Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

June 30	Three Months Ended 2017	Three Months Ended 2016	Six Months Ended 2017	Six Months Ended 2016
Interest income:				
Interest and fees on loans:				
Taxable	$ 15,945	$ 14,760	$ 31,486	$ 29,106
Tax-exempt	795	780	1,521	1,531
Interest and dividends on investment securities:				
Taxable	719	617	1,416	1,304
Tax-exempt	752	875	1,546	1,750
Dividends	12	11	24	21
Interest on interest-bearing deposits in other banks	38	15	67	32
Total interest income	18,261	17,058	36,060	33,744
Interest expense:				
Interest on deposits	1,529	1,322	2,963	2,605
Interest on short-term borrowings	248	89	422	166
Interest on long-term debt	349	354	697	714
Total interest expense	2,126	1,765	4,082	3,485
Net interest income	16,135	15,293	31,978	30,259
Provision for loan losses	1,200	1,200	2,400	2,400
Net interest income after provision for loan losses	14,935	14,093	29,578	27,859
Noninterest income:				
Service charges, fees and commissions	1,682	1,527	3,254	2,971
Merchant services income	1,178	1,038	2,193	1,952
Commissions and fees on fiduciary activities	494	474	1,002	956
Wealth management income	348	296	667	708
Mortgage banking income	204	195	383	399
Life insurance investment income	195	202	384	395
Net gain on sale of investment securities available-for-sale		381		623
Net gain on sale of merchant services business	2,278		2,278	
Total noninterest income	6,379	4,113	10,161	8,004
Noninterest expense:				
Salaries and employee benefits expense	7,026	5,904	13,301	11,236
Net occupancy and equipment expense	2,450	2,245	4,844	4,682
Merchant services expense	1,033	748	1,763	1,380
Amortization of intangible assets	258	297	526	602
Other expenses	3,235	2,919	5,924	5,831
Total noninterest expense	14,002	12,113	26,358	23,731
Income before income taxes	7,312	6,093	13,381	12,132
Income tax expense	1,653	1,238	2,922	2,395
Net income	5,659	4,855	10,459	9,737
Other comprehensive income (loss):				
Unrealized gains (loss) on investment securities available-for-sale	1,184	1,128	1,457	2,123
Reclassification adjustment for gains included in net income		(381)		(623)
Income tax expense related to other comprehensive income	415	261	510	525
Other comprehensive income, net of income taxes	769	486	947	975
Comprehensive income	$ 6,428	$ 5,341	$ 11,406	$ 10,712
Per share data:				
Net income	$ 0.76	$ 0.66	$ 1.41	$ 1.32
Cash dividends declared	$ 0.31	$ 0.31	$ 0.62	$ 0.62
Average common shares outstanding	7,396,163	7,395,127	7,395,158	7,399,318

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2017	December 31, 2016
Assets:		
Cash and due from banks	$ 41,026	$ 39,496
Interest-bearing deposits in other banks	375	445
Investment securities:		
Available-for-sale	256,774	259,410
Held-to-maturity: Fair value June 30, 2017, $10,221; December 31, 2016, $10,714	9,868	10,517
Total investments	266,642	269,927
Loans held for sale		
Loans, net	1,597,362	1,532,965
Less: allowance for loan losses	17,802	15,961
Net loans	1,579,560	1,517,004
Premises and equipment, net	35,892	33,260
Accrued interest receivable	6,206	6,228
Goodwill	63,370	63,370
Intangible assets	3,685	4,211
Other assets	68,002	65,501
Total assets	$ 2,064,758	$ 1,999,442
Liabilities:		
Deposits:		
Noninterest-bearing	$ 356,435	$ 353,686
Interest-bearing	1,282,998	1,235,071
Total deposits	1,639,433	1,588,757
Short-term borrowings	91,500	82,700
Long-term debt	57,160	58,134
Accrued interest payable	431	462
Other liabilities	12,725	12,771
Total liabilities	1,801,249	1,742,824
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,396,163 shares at June 30, 2017 and 7,394,143 shares at December 31, 2016	14,792	14,788
Capital surplus	134,937	134,871
Retained earnings	116,988	111,114
Accumulated other comprehensive loss	(3,208)	(4,155)
Total stockholders' equity	263,509	256,618
Total liabilities and stockholders' equity	$ 2,064,758	$ 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 June 30, 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)

