Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

December 31	Three Months Ended 2014	Three Months Ended 2013	Year Ended 2014	Year Ended 2013
Interest income:				
Interest and fees on loans:				
Taxable	$ 13,281	$ 9,283	$ 54,316	$ 31,102
Tax-exempt	658	464	2,265	1,674
Interest and dividends on investment securities:				
Taxable	1,069	554	3,946	1,793
Tax-exempt	809	698	3,271	2,625
Dividends	18	31	50	88
Interest on interest-bearing deposits in other banks	9	18	38	86
Interest on federal funds sold	6	2	70	2
Total interest income	15,850	11,050	63,956	37,370
Interest expense:				
Interest on deposits	1,306	908	5,431	2,876
Interest on short-term borrowings	4	17	71	34
Interest on long-term debt	276	298	1,140	1,259
Total interest expense	1,586	1,223	6,642	4,169
Net interest income	14,264	9,827	57,314	33,201
Provision for loan losses	800	1,036	3,524	2,361
Net interest income after provision for loan losses	13,464	8,791	53,790	30,840
Noninterest income:				
Service charges, fees and commissions	1,669	666	6,484	4,092
Merchant services income	765	813	3,549	3,936
Commissions and fees on fiduciary activities	489	454	2,179	1,735
Wealth management income	183	185	752	505
Mortgage banking income	214	117	648	363
Life insurance investment income	213	612	778	968
Net gains on sale of investment securities available-for-sale		5	861	163
Total noninterest income	3,533	2,852	15,251	11,762
Noninterest expense:				
Salaries and employee benefits expense	5,769	5,568	20,652	15,983
Net occupancy and equipment expense	2,022	1,801	8,102	3,988
Merchant services expense	514	543	2,236	2,490
Amortization of intangible assets	323	151	1,333	326
Acquisition related expense		4,384	1,725	4,609
Other expenses	2,695	2,603	11,885	9,000
Total noninterest expense	11,323	15,050	45,933	36,396
Income before income taxes	5,674	(3,407)	23,108	6,206
Income tax expense	1,290	(1,277)	5,459	485
Net income	4,384	(2,130)	17,649	5,721
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	1,532	(642)	4,343	(3,882)
Reclassification adjustment for gains included in net income		(5)	(861)	(163)
Change in unfunded pension liability	(3,684)	3,642	(3,684)	3,642
Income tax expense (benefit) related to other comprehensive income	(753)	1,160	(71)	5
Other comprehensive income (loss), net of income taxes	(1,399)	1,835	(131)	(408)
Comprehensive income	$ 2,985	$ (295)	$ 17,518	$ 5,313
Per share data:				
Net income	$ 0.58	$ (0.39)	$ 2.34	$ 1.21
Cash dividends declared	$ 0.31	$ 0.31	$ 1.24	$ 1.23
Average common shares outstanding	7,548,358	5,515,199	7,548,825	4,733,059

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	December 31, 2014	December 31, 2013
Assets:		
Cash and due from banks	$ 24,656	$ 30,004
Interest-bearing deposits in other banks	6,770	11,846
Federal funds sold		9,460
Investment securities:		
Available-for-sale	339,586	299,715
Held-to-maturity: Fair value 2014, $15,215; 2013, $17,175	14,665	17,295
Total investments	354,251	317,010
Loans held for sale	3,486	1,757
Loans, net	1,209,894	1,176,617
Less: allowance for loan losses	10,338	8,651
Net loans	1,199,556	1,167,966
Premises and equipment, net	25,433	26,119
Accrued interest receivable	5,580	5,866
Goodwill	63,370	63,370
Intangible assets	5,501	6,835
Other assets	53,066	47,988
Total assets	$ 1,741,669	$ 1,688,221
Liabilities:		
Deposits:		
Noninterest-bearing	$ 313,498	$ 279,942
Interest-bearing	1,112,060	1,099,565
Total deposits	1,425,558	1,379,507
Short-term borrowings	19,557	22,052
Long-term debt	33,140	36,743
Accrued interest payable	574	723
Other liabilities	16,061	10,404
Total liabilities	$ 1,494,890	1,449,429
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued: 2014, 7,548,358 shares; 2013, 7,806,789 shares	15,097	15,614
Capital surplus	140,214	146,109
Retained earnings	92,297	84,008
Accumulated other comprehensive income (loss)	(829)	(698)
Less: Treasury stock, at cost: 2013, 253,845 shares		6,241
Total stockholders' equity	246,779	238,792
Total liabilities and stockholders' equity	$ 1,741,669	$ 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 at and for the quarter and year ended December 31, 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.

