

PEOPLES FINANCIAL SERVICES CORP.

Form 10-Q

May 08, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2015**

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)

Pennsylvania
(State of incorporation)

23-2391852
(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 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: 7,548,358 at April 30, 2015.

Exhibit index on page 48

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PEOPLES FINANCIAL SERVICES CORP.

FORM 10-Q

For the Quarter Ended March 31, 2015

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Table of Contents**Peoples Financial Services Corp.****CONSOLIDATED BALANCE SHEETS (UNAUDITED)****(Dollars in thousands, except share data)**

| | March 31, 2015 | December 31, 2014 |
|---|---------------------------|------------------------------|
| Assets: | | |
| Cash and due from banks | \$ 24,193 | \$ 24,656 |
| Interest-bearing deposits in other banks | 6,813 | 6,770 |
| Federal funds sold | 8,625 | |
| Investment securities: | | |
| Available-for-sale | 280,300 | 339,586 |
| Held-to-maturity: Fair value March 31, 2015, \$14,729; December 31, 2014, \$15,215 | 14,172 | 14,665 |
| Total investment securities | 294,472 | 354,251 |
| Loans held for sale | 3,101 | 3,486 |
| Loans, net | 1,237,168 | 1,209,894 |
| Less: allowance for loan losses | 10,803 | 10,338 |
| Net loans | 1,226,365 | 1,199,556 |
| Premises and equipment, net | 26,117 | 25,433 |
| Accrued interest receivable | 4,922 | 5,580 |
| Goodwill | 63,370 | 63,370 |
| Intangible assets | 5,197 | 5,501 |
| Other assets | 50,786 | 53,066 |
| Total assets | \$ 1,713,961 | \$ 1,741,669 |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 305,037 | \$ 313,498 |
| Interest-bearing | 1,111,241 | 1,112,060 |
| Total deposits | 1,416,278 | 1,425,558 |
| Short-term borrowings | | 19,557 |
| Long-term debt | 32,318 | 33,140 |
| Accrued interest payable | 460 | 574 |
| Other liabilities | 15,447 | 16,061 |
| Total liabilities | 1,464,503 | 1,494,890 |
| Stockholders equity: | | |
| Common stock: par value \$2.00, authorized 25,000,000 shares; issued 7,548,358 shares | 15,097 | 15,097 |

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| | | |
|--|--------------|--------------|
| Capital surplus | 140,232 | 140,214 |
| Retained earnings | 95,000 | 92,297 |
| Accumulated other comprehensive loss | (871) | (829) |
| Total stockholders' equity | 249,458 | 246,779 |
| Total liabilities and stockholders' equity | \$ 1,713,961 | \$ 1,741,669 |

See notes to consolidated financial statements

Table of Contents**Peoples Financial Services Corp.****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)****(Dollars in thousands, except per share data)**

| For the Three Months Ended March 31, | 2015 | 2014 |
|--|---------------|---------------|
| Interest income: | | |
| Interest and fees on loans: | | |
| Taxable | \$ 13,340 | \$ 14,000 |
| Tax-exempt | 559 | 635 |
| Interest and dividends on investment securities: | | |
| Taxable | 900 | 928 |
| Tax-exempt | 805 | 829 |
| Dividends | 9 | 16 |
| Interest on interest-bearing deposits in other banks | 8 | 10 |
| Interest on federal funds sold | 7 | 14 |
| Total interest income | 15,628 | 16,432 |
| Interest expense: | | |
| Interest on deposits | 1,268 | 1,357 |
| Interest on short-term borrowings | 8 | 34 |
| Interest on long-term debt | 259 | 296 |
| Total interest expense | 1,535 | 1,687 |
| Net interest income | 14,093 | 14,745 |
| Provision for loan losses | 750 | 857 |
| Net interest income after provision for loan losses | 13,343 | 13,888 |
| Noninterest income: | | |
| Service charges, fees and commissions | 1,612 | 1,624 |
| Merchant services income | 790 | 894 |
| Commission and fees on fiduciary activities | 459 | 567 |
| Wealth management income | 205 | 187 |
| Mortgage banking income | 222 | 99 |
| Life insurance investment income | 189 | 189 |
| Net gain on sale of investment securities available-for-sale | 832 | |
| Total noninterest income | 4,309 | 3,560 |
| Noninterest expense: | | |
| Salaries and employee benefits expense | 5,233 | 5,168 |
| Net occupancy and equipment expense | 2,468 | 1,733 |

