Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

March 31,	Three Months Ended 2023	2022
Interest income:		
Interest and fees on loans:		
Taxable	$ 30,049	$ 20,853
Tax-exempt	1,389	1,161
Interest and dividends on investment securities:		
Taxable	2,124	1,972
Tax-exempt	457	510
Dividends	2	
Interest on interest-bearing deposits in other banks	14	2
Interest on federal funds sold	243	73
Total interest income	34,278	24,571
Interest expense:		
Interest on deposits	9,678	1,468
Interest on short-term borrowings	1,086	
Interest on long-term debt	27	28
Interest on subordinated debt	443	444
Total interest expense	11,234	1,940
Net interest income	23,044	22,631
Provision for credit losses	1,264	300
Net interest income after provision for credit losses	21,780	22,331
Noninterest income:		
Service charges, fees and commissions	1,965	1,692
Merchant services income	118	114
Commissions and fees on fiduciary activities	557	555
Wealth management income	398	351
Mortgage banking income	103	144
Increase in cash surrender value of life insurance	258	218
Interest rate swap revenue	223	343
Net (losses) gains on equity investment securities	(29)	4
Net gains on sale of investment securities available-for-sale	81	
Total noninterest income	3,674	3,421
Noninterest expense:		
Salaries and employee benefits expense	9,080	8,040
Net occupancy and equipment expense	4,103	3,825
Amortization of intangible assets	29	96
Net gains on sale of other real estate owned		(458)
Professional fees and outside services	619	470
FDIC insurance and assessments	501	326
Donations	397	334
Other expenses	1,757	1,656
Total noninterest expense	16,486	14,289
Income before income taxes	8,968	11,463
Income tax expense	1,389	1,833
Net income	7,579	9,630
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities available-for-sale	10,836	(32,612)
Reclassification adjustment for net gain on sales included in net income	(81)	
Change in derivative fair value	(1,970)	(493)
Income tax expense (benefit) related to other comprehensive (loss)	1,891	(6,952)
Other comprehensive income (loss), net of income tax expense (benefit)	6,894	(26,153)
Comprehensive income (loss)	$ 14,473	$ (16,523)
Per share data:		
Net income - basic	$ 1.06	$ 1.34
Net income - diluted	1.05	1.33
Cash dividends declared	$ 0.41	$ 0.39
Average common shares outstanding - basic	7,157,553	7,172,455
Average common shares outstanding - diluted	7,198,970	7,216,421

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	March 31, 2023	December 31, 2022
Assets:		
Cash and cash equivalents		
Cash and due from banks	$ 31,354	$ 37,675
Interest-bearing deposits in other banks	7,129	193
Federal funds sold	102,100	
Total cash and cash equivalents	140,583	37,868
Investment securities:		
Available-for-sale	418,125	477,703
Equity investments carried at fair value	81	110
Held-to-maturity: Fair value March 31, 2023, $77,073; December 31, 2022, $76,563	89,705	91,179
Total investments securities	507,911	568,992
Loans	2,818,043	2,730,116
Less: allowance for credit losses	25,444	27,472
Net loans	2,792,599	2,702,644
Goodwill	63,370	63,370
Premises and equipment, net	56,561	55,667
Bank owned life insurance	48,598	48,344
Deferred tax assets	16,015	18,739
Accrued interest receivable	11,678	11,715
Intangible assets, net	77	105
Other assets	41,079	46,071
Total assets	$ 3,678,471	$ 3,553,515
Liabilities:		
Deposits:		
Noninterest-bearing	$ 746,089	$ 772,765
Interest-bearing	2,489,878	2,273,833
Total deposits	3,235,967	3,046,598
Short-term borrowings	17,280	114,930
Long-term debt	25,000	555
Subordinated debentures	33,000	33,000
Accrued interest payable	2,304	903
Other liabilities	36,286	42,179
Total liabilities	3,349,837	3,238,165
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,150,757 shares at March 31, 2023 and 7,158,017 shares at December 31, 2022	14,323	14,321
Capital surplus	126,231	126,850
Retained earnings	237,522	230,515
Accumulated other comprehensive loss	(49,442)	(56,336)
Total stockholders' equity	328,634	315,350
Total liabilities and stockholders' equity	$ 3,678,471	$ 3,553,515

