Consolidated Statements of Income and Comprehensive Income

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

June 30	Three Months Ended 2016	Three Months Ended 2015	Six Months Ended 2016	Six Months Ended 2015
Interest income:				
Interest and fees on loans:				
Taxable	$ 14,760	$ 13,391	$ 29,106	$ 26,731
Tax-exempt	780	570	1,531	1,129
Interest and dividends on investment securities:				
Taxable	617	816	1,304	1,716
Tax-exempt	875	835	1,750	1,640
Dividends	11	6	21	15
Interest on interest-bearing deposits in other banks	15	15	32	26
Interest on federal funds sold		5		9
Total interest income	17,058	15,638	33,744	31,266
Interest expense:				
Interest on deposits	1,322	1,192	2,605	2,460
Interest on short-term borrowings	89	4	166	12
Interest on long-term debt	354	252	714	511
Total interest expense	1,765	1,448	3,485	2,983
Net interest income	15,293	14,190	30,259	28,283
Provision for loan losses	1,200	750	2,400	1,500
Net interest income after provision for loan losses	14,093	13,440	27,859	26,783
Noninterest income:				
Service charges, fees and commissions	1,527	1,542	2,971	3,154
Merchant services income	1,038	963	1,952	1,753
Commissions and fees on fiduciary activities	474	487	956	946
Wealth management income	296	198	708	403
Mortgage banking income	195	248	399	470
Life insurance investment income	202	188	395	377
Net gains on sale of investment securities available-for-sale	381		623	832
Total noninterest income	4,113	3,626	8,004	7,935
Noninterest expense:				
Salaries and employee benefits expense	5,904	5,613	11,236	10,846
Net occupancy and equipment expense	2,245	2,149	4,682	4,617
Merchant services expense	748	650	1,380	1,183
Amortization of intangible assets	297	295	602	600
Other expenses	2,919	2,804	5,831	5,359
Total noninterest expense	12,113	11,511	23,731	22,605
Income before income taxes	6,093	5,555	12,132	12,113
Income tax expense	1,238	1,124	2,395	2,638
Net income	4,855	4,431	9,737	9,475
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	1,128	(1,459)	2,123	(692)
Reclassification adjustment for gains included in net income	(381)		(623)	(832)
Other comprehensive income (loss)	747	(1,459)	1,500	(1,524)
Income tax expense (benefit) related to other comprehensive income (loss)	261	(510)	525	(533)
Other comprehensive income (loss), net of income taxes	486	(949)	975	(991)
Comprehensive income	$ 5,341	$ 3,482	$ 10,712	$ 8,484
Per share data:				
Net income	$ 0.66	$ 0.59	$ 1.32	$ 1.26
Cash dividends declared	$ 0.31	$ 0.31	$ 0.62	$ 0.62
Average common shares outstanding	7,395,127	7,546,198	7,399,318	7,547,272

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	$ 29,805	$ 28,218
Interest-bearing deposits in other banks	272	4,699
Federal funds sold		
Investment securities:		
Available-for-sale	251,382	284,935
Held-to-maturity	11,262	12,109
Total investments	262,644	297,044
Loans held for sale		
Loans, net	1,464,808	1,340,865
Less: allowance for loan losses	14,799	12,975
Net loans	1,450,009	1,327,890
Premises and equipment, net	29,510	28,157
Accrued interest receivable	5,952	5,796
Goodwill	63,370	63,370
Intangible assets	4,795	5,397
Other assets	65,253	58,487
Total assets	$ 1,911,610	$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	$ 323,785	$ 320,978
Interest-bearing	1,173,078	1,134,832
Total deposits	1,496,863	1,455,810
Short-term borrowings	86,300	38,325
Long-term debt	59,232	60,354
Accrued interest payable	453	560
Other liabilities	14,437	15,241
Total liabilities	1,657,285	1,570,290
Stockholders' equity:		
Comon stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: June 30, 2016, 7,394,143 shares; December 31, 2015, 7,410,606 shares	14,788	14,821
Capital surplus	134,835	135,371
Retained earnings	105,852	100,701
Accumulated other comprehensive loss	(1,150)	(2,125)
Total stockholders' equity	254,325	248,768
Total liabilities and stockholders' equity	$ 1,911,610	$ 1,819,058

