NEWS RELEASE

# PEOPLES FINANCIAL SERVICES CORP. Reports Second Quarter 2017 Earnings

7/24/2017

SCRANTON, Pa., July 24, 2017 /PRNewswire/ -- Peoples Financial Services Corp. ("Peoples") (NASDAQ: PFIS), the bank holding company for Peoples Security Bank and Trust Company, today reported unaudited financial results at and for the three and six months ended June 30, 2017.  Peoples reported net income of $5.7 million, or $0.76 per share for the second quarter of 2017, compared to $4.9 million, or $0.66 per share for the comparable period of 2016.

Core net income, which we have defined to exclude gains on the sale of investment securities available-for-sale, as well as the gain on the sale of our merchant services portfolio, net of tax, for the three months ended June 30, 2017 was $4.4 million, a $253 thousand decrease from $4.6 million for the same period in 2016. The results for the three months ended June 30, 2017 include a gain on the sale of our merchant services portfolio of $2.3 million while the results for the three months ended June 30, 2016 include gains on the sale of investment securities of $381 thousand. Core net income per share for the three months ended June 30, 2017 was $0.59, compared to $0.62 for the same period in 2016.

Net income for the six months ended June 30, 2017, totaled $10.5 million or $1.41 per share compared to $9.7 million or $1.32 per share for the same period last year.

Core net income for the six months ended June 30, 2017 was $9.2 million, a decrease of 1.9% from $9.3 million for the same period in 2016. Core net income per share for the six months ended June 30, 2017 was $1.24, a decrease from $1.26 for the same period in 2016. The results for the six months ended June 30, 2017 include a gain on the sale of our merchant services portfolio of $2.3 million while the results for the six months ended June 30, 2016 include net gains on the sale of investment securities of $623 thousand.

In addition to evaluating its results of operations in accordance with accounting principles generally accepted in the United States of America ("GAAP"), Peoples routinely supplements its evaluation with an analysis of certain non-GAAP financial measures, such as tangible stockholders' equity and core net income ratios. The reported results included herein contain items, which Peoples considers non-core, namely gains on sales of investment securities available-for-sale, as well as the gain on the sale of our merchant services portfolio. Peoples believes the reported non-GAAP financial measures provide information useful to investors in understanding its operating performance and trends. Where non-GAAP disclosures are used in this press release, a reconciliation to the comparable GAAP measure is provided in the accompanying tables. The non-GAAP financial measures Peoples uses may differ from the non-GAAP financial measures of other financial institutions.

## NOTABLES

- Loans, net grew $64.4 million, or 8.5% annualized year-to-date in 2017.
- Deposits grew $50.7 million or 6.4% annualized year-to-date in 2017.
- Book value per share improved to $35.63 at June 30, 2017 from $34.71 at December 31, 2016, and $34.40 at June 30, 2016.
- Tangible book value per share improved to $26.56 at June 30, 2017 from $25.57 at December 31, 2016, and $25.18 at June 30, 2016.
- Tax-equivalent net interest income increased to $17.0 million for the second quarter of 2017 compared to $16.7 million for the first quarter of 2017, and $16.2 million for the second quarter of 2016.
- Tax-equivalent net interest margin decreased five basis points in the second quarter of 2017 to 3.68%, compared to 3.73% for the quarter ended March 31, 2017, and decreased 13 basis points compared to 3.81% for the quarter ended June 30, 2016.
- Entered into and executed a merchant asset purchase agreement with a third party to sell and transfer our merchant business, which resulted in a gain of $2.3 million.
- Executed a marketing and sales agreement to share in the future revenue generated from the sold merchant portfolio, and from new merchant referrals.
- Nonperforming assets to loans, net, and foreclosed assets decreased to 0.73% at June 30, 2017, from 0.78% at March 31, 2017, and 0.90% at June 30, 2016.
- The allowance for loan losses to loans, net increased to 1.11% at June 30, 2017, from 1.09% at March 31, 2017, and 1.01% at June 30, 2016.

