

PEOPLES FINANCIAL SERVICES CORP.

Form 10-Q

November 08, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended September 30, 2018

or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
for the transition period from

001-36388

(Commission File Number)

PEOPLES FINANCIAL SERVICES CORP.

(Exact name of registrant as specified in its charter)

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| | |
|---|-----------------------------|
| (State of incorporation) | (IRS Employer ID Number) |
| 150 North Washington Avenue, Scranton, PA (Address of principal executive offices) | 18503 (Zip code) |

(570) 346-7741

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date: 7,399,054 at October 31, 2018.

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For the Quarter Ended September 30, 2018

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Peoples Financial Services Corp.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

| | (Unaudited) | |
|--|--------------------|-------------------|
| | September 30, 2018 | December 31, 2017 |
| Assets: | | |
| Cash and due from banks: | | |
| Cash and due from banks | \$ 40,458 | \$ 36,336 |
| Interest-bearing deposits in other banks | 137 | 1,152 |
| Total cash and due from banks | 40,595 | 37,488 |
| Investment securities: | | |
| Available-for-sale | 274,794 | 272,502 |
| Equity investments carried at fair value | 291 | 46 |
| Held-to-maturity: Fair value September 30, 2018, \$8,435; December 31, 2017, \$9,547 | 8,551 | 9,274 |
| Total investment securities | 283,636 | 281,822 |
| Loans, net | 1,779,445 | 1,693,065 |
| Less: allowance for loan losses | 20,413 | 18,960 |
| Net loans | 1,759,032 | 1,674,105 |
| Loans held for sale | 98 | 106 |
| Premises and equipment, net | 37,467 | 37,557 |
| Accrued interest receivable | 6,565 | 6,936 |
| Goodwill | 63,370 | 63,370 |
| Intangible assets, net | 2,507 | 3,178 |
| Other assets | 64,573 | 64,469 |
| Total assets | \$ 2,257,843 | \$ 2,169,031 |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 404,293 | \$ 380,729 |
| Interest-bearing | 1,423,571 | 1,338,289 |
| Total deposits | 1,827,864 | 1,719,018 |
| Short-term borrowings | 99,450 | 123,675 |
| Long-term debt | 48,461 | 49,734 |
| Accrued interest payable | 745 | 497 |
| Other liabilities | 8,352 | 11,131 |
| Total liabilities | 1,984,872 | 1,904,055 |
| Stockholders' equity: | | |
| Common stock, par value \$2.00, authorized 25,000,000 shares, issued and outstanding 7,399,054 shares at September 30, 2018 and 7,396,505 at December 31, 2017 | 14,798 | 14,793 |
| Capital surplus | 135,226 | 135,043 |

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| | | |
|--|--------------|--------------|
| Retained earnings | 132,631 | 121,353 |
| Accumulated other comprehensive loss | (9,684) | (6,213) |
| Total stockholders' equity | 272,971 | 264,976 |
| Total liabilities and stockholders' equity | \$ 2,257,843 | \$ 2,169,031 |

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

| September 30, | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income: | | | | |
| Interest and fees on loans: | | | | |
| Taxable | \$ 18,798 | \$ 16,535 | \$ 54,546 | \$ 48,021 |
| Tax-exempt | 919 | 813 | 2,660 | 2,334 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 998 | 714 | 2,790 | 2,130 |
| Tax-exempt | 639 | 716 | 2,001 | 2,262 |
| Dividends | 16 | 13 | 51 | 37 |
| Interest on interest-bearing deposits in other banks | 49 | 40 | 131 | 107 |
| Total interest income | 21,419 | 18,831 | 62,179 | 54,891 |
| Interest expense: | | | | |
| Interest on deposits | 2,342 | 1,654 | 6,135 | 4,617 |
| Interest on short-term borrowings | 809 | 177 | 2,317 | 599 |
| Interest on long-term debt | 315 | 344 | 936 | 1,041 |
| Total interest expense | 3,466 | 2,175 | 9,388 | 6,257 |
| Net interest income | 17,953 | 16,656 | 52,791 | 48,634 |
| Provision for loan losses | 1,050 | 1,200 | 3,150 | 3,600 |
| Net interest income after provision for loan losses | 16,903 | 15,456 | 49,641 | 45,034 |
| Noninterest income: | | | | |
| Service charges, fees and commissions | 1,883 | 2,156 | 5,856 | 5,410 |
| Merchant services income | 128 | 165 | 687 | 2,358 |
| Commission and fees on fiduciary activities | 570 | 540 | 1,552 | 1,542 |
| Wealth management income | 305 | 414 | 1,048 | 1,081 |
| Mortgage banking income | 163 | 193 | 472 | 576 |
| Life insurance investment income | 190 | 193 | 568 | 577 |
| Net unrealized gain on equity investment securities | 14 | | 14 | |
| Net gain on sale of credit card loans | | | 291 | |
| Net gain on sale of merchant services business | | | | 2,278 |
| Total noninterest income | 3,253 | 3,661 | 10,488 | 13,822 |
| Noninterest expense: | | | | |
| Salaries and employee benefits expense | 6,946 | 6,550 | 21,291 | 19,851 |
| Net occupancy and equipment expense | 2,681 | 2,483 | 8,215 | 7,327 |

