## Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

| September 30 | Three Months Ended 2014 | Three Months Ended 2013 | Nine Months Ended 2014 | Nine Months Ended 2013 |
|---|---|---|---|---|
| Interest income: | | | | |
| Interest and fees on loans: | | | | |
| Taxable | $ 13,876 | $ 7,213 | $ 41,035 | $ 21,819 |
| Tax-exempt | 465 | 396 | 1,607 | 1,210 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 1,007 | 386 | 2,877 | 1,239 |
| Tax-exempt | 816 | 658 | 2,462 | 1,927 |
| Dividends | 2 | 22 | 32 | 57 |
| Interest on interest-bearing deposits in other banks | 10 | 18 | 29 | 68 |
| Interest on federal funds sold | 16 | | 64 | |
| Total interest income | 16,192 | 8,693 | 48,106 | 26,320 |
| Interest expense: | | | | |
| Interest on deposits | 1,354 | 647 | 4,125 | 1,968 |
| Interest on short-term borrowings | 9 | 6 | 67 | 17 |
| Interest on long-term debt | 279 | 299 | 864 | 961 |
| Total interest expense | 1,642 | 952 | 5,056 | 2,946 |
| Net interest income | 14,550 | 7,741 | 43,050 | 23,374 |
| Provision for loan losses | 666 | 525 | 2,724 | 1,325 |
| Net interest income after provision for loan losses | 13,884 | 7,216 | 40,326 | 22,049 |
| Noninterest income: | | | | |
| Service charges, fees and commissions | 1,634 | 1,006 | 4,815 | 3,426 |
| Merchant services income | 1,002 | 1,174 | 2,784 | 3,123 |
| Commissions and fees on fiduciary activities | 575 | 487 | 1,690 | 1,281 |
| Wealth management income | 217 | 130 | 569 | 320 |
| Mortgage banking income | 142 | 80 | 434 | 246 |
| Life insurance investment income | 109 | 117 | 565 | 356 |
| Net gains on sale of investment securities available-for-sale | 701 | 33 | 861 | 158 |
| Total noninterest income | 4,380 | 3,027 | 11,718 | 8,910 |
| Noninterest expense: | | | | |
| Salaries and employee benefits expense | 4,754 | 3,340 | 14,883 | 10,415 |
| Net occupancy and equipment expense | 2,020 | 685 | 6,080 | 2,187 |
| Merchant services expense | 662 | 740 | 1,722 | 1,947 |
| Amortization of intangible assets | 334 | 55 | 1,010 | 175 |
| Acquisition related expense | 109 | 220 | 1,725 | 225 |
| Other expenses | 3,205 | 2,325 | 9,190 | 6,397 |
| Total noninterest expense | 11,084 | 7,365 | 34,610 | 21,346 |
| Income before income taxes | 7,180 | 2,878 | 17,434 | 9,613 |
| Income tax expense | 1,944 | 392 | 4,169 | 1,762 |
| Net income | 5,236 | 2,486 | 13,265 | 7,851 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (loss) on investment securities available-for-sale | (825) | (20) | 2,811 | (3,240) |
| Reclassification adjustment for gains included in net income | (701) | (33) | (861) | (158) |
| Other comprehensive income (loss) | (1,526) | (53) | 1,950 | (3,398) |
| Income tax expense (benefit) related to other comprehensive income | (534) | (18) | 682 | (1,155) |
| Other comprehensive income (loss), net of income taxes | (992) | (35) | 1,268 | (2,243) |
| Comprehensive income | $ 4,244 | $ 2,451 | $ 14,533 | $ 5,608 |
| Per share data: | | | | |
| Net income | $ 0.70 | $ 0.56 | $ 1.76 | $ 1.76 |
| Cash dividends declared | $ 0.31 | $ 0.31 | $ 0.93 | $ 0.93 |
| Average common shares outstanding | 7,548,358 | 4,473,846 | 7,548,983 | 4,469,480 |

See notes to consolidated financial statements.

