Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

December 31	Three Months Ended 2015	Three Months Ended 2014	Year Ended 2015	Year Ended 2014
Interest income:				
Interest and fees on loans:				
Taxable	$ 13,932	$ 13,281	$ 54,004	$ 54,316
Tax-exempt	637	658	2,351	2,265
Interest and dividends on investment securities:				
Taxable	699	1,069	3,207	3,946
Tax-exempt	887	809	3,385	3,271
Dividends	11	18	35	50
Interest on interest-bearing deposits in other banks	10	9	49	38
Interest on federal funds sold	1	6	10	70
Total interest income	16,177	15,850	63,041	63,956
Interest expense:				
Interest on deposits	1,264	1,306	4,953	5,431
Interest on short-term borrowings	30	4	53	71
Interest on long-term debt	275	276	1,031	1,140
Total interest expense	1,569	1,586	6,037	6,642
Net interest income	14,608	14,264	57,004	57,314
Provision for loan losses	1,300	800	3,700	3,524
Net interest income after provision for loan losses	13,308	13,464	53,304	53,790
Noninterest income:				
Service charges, fees and commissions	1,560	1,669	6,245	6,484
Merchant services income	919	765	3,855	3,549
Commissions and fees on fiduciary activities	459	489	1,946	2,179
Wealth management income	218	183	845	752
Mortgage banking income	205	214	872	648
Life insurance investment income	198	213	767	778
Net gains on sale of investment securities available-for-sale	210		1,189	861
Total noninterest income	3,769	3,533	15,719	15,251
Noninterest expense:				
Salaries and employee benefits expense	5,290	5,769	21,532	20,652
Net occupancy and equipment expense	2,241	2,022	9,104	8,102
Merchant services expense	637	514	2,643	2,236
Amortization of intangible assets	286	323	1,182	1,333
Acquisition related expense				1,725
Other expenses	4,014	2,695	12,318	11,885
Total noninterest expense	12,468	11,323	46,779	45,933
Income before income taxes	4,609	5,674	22,244	23,108
Income tax expense	770	1,290	4,521	5,459
Net income	3,839	4,384	17,723	17,649
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	(644)	1,532	(510)	4,343
Reclassification adjustment for gains included in net income	(210)		(1,189)	(861)
Change in pension liability	(296)	(3,684)	(296)	(3,684)
Other comprehensive income (loss)	(1,150)	(2,152)	(1,995)	(202)
Income tax expense (benefit) related to other comprehensive income (loss)	(404)	(753)	(699)	(71)
Other comprehensive income (loss), net of income taxes	(746)	(1,399)	(1,296)	(131)
Comprehensive income	$ 3,093	$ 2,985	$ 16,427	$ 17,518
Per share data:				
Net income	$ 0.52	$ 0.58	$ 2.36	$ 2.34
Cash dividends declared	$ 0.31	$ 0.31	$ 1.24	$ 1.24
Average common shares outstanding	7,435,440	7,548,358	7,516,451	7,548,825

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	December 31, 2015	December 31, 2014
Assets:		
Cash and due from banks	$ 28,218	$ 24,656
Interest-bearing deposits in other banks	4,699	6,770
Federal funds sold		
Investment securities:		
Available-for-sale	284,935	339,586
Held-to-maturity: Fair value December 31, 2015, $12,606; December 31, 2014, $15,215	12,109	14,665
Total investments	297,044	354,251
Loans held for sale		3,486
Loans, net	1,340,865	1,209,894
Less: allowance for loan losses	12,975	10,338
Net loans	1,327,890	1,199,556
Premises and equipment, net	28,157	25,433
Accrued interest receivable	5,796	5,580
Goodwill	63,370	63,370
Intangible assets	5,397	5,501
Other assets	58,487	53,066
Total assets	$ 1,819,058	$ 1,741,669
Liabilities:		
Deposits:		
Noninterest-bearing	$ 320,978	$ 313,498
Interest-bearing	1,134,832	1,112,060
Total deposits	1,455,810	1,425,558
Short-term borrowings	38,325	19,557
Long-term debt	60,354	33,140
Accrued interest payable	560	574
Other liabilities	15,241	16,061
Total liabilities	$ 1,570,290	$ 1,494,890
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: December 31, 2015, 7,410,606 shares; December 31, 2014, 7,548,358 shares	14,821	15,097
Capital surplus	135,371	140,214
Retained earnings	100,701	92,297
Accumulated other comprehensive (loss)	(2,125)	(829)
Total stockholders' equity	248,768	246,779
Total liabilities and stockholders' equity	$ 1,819,058	$ 1,741,669

