Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

March 31	Three Months Ended 2017	2016
Interest income:		
Interest and fees on loans:		
Taxable	$ 15,541	$ 14,346
Tax-exempt	726	751
Interest and dividends on investment securities:		
Taxable	697	687
Tax-exempt	794	875
Dividends	12	10
Interest on interest-bearing deposits in other banks	29	17
Total interest income	17,799	16,686
Interest expense:		
Interest on deposits	1,434	1,283
Interest on short-term borrowings	174	77
Interest on long-term debt	348	360
Total interest expense	1,956	1,720
Net interest income	15,843	14,966
Provision for loan losses	1,200	1,200
Net interest income after provision for loan losses	14,643	13,766
Noninterest income:		
Service charges, fees and commissions	1,572	1,444
Merchant services income	1,015	914
Commissions and fees on fiduciary activities	508	482
Wealth management income	319	412
Mortgage banking income	179	204
Life insurance investment income	189	193
Net gains on sale of investment securities available-for-sale		242
Total noninterest income	3,782	3,891
Noninterest expense:		
Salaries and employee benefits expense	6,275	5,332
Net occupancy and equipment expense	2,394	2,437
Merchant services expense	730	632
Amortization of intangible assets	268	305
Other expenses	2,689	2,912
Total noninterest expense	12,356	11,618
Income before income taxes	6,069	6,039
Income tax expense	1,269	1,157
Net income	4,800	4,882
Other comprehensive income (loss):		
Unrealized gains on investment securities available-for-sale	273	995
Reclassification adjustment for gains included in net income		(242)
Income tax expense (benefit) related to other comprehensive income	96	264
Other comprehensive income (loss), net of income taxes	177	489
Comprehensive income	$ 4,977	$ 5,371
Per share data:		
Net income	$ 0.65	$ 0.66
Cash dividends declared	$ 0.31	$ 0.31
Average common shares outstanding	7,394,143	7,403,510

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	March 31, 2017	December 31, 2016
Assets:		
Cash and due from banks	$ 31,511	$ 39,496
Interest-bearing deposits in other banks	304	445
Investment securities:		
Available-for-sale	264,644	259,410
Held-to-maturity: Fair value March 31, 2017, $10,359; December 31, 2016, $10,714	10,180	10,517
Total investment securities	274,824	269,927
Loans held for sale	444	
Loans, net	1,559,867	1,532,965
Less: allowance for loan losses	16,969	15,961
Net loans	1,542,898	1,517,004
Premises and equipment, net	34,967	33,260
Accrued interest receivable	5,604	6,228
Goodwill	63,370	63,370
Intangible assets	3,944	4,211
Other assets	65,640	65,501
Total assets	$ 2,023,506	$ 1,999,442
Liabilities:		
Deposits:		
Noninterest-bearing	$ 358,538	$ 353,686
Interest-bearing	1,257,006	1,235,071
Total deposits	1,615,544	1,588,757
Short-term borrowings	77,475	82,700
Long-term debt	57,615	58,134
Accrued interest payable	457	462
Other liabilities	13,096	12,771
Total liabilities	$ 1,764,187	1,742,824
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding: March 31, 2017, 7,396,163 shares; December 31, 2016, 7,394,143 shares	14,792	14,788
Capital surplus	134,884	134,871
Retained earnings	113,621	111,114
Accumulated other comprehensive loss	(3,978)	(4,155)
Total stockholders' equity	259,319	256,618
Total liabilities and stockholders' equity	$ 2,023,506	$ 1,999,442

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 March 31, 2017, 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)

Three Months Ended March 31		2017		2016		Change $	Change %	
Financial Position:								
Assets	$	2,023,506	$	1,862,370	$	161,136	8.65	%
Investment securities		274,824		275,856		(1,032)	(0.37)	
Loans, net		1,559,867		1,409,691		150,176	10.65	
Deposits		1,615,544		1,475,459		140,085	9.49	
Stockholders' equity		259,319		251,445		7,874	3.13	
Earning assets		1,834,995		1,685,846		149,149	8.85	
Interest-bearing liabilities	$	1,392,096	$	1,272,126	$	119,970	9.43	%
Financial Performance:								
Net interest income	$	15,843	$	14,966	$	877	5.86	%
Provision for loan losses		1,200		1,200				
Noninterest income		3,782		3,891		(109)	(2.80)	
Noninterest expense		12,356		11,618		738	6.35	
Provision for income tax expense		1,269		1,157		112	9.68	
Net income		4,800		4,882		(82)	(1.68)	
Comprehensive income	$	4,977	$	5,371	$	(394)	(7.34)	%
Financial Ratios:								
Net income as a percentage of average total assets		0.97	%	1.06	%			
Net income as a percentage of average stockholders' equity		7.51		7.85				
Stockholders' equity as a percentage of total assets		12.82		13.50				
Net interest income as a percentage of average earning assets		3.73		3.81				
Loans, net as a percentage of deposits		96.55		95.54				
Net loans charged-off as a percentage of average loans, net		0.05	%	0.01	%			
Per Share Data:								
Net income	$	0.65	$	0.66				
Cash dividends declared		0.31		0.31				
Stockholders' equity	$	35.06	$	33.98				

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 $4.8 million, or $0.65 per share for the three months ended March 31, 2017, compared to $4.9 million, or $0.66 per share for the comparable period in 2016. Net interest income increased $877 thousand or 5.9% for the three months ended March 31, 2017 versus the year ago period while noninterest income decreased $109 thousand, or 2.8%, and noninterest expense increased $738 thousand, or 6.4% when comparing the same period last year. The year ago period included gains on the sale of investment securities of $242 thousand; no such gains were recognized in the current period.

Total assets increased $24.1 million or 4.9% annualized in 2017. For the quarter ended March 31, 2017, loans, net have increased $26.9 million or 7.1% annualized while total deposits increased $26.8 million or 6.9% annualized. Stockholders' equity equaled $259.3 million or $35.06 per share at March 31, 2017 compared to $256.6 million or $34.71 per share at year-end 2016. Dividends declared amounted to $0.31 per share representing a dividend payout ratio of 47.7%.

With respect to our market expansion, we opened our new regional headquarters in the Lehigh Valley, on Emrick Boulevard in Bethlehem, PA. The headquarters includes a retail branch which opened for the transaction of business in April 2017. Additionally, approval was granted by our regulators to open a new retail branch in West Allentown. That branch is expected to open during the third quarter of this year.

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

William E. Aubrey II
Chairman

Craig W. Best
President | CEO

Joseph G. Cesare, M.D.
James G. Keisling
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) 691-1905	Meshoppen	(570) 833-5171
Binghamton West Side	(607) 729-3832	Minooka	(570) 955-1883
Central City Scranton	(570) 346-7741	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
Emrick Blvd	(610) 317-4690	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
First Quarter, 2017	$49.57	$39.66	$0.31
Fourth Quarter, 2016	50.54	38.41	0.31
Third Quarter, 2016	40.76	37.93	0.31
Second Quarter, 2016	$40.55	$35.56	$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. 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 extension 2317.

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 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 at (570) 346-7741 x2352 or through our website at http://www.psbt.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

March 31, 2017