Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

June 30	Three Months Ended 2018	2017	Six Months Ended 2018	2017
Interest income:				
Interest and fees on loans:				
Taxable	$ 18,239	$ 15,945	$ 35,748	$ 31,486
Tax-exempt	871	795	1,741	1,521
Interest and dividends on investment securities:				
Taxable	934	719	1,792	1,416
Tax-exempt	661	752	1,362	1,546
Dividends	19	12	35	24
Interest on interest-bearing deposits in other banks	42	38	82	67
Total interest income	20,766	18,261	40,760	36,060
Interest expense:				
Interest on deposits	1,959	1,529	3,793	2,963
Interest on short-term borrowings	841	248	1,508	422
Interest on long-term debt	315	349	621	697
Total interest expense	3,115	2,126	5,922	4,082
Net interest income	17,651	16,135	34,838	31,978
Provision for loan losses	1,050	1,200	2,100	2,400
Net interest income after provision for loan losses	16,601	14,935	32,738	29,578
Noninterest income:				
Service charges, fees and commissions	1,885	1,682	3,973	3,254
Merchant services income	309	1,178	559	2,193
Commissions and fees on fiduciary activities	485	494	982	1,002
Wealth management income	332	348	743	667
Mortgage banking income	162	204	309	383
Life insurance investment income	191	195	378	384
Net gain on sale of investment securities available-for-sale	8			
Net gain on sale of credit card loans	291		291	
Net gain on sale of merchant services business		2,278		2,278
Total noninterest income	3,663	6,379	7,235	10,161
Noninterest expense:				
Salaries and employee benefits expense	7,390	7,026	14,345	13,301
Net occupancy and equipment expense	2,720	2,450	5,534	4,844
Merchant services expense	1	1,033	3	1,763
Amortization of intangible assets	220	258	450	526
Professional fees and outside services	446	756	1,069	1,285
FDIC insurance and assessments	297	239	583	366
Donations	343	283	656	555
Other expenses	2,079	1,957	3,937	3,718
Total noninterest expense	13,496	14,002	26,577	26,358
Income before income taxes	6,768	7,312	13,396	13,381
Income tax expense	811	1,653	1,585	2,922
Net income	5,957	5,659	11,811	10,459
Other comprehensive (loss) income:				
Unrealized (loss) gains on investment securities available-for-sale	(839)	1,184	(3,215)	1,457
Income tax expense related to other comprehensive income	(176)	415	(677)	510
Other comprehensive (loss) income, net of income taxes	(663)	769	(2,538)	947
Comprehensive income	$ 5,294	$ 6,428	$ 9,273	$ 11,406
Per share data:				
Net income	$ 0.81	$ 0.76	$ 1.60	$ 1.41
Cash dividends declared	$ 0.33	$ 0.31	$ 0.65	$ 0.62
Average common shares outstanding	7,396,533	7,396,163	7,396,519	7,395,158

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 35,249	$ 36,336
Interest-bearing deposits in other banks	130	1,152
Investment securities:		
Available-for-sale	275,050	272,502
Equity investments carried at fair value	278	46
Held-to-maturity: Fair value June 30, 2018, $8,758; December 31, 2017, $9,547	8,780	9,274
Total investments	284,108	281,822
Loans held for sale		106
Loans, net	1,753,389	1,693,065
Less: allowance for loan losses	19,573	18,960
Net loans	1,733,816	1,674,105
Premises and equipment, net	37,148	37,557
Accrued interest receivable	6,802	6,936
Goodwill	63,370	63,370
Intangible assets	2,727	3,178
Other assets	72,276	64,469
Total assets	$ 2,235,626	$ 2,169,031
Liabilities:		
Deposits:		
Noninterest-bearing	$ 400,518	$ 380,729
Interest-bearing	1,318,343	1,338,289
Total deposits	1,718,861	1,719,018
Short-term borrowings	187,450	123,675
Long-term debt	48,911	49,734
Accrued interest payable	538	497
Other liabilities	10,322	11,131
Total liabilities	1,966,082	1,904,055
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,399,054 shares at June 30, 2018 and 7,396,505 shares at December 31, 2017	14,798	14,793
Capital surplus	135,143	135,043
Retained earnings	128,356	121,353
Accumulated other comprehensive loss	(8,753)	(6,213)
Total stockholders' equity	269,544	264,976
Total liabilities and stockholders' equity	$ 2,235,626	$ 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 June 30, 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)