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, 2015, 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,	2015	2014	Change $	Change %
Financial Position:				
Assets	$ 1,819,058	$ 1,741,669	$ 77,389	4.44 %
Investment securities	297,044	354,251	(57,207)	(16.15)
Loans, net	1,340,865	1,209,894	130,971	10.82
Deposits	1,455,810	1,425,558	30,252	2.12
Stockholders' equity	248,768	246,779	1,989	0.81
Earning assets	1,642,608	1,574,401	68,207	4.33
Interest-bearing liabilities	$ 1,233,511	$ 1,164,757	$ 68,754	5.90 %
Financial Performance:				
Net interest income	$ 57,004	$ 57,314	$ (310)	(0.54) %
Provision for loan losses	3,700	3,524	176	4.99
Noninterest income	15,719	15,251	468	3.07
Noninterest expense	46,779	45,933	846	1.84
Provision for income tax expense	4,521	5,459	(938)	(17.18)
Net income	17,723	17,649	74	0.42
Comprehensive income	$ 16,427	$ 17,518	$ (1,091)	(6.23) %
Financial Ratios:				
Net income as a percentage of average total assets	1.02 %	1.03 %		
Net income as a percentage of average stockholders' equity	7.13	7.29		
Stockholders' equity as a percentage of total assets	13.68	14.17		
Net interest income as a percentage of average earning assets	3.81	3.86		
Loans, net as a percentage of deposits	92.10	84.87		
Net loans charged-off as a percentage of average loans, net	0.08 %	0.15 %		
Per Share Data:				
Net income	$ 2.36	$ 2.34		
Cash dividends declared	1.24	1.24		
Stockholders' equity	$ 33.57	$ 32.69		

Note: Tax-equivalent adjustment was calculated using the prevailing statutory rate.

Dear Fellow Shareholder:

I am pleased to report that your Company recorded earnings for the year ended December 31, of $17.7 million, or $2.36 per share in 2015, compared to $17.6 million, or $2.34 per share for 2014. Net interest income decreased $310 thousand, or 0.5 percent in 2015 versus 2014 while total noninterest income increased $468 thousand, or 3.1 percent and total noninterest expense increased $846 thousand, or 1.8 percent. For the year ended December 31, return on average assets was 1.02% in 2015 and 1.03% in 2014.

Total assets increased $77.4 million or 4.4 percent in 2015. For the year ended December 31, 2015, loans increased $131.0 million or 10.8 percent. Total deposits increased $30.3 million or 2.1 percent for the year ended December 31, 2015. Stockholders' equity equaled $248.8 million or $33.57 per share at December 31, 2015 compared to $246.8 million or $32.69 per share at year end 2014. Dividends declared amounted to $1.24 per share representing a dividend payout ratio of 52.5%.

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 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	Meshoppen	(570) 833-5171
Bethlehem	(610) 691-1905	Minooka	(570) 955-1883
Binghamton Front St	(607) 721-8830	Montrose	(570) 278-4100
Binghamton West Side	(607) 729-3832	Moscow	(570) 842-7626
Central City Scranton	(570) 346-7741	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	Peckville	(570) 383-2154
Glenburn	(570) 585-5130	South Scranton	(570) 343-1151
Gouldsboro	(570) 842-6473	Susquehanna	(570) 853-4901
Green Ridge	(570) 346-4695	Tunkhannock	(570) 836-2135
Hallstead	(570) 879-2195	Wealth Management	(866) 334-6979
Hop Bottom	(570) 289-4124		

Common Stock Information

	High	Low	Dividends Declared
Fourth Quarter, 2015	$ 41.96	$ 34.43	$ 0.31
Third Quarter, 2015	41.60	34.56	0.31
Second Quarter, 2015	43.76	36.89	0.31
First Quarter, 2015	$ 49.26	$ 39.35	$ 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 Scott A. Seasock, CFO at (570) 346-7741 x2324.

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 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

December 31, 2015