Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

December 31	Three Months Ended 2013	Three Months Ended 2012	Year Ended 2013	Year Ended 2012
Interest income:				
Interest and fees on loans:				
Taxable	$ 9,283	$ 7,621	$ 31,102	$ 30,852
Tax-exempt	464	393	1,674	1,687
Interest and dividends on investment securities:				
Taxable	554	484	1,793	2,282
Tax-exempt	698	633	2,625	2,660
Dividends	31	20	88	63
Interest on interest-bearing deposits in other banks	18	20	86	47
Interest on federal funds sold	2		2	
Total interest income	11,050	9,171	37,370	37,591
Interest expense:				
Interest on deposits	908	767	2,876	3,424
Interest on short-term borrowings	17	11	34	38
Interest on long-term debt	298	434	1,259	1,900
Total interest expense	1,223	1,212	4,169	5,362
Net interest income	9,827	7,959	33,201	32,229
Provision for loan losses	1,036	147	2,361	924
Net interest income after provision for loan losses	8,791	7,812	30,840	31,305
Noninterest income:				
Service charges, fees and commissions	1,315	1,086	5,199	4,293
Merchant services income	813	835	3,936	4,290
Commissions and fees on fiduciary activities	454	369	1,735	1,481
Wealth management income	185	63	505	264
Mortgage banking income	80	260	224	796
Net gains on sale of investment securities available-for-sale	5	198	163	317
Total noninterest income	2,852	2,811	11,762	11,441
Noninterest expense:				
Salaries and employee benefits expense	5,963	3,504	16,378	14,121
Net occupancy and equipment expense	1,742	716	3,929	2,946
Merchant services expense	543	549	2,490	2,742
Amortization of intangible assets	151	64	326	267
Acquisition related expense	4,832		5,057	
Other expenses	2,603	2,325	9,000	9,023
Total noninterest expense	15,834	7,158	37,180	29,099
Income (loss) before income taxes	(4,191)	3,465	5,422	13,647
Income tax expense (benefit)	(1,409)	757	353	3,058
Net income (loss)	(2,782)	2,708	5,069	10,589
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	(643)	(408)	(3,883)	1,223
Reclassification adjustment for gains included in net income	(5)	(198)	(163)	(317)
Change in pension liability	4,027	(924)	4,027	(924)
Income tax expense (benefit) related to other comprehensive income	1,149	(520)	(6)	(6)
Other comprehensive income (loss), net of income taxes	2,230	(1,010)	(13)	(12)
	$ (552)	$ 1,698	$ 5,056	$ 10,577
Per share data:				
Net income (loss)	$ (0.50)	$ 0.61	$ 1.07	$ 2.37
Cash dividends declared	$ 0.31	$ 0.31	$ 1.23	$ 1.23
Average common shares outstanding	5,515,199	4,467,261	4,733,059	4,467,261

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	December 31, 2013	December 31, 2012
Assets:		
Cash and due from banks	$ 30,004	$ 15,581
Interest-bearing deposits in other banks	11,846	32,263
Federal funds sold	9,460	
Investment securities:		
Available-for-sale	299,715	161,391
Held-to-maturity	17,295	15,902
Total investments	317,010	177,293
Loans held for sale	1,757	
Loans, net	1,176,617	623,530
Less: allowance for loan losses	8,651	6,950
Net loans	1,167,966	616,580
Premises and equipment, net	25,882	15,137
Accrued interest receivable	5,866	2,862
Goodwill	63,746	26,398
Other intangible assets, net	6,835	838
Other assets	47,988	31,090
Total assets	$ 1,688,360	$ 918,042
Liabilities:		
Deposits:		
Noninterest-bearing	$ 298,920	$ 151,121
Interest-bearing	1,080,587	570,827
Total deposits	1,379,507	721,948
Short-term borrowings	22,052	8,019
Long-term debt	36,743	45,397
Accrued interest payable	723	716
Other liabilities	10,800	9,516
Total liabilities	1,449,825	785,596
Stockholders' equity:		
Common stock: 2013, par value $2.00, authorized 25,000,000 shares, issued 7,806,789 shares		
2012, par value $0.01, authorized 15,000,000 shares, issued 4,467,261 shares	15,614	33
Capital surplus	146,109	48,905
Retained earnings	83,356	83,798
Accumulated other comprehensive loss	(303)	(290)
Less: treasury stock, at cost: 2013, 253,845 shares	6,241	
Total stockholders' equity	238,535	132,446
Total liabilities and stockholders' equity	$ 1,688,360	$ 918,042

