Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

December 31	Three Months Ended 2016	2015	Year Ended 2016	2015
Interest income:				
Interest and fees on loans:				
Taxable	$ 15,502	$ 13,932	$ 59,902	$ 54,004
Tax-exempt	730	637	3,031	2,351
Interest and dividends on investment securities:				
Taxable	636	699	2,515	3,207
Tax-exempt	827	887	3,438	3,385
Dividends	17	11	48	35
Interest on interest-bearing deposits in other banks	3	10	50	49
Interest on federal funds sold		1		10
Total interest income	17,715	16,177	68,984	63,041
Interest expense:				
Interest on deposits	1,468	1,264	5,429	4,953
Interest on short-term borrowings	120	30	402	53
Interest on long-term debt	353	275	1,420	1,031
Total interest expense	1,941	1,569	7,251	6,037
Net interest income	15,774	14,608	61,733	57,004
Provision for loan losses	1,400	1,300	5,000	3,700
Net interest income after provision for loan losses	14,374	13,308	56,733	53,304
Noninterest income:				
Service charges, fees and commissions	1,603	1,560	6,116	6,245
Merchant services income	990	919	4,199	3,855
Commissions and fees on fiduciary activities	481	459	1,976	1,946
Wealth management income	319	218	1,298	845
Mortgage banking income	269	205	885	872
Life insurance investment income	197	198	791	767
Net gains on sale of investment securities available-for-sale		210	623	1,189
Total noninterest income	3,859	3,769	15,888	15,719
Noninterest expense:				
Salaries and employee benefits expense	5,732	5,290	22,434	21,533
Net occupancy and equipment expense	2,424	2,241	9,422	9,104
Merchant services expense	723	637	2,993	2,643
Amortization of intangible assets	287	286	1,186	1,195
Other expenses	3,116	4,014	11,995	12,304
Total noninterest expense	12,282	12,468	48,030	46,779
Income before income taxes	5,951	4,609	24,591	22,244
Income tax expense	1,223	770	5,008	4,521
Net income	4,728	3,839	19,583	17,723
Other comprehensive income (loss):				
Unrealized loss on investment securities available-for-sale	(4,420)	(644)	(3,417)	(510)
Reclassification adjustment for gains included in net income		(210)	(623)	(1,189)
Change in pension liability	917	(296)	917	(296)
Other comprehensive loss	(3,503)	(1,150)	(3,123)	(1,995)
Income tax related to other comprehensive loss	(1,226)	(404)	(1,093)	(699)
Other comprehensive loss, net of income taxes	(2,277)	(746)	(2,030)	(1,296)
Comprehensive income	$ 2,451	$ 3,093	$ 17,553	$ 16,427
Per share data:				
Net income	$ 0.64	$ 0.52	$ 2.65	$ 2.36
Cash dividends declared	$ 0.31	$ 0.31	$ 1.24	$ 1.24
Average common shares outstanding	7,394,143	7,435,440	7,396,716	7,516,451

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2016	December 31, 2015
Assets:		
Cash and due from banks	$ 39,496	$ 28,218
Interest-bearing deposits in other banks	445	4,699
Investment securities:		
Available-for-sale	259,410	284,935
Held-to-maturity: Fair value December 31, 2016, $10,714; December 31, 2015, $12,606	10,517	12,109
Total investments	269,927	297,044
Loans, net	1,532,965	1,340,865
Less: allowance for loan losses	15,961	12,975
Net loans	1,517,004	1,327,890
Premises and equipment, net	33,260	28,157
Accrued interest receivable	6,228	5,796
Goodwill	63,370	63,370
Intangible assets	4,211	5,397
Other assets	65,501	58,487
Total assets	$ 1,999,442	$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	$ 353,686	$ 320,978
Interest-bearing	1,235,071	1,134,832
Total deposits	1,588,757	1,455,810
Short-term borrowings	82,700	38,325
Long-term debt	58,134	60,354
Accrued interest payable	462	560
Other liabilities	12,771	15,241
Total liabilities	$ 1,742,824	$ 1,570,290
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: December 31, 2016, 7,394,143 shares; December 31, 2015, 7,410,606 shares	14,788	14,821
Capital surplus	134,871	135,371
Retained earnings	111,114	100,701
Accumulated other comprehensive (loss)	(4,155)	(2,125)
Total stockholders' equity	256,618	248,768
Total liabilities and stockholders' equity	$ 1,999,442	$ 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 and year ended December 31, 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)

