

PEOPLES FINANCIAL SERVICES CORP.

Form 10-Q

November 07, 2016

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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, 2016

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

(IRS Employer

incorporation)

ID Number)

150 North Washington Avenue, Scranton, PA 18503

(Address of principal executive offices) (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files. Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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: 7,394,143 at October 31, 2016.

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FORM 10-Q

For the Quarter Ended September 30, 2016

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

	September 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	\$ 31,620	\$ 28,218
Interest-bearing deposits in other banks	294	4,699
Investment securities:		
Available-for-sale	249,913	284,935
Held-to-maturity: Fair value September 30, 2016, \$11,546; December 31, 2015, \$12,606	10,864	12,109
Total investment securities	260,777	297,044
Loans, net	1,522,391	1,340,865
Less: allowance for loan losses	15,712	12,975
Net loans	1,506,679	1,327,890
Loans held for sale	360	
Premises and equipment, net	33,049	28,157
Accrued interest receivable	5,309	5,796
Goodwill	63,370	63,370
Intangible assets	4,498	5,397
Other assets	65,283	58,487
Total assets	\$ 1,971,239	\$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 342,782	\$ 320,978
Interest-bearing	1,223,028	1,134,832
Total deposits	1,565,810	1,455,810
Short-term borrowings	75,300	38,325
Long-term debt	58,685	60,354
Accrued interest payable	434	560
Other liabilities	14,570	15,241
Total liabilities	1,714,799	1,570,290
Stockholders' equity:		
Common stock, par value \$2.00, authorized 25,000,000 shares, issued and outstanding 7,394,143 shares at September 30, 2016 and 7,410,606 shares at December 31, 2015	14,788	14,821
Capital surplus	134,853	135,371
Retained earnings	108,677	100,701
Accumulated other comprehensive loss	(1,878)	(2,125)
Total stockholders' equity	256,440	248,768
Total liabilities and stockholders' equity	\$ 1,971,239	\$ 1,819,058

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 share and per share data)

September 30,	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Interest income:				
Interest and fees on loans:				
Taxable	\$ 15,294	\$ 13,341	\$ 44,400	\$ 40,072
Tax-exempt	770	585	2,301	1,714
Interest and dividends on investment securities:				
Taxable	575	792	1,879	2,508
Tax-exempt	861	858	2,611	2,498
Dividends	10	9	31	24
Interest on interest-bearing deposits in other banks	15	13	47	39
Interest on federal funds sold				9
Total interest income	17,525	15,598	51,269	46,864
Interest expense:				
Interest on deposits	1,356	1,229	3,961	3,689
Interest on short-term borrowings	116	11	282	23
Interest on long-term debt	353	245	1,067	756
Total interest expense	1,825	1,485	5,310	4,468
Net interest income	15,700	14,113	45,959	42,396
Provision for loan losses	1,200	900	3,600	2,400
Net interest income after provision for loan losses	14,500	13,213	42,359	39,996
Noninterest income:				
Service charges, fees and commissions	1,542	1,531	4,513	4,685
Merchant services income	1,257	1,183	3,209	2,936
Commission and fees on fiduciary activities	539	541	1,495	1,487
Wealth management income	271	224	979	627
Mortgage banking income	217	197	616	667
Life insurance investment income	199	192	594	569
Net gain on sale of investment securities available-for-sale		147	623	979
Total noninterest income	4,025	4,015	12,029	11,950
Noninterest expense:				
Salaries and employee benefits expense	5,466	5,397	16,702	16,243
Net occupancy and equipment expense	2,316	2,246	6,998	6,863
Merchant services expense	890	823	2,270	2,006
Amortization of intangible assets	297	296	899	896
Other expenses	3,048	2,944	8,879	8,303
Total noninterest expense	12,017	11,706	35,748	34,311
Income before income taxes	6,508	5,522	18,640	17,635

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Income tax expense	1,390	1,113	3,785	3,751
Net income	5,118	4,409	14,855	13,884
Other comprehensive income (loss):				
Unrealized (loss) gain on investment securities available-for-sale	(1,120)	826	1,003	134
Reclassification adjustment for net gain on sales included in net income		(147)	(623)	(979)
Other comprehensive (loss) income	(1,120)	679	380	(845)
Income tax related to other comprehensive (loss) income	(392)	237	133	(296)
Other comprehensive (loss) income, net of income taxes	(728)	442	247	(549)
Comprehensive income	\$ 4,390	\$ 4,851	\$ 15,102	\$ 13,335
Per share data:				
Net income:				
Basic	\$ 0.69	\$ 0.58	\$ 2.01	\$ 1.84
Diluted	\$ 0.69	\$ 0.58	\$ 2.01	\$ 1.84
Average common shares outstanding:				
Basic	7,394,143	7,536,824	7,397,581	7,543,751
Diluted	7,394,143	7,536,824	7,397,581	7,543,751
Dividends declared	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93

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 share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2016	\$ 14,821	\$ 135,371	\$ 100,701	\$ (2,125)	\$ 248,768
Stock based compensation		53			53
Net income			14,855		14,855
Other comprehensive income, net of income taxes				247	247
Dividends declared: \$0.93 per share			(6,879)		(6,879)
Shares retired: 16,463 shares	(33)	(571)			(604)
Balance, September 30, 2016	14,788	134,853	108,677	(1,878)	256,440
Balance, January 1, 2015	15,097	140,214	92,297	(829)	246,779
Stock based compensation		52			52
Net income			13,884		13,884
Other comprehensive loss, net of income taxes				(549)	(549)
Dividends declared: \$0.93 per share			(7,016)		(7,016)
Shares retired: 24,249 shares	(59)	(1,003)			(1,062)
Balance, September 30, 2015	\$ 15,038	\$ 139,263	\$ 99,165	\$ (1,378)	\$ 252,088