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 the three months ended March 31, 2023, 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,	2023	2022	Change $	Change %
Financial Position:				
Assets	$ 3,678,471	$ 3,352,801	$ 325,670	9.71 %
Investment securities	507,911	631,455	(123,544)	-19.56
Loans, net	2,818,043	2,397,681	420,362	17.53
Deposits	3,235,967	2,964,864	271,103	9.14
Stockholders' equity	328,634	320,461	8,173	2.55
Earning assets	3,435,183	3,134,776	300,407	9.58
Interest-bearing liabilities	$ 2,565,158	$ 2,240,060	$ 325,098	14.51 %
Financial Performance:				
Net interest income	$ 23,044	$ 22,631	$ 413	1.82 %
Provision for credit losses	1,264	300	964	321.33
Noninterest income	3,674	3,421	253	7.40
Noninterest expense	16,486	14,289	2,197	15.38
Income tax expense	1,389	1,833	(444)	-24.22
Net income	7,579	9,630	(2,051)	-21.30
Comprehensive income (loss)	$ 14,473	$ (16,523)	$ 30,996	187.59 %
Financial Ratios:				
Net income as a percentage of average total assets	0.86 %	1.17 %		
Net income as a percentage of average stockholders' equity	9.43	11.82		
Stockholders' equity as a percentage of total assets	8.93	9.56		
Net interest income as a percentage of average earning assets	2.81	2.97		
Loans, net as a percentage of deposits	87.09	80.87		
Net loans charged-off as a percentage of average loans, net	0.00 %	0.05 %		
Per Share Data:				
Net income, basic	$ 1.06	$ 1.34		
Net income, diluted	1.05	1.33		
Cash dividends declared	0.41	0.39		
Stockholders' equity	$ 45.96	$ 44.64		

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

Dear Fellow Shareholder:

For the first three months of 2023, your Company reported net income of $7.6 million, or $1.05 per diluted share for the period ended March 31, 2023, a 21.3% decrease when compared to $9.6 million, or $1.33 per share for the comparable period of 2022. The decrease in earnings for the three months ended March 31, 2023 was due to a higher provision for credit losses and higher operating expenses which more than offset an increase in net interest income and noninterest income.

Net interest income for the current period increased $0.4 million when compared to the three months ended March 31, 2022 on strong loan growth resulting in higher interest income partially offset by increased costs of funds. The adoption of CECL accounting standard effective January 1, 2023, resulted in a decrease to the Allowance for Credit Losses (ACL) of $3.3 million and an increase to the reserve for unfunded commitments of $0.3 million. The adoption also resulted in an increase to retained earnings of $2.3 million, net of tax. Noninterest expenses for the three months ended March 31, 2023 increased $2.2 million compared to the prior year's period due to higher salaries and benefits, other expenses, including an increase in FDIC assessments and loan account processing fees, and gains on other real estate owned in the year ago period.

Total assets increased $125.0 million or 14.3% annualized during the first three months of 2023 and ended at $3.7 billion. Loans and deposits were $2.8 billion and $3.2 billion, at March 31, 2023, respectively. Total deposits increased $189.4 million during the three months ending March 31, 2023. Investment sales, deposit growth and FHLB term borrowings were utilized to fund loan growth and repay short-term borrowings.

Our level of capital remains strong and and exceeded all well capitalized regulatory standards. Stockholders' equity equaled $328.6 million or $45.96 per share at March 31, 2023 compared to $315.4 million or $44.06 per share at year-end 2022. Dividends declared for the three months ended March 31, 2023 amounted to $0.41 per share, a 5.1% increase from the 2022 period, representing a dividend payout ratio of 39.0%.

The recent high-profile bank failures have generated significant market volatility among publicly traded bank holding companies. The remainder of 2023 will be challenging as our Company will face earnings challenges from higher interest rates. Management's focus will be to maintain strong liquidity and capital while continuing to create value for our customers, communities and shareholders.

On behalf of the Board of Directors, I would like to thank you for your continued investment 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
Chief Executive Officer

Board of Directors

William E. Aubrey II Chairman	Sandra L. Bodnyk	James B. Nicholas
Craig W. Best CEO	Ronald G. Kukuchka	Elisa Zúñiga Ramirez
	Richard S. Lochen, Jr.	Joseph T. Wright, Jr., Esq.

Offices (Pennsylvania, unless noted)

Abington	(570) 587-4898
Airport Road	(610) 691-1202
Binghamton, NY	(607) 729-3832
Central City Scranton	(570) 346-7741
Central PA Business Center	(717) 279-2200
Conklin, NY	(607) 722-2114
Doylestown	(215) 348-8207
East Scranton	(570) 342-9101
Emrick Blvd, Bethlehem	(610) 317-4690
Glenburn	(570) 585-5130
Green Ridge	(570) 346-4695
Hallstead	(570) 879-2195
Hop Bottom	(570) 289-4124
King of Prussia	(610) 265-0503
Kingston	(570) 288-0128
Meshoppen	(570) 833-5171
Minooka	(570) 955-1883
Montrose	(570) 278-4100
Moscow	(570) 842-7626
Mount Pocono	(570) 839-8732
Nicholson	(570) 942-2265
North Allegheny	(724) 719-2399
Old Forge	(570) 457-8345
Peckville	(570) 383-2154
Piscataway, NJ	(732) 699-2143
Susquehanna	(570) 853-4901
Tilghman Street	(610) 398-9680
Tunkhannock	(570) 836-2135

Common Stock Information

	High	Low	Dividends Declared
First Quarter, 2023	$ 53.48	$ 42.52	$ 0.41
Fourth Quarter, 2022	57.60	47.00	0.40
Third Quarter, 2022	56.09	46.84	0.40
Second Quarter, 2022	56.99	47.41	0.39
First Quarter, 2022	52.99	46.35	0.39

Market Makers

Janney Montgomery Scott	(215) 665-6000
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.

Online 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 http://www.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

2023

MARCH 31, 2023

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