Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
June 30	2019	2018	2019	2018
Interest income:				
Interest and fees on loans:				
Taxable	$ 20,641	$ 18,239	$ 40,744	$ 35,748
Tax-exempt	1,109	871	2,208	1,741
Interest and dividends on investment securities:				
Taxable	1,025	934	2,035	1,792
Tax-exempt	520	661	1,082	1,362
Dividends	22	19	41	35
Interest on interest-bearing deposits in other banks	15	42	23	82
Total interest income	23,332	20,766	46,133	40,760
Interest expense:				
Interest on deposits	3,713	1,959	7,124	3,793
Interest on short-term borrowings	595	841	1,408	1,508
Interest on long-term debt	296	315	576	621
Total interest expense	4,604	3,115	9,108	5,922
Net interest income	18,728	17,651	37,025	34,838
Provision for loan losses	350	1,050	1,400	2,100
Net interest income after provision for loan losses	18,378	16,601	35,625	32,738
Noninterest income:				
Service charges, fees and commissions	2,490	1,885	4,489	3,973
Merchant services income	457	309	655	559
Commissions and fees on fiduciary activities	492	485	999	982
Wealth management income	370	332	747	743
Mortgage banking income	137	162	285	309
Life insurance investment income	192	191	378	378
Net (loss) gain on investment securities	(9)	8	(8)	
Net gain on sale of investment securities available-for-sale	23		23	
Net gain on sale of credit card loans		291		291
Total noninterest income	4,152	3,663	7,568	7,235
Noninterest expense:				
Salaries and employee benefits expense	8,037	7,390	15,632	14,345
Net occupancy and equipment expense	2,849	2,720	5,810	5,534
Amortization of intangible assets	182	220	374	450
Professional fees and outside services	525	446	856	1,069
FDIC insurance and assessments	288	297	547	583
Donations	359	343	691	656
Other expenses	2,189	2,080	4,009	3,940
Total noninterest expense	14,429	13,496	27,919	26,577
Income before income taxes	8,101	6,768	15,274	13,396
Income tax expense	957	811	1,718	1,585
Net income	7,144	5,957	13,556	11,811
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities available-for-sale	2,611	(839)	5,050	(3,215)
Reclassification adjustment for gains included in net income	(23)		(23)	
Change in derivative fair value	443		506	
Income tax expense (benefit) related to other comprehensive income	637	(176)	1,162	(677)
Other comprehensive income (loss), net of income taxes	2,394	(663)	4,371	(2,538)
Comprehensive income	$ 9,538	$ 5,294	$ 17,927	$ 9,273
Per share data:				
Net income	$ 0.96	$ 0.81	$ 1.83	$ 1.60
Cash dividends declared	$ 0.34	$ 0.33	$ 0.68	$ 0.65
Average common shares outstanding	7,399,302	7,396,533	7,399,178	7,396,519

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2019	December 31, 2018
Assets:		
Cash and due from banks	$ 26,615	$ 32,569
Interest-bearing deposits in other banks	3,347	47
Investment securities:		
Available-for-sale	261,665	269,682
Equity investments carried at fair value	283	291
Held-to-maturity: Fair value June 30, 2019, $8,151; December 31, 2018, $8,380	7,969	8,361
Total investments	269,917	278,334
Loans held for sale	831	749
Loans, net	1,858,799	1,823,266
Less: allowance for loan losses	21,930	21,379
Net loans	1,836,869	1,801,887
Premises and equipment, net	46,468	38,889
Accrued interest receivable	7,303	7,115
Goodwill	63,370	63,370
Intangible assets	1,921	2,296
Other assets	67,625	63,737
Total assets	$ 2,324,266	$ 2,288,993
Liabilities:		
Deposits:		
Noninterest-bearing	$ 419,995	$ 410,260
Interest-bearing	1,456,804	1,464,762
Total deposits	1,876,799	1,875,022
Short-term borrowings	82,700	86,500
Long-term debt	52,980	37,906
Accrued interest payable	1,058	1,195
Other liabilities	19,146	9,756
Total liabilities	2,032,683	2,010,379
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,399,078 shares at June 30, 2019 and 7,399,054 shares at December 31, 2018	14,798	14,798
Capital surplus	135,384	135,310
Retained earnings	145,106	136,582
Accumulated other comprehensive loss	(3,705)	(8,076)
Total stockholders' equity	291,583	278,614
Total liabilities and stockholders' equity	$ 2,324,266	$ 2,288,993