Six months ended June 30,		2017		2016		Change $	Change %	
Financial Position:								
Assets	$	2,064,758	$	1,911,610	$	153,148	8.01	%
Investment securities		266,642		262,644		3,998	1.52	
Loans, net		1,597,362		1,464,808		132,554	9.05	
Deposits		1,639,433		1,496,863		142,570	9.52	
Stockholders' equity		263,509		254,325		9,184	3.61	
Earning assets		1,864,379		1,727,724		136,655	7.91	
Interest-bearing liabilities	$	1,431,658	$	1,318,610	$	113,048	8.57	%
Financial Performance:								
Net interest income	$	31,978	$	30,259	$	1,719	5.68	%
Provision for loan losses		2,400		2,400				
Noninterest income		10,161		8,004		2,157	26.95	
Noninterest expense		26,358		23,731		2,627	11.07	
Provision for income tax expense		2,922		2,395		527	22.00	
Net income		10,459		9,737		722	7.42	
Comprehensive income	$	11,406	$	10,712	$	694	6.48	%
Financial Ratios:								
Net income as a percentage of average total assets		1.04	%	1.04	%			
Net income as a percentage of average stockholders' equity		8.13		7.66				
Stockholders' equity as a percentage of total assets		12.76		13.30				
Net interest income as a percentage of average earning assets		3.71		3.81				
Loans, net as a percentage of deposits		97.43		97.86				
Net loans charged-off as a percentage of average loans, net		0.07	%	0.08	%			
Per Share Data:								
Net income	$	1.41	$	1.32				
Cash dividends declared		0.62		0.62				
Stockholders' equity	$	35.63	$	34.40				

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 $10.5 million, or $1.41 per share for the six months ended June 30, 2017, compared to $9.7 million, or $1.32 per share for the comparable period in 2016. Net interest income increased $1.7 million or 5.7% for the six months ended June 30, 2017 versus the year ago period while noninterest income increased $2.2 million, or 27.0%, and noninterest expense increased $2.6 million, or 11.1% when comparing the same period last year. The year ago period included gains on the sale of investment securities of $623 thousand while a gain of $2.3 million on the sale of our merchant services business was recognized in the current period.

Total assets increased $65.3 million or 6.6% annualized in 2017. For the six months ended June 30, 2017, loans, net have increased $64.4 million or 8.5% annualized while total deposits increased $50.7 million or 6.4% annualized. Stockholders' equity equaled $263.5 million or $35.63 per share at June 30, 2017 compared to $256.6 million or $34.71 per share at year-end 2016. Dividends declared amounted to $0.62 per share representing a dividend payout ratio of 44.0%.

In the second quarter of 2017, we entered into and executed a merchant asset purchase agreement with a third party to sell and transfer our merchant business, which resulted in the aforementioned gain. We also entered into a marketing and sales agreement with the merchant business purchaser to share in future revenue generated from the sold merchant portfolio, and from new merchant referrals.

With respect to our market expansion, we opened a new community office located in the Lehigh Valley, on Tilghman Street in West Allentown, PA. The office includes a retail branch which opened for the transaction of business in July 2017.

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
Airport Road	(610) 691-1202
Binghamton	
West Side	(607) 729-3832
Central City Scranton	(570) 955-1700
Conklin	(607) 722-2114
Duryea	(570) 457-1120
East Scranton	(570) 342-9101
Emrick Boulevard	(610) 317-4690
Glenburn	(570) 585-5130
Gouldsboro	(570) 842-6473
Green Ridge	(570) 346-4695
Hallstead	(570) 879-2195
Hop Bottom	(570) 289-4124
King of Prussia	(610) 205-1880
Kingston	(570) 288-0128
Meshoppen	(570) 833-5171
Minooka	(570) 955-1883
Montrose	(570) 278-4100
Moscow	(570) 842-7626
Mount Pocono	(570) 839-8732
Nicholson	(570) 942-2265
Old Forge	(570) 457-7200
Peckville	(570) 383-2154
South Scranton	(570) 343-1151
Susquehanna	(570) 853-4901
Tilghman Street	(610) 398-9680
Tunkhannock	(570) 836-2135
Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Second Quarter, 2017	$45.73	$39.25	$0.31
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

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, 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 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

June 30, 2017