## INCOME STATEMENT REVIEW

The tax-equivalent net interest margin for the three and six months ended June 30, were 3.68% and 3.71% respectively in 2017, compared to 3.81% for the same periods in 2016. Loan accretion included in loan interest income for the six months ended June 30, 2017, related to loans acquired in the fourth quarter of 2013, was $94 thousand, resulting in an increase in the tax-equivalent net interest margin of 1 basis point. Loan accretion included in loan interest income in the first half of 2016, related to loans acquired in the fourth quarter of 2013, was $372 thousand, resulting in an increase in the tax-equivalent net interest margin of 4 basis points.

Tax-equivalent net interest income for the six months ended June 30, increased $1.6 million to $33.6 million in 2017 from $32.0 million in 2016. The increase in tax equivalent net interest income was primarily due to a $139.6 million increase in average earning assets for the six months ended June 30, 2017 when compared to the same period in 2016. The tax-equivalent yield on the loan portfolio decreased to 4.38% for the six months ended June 30, 2017 compared to 4.49% for the comparable period in 2016. Loans, net averaged $1.6 billion for the six months ended June 30, 2017 and $1.4 billion for the comparable period in 2016. For the three months ended June 30, the tax-equivalent yield on total investments decreased to 2.85% in 2017 from 2.95% in 2016. Average investments totaled $272.9 million in the first half of 2017 and $279.0 million in the first half of 2016. Average interest-bearing liabilities increased $115.0 million for the six months ended June 30, 2017, compared to the corresponding period last year. The cost of funds increased to 0.59% in the six months ended June 30, 2017 from 0.55% for the same period of 2016.

The provision for loan losses totaled $2.4 million for the six months ended June 30, 2017 and 2016. For the quarter ended June 30, the provision for loan losses was $1.2 million in both 2017 and 2016.

For the six months ended June 30, noninterest income totaled $10.2 million in 2017, an increase from $8.0 million in 2016. The gain on sale of our merchant services portfolio was $2.3 million in 2017 compared to the same period in 2016 when we recognized gains of $623 thousand from the sale of available-for-sale investment securities. Increases in service charges, fees and commissions, revenues from merchant services and income from fiduciary activities more than offset decreases in income generated from wealth management services, income from mortgage banking activities and life insurance investment income. For the three months ended June 30, 2017 and 2016, noninterest income totaled $6.4 million and $4.1 million, respectively. The aforementioned gain generated from the sale of our merchant services portfolio occurred in the second quarter of 2017 with no comparable transaction within that same period in 2016. No gain or loss from the sale of investment securities available-for-sale were recognized during the three months ended June 30, 2017 while a gain from the sale of investment securities of $381 thousand was recognized during the corresponding period last year.

Noninterest expense increased $2.6 million or 11.1% to $26.3 million for the six months ended June 30, 2017, from $23.7 million for the six months ended June 30, 2016. Salaries and employee benefits increased $2.1 million or 18.4% due to merit increases and continued investment in our expansion markets in the Lehigh Valley and King of Prussia. For the second quarter of 2017, noninterest expense increased to $14.0 million from $12.1 million for the same period in 2016, an increase of $1.9 million or 15.6%. The sale of our merchant services portfolio contributed $271 thousand to the increase. Additionally, as with the year-to-date results, the buildout of our expansion plan led to increases in salaries and employee benefit expense when comparing the two periods.

## BALANCE SHEET REVIEW

At June 30, 2017, total assets, loans and deposits were $2.1 billion, $1.6 billion and $1.6 billion, respectively. Loans, net grew $64.4 million or 8.5% annualized in the first half of 2017. Loans, net grew $132.6 million or 9.0% from June 30, 2016 to June 30, 2017. Deposits grew $50.7 million or 6.4% annualized in the first six months of 2017. Total deposits grew $142.6 million or 9.5% from June 30, 2016 to June 30, 2017. Noninterest bearing deposits increased $2.8 million or 1.6% annualized while interest-bearing deposits increased $47.9 million or 7.8% annualized in the first half of 2017. Total investments were $266.6 million at June 30, 2017, including $256.7 million securities classified as available-for-sale and $9.9 million classified as held-to-maturity.

Stockholders' equity equaled $263.5 million or $35.63 per share at June 30, 2017, and $256.6 million or $34.71 per share at December 31, 2016. Tangible stockholders' equity improved to $26.56 per share at June 30, 2017, from $25.57 per share at December 31, 2016. Dividends declared for the six months ended June 30, 2017 amounted to $0.62 per share representing a dividend payout ratio of 44.0%.