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, 2019 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,	2019	2018	Change $	Change %
Financial Position:				
Assets	$ 2,324,266	$ 2,235,626	$ 88,640	3.96 %
Investment securities	269,917	284,108	(14,191)	(4.99)
Loans, net	1,858,799	1,753,389	105,410	6.01
Deposits	1,876,799	1,718,861	157,938	9.19
Stockholders' equity	291,583	269,544	22,039	8.18
Earning assets	2,132,063	2,037,627	94,436	4.63
Interest-bearing liabilities	$ 1,592,484	$ 1,554,704	$ 37,780	2.43 %
Financial Performance:				
Net interest income	$ 37,025	$ 34,838	$ 2,187	6.28 %
Provision for loan losses	1,400	2,100	(700)	(33.33)
Noninterest income	7,568	7,235	333	4.60
Noninterest expense	27,919	26,577	1,342	5.05
Income tax expense	1,718	1,585	133	8.39
Net income	13,556	11,811	1,745	14.77
Comprehensive income	$ 17,927	$ 9,273	$ 8,654	93.32 %
Financial Ratios:				
Net income as a percentage of average total assets	1.18 %	1.08 %		
Net income as a percentage of average stockholders' equity	9.63	8.90		
Stockholders' equity as a percentage of total assets	12.55	12.06		
Net interest income as a percentage of average earning assets	3.60	3.57		
Loans, net as a percentage of deposits	99.04	102.01		
Net loans charged-off as a percentage of average loans, net	0.09 %	0.17 %		
Per Share Data:				
Net income	$ 1.83	$ 1.60		
Cash dividends declared	0.68	0.65		
Stockholders' equity	$ 39.41	$ 36.43		

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 $13.6 million, or $1.83 per share for the six months ended June 30, 2019, compared to $11.8 million, or $1.60 per share for the comparable period in 2018. Net interest income increased $2.2 million or 6.3% for the six months ended June 30, 2019 versus the year ago period while noninterest income increased $333 thousand, or 4.6%, and noninterest expense increased $1.3 million, or 5.0% when comparing the same period last year. The year ago period included a gain of $291 thousand on the sale of our credit card loans while the current period includes gains on the sale of investment securities of $23 thousand.

Total assets increased $35.3 million or 3.1% annualized in 2019. For the six months ended June 30, 2019, loans, net have increased $35.5 million or 3.9% annualized while total deposits increased $1.8 million. Stockholders' equity equaled $291.6 million or $39.41 per share at June 30, 2019 compared to $278.6 million or $37.66 per share at year-end 2018. Dividends declared amounted to $0.68 per share representing a dividend payout ratio of 37.2%.

Lastly, as we expand into new markets, we are excited to announce the June 2019 opening of our newest office in Lebanon County which will service customers in portions of Central Pennsylvania.

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

Offices

Abington	(570) 587-4898	King of Prussia	(610) 265-0503
Airport Road	(610) 691-1202	Kingston	(570) 288-0128
Binghamton		Meshoppen	(570) 833-5171
West Side	(607) 729-3832	Minooka	(570) 955-1883
Central City Scranton	(570) 346-7741	Montrose	(570) 278-4100
Central PA Business		Moscow	(570) 842-7626
Center	(717) 279-2200	Mount Pocono	(570) 839-8732
Conklin	(607) 722-2114	Nicholson	(570) 942-2265
Duryea	(570) 457-1120	Old Forge	(570) 457-8345
East Scranton	(570) 342-9101	Orwigsburg Business	
Emrick Boulevard	(610) 317-4690	Lending Center	(570) 968-4720
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

Common Stock Information

	High	Low	Dividends Declared
Second Quarter, 2019	$45.41	$42.00	$0.34
First Quarter, 2019	46.74	40.34	0.34
Fourth Quarter, 2018	44.06	40.00	0.33
Third Quarter, 2018	$48.10	$42.40	$0.33

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, 2019