## Consolidated Balance Sheets

(Dollars in thousands, except per share data)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $ 21,179 | $ 30,004 |
| Interest-bearing deposits in other banks | 6,932 | 11,846 |
| Federal funds sold | 6,100 | 9,460 |
| Investment securities: | | |
| Available-for-sale | 350,825 | 299,715 |
| Held-to-maturity: Fair value September 30, 2014, $15,516; December 31, 2013, $17,175 | 15,264 | 17,295 |
| Total investment securities | 366,089 | 317,010 |
| Loans held for sale | 2,961 | 1,757 |
| Loans, net | 1,179,942 | 1,176,617 |
| Less: allowance for loan losses | 10,171 | 8,651 |
| Net loans | 1,169,771 | 1,167,966 |
| Premises and equipment, net | 25,692 | 26,119 |
| Accrued interest receivable | 5,381 | 5,866 |
| Goodwill | 63,370 | 63,370 |
| Intangible assets | 5,826 | 6,835 |
| Other assets | 51,477 | 47,988 |
| Total assets | $ 1,724,778 | $ 1,688,221 |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 302,279 | $ 279,942 |
| Interest-bearing | 1,123,349 | 1,099,565 |
| Total deposits | 1,425,628 | 1,379,507 |
| Short-term borrowings | 6,514 | 22,052 |
| Long-term debt | 34,020 | 36,743 |
| Accrued interest payable | 597 | 723 |
| Other liabilities | 11,950 | 10,404 |
| Total liabilities | 1,478,709 | 1,449,429 |
| Stockholders' equity: | | |
| Common stock: par value $2.00, authorized 25,000,000 shares, September 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 | 90,252 | 84,008 |
| Accumulated other comprehensive income (loss) | 570 | (698) |
| Less: Treasury stock, at cost: December 31, 2013, 253,845 shares | | 6,241 |
| Total stockholders' equity | 246,069 | 238,792 |
| Total liabilities and stockholders' equity | $ 1,724,778 | $ 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 September 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)

| Nine months ended September 30, | 2014 | 2013 | Change $ | Change % |
|---|---|---|---|---|
| **Financial Position:** | | | | |
| Assets | $ 1,724,778 | $ 917,497 | $ 807,281 | 87.99 % |
| Investment securities | 366,089 | 167,000 | 199,089 | 119.21 |
| Loans, net | 1,179,942 | 655,946 | 523,996 | 79.88 |
| Deposits | 1,425,628 | 728,300 | 697,328 | 95.75 |
| Stockholders' equity | 246,069 | 133,973 | 112,096 | 83.67 |
| Earning assets | 1,562,024 | 836,962 | 725,062 | 86.63 |
| Interest-bearing liabilities | $ 1,163,883 | $ 619,863 | $ 544,020 | 87.76 % |
| **Financial Performance:** | | | | |
| Net interest income | $ 43,050 | $ 23,374 | $ 19,676 | 84.18 % |
| Provision for loan losses | 2,724 | 1,325 | 1,399 | 105.58 |
| Noninterest income | 11,718 | 8,910 | 2,808 | 31.52 |
| Noninterest expense | 34,610 | 21,346 | 13,264 | 62.14 |
| Provision for income tax expense | 4,169 | 1,762 | 2,407 | 136.61 |
| Net income | 13,265 | 7,851 | 5,414 | 68.96 |
| Comprehensive income | $ 14,533 | $ 5,608 | $ 8,925 | 159.15 % |
| **Financial Ratios:** | | | | |
| Net income as a percentage of average total assets | 1.04 % | 1.14 % | | |
| Net income as a percentage of average stockholders' equity | 7.37 | 7.84 | | |
| Stockholders' equity as a percentage of total assets | 14.27 | 14.60 | | |
| Net interest income as a percentage of average earning assets | 3.88 | 3.94 | | |
| Loans, net as a percentage of deposits | 82.77 | 90.07 | | |
| Net loans charged-off as a percentage of average loans, net | 0.14 % | 0.08 % | | |
| **Per Share Data:** | | | | |
| Net income | $ 1.76 | $ 1.76 | | |
| Cash dividends declared | 0.93 | 0.93 | | |
| Stockholders' equity | $ 32.60 | $ 29.91 | | |

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 $13.3 million, or $1.76 per share for the nine months ended September 30, 2014, compared to $7.9 million, or $1.76 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 nine months ended September 30, 2014, include pre-tax merger related expenses of approximately $1.7 million.

Total assets were $1.7 billion as of September 30, 2014. Loans, net increased to $1.2 billion at September 30, 2014, including loans acquired from the merger having an acquisition date fair value of $504.0 million, from $655.9 million at September 30, 2013. Deposits improved to $1.4 billion at the end of the third quarter 2014, including deposits assumed from the merger having an acquisition date fair value of $628.3 million, from $728.3 at the end of the third quarter 2013. Stockholders' equity equaled $246.1 million or $32.60 per share at September 30, 2014, and $238.8 million or $31.62 per share at December 31, 2013. Dividends declared through nine months of 2014 amounted to $0.93 per share representing a dividend payout ratio of 52.8%. We have begun to realize certain cost savings associated with the merger, and expect those savings will continue into the fourth quarter of 2014 as integration costs continue to diminish.

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
President and
Chief Executive Officer

## 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 |
|---|---|---|---|
| Third Quarter, 2014 | $52.52 | $45.99 | $0.31 |
| 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 |

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

September 30, 2014