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 for the year ended December 31, 2013, 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 for the period ended December 31, 2013.

Consolidated Financial Highlights

(Dollars in thousands, except per share data)

Year ended December 31,		2013		2012		Change $	Change %	
Financial Position:								
Assets	$	1,688,360	$	918,042	$	770,318	83.91	%
Investment securities		317,010		177,293		139,717	78.81	
Loans, net		1,176,617		623,530		553,087	88.70	
Deposits		1,379,507		721,948		657,559	91.08	
Stockholders' equity		238,535		132,446		106,089	80.10	
Earning assets		1,516,690		833,086		683,604	82.06	
Interest-bearing liabilities	$	1,139,382	$	624,243	$	515,139	82.52	%
Financial Performance:								
Net interest income	$	33,201	$	32,229	$	972	3.02	%
Provision for loan losses		2,361		924		1,437	155.52	
Noninterest income		11,762		11,441		321	2.81	
Noninterest expense		37,180		29,099		8,081	27.77	
Income tax expense		353		3,058		(2,705)	(88.46)	
Net income		5,069		10,589		(5,520)	(52.13)	
Comprehensive income	$	5,056	$	10,577	$	(5,521)	(52.20)	%
Financial Ratios:								
Net income as a percentage of average total assets		0.51	%	1.14	%			
Net income as a percentage of average stockholders' equity		3.55		8.07				
Stockholders' equity as a percentage of total assets		14.13		14.43				
Net interest income as a percentage of average earning assets		3.90		4.05				
Loans, net as a percentage of deposits		85.29		86.37				
Net loans charged-off as a percentage of average loans, net		0.10	%	0.11	%			
Per Share Data:								
Net income	$	1.07	$	2.37				
Cash dividends declared		1.23		1.23				
Stockholders' equity	$	31.58	$	29.65				

NOTE: Tax-equivalent adjustment was calculated using the prevailing statutory rate of 34.0 percent

Dear Fellow Shareholder:

I am pleased that we were able to successfully complete the merger between Peoples Financial Services Corp. and Penseco Financial Services Corporation in the fourth quarter of 2013. The merger with Penseco had a significant impact on the results of operations. The merger of equals between Peoples and Penseco is accounted for as a reverse acquisition of Peoples by Penseco. As a result of the reverse merger, Peoples is the legal acquirer and Penseco is the accounting acquirer. In a reverse merger the historical financial statements are those of the accounting acquirer. Accordingly, the results for the year ended December 31, 2013, include the operating results of Penseco for the entire year and the operating results of Peoples since November 30, 2013. All prior period information represents the results of Penseco and, consequently, comparisons may not be particularly meaningful. The results for the twelve-month period ended December 31, 2013, also include pre-tax merger expenses of approximately $5.1 million along with a net loss of $1.4 million to extinguish a post retirement life insurance liability.

Peoples reported net income of $5.1 million, or $1.07 per basic and diluted weighted average share for the twelve months ended December 31, 2013, compared to $10.6 million, or $2.37 per share, reported by Penseco for the comparable period of 2012. Peoples reported a net loss of $2.8 million, $0.50 per share, for the three months ended December 31, 2013, compared to net income of $2.7 million, or $0.61 per share, reported by Penseco for the three months ended December 31, 2012.