Consolidated Financial Highlights

(Dollars in thousands, except per share data)

Year ended December 31,	2014	2013	Change $	Change %
Financial Position:				
Assets	$ 1,741,669	$ 1,688,221	$ 53,448	3.17 %
Investment securities	354,251	317,010	37,241	11.75
Loans, net	1,209,894	1,176,617	33,277	2.83
Deposits	1,425,558	1,379,507	46,051	3.34
Stockholders' equity	246,779	238,792	7,987	3.34
Earning assets	1,574,401	1,516,690	57,711	3.81
Interest-bearing liabilities	$ 1,164,757	$ 1,158,360	$ 6,397	0.55 %
Financial Performance:				
Net interest income	$ 57,314	$ 33,201	$ 24,113	72.63 %
Provision for loan losses	3,524	2,361	1,163	49.26
Noninterest income	15,251	11,762	3,489	29.66
Noninterest expense	45,933	36,396	9,537	26.20
Provision for income tax expense	5,459	485	4,974	1,025.57
Net income	17,649	5,721	11,928	208.50
Comprehensive income	$ 17,518	$ 5,313	$ 12,205	229.72 %
Financial Ratios:				
Net income as a percentage of average total assets	1.03 %	0.58 %		
Net income as a percentage of average stockholders' equity	7.29	4.01		
Stockholders' equity as a percentage of total assets	14.17	14.14		
Net interest income as a percentage of average earning assets	3.86	3.91		
Loans, net as a percentage of deposits	84.87	85.29		
Net loans charged-off as a percentage of average loans, net	0.15 %	0.10 %		
Per Share Data:				
Net income	$ 2.34	$ 1.21		
Cash dividends declared	1.24	1.23		
Stockholders' equity	$ 32.69	$ 31.62		

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

Dear Fellow Shareholder:

Earnings for year-end 2014 totaled $17.6 million, or $2.34 per share, compared to $5.7 million, or $1.21 per share in 2013. The prior years earnings were impacted by the completion of the merger with Penseco Financial Services Corporation on November 30, 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. Pre-tax merger related expenses totaled $1.7 million in 2014 and $4.6 million in 2013. The significant increases in the 2014 versus 2013 year-over-year income statement components primarily resulted from the application of purchase accounting whereby those components of the legal acquirer for periods prior to the merger date were excluded from Peoples 2013 income statement.

Total assets increased $53.5 million to $1.741 billion or 3.2 percent in 2014. For the year ended December 31, 2014, loans increased $33.3 million or 2.8% while investments grew $37.2 million or 11.8% in 2014. The balance sheet growth in 2014 was driven by an increase in total deposits of $46.1 million or 3.4% to $1.4 billion at December 31, 2014. Stockholders' equity equaled $246.8 million or $32.69 per share at year end 2014, and $238.8 million or $31.62 per share at December 31, 2013. Dividends declared in 2014 amounted to $1.24 per share representing a dividend payout ratio of 53.0%.

With respect to our latest nonfinancial accomplishments, we entered the Lehigh Valley market in the fourth quarter by establishing a community banking office with a dedicated team of commercial and retail lenders. Based on the customer service oriented philosophy of our organization, along with the experience and knowledge of the Lehigh Valley Market that these employees bring to our company, we expect to be as well received in this community as we are in our existing markets. In addition, subsequent to year end we acquired a property in Kingston, Pennsylvania and anticipate opening our 27th community banking office in 2015.

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	Hop Bottom	(570) 289-4124
Bethlehem	(610) 691-1905	Meshoppen	(570) 833-5171
Binghamton Front St	(607) 721-8830	Minooka	(570) 955-1883
Binghamton West Side	(607) 729-3832	Montrose	(570) 278-4100
Central City Scranton	(570) 346-7741	Moscow	(570) 842-7626
Conklin	(607) 722-2114	Mount Pocono	(570) 839-8732
Duryea	(570) 457-1120	Nicholson	(570) 942-2265
East Scranton	(570) 342-9101	Old Forge	(570) 457-8345
East Stroudsburg	(570) 420-0432	Peckville	(570) 383-2154
Glenburn	(570) 585-5130	South Scranton	(570) 343-1151
Gouldsboro	(570) 842-6473	Susquehanna	(570) 853-4901
Green Ridge	(570) 346-4695	Tunkhannock	(570) 836-2135
Hallstead	(570) 879-2195	Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Fourth Quarter, 2014	$52.52	$44.17	$0.31
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

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. is quoted 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 extension 2324.

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

December 31, 2014