Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

December 31	Three Months Ended 2017	Three Months Ended 2016	Year Ended 2017	Year Ended 2016
Interest income:				
Interest and fees on loans:				
Taxable	$ 16,925	$ 15,502	$ 64,946	$ 59,902
Tax-exempt	829	730	3,163	3,031
Interest and dividends on investment securities:				
Taxable	819	636	2,949	2,515
Tax-exempt	737	827	2,999	3,438
Dividends	15	17	52	48
Interest on interest-bearing deposits in other banks	26	3	133	50
Total interest income	19,351	17,715	74,242	68,984
Interest expense:				
Interest on deposits	1,833	1,468	6,450	5,429
Interest on short-term borrowings	301	120	900	402
Interest on long-term debt	307	353	1,348	1,420
Total interest expense	2,441	1,941	8,698	7,251
Net interest income	16,910	15,774	65,544	61,733
Provision for loan losses	1,200	1,400	4,800	5,000
Net interest income after provision for loan losses	15,710	14,374	60,744	56,733
Noninterest income:				
Service charges, fees and commissions	1,934	1,603	7,344	6,116
Merchant services income	185	990	2,543	4,199
Commissions and fees on fiduciary activities	515	481	2,057	1,976
Wealth management income	330	319	1,411	1,298
Mortgage banking income	208	269	784	885
Life insurance investment income	192	197	769	791
Net gain on sale of investment securities available-for-sale				623
Net gain on sale of merchant services business			2,278	
Total noninterest income	3,364	3,859	17,186	15,888
Noninterest expense:				
Salaries and employee benefits expense	6,819	5,732	26,670	22,434
Net occupancy and equipment expense	2,648	2,424	9,975	9,422
Merchant services expense	12	723	1,808	2,993
Amortization of intangible assets	249	287	1,034	1,186
Professional fees and outside services	509	596	2,277	2,128
Donations	310	253	1,188	1,006
Other expenses	1,908	2,267	8,341	8,861
Total noninterest expense	12,455	12,282	51,293	48,030
Income before income taxes	6,619	5,951	26,637	24,591
Income tax expense	3,971	1,223	8,180	5,008
Net income	2,648	4,728	18,457	19,583
Other comprehensive loss:				
Unrealized loss on investment securities available-for-sale	(2,866)	(4,420)	(1,790)	(3,417)
Reclassification adjustment for gains included in net income				(623)
Change in benefit plan liabilities	318	917	318	917
Other comprehensive loss	(2,548)	(3,503)	(1,472)	(3,123)
Income tax	(892)	(1,226)	(515)	(1,093)
Other comprehensive loss, net of income taxes	(1,656)	(2,277)	(957)	(2,030)
Comprehensive income	$ 992	$ 2,451	$ 17,500	$ 17,553
Per share data:				
Net income	$ 0.36	$ 0.64	$ 2.50	$ 2.65
Cash dividends declared	$ 0.32	$ 0.31	$ 1.26	$ 1.24
Average common shares outstanding	7,396,505	7,394,143	7,395,837	7,396,716

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2017	December 31, 2016
Assets:		
Cash and due from banks	$ 36,336	$ 39,496
Interest-bearing deposits in other banks	1,152	445
Investment securities:		
Available-for-sale	272,548	259,410
Held-to-maturity: Fair value December 31, 2017, $9,547; December 31, 2016, $10,714	9,274	10,517
Total investments	281,822	269,927
Loans held for sale	106	
Loans, net	1,693,065	1,532,965
Less: allowance for loan losses	18,960	15,961
Net loans	1,674,105	1,517,004
Premises and equipment, net	37,557	33,260
Accrued interest receivable	6,936	6,228
Goodwill	63,370	63,370
Intangible assets	3,178	4,211
Other assets	64,469	65,501
Total assets	$ 2,169,031	$ 1,999,442
Liabilities:		
Deposits:		
Noninterest-bearing	$ 380,729	$ 353,686
Interest-bearing	1,338,289	1,235,071
Total deposits	1,719,018	1,588,757
Short-term borrowings	123,675	82,700
Long-term debt	49,734	58,134
Accrued interest payable	497	462
Other liabilities	11,131	12,771
Total liabilities	$ 1,904,055	$ 1,742,824
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: 7,396,505 shares at December 31, 2017 and 7,394,143 shares at December 31, 2016	14,793	14,788
Capital surplus	135,043	134,871
Retained earnings	121,353	111,114
Accumulated other comprehensive (loss)	(6,213)	(4,155)
Total stockholders' equity	264,976	256,618
Total liabilities and stockholders' equity	$ 2,169,031	$ 1,999,442