Total assets, loans and deposits totaled $1.7 billion, $1.2 billion and $1.4 billion, respectively, at December 31, 2013. Although loans, net and deposits increased 6.7% and 2.7%, respectively, considering only historical Penseco information, the majority of the total 2013 increases over the 2012 year-end balances were the result of the merger.

Total investments were $317.0 million at December 31, 2013, including $299.7 million securities classified as available-for sale and $17.3 million classified as held-to-maturity. Total deposits consisted of $298.9 million in noninterest-bearing and $1.1 billion in interest-bearing deposits at December 31, 2013.

Stockholders' equity equaled $238.5 million or $31.58 per share at December 31, 2013, and $132.5 million or $29.65 per share at December 31, 2012. Dividends declared for the 2013 amounted to $1.23 per share, as adjusted for the merger exchange ratio of 1.3636. With respect to dividend payments, please note that the dividend payment schedule that you were accustomed to has changed to address differences in the historical payment calendars of the merged companies. This change was also made to allow shareholders adequate time to participate in the revised dividend reinvestment plan. Accordingly, we plan to pay our regular quarterly dividends on or about the 15th of each of the following months: March, June, September and December.

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.peoplesnatbank.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.

Best Regards,

Craig Best

Craig W. Best | President & CEO

Board of Directors

William E. Aubrey II
Chairman

Craig W. Best
President | CEO

Joseph G. Cesare, M.D.
James G. Keisling
P. Frank Kozik
Ronald G. Kukuchka
Richard S. Lochen, Jr.
Robert W. Naismith, Ph.D.
James B. Nicholas
Emily S. Perry
George H. Stover, Jr.
Steven L. Weinberger
Earle A. Wootton
Joseph T. Wright, Jr.

Offices

Abington	(570) 587-4898	Hallstead	(570) 879-2195
Binghamton Front St	(607) 721-8830	Hop Bottom	(570) 289-4124
Binghamton West Side	(607) 729-3832	Meshoppen	(570) 833-5171
Central City Scranton	(570) 346-7741	Minooka	(570) 955-1883
Conklin	(607) 722-2114	Montrose	(570) 278-4100
Deposit	(607) 467-2571	Moscow	(570) 842-7626
Duryea	(570) 457-1120	Mount Pocono	(570) 839-8732
East Scranton	(570) 342-9101	Nicholson	(570) 942-2265
East Stroudsburg	(570) 420-0432	Old Forge	(570) 457-8345
Glenburn	(570) 585-5130	Peckville	(570) 383-2154
Gouldsboro	(570) 842-6473	South Scranton	(570) 343-1151
Green Ridge	(570) 346-4695	Susquehanna	(570) 853-4901
		Tunkhannock	(570) 836-2135
		Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Fourth Quarter, 2013	$ 39.50	$ 31.53	$ 0.31
Third Quarter, 2013	33.37	29.70	0.31
Second Quarter, 2013	30.43	27.21	0.31
First Quarter, 2013	$ 27.87	$ 27.13	$ 0.31

The per share information listed above is that of Penseco Financial Services Corporation, the accounting acquirer, adjusted for the exchange ratio of 1.3636, up to the merger closing date of November 30, 2013. Per share information post closing is that of Peoples Financial Services Corp.

Market Makers

Boenning & Scattergood, Inc.	(610) 862-5368
Griffin Financial Group, LLC	(757) 955-8444
Keefe, Bruyette & Woods	(212) 887-8996

The common stock of Peoples Financial Services Corp. trades on the NASDAQ National Market under the symbol PFIS. Stockholders, analysts, portfolio managers and others seeking financial information should contact Scott A. Seasock, CFO at (570) 879-6122.

Dividend Reinvestment

American Stock Transfer and Trust Company administers a Dividend Reinvestment Plan whereby stockholders may 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 Street, Scranton, PA 18503 Attn: Marie L. Luciani, Investor Relations Officer at (570) 346-7741 x2352 or through our website at http://www.peoplesnatbank.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

December 31, 2013