Six months ended June 30,	2018	2017	Change $	Change %
Financial Position:				
Assets	$ 2,235,626	$ 2,064,758	$ 170,868	8.28 %
Investment securities	284,108	266,642	17,466	6.55
Loans, net	1,753,389	1,597,362	156,027	9.77
Deposits	1,718,861	1,639,433	79,428	4.84
Stockholders' equity	269,544	263,509	6,035	2.29
Earning assets	2,037,627	1,864,379	173,248	9.29
Interest-bearing liabilities	$ 1,554,704	$ 1,431,658	$ 123,046	8.59 %
Financial Performance:				
Net interest income	$ 34,838	$ 31,978	$ 2,860	8.94 %
Provision for loan losses	2,100	2,400	(300)	(12.50)
Noninterest income	7,235	10,161	(2,926)	(28.80)
Noninterest expense	26,577	26,358	219	0.83
Provision for income tax expense	1,585	2,922	(1,337)	(45.76)
Net income	11,811	10,459	1,352	12.93
Comprehensive income	$ 9,273	$ 11,406	$ (2,133)	(18.70) %
Financial Ratios:				
Net income as a percentage of average total assets	1.08 %	1.04 %		
Net income as a percentage of average stockholders' equity	8.90	8.13		
Stockholders' equity as a percentage of total assets	12.06	12.76		
Net interest income as a percentage of average earning assets	3.57	3.71		
Loans, net as a percentage of deposits	102.01	97.43		
Net loans charged-off as a percentage of average loans, net	0.09 %	0.04 %		
Per Share Data:				
Net income	$ 1.60	$ 1.41		
Cash dividends declared	0.65	0.62		
Stockholders' equity	$ 36.43	$ 35.63		

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 $11.8 million, or $1.60 per share for the six months ended June 30, 2018, compared to $10.5 million, or $1.41 per share for the comparable period in 2017. Net interest income increased $2.9 million or 8.9% for the six months ended June 30, 2018 versus the year ago period while noninterest income decreased $2.9 million, or 28.8%, and noninterest expense increased $0.2 million, or 0.8% 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 $1.3 million in income tax expense. The year ago period included a gain of $2.3 million on the sale of our merchant services business while the current period includes a gain on the sale of our credit card portfolio of $291 thousand.

Total assets increased $66.6 million or 6.2% annualized in 2018. For the six months ended June 30, 2018, loans, net have increased $60.3 million or 7.2% annualized while total deposits decreased $0.2 million. Stockholders' equity equaled $269.5 million or $36.43 per share at June 30, 2018 compared to $265.0 million or $35.82 per share at year-end 2017. Dividends declared amounted to $0.65 per share representing a dividend payout ratio of 40.6%.

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

Offices

Abington	(570) 587-4898
Airport Road	(610) 691-1202
Binghamton	
West Side	(607) 729-3832
Central City Scranton	(570) 346-7741
Conklin	(607) 722-2114
Duryea	(570) 457-1120
East Scranton	(570) 342-9101
Emrick Boulevard	(610) 317-4690
Glenburn	(570) 585-5130
Gouldsboro	(570) 842-6473
Green Ridge	(570) 346-4695
Hallstead	(570) 879-2195
Hop Bottom	(570) 289-4124
King of Prussia	(610) 265-0503
Kingston	(570) 288-0128
Meshoppen	(570) 833-5171
Minooka	(570) 955-1883
Montrose	(570) 278-4100
Moscow	(570) 842-7626
Mount Pocono	(570) 839-8732
Nicholson	(570) 942-2265
Old Forge	(570) 457-8345
Peckville	(570) 383-2154
South Scranton	(570) 343-1151
Susquehanna	(570) 853-4901
Tilghman Street	(610) 398-9680
Tunkhannock	(570) 836-2135
Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Second Quarter, 2018	$51.68	$43.72	$0.33
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

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. trades 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 x2317.

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

June 30, 2018