Consolidated Statements of Income and Comprehensive Income

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

September 30	Three Months Ended 2016	Three Months Ended 2015	Nine Months Ended 2016	Nine Months Ended 2015
Interest income:				
Interest and fees on loans:				
Taxable	$ 15,294	$ 13,341	$ 44,400	$ 40,072
Tax-exempt	770	585	2,301	1,714
Interest and dividends on investment securities:				
Taxable	575	792	1,879	2,508
Tax-exempt	861	858	2,611	2,498
Dividends	10	9	31	24
Interest on interest-bearing deposits in other banks	15	13	47	39
Interest on federal funds sold				9
Total interest income	17,525	15,598	51,269	46,864
Interest expense:				
Interest on deposits	1,356	1,229	3,961	3,689
Interest on short-term borrowings	116	11	282	23
Interest on long-term debt	353	245	1,067	756
Total interest expense	1,825	1,485	5,310	4,468
Net interest income	15,700	14,113	45,959	42,396
Provision for loan losses	1,200	900	3,600	2,400
Net interest income after provision for loan losses	14,500	13,213	42,359	39,996
Noninterest income:				
Service charges, fees and commissions	1,542	1,531	4,513	4,685
Merchant services income	1,257	1,183	3,209	2,936
Commissions and fees on fiduciary activities	539	541	1,495	1,487
Wealth management income	271	224	979	627
Mortgage banking income	217	197	616	667
Life insurance investment income	199	192	594	569
Net gains on sale of investment securities available-for-sale		147	623	979
Total noninterest income	4,025	4,015	12,029	11,950
Noninterest expense:				
Salaries and employee benefits expense	5,466	5,397	16,702	16,243
Net occupancy and equipment expense	2,316	2,246	6,998	6,863
Merchant services expense	890	823	2,270	2,006
Amortization of intagible assets	297	296	899	896
Other expenses	3,048	2,944	8,879	8,303
Total noninterest expense	12,017	11,706	35,748	34,311
Income before income taxes	6,508	5,522	18,640	17,635
Income tax expense	1,390	1,113	3,785	3,751
Net income	5,118	4,409	14,855	13,884
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	(1,120)	826	1,003	134
Reclassification adjustment for gains included in net income		(147)	(623)	(979)
Other comprehensive income (loss)	(1,120)	679	380	(845)
Income tax expense (benefit) related to other comprehensive income (loss)	(392)	237	133	(296)
Other comprehensive income (loss), net of income taxes	(728)	442	247	(549)
Comprehensive income	$ 4,390	$ 4,851	$ 15,102	$ 13,335
Per share data:				
Net income	$ 0.69	$ 0.58	$ 2.01	$ 1.84
Cash dividends declared	$ 0.31	$ 0.31	$ 0.93	$ 0.93
Average common shares outstanding	7,394,143	7,536,824	7,397,581	7,543,751

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	$ 31,620	$ 28,218
Interest-bearing deposits in other banks	294	4,699
Investment securities:		
Available-for-sale	249,913	284,935
Held-to-maturity: Fair value September 30, 2016, $11,546; December 31, 2015, $12,606	10,864	12,109
Total investments	260,777	297,044
Loans, net	1,522,391	1,340,865
Less: allowance for loan losses	15,712	12,975
Net loans	1,506,679	1,327,890
Loans held for sale	360	
Premises and equipment, net	33,049	28,157
Accrued interest receivable	5,309	5,796
Goodwill	63,370	63,370
Intangible assets	4,498	5,397
Other assets	65,283	58,487
Total assets	$ 1,971,239	$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	$ 342,782	$ 320,978
Interest-bearing	1,223,028	1,134,832
Total deposits	1,565,810	1,455,810
Short-term borrowings	75,300	38,325
Long-term debt	58,685	60,354
Accrued interest payable	434	560
Other liabilities	14,570	15,241
Total liabilities	1,714,799	1,570,290
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: September 30, 2016, 7,394,143 shares; December 31, 2015, 7,410,606 shares	14,788	14,821
Capital surplus	134,853	135,371
Retained earnings	108,677	100,701
Accumulated other comprehensive loss	(1,878)	(2,125)
Total stockholders' equity	256,440	248,768
Total liabilities and stockholders' equity	$ 1,971,239	$ 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 September 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)

Nine months ended September 30,	2016	2015	Change $	Change %
Financial Position:				
Assets	$ 1,971,239	$ 1,772,770	$ 198,469	11.20 %
Investment securities	260,777	312,939	(52,162)	(16.67)
Loans, net	1,522,391	1,270,545	251,846	19.82
Deposits	1,565,810	1,444,650	121,160	8.39
Stockholders' equity	256,440	252,088	4,352	1.73
Earning assets	1,783,822	1,591,893	191,929	12.06
Interest-bearing liabilities	$ 1,357,013	$ 1,202,159	$ 154,854	12.88 %
Financial Performance:				
Net interest income	$ 45,959	$ 42,396	$ 3,563	8.40 %
Provision for loan losses	3,600	2,400	1,200	50.00
Noninterest income	12,029	11,950	79	0.66
Noninterest expense	35,748	34,311	1,437	4.19
Provision for income tax expense	3,785	3,751	34	0.91
Net income	14,855	13,884	971	6.99
Comprehensive income	$ 15,102	$ 13,335	$ 1,767	13.25 %
Financial Ratios:				
Net income as a percentage of average total assets	1.04 %	1.07 %		
Net income as a percentage of average stockholders' equity	7.76	7.47		
Stockholders' equity as a percentage of total assets	13.01	14.22		
Net interest income as a percentage of average earning assets	3.79	3.82		
Loans, net as a percentage of deposits	97.23	87.95		
Net loans charged-off as a percentage of average loans, net	0.08 %	0.08 %		
Per Share Data:				
Net income	$ 2.01	$ 1.84		
Cash dividends declared	0.93	0.93		
Stockholders' equity	$ 34.68	$ 33.53		

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 $14.9 million, or $2.01 per share for the nine months ended September 30, 2016, compared to $13.9 million, or $1.84 per share for the comparable period in 2015. Net interest income increased $3.6 million or 8.4% for the nine months ended September 30, 2016 versus the same period in 2015 while noninterest income increased $79 thousand, or 0.7%, and noninterest expense increased $1.4 million, or 4.2% when comparing the same period last year. We increased the provision for loan losses by $1.2 million from the year ago period due to our strong loan growth.

Total assets increased $152.2 million in 2016. Loans, net have increased $181.5 million or 18.1% annually during the nine months ending September 30, 2016 while total deposits increased $110.0 million or 10.1% annually. Stockholders' equity equaled $256.4 million or $34.68 per share at September 30, 2016 compared to $248.8 million or $33.57 per share at year end 2015. Dividends declared amounted to $0.93 per share representing a dividend payout ratio of 46.3%.

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	Kingston	(570) 288-0128
Bethlehem	(610) 691-1905	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
Third Quarter, 2016	$40.76	$37.93	$0.31
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

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 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

September 30, 2016