Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

March 31	Three Months Ended 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
Commissions and fees on fiduciary activities	459	567
Wealth management income	205	187
Mortgage banking income	222	99
Life insurance investment income	189	189
Net gains 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
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 gains on investment securities available-for-sale	767	2,394
Reclassification adjustment for gains included in net income	(832)	
Income tax expense (benefit) related to other comprehensive income	(23)	838
Other comprehensive income (loss), net of income taxes	(42)	1,556
Other comprehensive income (loss), net of income taxes	$ 17,518	$ 6,254
Per share data:		
Net income	$ 0.67	$ 0.62
Cash dividends declared	$ 0.31	$ 0.31
Average common shares outstanding	7,548,358	7,550,253

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per 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
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.

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 ended March 31, 2015, 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)

Quarter ended March 31,	2015	2014	Change $	Change %
Financial Position:				
Assets	$ 1,713,961	$ 1,718,261	$ (4,300)	(0.25) %
Investment securities	294,472	318,833	(24,361)	(7.64)
Loans, net	1,237,168	1,177,122	60,046	5.10
Deposits	1,416,278	1,404,066	12,212	0.87
Stockholders' equity	249,458	242,565	6,893	2.84
Earning assets	1,550,179	1,550,779	(600)	(0.04)
Interest-bearing liabilities	$ 1,143,559	$ 1,180,383	$ (36,824)	(3.12) %
Financial Performance:				
Net interest income	$ 14,093	$ 14,745	$ (652)	(4.42) %
Provision for loan losses	750	857	(107)	(12.49)
Noninterest income	4,309	3,560	749	21.04
Noninterest expense	11,094	11,287	(193)	(1.71)
Provision for income tax expense	1,514	1,463	51	3.49
Net income	5,044	4,698	346	7.36
Comprehensive income	$ 5,002	$ 6,254	$ (1,252)	(20.02) %
Financial Ratios:				
Net income as a percentage of average total assets	1.20 %	1.12 %		
Net income as a percentage of average stockholders' equity	8.28	8.01		
Stockholders' equity as a percentage of total assets	14.55	14.12		
Net interest income as a percentage of average earning assets	3.88	4.09		
Loans, net as a percentage of deposits	87.35	83.84		
Net loans charged-off as a percentage of average loans, net	0.09 %	0.22 %		
Per Share Data:				
Net income	$ 0.67	$ 0.62		
Cash dividends declared	0.31	0.31		
Stockholders' equity	$ 33.05	$ 32.13		

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

Dear Fellow Shareholder:

I am pleased to report that your Company recorded net income of $5.0 million, or $0.67 per share in the first quarter of 2015, compared to $4.7 million, or $0.62 per share in the first quarter of 2014. Net interest income decreased $652 thousand, or 4.4 percent for the first quarter of 2015 versus 2014 while noninterest income increased $749 thousand, or 21.0 percent and noninterest expense decreased $193 thousand, or 1.7 percent. As a result, the efficiency ratio improved to 58.63% for the first quarter of 2015 compared to 59.79% for the first quarter of 2014.

Total assets decreased $27.7 million or 6.5 percent annualized in 2015. For the quarter ended March 31, 2015, loans increased $27.3 million or 9.1 percent annualized. Total deposits decreased $9.3 million or 2.6 percent annualized in the first quarter of 2015. Stockholders' equity equaled $249.5 million or $33.05 per share at March 31, 2015 compared to $246.8 million or $32.69 per share at December 31, 2014 and $242.6 million or $32.13 per share at March 31, 2014. Dividends declared amounted to $0.31 per share representing a dividend payout ratio of 46.4%.

With respect to our latest nonfinancial accomplishments, we entered into the Luzerne County market through the acquisition of a commercial property located in Kingston, PA. The office is expected to be fully operational by the first quarter of 2016. We completed a successful first full quarter of operations in the newly established Lehigh Valley market through the origination of $36.5 million in loans and acquisition of $3.2 million in deposits at March 31, 2015. We began the process of reconstituting the Wealth Management Division and Trust Department of Peoples Security Bank and Trust Company under the direction of a professional with 31 years of experience in reengineering fiduciary and investment advisory service functions. With respect to technological enhancements, we began offering mobile banking to all customers starting in March, 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

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
First Quarter, 2015	$49.26	$39.35	$0.31
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

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 Avenue, 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

March 31, 2015