Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

March 31	Three Months Ended 2018	2017
Interest income:		
Interest and fees on loans:		
Taxable	$ 17,509	$ 15,541
Tax-exempt	870	726
Interest and dividends on investment securities:		
Taxable	858	697
Tax-exempt	701	794
Dividends	16	12
Interest on interest-bearing deposits in other banks	40	29
Total interest income	19,994	17,799
Interest expense:		
Interest on deposits	1,834	1,434
Interest on short-term borrowings	667	174
Interest on long-term debt	306	348
Total interest expense	2,807	1,956
Net interest income	17,187	15.843
Provision for loan losses	1,050	1,200
Net interest income after provision for loan losses	16,137	14,643
Noninterest income:		
Service charges, fees and commissions	2,088	1,572
Merchant services income	250	1,015
Commissions and fees on fiduciary activities	497	508
Wealth management income	411	319
Mortgage banking income	147	179
Life insurance investment income	187	189
Net losses on investment securities	(8)	-
Total noninterest income	3,572	3,782
Noninterest expense:		
Salaries and employee benefits expense	6,955	6,275
Net occupancy and equipment expense	2,814	2,394
Merchant services expense	2	730
Amortization of intangible assets	230	268
Professional fees and outside services	623	529
FDIC insurance and assessments	286	127
Donations	313	272
Other expenses	1,858	1,761
Total noninterest expense	13,081	12,356
Income before income taxes	6,628	6,069
Income tax expense	774	1,269
Net income	5,854	4,800
Other comprehensive income (loss):		
Unrealized (losses) gains on investment securities available-for-sale	(2,376)	273
Income tax (benefit) expense related to other comprehensive income	(501)	96
Other comprehensive (loss) income, net of income taxes	(1,875)	177
Comprehensive income	$ 3,979	$ 4,977
Per share data:		
Net income	$ 0.79	$ 0.65
Cash dividends declared	$ 0.32	$ 0.31
Average common shares outstanding	7,396,505	7,394,143

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	March 31, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 26,699	$ 36,336
Interest-bearing deposits in other banks	76	1,152
Investment securities:		
Available-for-sale	271,378	272,502
Equity investments carried at fair value	189	46
Held-to-maturity: Fair value March 31, 2018, $9,104; December 31, 2017, $9,547	9,028	9,274
Total investment securities	280,595	281,822
Loans held for sale		106
Loans, net	1,725,781	1,693,065
Less: allowance for loan losses	19,718	18,960
Net loans	1,706,063	1,674,105
Premises and equipment, net	37,511	37,557
Accrued interest receivable	6,482	6,936
Goodwill	63,370	63,370
Intangible assets	2,948	3,178
Other assets	66,644	64,469
Total assets	$ 2,190,388	$ 2,169,031
Liabilities:		
Deposits:		
Noninterest-bearing	$ 394,729	$ 380,729
Interest-bearing	1,325,289	1,338,289
Total deposits	1,720,018	1,719,018
Short-term borrowings	142,500	123,675
Long-term debt	49,265	49,734
Accrued interest payable	518	497
Other liabilities	11,463	11,131
Total liabilities	$ 1,923,764	1,904,055
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,396,505 shares at March 31, 2018 and December 31, 2017	14,793	14,793
Capital surplus	135,080	135,043
Retained earnings	124,841	121,353
Accumulated other comprehensive loss	(8,090)	(6,213)
Total stockholders' equity	266,624	264,976
Total liabilities and stockholders' equity	$ 2,190,388	$ 2,169,031

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, 2018, 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)

Three Months Ended March 31	2018	2017	Change $	Change %
Financial Position:				
Assets	$ 2,190,388	$ 2,023,506	$ 166,882	8.25 %
Investment securities	280,595	274,824	5,771	2.10
Loans, net	1,725,781	1,559,867	165,914	10.64
Deposits	1,720,018	1,615,544	104,474	6.47
Stockholders' equity	266,624	259,319	7,305	2.82
Earning assets	2,006,452	1,834,995	171,457	9.34
Interest-bearing liabilities	$ 1,517,054	$ 1,392,096	$ 124,958	8.98 %
Financial Performance:				
Net interest income	$ 17,187	$ 15,843	$ 1,344	8.48 %
Provision for loan losses	1,050	1,200	(150)	(12.50)
Noninterest income	3,572	3,782	(210)	(5.55)
Noninterest expense	13,081	12,356	725	5.87
Income tax expense	774	1,269	(495)	(39.01)
Net income	5,854	4,800	1,054	21.96
Comprehensive income	$ 3,979	$ 4,977	$ (998)	(20.05) %
Financial Ratios:				
Net income as a percentage of average total assets	1.08 %	0.97 %		
Net income as a percentage of average stockholders' equity	8.89	7.51		
Stockholders' equity as a percentage of total assets	12.17	12.82		
Net interest income as a percentage of average earning assets	3.57	3.73		
Loans, net as a percentage of deposits	100.33	96.55		
Net loans charged-off as a percentage of average loans, net	0.07 %	0.05 %		
Per Share Data:				
Net income	$ 0.79	$ 0.65		
Cash dividends declared	0.32	0.31		
Stockholders' equity	$ 36.05	$ 35.07		

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 $5.9 million, or $0.79 per share for the three months ended March 31, 2018, compared to $4.8 million, or $0.65 per share for the comparable period in 2017. Net interest income increased $1.3 million or 8.5% for the three months ended March 31, 2018 versus the year ago period while noninterest income decreased $210 thousand, or 5.6%, and noninterest expense increased $725 thousand, or 5.9% when comparing the same period last year. The Company benefited from a lower federal corporate tax rate in the current period resulting in a decrease of $0.5 million in income tax expense.

Total assets increased $21.4 million or 4.0% annualized in 2018. For the quarter ended March 31, 2018, loans, net have increased $32.7 million or 7.8% annualized while total deposits increased $1.0 million or 0.2% annualized. Stockholders' equity equaled $266.6 million or $36.05 per share at March 31, 2018 compared to $265.0 million or $35.82 per share at year-end 2017. Dividends declared amounted to $0.32 per share representing a dividend payout ratio of 40.5%.

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 https://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
George H. Stover, Jr.
Steven L. Weinberger
Joseph T. Wright, Jr., Esq.

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
First Quarter, 2018	$47.53	$41.06	$0.32
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

Market Makers

Boenning & Scattergood, Inc.	(610) 862-5368
Griffin Financial Group, LLC	(757) 955-8444
Keefe, Bruyette & Woods	(212) 887-8996
Sandler O'Neill & Partners, LP	(800) 635-6851

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, Executive Vice President, Chief Financial Officer at (570) 346-7741 extension 2317.

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 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 at (570) 346-7741 x2352 or through our website at https://www.psbt.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

March 31, 2018