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, 2016, 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,	2016	2015	Change $	Change %
Financial Position:				
Assets	$ 1,911,610	$ 1,747,755	$ 163,855	9.38 %
Investment securities	262,644	332,416	(69,772)	(20.99)
Loans, net	1,464,808	1,231,541	233,267	18.94
Deposits	1,496,863	1,424,767	72,096	5.06
Stockholders' equity	254,325	250,404	3,921	1.57
Earning assets	1,727,724	1,573,546	154,178	9.80
Interest-bearing liabilities	$ 1,318,610	$ 1,185,467	$ 133,143	11.23 %
Financial Performance:				
Net interest income	$ 30,259	$ 28,283	$ 1,976	6.99 %
Provision for loan losses	2,400	1,500	900	60.00
Noninterest income	8,004	7,935	69	0.87
Noninterest expense	23,731	22,605	1,126	4.98
Provision for income tax expense	2,395	2,638	(243)	(9.21)
Net income	9,737	9,475	262	2.77
Comprehensive income	$ 10,712	$ 8,484	$ 2,228	26.26 %
Financial Ratios:				
Net income as a percentage of average total assets	1.04 %	1.11 %		
Net income as a percentage of average stockholders' equity	7.66	7.71		
Stockholders' equity as a percentage of total assets	13.30	14.33		
Net interest income as a percentage of average earning assets	3.81	3.86		
Loans, net as a percentage of deposits	97.86	86.44		
Net loans charged-off as a percentage of average loans, net	0.08 %	0.07 %		
Per Share Data:				
Net income	$ 1.32	$ 1.26		
Cash dividends declared	0.62	0.62		
Stockholders' equity	$ 34.40	$ 33.20		

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 $9.7 million, or $1.32 per share in the first six months of 2016, compared to $9.5 million, or $1.26 per share for the comparable period in 2015. Net interest income increased $2.0 million or 7.0% for the first half of 2016 versus 2015 while noninterest income increased $69 thousand, or 0.9%, and noninterest expense increased $1.1 million, or 5.0% when comparing the same period last year. The provision for loan losses increased $900 thousand from the year ago period due to our strong loan growth.

Total assets increased $92.5 million in 2016. Loans, net have increased $123.9 million or 18.5% annually during the first six months of 2016 while total deposits increased $41.1 million or 5.6% annually. Stockholders' equity equaled $254.3 million or $34.40 per share at June 30, 2016 compared to $248.8 million or $33.57 per share at year end 2015. Dividends declared amounted to $0.62 per share representing a dividend payout ratio of 47.0%.

We are pleased to announce the opening of our new Kingston, Luzerne County, PA retail branch located at the Kingston post office at 435 Wyoming Avenue.

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 Best

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
P. Frank Kozik
Ronald G. Kukuchka
Richard S. Lochen, Jr.
Robert W. Naismith, Ph.D.
James B. Nicholas
Emily S. Perry
George H. Stover, Jr.
Steven L. Weinberger
Earle A. Wootton
Joseph T. Wright, Jr.

Offices

Abington	(570) 587-4898	Kingston	(570) 288-0128
Bethlehem	(610) 691-1202	Meshoppen	(570) 833-5171
Binghamton		Minooka	(570) 955-1883
West Side	(607) 729-3832	Montrose	(570) 278-4100
Central City Scranton	(570) 346-7741	Moscow	(570) 842-7626
Conklin	(607) 722-2114	Mount Pocono	(570) 839-8732
Duryea	(570) 457-1120	Nicholson	(570) 942-2265
East Scranton	(570) 342-9101	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	Tunkhannock	(570) 836-2135
Hop Bottom	(570) 289-4124	Wealth Management	(866) 334-6979
King of Prussia	(610) 265-0503		

Common Stock Information

	High	Low	Dividends Declared
Second Quarter, 2016	$40.55	$35.56	$0.31
First Quarter, 2016	38.77	33.22	0.31
Fourth Quarter, 2015	41.96	34.43	0.31
Third Quarter, 2015	$41.60	$34.56	$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. trades on the NASDAQ under the symbol PFIS. Stockholders, analysts, portfolio managers and others seeking financial information should contact John R Anderson III, Interim Principal Accounting 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 Street, 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, 2016