Year ended December 31,	2016	2015	Change $	Change %
Financial Position:				
Assets	$ 1,999,442	$ 1,819,058	$ 180,384	9.92 %
Investment securities	269,927	297,044	(27,117)	(9.13)
Loans, net	1,532,965	1,340,865	192,100	14.33
Deposits	1,588,757	1,455,810	132,947	9.13
Stockholders' equity	256,618	248,768	7,850	3.16
Earning assets	1,803,337	1,642,608	160,729	9.78
Interest-bearing liabilities	$ 1,375,905	$ 1,233,511	$ 142,394	11.54 %
Financial Performance:				
Net interest income	$ 61,733	$ 57,004	$ 4,729	8.30 %
Provision for loan losses	5,000	3,700	1,300	35.14
Noninterest income	15,888	15,719	169	1.08
Noninterest expense	48,030	46,779	1,251	2.67
Provision for income tax expense	5,008	4,521	487	10.77
Net income	19,583	17,723	1,860	10.49
Comprehensive income	$ 17,553	$ 16,427	$ 1,126	6.85 %
Financial Ratios:				
Net income as a percentage of average total assets	1.02 %	1.02 %		
Net income as a percentage of average stockholders' equity	7.64	7.13		
Stockholders' equity as a percentage of total assets	12.83	13.68		
Net interest income as a percentage of average earning assets	3.77	3.81		
Loans, net as a percentage of deposits	96.49	92.10		
Net loans charged-off as a percentage of average loans, net	0.14 %	0.08 %		
Per Share Data:				
Net income	$ 2.65	$ 2.36		
Cash dividends declared	1.24	1.24		
Stockholders' equity	$ 34.71	$ 33.57		

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

Dear Follow Shareholder:

I am pleased to report that your Company recorded net income of $19.6 million, or $2.65 per share for the year ended December 31, 2016, compared to $17.7 million, or $2.36 per share in 2015. Net interest income increased $4.7 million or 8.3% for the year ended December 31, 2016 versus the same period in 2015 while noninterest income increased $169 thousand, or 1.1%, and noninterest expense increased $1.3 million, or 2.7% when comparing the same period last year. We increased the provision for loan losses by $1.3 million from the year ago period due to our strong loan growth.

Total assets increased $180.4 million or 9.9% in 2016. Loans, net have increased $192.1 million or 14.3% for the year ended December 31, 2016 while total deposits increased $132.9 million or 9.1%. Stockholders' equity equaled $256.6 million or $34.71 per share at December 31, 2016 compared to $248.8 million or $33.57 per share at year end 2015. Dividends declared amounted to $1.24 per share representing a dividend payout ratio of 46.8%.

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

Craig W. Best
President and Chief Executive Officer

Board of Directors

Offices

Abington	(570) 587-4898	Kingston	(570) 288-0128
Bethlehem	(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
Glenburn	(570) 585-5130	Old Forge	(570) 451-7200
Gouldsboro	(570) 842-6473	Peckville	(570) 383-2154
Green Ridge	(570) 346-4695	South Scranton	(570) 343-1151
Hallstead	(570) 879-2195	Susquehanna	(570) 853-4901
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
Fourth Quarter, 2016	$ 50.04	$ 39.17	$ 0.31
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

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 John R. Anderson III, Senior Vice President, Interim Principal Financial and Accounting Officer at (570) 346-7741 x2317.

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 full 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, calling (570) 346-7741 x2352 or visiting our website at http://www.psbt.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

December 31, 2016