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| | | |
|---|-----------|-----------|
| Merchant services expense | 533 | 565 |
| Amortization of intangible assets | 305 | 343 |
| Acquisition related expense | | 608 |
| Other expenses | 2,555 | 2,870 |
| Total noninterest expense | 11,094 | 11,287 |
| Income before income taxes | 6,558 | 6,161 |
| Income tax expense | 1,514 | 1,463 |
| Net income | 5,044 | 4,698 |
| Other comprehensive income (loss): | | |
| Unrealized gain on investment securities available-for-sale | 767 | 2,394 |
| Reclassification adjustment for net gain on sales included in net income | (832) | |
| Other comprehensive income (loss) | (65) | 2,394 |
| Income tax expense (benefit) related to other comprehensive income (loss) | (23) | 838 |
| Other comprehensive income (loss), net of income taxes | (42) | 1,556 |
| Comprehensive income | \$ 5,002 | \$ 6,254 |
| Per share data: | | |
| Net income: | | |
| Basic | \$ 0.67 | \$ 0.62 |
| Diluted | \$ 0.67 | \$ 0.62 |
| Average common shares outstanding: | | |
| Basic | 7,548,358 | 7,550,253 |
| Diluted | 7,548,358 | 7,580,480 |
| Dividends declared | \$ 0.31 | \$ 0.31 |
| See notes to consolidated financial statements | | |

Table of Contents**Peoples Financial Services Corp.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**

(Dollars in thousands, except per share data)

| | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-------------------------|----------------------------|------------------------------|--|---------------------------|--------------|
| Balance, January 1, 2015 | \$ 15,097 | \$ 140,214 | \$ 92,297 | \$ (829) | | \$ 246,779 |
| Net income | | | 5,044 | | | 5,044 |
| Other comprehensive loss, net of income taxes | | | | (42) | | (42) |
| Dividends declared: \$0.31 per share | | | (2,341) | | | (2,341) |
| Stock based compensation | | 18 | | | | 18 |
| Balance, March 31, 2015 | \$ 15,097 | \$ 140,232 | \$ 95,000 | (871) | | \$ 249,458 |
| Balance, January 1, 2014 | \$ 15,614 | \$ 146,109 | \$ 84,008 | \$ (698) | \$ (6,241) | \$ 238,792 |
| Net income | | | 4,698 | | | 4,698 |
| Other comprehensive income, net of income taxes | | | | 1,556 | | 1,556 |
| Dividends declared: \$0.31 per share | | | (2,341) | | | (2,341) |
| Shares retired: 3,386 shares | (7) | (102) | | | | (109) |
| Reissuance under option plan: 600 shares | | 28 | | | 11 | 39 |
| Repurchase and held: 1,800 shares | | | | | (70) | (70) |
| Balance, March 31, 2014 | \$ 15,607 | \$ 146,035 | \$ 86,365 | \$ 858 | \$ (6,300) | \$ 242,565 |

See notes to consolidated financial statements

Table of Contents**Peoples Financial Services Corp.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(Dollars in thousands, except per share data)**

| For the Three Months Ended March 31, | 2015 | 2014 |
|---|-------------|-------------|
| Cash flows from operating activities: | | |
| Net income | \$ 5,044 | \$ 4,698 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of premises and equipment | 388 | 574 |
| Amortization of deferred loan costs | 132 | 22 |
| Amortization of intangibles | 305 | 343 |
| Net accretion of purchase accounting adjustments on tangible assets | (292) | (864) |
| Provision for loan losses | 750 | 857 |
| Net gain on sale of other real estate owned | (30) | (22) |
| Net loss on disposal of equipment | | 63 |
| Loans originated for sale | (5,300) | (2,169) |
| Proceeds from sale of loans originated for sale | 5,907 | 2,104 |
| Net loss (gain) on sale of loans originated for sale | (222) | 6 |
| Net amortization of investment securities | 1,022 | 1,043 |
| Net gain on sale of investment securities | (832) | |
| Life insurance investment income | (189) | (189) |
| Deferred income tax benefit | (142) | |
| Stock based compensation | 18 | |
| Net change in: | | |
| Accrued interest receivable | 658 | 500 |
| Other assets | 710 | (1,962) |
| Accrued interest payable | (114) | (113) |
| Other liabilities | (452) | 2,239 |
| Net cash provided by operating activities | 7,361 | 7,130 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investment securities available-for-sale | 50,981 | 60 |
| Proceeds from repayments of investment securities: | | |
| Available-for-sale | 9,835 | 12,634 |
| Held-to-maturity | 482 | 675 |
| Purchases of investment securities: | | |
| Available-for-sale | (1,774) | (13,841) |
| Held-to-maturity | | |
| Net redemption of restricted equity securities | 1,555 | |
| Net increase in lending activities | (27,689) | (798) |
| Purchases of premises and equipment | (1,097) | (122) |
| Proceeds from sale of other real estate owned | 338 | 193 |

| | | |
|---|---------|---------|
| Net cash provided by (used in) investing activities | 32,631 | (1,199) |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (9,081) | 24,855 |
| Repayment of long-term debt | (808) | (890) |