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,	2016	2015
Cash flows from operating activities:		
Net income	\$ 14,855	\$ 13,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,208	1,178
Amortization of deferred loan costs	575	440
Amortization of intangibles	899	896
Amortization of loss on investment tax credits	358	484
Provision for loan losses	3,600	2,400
Net gain on sale of other real estate owned	(25)	(132)
Net loss on disposal of equipment		87
Loans originated for sale	(17,432)	(20,664)
Proceeds from sale of loans originated for sale	17,688	21,378
Net gain on sale of loans originated for sale	(616)	(667)
Net amortization of investment securities	2,826	3,171
Net gain on sale of investment securities	(623)	(979)
Life insurance investment income	(594)	(569)
Deferred income tax expense		119
Stock based compensation	53	52
Net change in:		
Accrued interest receivable	487	253
Other assets	(1,799)	(496)
Accrued interest payable	(126)	(78)
Other liabilities	(671)	(1,827)
Net cash provided by operating activities	20,663	18,930
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale	27,408	65,858
Proceeds from repayments of investment securities:		
Available-for-sale	42,277	41,659
Held-to-maturity	1,221	1,526
Purchases of investment securities:		
Available-for-sale	(36,462)	(70,768)
Net (purchase) redemption of restricted equity securities	(1,508)	343
Net increase in lending activities	(183,482)	(62,156)
Investment in low income housing investment tax credits	(2,045)	(3,050)
Purchases of premises and equipment	(6,100)	(2,848)
Proceeds from the sale of premises and equipment		14
Purchase of investment in life insurance	(1,500)	
Proceeds from sale of other real estate owned	702	484
Net cash used in investing activities	(159,489)	(28,938)

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Cash flows from financing activities:

Net increase in deposits	110,000	19,092
Repayment of long-term debt	(1,669)	(2,140)
Net increase in short-term borrowings	36,975	10,693
Retirement of common stock	(604)	(1,062)
Cash dividends paid	(6,879)	(7,016)
Net cash provided by financing activities	137,823	19,567
Net (decrease) increase in cash and cash equivalents	(1,003)	9,559
Cash and cash equivalents at beginning of year	32,917	31,426
Cash and cash equivalents at end of year	\$ 31,914	\$ 40,985

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

(Dollars in thousands, except per share data)

For the Nine Months Ended September 30,	2016	2015
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$ 5,436	\$ 5,114
Income taxes	3,900	2,900
Noncash items:		
Transfers of loans to other real estate	\$ 761	\$ 370

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Summary of significant accounting policies:

Nature of operations:

Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Security Bank and Trust Company ("Peoples Bank"), including its subsidiary, Peoples Advisors, LLC (collectively, the "Company" or "Peoples"). The Company services its retail and commercial customers through twenty-four full-service community banking offices located within the Bucks, Lackawanna, Lehigh, Luzerne, Monroe, Montgomery, Susquehanna, Wayne and Wyoming Counties of Pennsylvania and Broome County of New York.

Basis of presentation:

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. 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 to 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 for the three and nine months ended and as of September 30, 2016, are not necessarily indicative of the results of operations and financial position that may be expected in the future.

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that are particularly susceptible to material change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of deferred tax assets, determination of other-than-temporary impairment losses on securities, impairment of goodwill and fair value of

assets acquired and liabilities assumed in business combinations. 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 for the year ended December 31, 2015.

Recent accounting standards:

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance.

The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

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Peoples Financial Services Corp.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

2. Other comprehensive loss:

The components of other comprehensive loss and their related tax effects are reported in the Consolidated Statements of Income and Comprehensive Income. The accumulated other comprehensive loss included in the Consolidated Balance Sheets relates to net unrealized gains and losses on investment securities available-for-sale and benefit plan adjustments.

The components of accumulated other comprehensive loss included in stockholders' equity at September 30, 2016 and December 31, 2015 is as follows:

	September 30, 2016	December 31, 2015
Net unrealized gain on investment securities available-for-sale	\$ 4,973	\$ 4,593
Income tax	1,740	1,607
Net of income taxes	3,233	2,986
Benefit plan adjustments	(7,863)	(7,863)
Income tax	(2,752)	(2,752)
Net of income taxes	(5,111)	(5,111)
Accumulated other comprehensive loss	\$ (1,878)	\$ (2,125)

Other comprehensive income (loss) and related tax effects for the three and nine months ended September 30, 2016 and 2015 is as follows:

Three Months Ended September 30,	2016	2015
Unrealized (loss) gain on investment securities available-for-sale	\$ (1,120)	\$ 826
Net gain on the sale of investment securities available-for-sale(1)		(147)
Other comprehensive income (loss) gain before taxes	(1,120)	679
Income tax (benefit) expense	(392)	237
Other comprehensive (loss) income	\$ (728)	\$ 442

Nine Months Ended September 30,	2016	2015
Unrealized gain on investment securities available-for-sale	\$	