Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except share and per share data)

September 30	Three Months Ended 2018	Three Months Ended 2017	Nine Months Ended 2018	Nine Months Ended 2017
Interest income:				
Interest and fees on loans:				
Taxable	$ 18,798	$ 16,535	$ 54,546	$ 48,021
Tax-exempt	919	813	2,660	2,334
Interest and dividends on investment securities:				
Taxable	998	714	2,790	2,130
Tax-exempt	639	716	2,001	2,262
Dividends	16	13	51	37
Interest on interest-bearing deposits in other banks	49	40	131	107
Total interest income	21,419	18,831	62,179	54,891
Interest expense:				
Interest on deposits	2,342	1,654	6,135	4,617
Interest on short-term borrowings	809	177	2,317	599
Interest on long-term debt	315	344	936	1,041
Total interest expense	3,466	2,175	9,388	6,257
Net interest income	17,953	16,656	52,791	48,634
Provision for loan losses	1,050	1,200	3,150	3,600
Net interest income after provision for loan losses	16,903	15,456	49,641	45,034
Noninterest income:				
Service charges, fees and commissions	1,883	2,156	5,856	5,410
Merchant services income	128	165	687	2,358
Commissions and fees on fiduciary activities	570	540	1,552	1,542
Wealth management income	305	414	1,048	1,081
Mortgage banking income	163	193	472	576
Life insurance investment income	190	193	568	577
Net gain on sale of investment securities available-for-sale	14		14	
Net gain on sale of credit card loans			291	
Net gain on sale of merchant services business				2,278
Total noninterest income	3,253	3,661	10,488	13,822
Noninterest expense:				
Salaries and employee benefits expense	6,946	6,550	21,291	19,851
Net occupancy and equipment expense	2,681	2,483	8,215	7,327
Merchant services expense	3	33	6	1,796
Amortization of intangible assets	220	259	670	785
Professional fees and outside services	431	472	1,500	1,757
FDIC insurance and assessments	247	241	830	607
Donations	355	323	1,011	878
Other expenses	1,654	2,119	5,591	5,837
Total noninterest expense	12,537	12,480	39,114	38,838
Income before income taxes	7,619	6,637	21,015	20,018
Income tax expense	902	1,287	2,487	4,209
Net income	6,717	5,350	18,528	15,809
Other comprehensive income (loss):				
Unrealized (loss) gain on investment securities available-for-sale	(1,179)	(381)	(4,394)	1,076
Income tax related to other comprehensive (loss) income	(248)	(133)	(925)	377
Other comprehensive (loss) income, net of income taxes	(931)	(248)	(3,469)	699
Comprehensive income	$ 5,786	$ 5,102	$ 15,059	$ 16,508
Per share data:				
Net income	$ 0.91	$ 0.72	$ 2.50	$ 2.14
Cash dividends declared	$ 0.33	$ 0.32	$ 0.98	$ 0.94
Average common shares outstanding	7,399,054	7,396,505	7,397,373	7,395,612

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 40,458	$ 36,336
Interest-bearing deposits in other banks	137	1,152
Investment securities:		
Available-for-sale	274,794	272,502
Equity investments carried at fair value	291	46
Held-to-maturity: Fair value September 30, 2018, $8,435; December 31, 2017, $9,547	8,551	9,274
Total investments	283,636	281,822
Loans held for sale	98	106
Loans, net	1,779,445	1,693,065
Less: allowance for loan losses	20,413	18,960
Net loans	1,759,032	1,674,105
Premises and equipment, net	37,467	37,557
Accrued interest receivable	6,565	6,936
Goodwill	63,370	63,370
Intangible assets	2,507	3,178
Other assets	64,573	64,469
Total assets	$ 2,257,843	$ 2,169,031
Liabilities:		
Deposits:		
Noninterest-bearing	$ 404,293	$ 380,729
Interest-bearing	1,423,571	1,338,289
Total deposits	1,827,864	1,719,018
Short-term borrowings	99,450	123,675
Long-term debt	48,461	49,734
Accrued interest payable	745	497
Other liabilities	8,352	11,131
Total liabilities	1,984,872	1,904,055
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,399,054 shares at September 30, 2018 and 7,396,505 shares at December 31, 2017	14,798	14,793
Capital surplus	135,226	135,043
Retained earnings	132,631	121,353
Accumulated other comprehensive loss	(9,684)	(6,213)
Total stockholders' equity	272,971	264,976
Total liabilities and stockholders' equity	$ 2,257,843	$ 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 September 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)

Nine months ended September 30,		2018		2017		Change $	Change %	
Financial Position:								
Assets	$	2,257,843	$	2,092,236	$	165,607	7.92	%
Investment securities		283,636		268,702		14,934	5.56	
Loans, net		1,779,445		1,632,515		146,930	9.00	
Deposits		1,827,864		1,687,855		140,009	8.30	
Stockholders' equity		272,971		266,296		6,675	2.51	
Earning assets		2,063,218		1,902,284		160,934	8.46	
Interest-bearing liabilities	$	1,571,482	$	1,437,808	$	133,674	9.30	%
Financial Performance:								
Net interest income	$	52,791	$	48,634	$	4,157	8.55	%
Provision for loan losses		3,150		3,600		(450)	(12.50)	
Noninterest income		10,488		13,822		(3,334)	(24.12)	
Noninterest expense		39,114		38,838		276	0.71	
Provision for income tax expense		2,487		4,209		(1,722)	(40.91)	
Net income		18,528		15,809		2,719	17.20	
Comprehensive income	$	15,059	$	16,508	$	(1,449)	(8.78)	%
Financial Ratios:								
Net income as a percentage of average total assets		1.12	%	1.04	%			
Net income as a percentage of average stockholders' equity		9.21		8.09				
Stockholders' equity as a percentage of total assets		12.09		12.73				
Net interest income as a percentage of average earning assets		3.57		3.71				
Loans, net as a percentage of deposits		97.35		96.72				
Net loans charged-off as a percentage of average loans, net		0.10	%	0.05	%			
Per Share Data:								
Net income	$	2.50	$	2.14				
Cash dividends declared		0.98		0.94				
Stockholders' equity	$	36.89	$	36.00				

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 nine months ended September 30, 2018, compared to $15.8 million, or $2.14 per share for the comparable period in 2017. Net interest income increased $4.2 million or 8.6% for the nine months ended September 30, 2018 versus the year ago period while noninterest income decreased $3.3 million, or 24.1%, and noninterest expense increased $276 thousand, or 0.7% when comparing the same period last year. The Company benefited from a lower federal coporate tax rate in the current period resulting in a decrease of $1.7 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 of $291 from the sale of our credit card portfolio.

Total assets increased $88.8 million or 5.5% annualized in 2018. For the nine months ended September 30, 2018, loans, net have increased $86.4 million or 6.8% annualized while total deposits increased $108.8 million or 8.5% annualized. Stockholders' equity equaled $273.0 million or $36.89 per share at September 30, 2018 compared to $265.0 million or $35.82 per share at year-end 2017. Dividends declared amounted to $0.98 per share representing a dividend payout ratio of 39.2%.

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

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) 955-1700	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 Boulevard	(610) 317-4690	Old Forge	(570) 451-7200
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) 205-1880	Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Third Quarter, 2018	$48.10	$42.40	$0.33
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

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 https://www.psbt.com.

Peoples Financial
SERVICES CORP.

QUARTERLY REPORT

September 30, 2018