Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

June 30	Three Months Ended 2014	Three Months Ended 2013	Six Months Ended 2014	Six Months Ended 2013
Interest income:				
Interest and fees on loans:				
Taxable	$ 13,159	$ 7,229	$ 27,159	$ 14,606
Tax-exempt	507	404	1,142	814
Interest and dividends on investment securities:				
Taxable	942	414	1,870	853
Tax-exempt	817	646	1,646	1,269
Dividends	14	16	30	35
Interest on interest-bearing deposits in other banks	9	28	19	50
Interest on federal funds sold	34		48	
Total interest income	15,482	8,737	31,914	17,627
Interest expense:				
Interest on deposits	1,414	650	2,771	1,321
Interest on short-term borrowings	24	6	58	11
Interest on long-term debt	289	305	585	662
Total interest expense	1,727	961	3,414	1,994
Net interest income	13,755	7,776	28,500	15,633
Provision for loan losses	1,201	500	2,058	800
Net interest income after provision for loan losses	12,554	7,276	26,442	14,833
Noninterest income:				
Service charges, fees and commissions	1,557	1,459	3,181	2,420
Merchant services income	888	918	1,782	1,949
Commissions and fees on fiduciary activities	548	403	1,115	794
Wealth management income	165	100	352	190
Mortgage banking income	193	33	292	166
Life insurance investment income	267	120	456	239
Net gains on sale of investment securities available-for-sale	160	24	160	125
Total noninterest income	3,778	3,057	7,338	5,883
Noninterest expense:				
Salaries and employee benefits expense	4,961	3,492	10,129	7,075
Net occupancy and equipment expense	2,327	701	4,060	1,502
Merchant services expense	495	582	1,060	1,207
Amortization of intagible assets	333	56	676	120
Acquisiition related expense	1,008	5	1,616	5
Other expenses	3,115	2,020	5,985	4,072
Total noninterest expense	12,239	6,856	23,526	13,981
Income before income taxes	4,093	3,477	10,254	6,735
Income tax expense	762	633	2,225	1,370
Net income	3,331	2,844	8,029	5,365
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	1,242	(2,744)	3,636	(3,220)
Reclassification adjustment for gains included in net income	(160)	(24)	(160)	(125)
Income tax expense (benefit) related to other comprehensive income	378	(941)	1,216	(1,137)
Other comprehensive income (loss), net of income taxes	704	(1,827)	2,260	(2,208)
Comprehensive income	$ 4,035	$ 1,017	$ 10,289	$ 3,157
Per share data:				
Net income	$ 0.44	$ 0.64	$ 1.06	$ 1.20
Cash dividends declared	$ 0.31	$ 0.31	$ 0.62	$ 0.62
Average common shares outstanding	7,548,358	4,467,261	7,549,300	4,467,261

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	June 30, 2014	December 31, 2013
Assets:		
Cash and due from banks	$ 51,416	$ 30,004
Interest-bearing deposits in other banks	10,592	11,846
Federal funds sold	15,400	9,460
Investment securities:		
Available-for-sale	312,323	299,715
Held-to-maturity: Fair value June 30, 2014, $16,072; December 31, 2013, $17,175	15,915	17,295
Total investments	328,238	317,010
Loans held for sale	2,757	1,757
Loans, net	1,179,847	1,176,617
Less: allowance for loan losses	9,622	8,651
Net loans	1,170,225	1,167,966
Premises and equipment, net	25,670	26,119
Accrued interest receivable	5,576	5,866
Goodwill	63,370	63,370
Intangible assets	6,159	6,835
Other assets	51,703	47,988
Total assets	$ 1,731,106	$ 1,688,221
Liabilities:		
Deposits:		
Noninterest-bearing	$ 295,922	$ 279,942
Interest-bearing	1,126,880	1,099,565
Total deposits	1,422,802	1,379,507
Short-term borrowings	14,088	22,052
Long-term debt	34,925	36,743
Accrued interest payable	580	723
Other liabilities	14,546	10,404
Total liabilities	1,486,941	1,449,429
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, June 30, 2014, issued 7,548,358 shares; December 31, 2013, 7,806,789 shares	15,097	15,614
Capital surplus	140,150	146,109
Retained earnings	87,356	84,008
Accumulated other comprehensive income (loss)	1,562	(698)
Less: Treasury stock, at cost: December 31, 2013, 253,845 shares		6,241
Total stockholders' equity	244,165	238,792
Total liabilities and stockholders' equity	$ 1,731,106	$ 1,688,221