## ASSET QUALITY REVIEW

Nonperforming assets were $11.6 million or 0.73% of loans, net and foreclosed assets at June 30, 2017, compared to $14.2 million or 0.93% of loans, net and foreclosed assets at December 31, 2016. The allowance for loan losses equaled $17.8 million or 1.11% of loans, net at June 30, 2017 compared to $16.0 million or 1.04% of loans, net, at December 31, 2016. Loans charged-off, net of recoveries, for the six months ended June 30, 2017, equaled $559 thousand or 0.04% of average loans, compared to $576 thousand or 0.08% of average loans for the comparable period last year.

## About Peoples:

Peoples Financial Services Corp. is the parent company of Peoples Security Bank and Trust Company, a community bank serving Bucks, Lackawanna, Lehigh, Luzerne, Monroe, Montgomery, Northampton, Susquehanna, Wayne and Wyoming Counties in Pennsylvania and Broome County in New York through 26 offices. Each office, interdependent with the community, offers a comprehensive array of financial products and services to individuals, businesses, not-for-profit organizations and government entities. Peoples' business philosophy includes offering direct access to senior management and other officers and providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures and consistently applied credit policies.

## Safe Harbor Forward-Looking Statements:

We make statements in this press release, and we may from time to time make other statements regarding our outlook or expectations for future financial or operating results and/or other matters regarding or affecting Peoples Financial Services Corp., Peoples Security Bank and Trust Company, and its subsidiaries (collectively, "Peoples") that are considered "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "intend" and "potential." For these statements, Peoples claims the protection of the statutory safe harbors for forward-looking statements.

Peoples cautions you that a number of important factors could cause actual results to differ materially from those currently anticipated in any forward-looking statement. Such factors include, but are not limited to: prevailing economic and political conditions, particularly in our market area; credit risk associated with our lending activities; changes in interest rates, loan demand, real estate values and competition; changes in accounting principles, policies, and guidelines; changes in any applicable law, rule, regulation or practice with respect to tax or legal issues; our ability to identify and address cyber-security risks and other economic, competitive, governmental, regulatory and technological factors affecting Peoples' operations, pricing, products and services and other factors that may be described in Peoples' Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q as filed with the Securities and Exchange Commission from time to time.

In addition to these risks, acquisitions and business combinations, present risks other than those presented by the nature of the business acquired. Acquisitions and business combinations may be substantially more expensive to complete than originally anticipated, and the anticipated benefits may be significantly harder-or take longer-to achieve than expected. As regulated financial institutions, our pursuit of attractive acquisition and business combination opportunities could be negatively impacted by regulatory delays or other regulatory issues. Regulatory and/or legal issues related to the pre-acquisition operations of an acquired or combined business may cause reputational harm to Peoples following the acquisition or combination, and integration of the acquired or combined business with ours may result in additional future costs arising as a result of those issues.

The forward-looking statements are made as of the date of this release, and, except as may be required by applicable law or regulation, Peoples assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

[TABULAR MATERIAL FOLLOWS]

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Summary Data
Peoples Financial Services Corp.
Five Quarter Trend
(In thousands, except share and per share data)

| | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Key performance data: | | | | | |
| Per share data: | | | | | |
| Net income | $ 0.76 | $ 0.65 | $ 0.64 | $ 0.69 | $ 0.66 |
| Core net income (1) | $ 0.59 | $ 0.65 | $ 0.64 | $ 0.69 | $ 0.62 |
| Cash dividends declared | $ 0.31 | $ 0.31 | $ 0.31 | $ 0.31 | $ 0.31 |
| Book value | $ 35.63 | $ 35.07 | $ 34.71 | $ 34.68 | $ 34.40 |
| Tangible book value (1) | $ 26.56 | $ 25.97 | $ 25.57 | $ 25.50 | $ 25.18 |
| Market value: | | | | | |
| High | 45.73 | 49.57 | 50.54 | 40.76 | 40.55 |
| Low | $ 39.25 | $ 39.66 | $ 38.41 | $ 37.93 | $ 35.56 |
| Closing | $ 43.73 | $ 41.80 | $ 48.70 | $ 40.76 | $ 39.14 |
| Market capitalization | $ 323,434 | $ 309,075 | $ 360,095 | $ 301,385 | $ 289,407 |
| Common shares outstanding | 7,396,163 | 7,394,143 | 7,394,143 | 7,394,143 | 7,394,143 |
| Selected ratios: | | | | | |
| Return on average stockholders' equity | 8.71 % | 7.51 % | 7.29 % | 7.95 % | 7.72 % |
| Core return on average stockholders' equity (1) | 6.70 % | 7.51 % | 7.29 % | 7.95 % | 7.33 % |
| Return on average tangible stockholders' equity (1) | 11.73 % | 10.15 % | 9.88 % | 10.82 % | 10.59 % |
| Core return on average tangible stockholders' equity (1) | 9.03 % | 10.15 % | 9.88 % | 10.82 % | 10.05 % |
| Return on average assets | 1.11 % | 0.97 % | 0.94 % | 1.05 % | 1.03 % |
| | 0.85 | 0.97 | 0.94 | 1.05 | 0.98 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Core return on average assets (1) | 12.76 | % | 12.82 | % | 12.83 | % | 13.01 | % | 13.30 | % |
| Stockholders' equity to total assets | 63.95 | % | 59.13 | % | 58.59 | % | 56.89 | % | 59.33 | % |
| Efficiency ratio (2) | 0.73 | % | 0.78 | % | 0.93 | % | 0.93 | % | 0.90 | % |
| Nonperforming assets to loans, net, and foreclosed assets | 0.09 | % | 0.05 | % | 0.30 | % | 0.08 | % | 0.16 | % |
| Net charge-offs to average loans, net | 1.11 | % | 1.09 | % | 1.04 | % | 1.03 | % | 1.01 | % |
| Allowance for loan losses to loans, net | 4.14 | % | 4.17 | % | 4.10 | % | 4.17 | % | 4.23 | % |
| Interest-bearing assets yield (FTE) (3) | 0.60 | % | 0.57 | % | 0.56 | % | 0.54 | % | 0.55 | % |
| Cost of funds | 3.54 | % | 3.60 | % | 3.54 | % | 3.63 | % | 3.68 | % |
| Net interest spread (FTE) (3) | 3.68 | % | 3.73 | % | 3.67 | % | 3.76 | % | 3.81 | % |
| Net interest margin (FTE) (3) | | % | | % | | % | | % | | % |

(1) See Reconciliation of Non-GAAP financial measures.
(2) Total noninterest expense less amortization of intangible assets divided by tax-equivalent net interest income and noninterest income less net gains(losses) on investment securities available-for-sale.
(3) Tax-equivalent adjustments were calculated using the prevailing federal statutory tax rate of 35%.

## Peoples Financial Services Corp.
## Consolidated Statements of Income
## (In thousands, except per share data)

| Six Months Ended | June 30 2017 | June 30 2016 |
|---|---|---|
| Interest income: | | |
| Interest and fees on loans: | | |
| Taxable | 31,486 | 29,106 |
| Tax-exempt | $ 1,521 | $ 1,531 |
| Interest and dividends on investment securities: | | |
| Taxable | 1,416 | 1,304 |
| Tax-exempt | 1,546 | 1,750 |
| Dividends | 24 | 21 |
| | 67 | 32 |
| Interest on interest-bearing deposits in other banks | | |
| Interest on federal funds sold | | |
| Total interest income | 36,060 | 33,744 |
| Interest expense: | 2,963 | 2,605 |
| Interest on deposits | 422 | 166 |