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|---|-----------|-----------|-----------|-----------|
| Merchant services expense | 3 | 33 | 6 | 1,796 |
| Amortization of intangible assets | 220 | 259 | 670 | 785 |
| Professional fees and outside services | 431 | 472 | 1,500 | 1,757 |
| FDIC insurance and assessments | 247 | 241 | 830 | 607 |
| Donations | 355 | 323 | 1,011 | 878 |
| Other expenses | 1,654 | 2,119 | 5,591 | 5,837 |
| Total noninterest expense | 12,537 | 12,480 | 39,114 | 38,838 |
| Income before income taxes | 7,619 | 6,637 | 21,015 | 20,018 |
| Income tax expense | 902 | 1,287 | 2,487 | 4,209 |
| Net income | 6,717 | 5,350 | 18,528 | 15,809 |
| Other comprehensive (loss) income: | | | | |
| Unrealized (loss) gain on investment securities available-for-sale | (1,179) | (381) | (4,394) | 1,076 |
| Income tax (benefit) expense | (248) | (133) | (925) | 377 |
| Other comprehensive (loss) income, net of income taxes | (931) | (248) | (3,469) | 699 |
| Comprehensive income | \$ 5,786 | \$ 5,102 | \$ 15,059 | \$ 16,508 |
| Per share data: | | | | |
| Net income: | | | | |
| Basic | \$ 0.91 | \$ 0.72 | \$ 2.50 | \$ 2.14 |
| Diluted | \$ 0.91 | \$ 0.72 | \$ 2.50 | \$ 2.14 |
| Average common shares outstanding: | | | | |
| Basic | 7,399,054 | 7,396,505 | 7,397,373 | 7,395,612 |
| Diluted | 7,399,054 | 7,396,505 | 7,397,373 | 7,395,612 |
| Dividends declared | \$ 0.33 | \$ 0.32 | \$ 0.98 | \$ 0.94 |

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

| | Common | Capital | Retained | Accumulated Other Comprehensive Income (Loss) | Total |
|--|-----------|------------|------------|---|------------|
| | Stock | Surplus | Earnings | | |
| Balance, January 1, 2018 | \$ 14,793 | \$ 135,043 | \$ 121,353 | \$ (6,213) | \$ 264,976 |
| Stock based compensation | | 188 | | | 188 |
| Net income | | | 18,528 | | 18,528 |
| Other comprehensive loss, net of income taxes | | | | (3,469) | (3,469) |
| Dividends declared: \$0.98 per share | | | (7,252) | | (7,252) |
| Reclassification related to adoption of ASU 2016-01 | | | 2 | (2) | |
| Common stock grants awarded, net of unearned compensation of \$103: 2,548 shares | 5 | (5) | | | |
| Balance, September 30, 2018 | \$ 14,798 | \$ 135,226 | \$ 132,631 | \$ (9,684) | \$ 272,971 |
| Balance, January 1, 2017 | \$ 14,788 | \$ 134,871 | \$ 111,114 | \$ (4,155) | \$ 256,618 |
| Stock based compensation | | 122 | | | 122 |
| Net income | | | 15,809 | | 15,809 |
| Other comprehensive income, net of income taxes | | | | 699 | 699 |
| Dividends declared: \$0.94 per share | | | (6,952) | | (6,952) |
| Common stock grants awarded, net of unearned compensation of \$53: 2,362 shares | 5 | (5) | | | |
| Balance, September 30, 2017 | \$ 14,793 | \$ 134,988 | \$ 119,971 | \$ (3,456) | \$ 266,296 |

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

| For the Nine Months Ended September 30, | 2018 | 2017 |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 18,528 | \$ 15,809 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of premises and equipment | 1,728 | 1,401 |
| Amortization of deferred loan costs | 729 | 662 |
| Amortization of intangibles | 670 | 785 |
| Amortization of low income housing partnerships | 349 | 352 |
| Provision for loan losses | 3,150 | 3,600 |
| Net gain on sale of other real estate owned | (17) | (50) |
| Loans originated for sale | (9,931) | (16,927) |
| Proceeds from sale of loans originated for sale | 10,013 | 16,622 |
| Net gain on sale of loans originated for sale | (74) | (155) |
| Net amortization of investment securities | 1,718 | 2,130 |
| Net gain on sale of credit card loans held for sale | (291) | |
| Net gain on sale of merchant services business | | (2,278) |
| Life insurance investment income | (568) | (577) |
| Stock based compensation | 188 | 122 |
| Net change in: | | |
| Accrued interest receivable | 371 | 320 |
| Other assets | 516 | (1,780) |
| Accrued interest payable | 248 | 19 |
| Other liabilities | (2,967) | 2,665 |
| Net cash provided by operating activities | 24,360 | 22,720 |
| Cash flows from investing activities: | | |
| Proceeds from repayments of investment securities: | | |
| Available-for-sale | 24,087 | 44,489 |
| Held-to-maturity | 710 | 936 |
| Purchases of investment securities: | | |
| Available-for-sale | (32,723) | (45,254) |
| Net redemption of restricted equity securities | 735 | 710 |
| Proceeds from sale of student loan portfolio | 5,103 | |
| Proceeds from sale of credit card loan portfolio | 2,407 | |
| Net increase in lending activities | (96,916) | (101,320) |
| Purchases of premises and equipment | (1,979) | (5,514) |
| Proceeds from the sale of premises and equipment | 341 | |
| Proceeds from investment in life insurance | 304 | |
| Proceeds from the sale of merchant services business | | 2,300 |
| Proceeds from sale of other real estate owned | 582 | 487 |
| Net cash used in investing activities | (97,349) | (103,166) |

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| Cash flows from financing activities: | | |
| Net increase in deposits | 108,846 | 99,098 |
| Repayment of long-term debt | (1,273) | (7,935) |
| Net decrease in short-term borrowings | (24,225) | (10,800) |
| Cash dividends paid | (7,252) | (6,952) |
| Net cash provided by financing activities | 76,096 | 73,411 |
| Net increase (decrease) in cash and cash equivalents | 3,107 | (7,035) |
| Cash and cash equivalents at beginning of period | 37,488 | 39,941 |