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 quarter ended June 30, 2014, 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)

Six months ended June 30,	2014	2013	Change $	Change %
Financial Position:				
Assets	$ 1,731,106	$ 919,669	$ 811,437	88.23 %
Investment securities	328,238	172,218	156,020	90.59
Loans, net	1,179,847	642,353	537,494	83.68
Deposits	1,422,802	733,134	689,668	94.07
Stockholders' equity	244,165	132,885	111,280	83.74
Earning assets	1,536,834	837,132	699,702	83.58
Interest-bearing liabilities	$ 1,175,893	$ 630,372	$ 545,521	86.54 %
Financial Performance:				
Net interest income	$ 28,500	$ 15,633	$ 12,867	82.31 %
Provision for loan losses	2,058	800	1,258	157.25
Noninterest income	7,338	5,883	1,455	24.73
Noninterest expense	23,526	13,981	9,545	68.27
Provision for income tax expense	2,225	1,370	855	62.41
Net income	8,029	5,365	2,664	49.66
Comprehensive income	$ 10,289	$ 3,157	$ 7,132	225.91 %
Financial Ratios:				
Net income as a percentage of average total assets	0.95 %	1.17 %		
Net income as a percentage of average stockholders' equity	6.79	8.08		
Stockholders' equity as a percentage of total assets	14.10	14.45		
Net interest income as a percentage of average earning assets	3.90	3.97		
Loans, net as a percentage of deposits	82.92	87.62		
Net loans charged-off as a percentage of average loans, net	0.18 %	0.06 %		
Per Share Data:				
Net income	$ 1.06	$ 1.20		
Cash dividends declared	0.62	0.62		
Stockholders' equity	$ 32.35	$ 29.75		

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

Dear Fellow Shareholder:

I am pleased to report that your Company, which completed the merger with Penseco Financial Services Corporation ("Penseco") on November 30, 2013, recorded net income of $8.0 million, or $1.06 per share for the six months ended June 30, 2014, compared to $5.4 million, or $1.20 per share, for the comparable period of 2013. The merger between Peoples and Penseco was 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. The results for the six months ended June 30, 2014, include pre-tax merger related expenses of approximately $1.6 million.

Total assets totaled $1.7 billion as of June 30, 2014. Loans, net increased to $1.2 billion at June 30, 2014, including loans acquired from the merger having an acquisition date fair value of $504.0 million, from $642.4 million at June 30, 2013. Deposits improved to $1.4 billion at the end of the second quarter 2014, including deposits assumed from the merger having an acquisition date fair value of $628.3 million, from $733.1 at the end of the second quarter 2013. Stockholders' equity equaled $244.2 million or $32.35 per share at June 30, 2014, and $238.8 million or $31.62 per share at December 31, 2013. Dividends declared for the first six months of 2014 amounted to $0.62 per share representing a dividend payout ratio of 58.5%.

I would also like to report on two non-financial accomplishments which occurred during the second quarter, namely our listing on the NASDAQ Global Select Market and the successful conversion of our core processing system. We anticipate being able to realize certain cost savings associated with this conversion beginning in the second half of 2014.

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.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.

Best Regards,

Craig W. Best

Craig W. Best
President and
Chief Executive Officer

Board of Directors

William E. Aubrey II Chairman	Joseph G. Cesare, M.D.	James B. Nicholas
	James G. Keisling	Emily S. Perry
Craig W. Best President | CEO	P. Frank Kozik	George H. Stover, Jr.
	Ronald G. Kukuchka	Steven L. Weinberger
	Richard S. Lochen, Jr.	Earle A. Wootton
	Robert W. Naismith, Ph.D.	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
Second Quarter, 2014	$53.05	$42.50	$0.31
First Quarter, 2014	42.26	37.85	0.31
Fourth Quarter, 2013	39.50	31.53	0.31
Third Quarter, 2013	33.37	29.70	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 under the symbol PFIS. Stockholders, analysts, portfolio managers and others seeking financial information should contact Scott A. Seasock, CFO at (570) 346-7741 x2324.

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.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

June 30, 2014