42,734	42,316
Other assets	32,956	38,915
Total assets	$ 3,233,525	$ 2,883,802
Liabilities:		
Deposits:		
Noninterest-bearing	$ 712,601	$ 622,475
Interest-bearing	2,128,318	1,814,638
Total deposits	2,840,919	2,437,113
Short-term borrowings		50,000
Long-term debt	3,235	14,769
Subordinated debt	33,000	33,000
Accrued interest payable	872	736
Other liabilities	27,767	31,307
Total liabilities	2,905,793	2,566,925
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,177,028 shares at September 30, 2021 and 7,215,202 shares at December 31, 2020	14,356	14,431
Capital surplus	127,826	129,274
Retained earnings	190,061	171,023
Accumulated other comprehensive loss (income)	(4,511)	2,149
Total stockholders' equity	327,732	316,877
Total liabilities and stockholders' equity	$ 3,233,525	$ 2,883,802

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 three and nine months ended September 30, 2021, 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,	2021	2020	Change $	Change %
Financial Position:				
Assets	$ 3,233,525	$ 2,805,662	$ 427,863	15.25 %
Investment securities	494,367	255,042	239,325	93.84
Loans, net	2,205,661	2,188,463	17,198	0.79
Deposits	2,840,919	2,356,884	484,035	20.54
Stockholders' equity	327,732	313,623	14,109	4.50
Earning assets	3,026,953	2,566,777	460,176	17.93
Interest-bearing liabilities	$ 2,164,553	$ 1,880,957	$ 283,596	15.08 %
Financial Performance:				
Net interest income	$ 63,043	$ 59,992	$ 3,051	5.09 %
Provision for loan losses		6,350	(6,350)	(100.00)
Noninterest income	10,353	11,907	(1,554)	(13.05)
Noninterest expense	40,448	40,867	(419)	(1.03)
Income tax expense	5,843	3,513	2,330	66.33
Net income	27,105	21,169	5,936	28.04
Comprehensive income	$ 20,445	$ 28,054	$ (7,609)	(27.12) %
Financial Ratios:				
Net income as a percentage of average total assets	1.21 %	1.07 %		
Net income as a percentage of average stockholders' equity	11.24	9.20		
Stockholders' equity as a percentage of total assets	10.14	11.18		
Net interest income as a percentage of average earning assets	3.06	3.35		
Loans, net as a percentage of deposits	77.64	92.85		
Net loans charged-off as a percentage of average loans, net	0.04 %	0.16 %		
Per Share Data:				
Net income, basic	$ 3.76	$ 2.89		
Net income, diluted	3.74	2.87		
Cash dividends declared	1.12	1.08		
Stockholders' equity	$ 45.66	$ 43.30		

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

Dear Fellow Shareholder:

For the first nine months of 2021, your Company reported record earnings of $27.1 million, or $3.74 per diluted share, a 30.3% increase when compared to $21.2 million, or $2.87 per diluted share for the comparable period in 2020. The increase in earnings in the 2021 nine month period is the product of a decrease to our provision for loan losses of $6.3 million due to strong asset quality, an increase to pre-provision net interest income of $3.1 million and a decrease to noninterest expense of $0.4 million. Partially offsetting the increase was a higher income tax provision of $2.3 million and lower noninterest income of $1.6 million.

Total assets increased $349.7 million or 16.2% annualized during the first nine months of 2021 and ended at $3.2 billion. For the first nine month of 2021, loans increased $27.7 million or 1.7% annualized. During 2021, our lending professionals originated $121.6 million of new loans under the second round of the Small Business Administration ("SBA") Paycheck Protection Program to support our small business customers still impacted by COVID-19, and assisted our small business customers to secure $227.8 million of loan forgiveness from the SBA under rounds one and two of the program. Total deposits increased $403.8 million or 22.2% annualized, the result of strong organic growth of core deposits from new and existing relationships, inflows of municipal deposits and federal government stimulus payments. Stockholders' equity equaled $327.7 million or $45.66 per share at September 30, 2021 compared to $316.9 million or $43.92 per share at year-end 2020. Dividends declared totaled $1.12 per share, a 3.7% increase when compared to the year ago period, and represents a dividend payout ratio of 29.9%

During the third quarter of 2021, our Company applied for and received regulatory approval to establish de novo branches in Warrendale, Allegheny County, PA to serve the Greater Pittsburgh market, and in Piscataway, Middlesex County, New Jersey to serve the central New Jersey market. Additionally, we relocated our Binghamton, New York West Side office to 24 Mary Street, Binghamton to better serve our customers and provide an aesthetic addition to the local community.

As COVID-19 events unfold, our continued priority is the health and safety of our customers and employees. We continue to follow the recommendations of our state governments as to conducting business and continue to maintain safety protocols.

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

Craig W. Best
Chief Executive Officer

Board of Directors

William E. Aubrey II, Chairman
Thomas P. Tulaney, President and COO
Craig W. Best, CEO
Sandra L. Bodnyk
Richard S. Lochen, Jr.
Joseph T. Wright, Jr., Esq.
Ronald G. Kukuchka
James B. Nicholas

Offices

Abington	(570) 587-4898	King of Prussia	(610) 265-0503
Airport Road	(610) 691-1202	Kingston	(570) 288-0128
Binghamton	(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
Conklin	(607) 722-2114	Moscow	(570) 842-7626
Doylestown	(215) 348-8207	Mount Pocono	(570) 839-8732
East Scranton	(570) 342-9101	Nicholson	(570) 942-2265
Emrick Boulevard	(610) 317-4690	North Allegheny/ Pittsburgh	(724) 719-2399
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
Hop Bottom	(570) 289-4124	Tilghman Street	(610) 398-9680
		Tunkhannock	(570) 836-2135

Common Stock Information

	High	Low	Dividends Declared
Third Quarter, 2021	$ 46.92	$ 41.91	$ 0.38
Second Quarter, 2021	45.38	41.10	0.37
First Quarter, 2021	47.34	36.02	0.37
Fourth Quarter, 2020	$ 40.40	$ 34.47	$ 0.36

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 can 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 extension 2352 or through our website at https://www.psbt.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

September 30, 2021