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, 2017, 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,		2017		2016		Change $	Change %	
Financial Position:								
Assets	$	2,169,031	$	1,999,442	$	169,589	8.48	%
Investment securities		281,822		269,927		11,895	4.41	
Loans, net		1,693,065		1,532,965		160,100	10.44	
Deposits		1,719,018		1,588,757		130,261	8.20	
Stockholders' equity		264,976		256,618		8,358	3.26	
Earning assets		1,976,039		1,803,337		172,702	9.58	
Interest-bearing liabilities	$	1,511,698	$	1,375,905	$	135,793	9.87	%
Financial Performance:								
Net interest income	$	65,544	$	61,733	$	3,811	6.17	%
Provision for loan losses		4,800		5,000		(200)	(4.00)	
Noninterest income		17,186		15,888		1,298	8.17	
Noninterest expense		51,293		48,030		3,263	6.79	
Income tax expense		8,180		5,008		3,172	63.34	
Net income		18,457		19,583		(1,126)	(5.75)	
Comprehensive income	$	17,500	$	17,553	$	(53)	(0.30)	%
Financial Ratios:								
Net income as a percentage of average total assets		0.90	%	1.02	%			
Net income as a percentage of average stockholders' equity		7.02		7.64				
Stockholders' equity as a percentage of total assets		12.22		12.83				
Net interest income as a percentage of average earning assets		3.69		3.77				
Loans, net as a percentage of deposits		98.49		96.49				
Net loans charged-off as a percentage of average loans, net		0.11	%	0.14	%			
Per Share Data:								
Net income	$	2.50	$	2.65				
Cash dividends declared		1.26		1.24				
Stockholders' equity	$	35.82	$	34.71				

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 $18.5 million, or $2.50 per share for the year ended December 31, 2017, compared to $19.6 million, or $2.65 per share for the comparable period in 2016. Net interest income increased $3.8 million or 6.2% for the year ended December 31, 2017 versus the year ago period while noninterest income increased $1.3 million, or 8.2%, and noninterest expense increased $3.3 million, or 6.8% when comparing the same period last year. The year ago period included gains on the sale of investment securities of $623 thousand while a gain of $2.3 million on the sale of our merchant services business was recognized in the current period. Also in the current period, with the signing of the Tax Cuts and Jobs Act, which lowered the corporate income tax rate to 21 percent from 35 percent, we revalued our net deferred tax assets. This resulted in a one-time charge to federal income tax expense in the amount of $2.6 million.

Total assets increased $169.6 million or 8.5% in 2017. For the year ended December 31, 2017, loans, net have increased $160.1 million or 10.4% while total deposits increased $130.3 million or 8.2%. Stockholders' equity equaled $265 million or $35.82 per share at December 31, 2017 compared to $256.6 million or $34.71 per share at year-end 2016. Dividends declared amounted to $1.26 per share representing a dividend payout ratio of 50.4%.

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
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	Kingston	(570) 288-0128
Airport Road	(610) 691-1202	Meshoppen	(570) 833-5171
Binghamton West Side	(607) 729-3832	Minooka	(570) 955-1883
Central City Scranton	(570) 346-7741	Montrose	(570) 278-4100
Conklin	(607) 722-2114	Moscow	(570) 842-7626
Duryea	(570) 457-1120	Mount Pocono	(570) 839-8732
East Scranton	(570) 342-9101	Nicholson	(570) 942-2265
Emrick Blvd	(610) 317-4690	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
Hallstead	(570) 879-2195	Tilghman Street	(610) 398-9680
Hop Bottom	(570) 289-4124	Tunkhannock	(570) 836-2135
King of Prussia	(610) 265-0503	Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Fourth Quarter, 2017	$ 51.06	$ 44.04	$ 0.32
Third Quarter, 2017	49.00	39.25	0.32
Second Quarter, 2017	45.73	39.25	0.31
First Quarter, 2017	$ 49.57	$ 39.66	$ 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 John R. Anderson III, Senior Vice President, Interim Principal Financial and Accounting Officer at (570) 346-7741 x2317.

Dividend Reinvestment

American Stock Transfer and Trust Company administers a Dividend Reinvestment Plan whereby stockholders can 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 full 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, calling (570) 346-7741 x2352 or visiting our website at http://www.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

December 31, 2017