| | | |
|---|---|---|
| Interest on short-term borrowings | | |
| Interest on long-term debt | 697 | 714 |
| Total interest expense | 4,082 | 3,485 |
| Net interest income | 31,978 | 30,259 |
| Provision for loan losses | 2,400 | 2,400 |
| Net interest income after provision for loan losses | 29,578 | 27,859 |
| Noninterest income: | | |
| Service charges, fees, commissions | 3,254 | 2,971 |
| Merchant services income | 2,193 | 1,952 |
| Commissions and fees on fiduciary activities | 1,002 | 956 |
| Wealth management income | 667 | 708 |
| Mortgage banking income | 383 | 399 |
| Life insurance investment income | 384 | 395 |
| Net gains on sale of investment securities available-for-sale | | 623 |
| Net gains on sale of merchant services business | 2,278 | |
| Total noninterest income | 10,161 | 8,004 |
| Noninterest expense: | | |
| Salaries and employee benefits expense | 13,301 | 11,236 |
| Net occupancy and equipment expense | 4,844 | 4,682 |
| Merchant services expense | 1,763 | 1,380 |
| Amortization of intangible assets | 526 | 602 |
| Other expenses | 5,924 | 5,831 |
| Total noninterest expense | 26,358 | 23,731 |
| Income before income taxes | 13,381 | 12,132 |
| Provision for income tax expense | 2,922 | 2,395 |
| Net income | 10,459 | 9,737 |
| Other comprehensive income (loss): | | |
| Unrealized gains on investment securities available-for-sale | $ 1,457 | $ 2,123 |
| Reclassification adjustment for gains included in net income | $ | $ (623) |
| Change in pension liability | | |
| Income tax expense related to other comprehensive income | 510 | 525 |
| Other comprehensive income, net of income taxes | 947 | 975 |
| Comprehensive income | 11,406 | 10,712 |
| Per share data: | | |
| Net income | $ 1.41 | $ 1.32 |
| Cash dividends declared | $ 0.62 | $ 0.62 |
| Average common shares outstanding | $ 7,395,158 | $ 7,399,318 |

Peoples Financial Services Corp.
Consolidated Statements of Income
(In thousands, except per share data)

| Three months ended | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Interest income: | | | | | |
| Interest and fees on loans: | | | | | |
| Taxable | $ 15,945 | $ 15,541 | $ 15,502 | $ 15,294 | $ 14,760 |
| Tax-exempt | 795 | 726 | 730 | 770 | 780 |
| Interest and dividends on investment securities available-for-sale: | | | | | |
| Taxable | 719 | 697 | 636 | 575 | 617 |
| Tax-exempt | 752 | 794 | 827 | 861 | 875 |
| Dividends | 12 | 12 | 17 | 10 | 11 |
| Interest on interest-bearing deposits in other banks | 38 | 29 | 3 | 15 | 15 |
| Total interest income | 18,261 | 17,799 | 17,715 | 17,525 | 17,058 |
| Interest expense: | | | | | |
| Interest on deposits | 1,529 | 1,434 | 1,468 | 1,356 | 1,322 |
| Interest on short-term borrowings | 248 | 174 | 120 | 116 | 89 |
| Interest on long-term debt | 349 | 348 | 353 | 353 | 354 |
| Total interest expense | 2,126 | 1,956 | 1,941 | 1,825 | 1,765 |
| Net interest income | 16,135 | 15,843 | 15,774 | 15,700 | 15,293 |
| Provision for loan losses | 1,200 | 1,200 | 1,400 | 1,200 | 1,200 |
| Net interest income after provision for loan losses | 14,935 | 14,643 | 14,374 | 14,500 | 14,093 |
| Noninterest income: | | | | | |
| Service charges, fees, commissions | 1,682 | 1,572 | 1,603 | 1,542 | 1,527 |
| Merchant services income | 1,178 | 1,015 | 990 | 1,257 | 1,038 |
| Commissions and fees on fiduciary activities | 494 | 508 | 481 | 539 | 474 |
| Wealth management income | 348 | 319 | 319 | 271 | 296 |
| Mortgage banking income | 204 | 179 | 269 | 217 | 195 |
| Life insurance investment income | 195 | 189 | 197 | 199 | 202 |
| Net gains on sale of investment securities available-for-sale | | | | | 381 |
| Net gains on sale of merchant services business | 2,278 | | | | |
| Total noninterest income | 6,379 | 3,782 | 3,859 | 4,025 | 4,113 |
| Noninterest expense: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Salaries and employee benefits expense | 7,026 | 6,275 | 5,732 | 5,466 | 5,904 |
| Net occupancy and equipment expense | 2,450 | 2,394 | 2,424 | 2,316 | 2,245 |
| Merchant services expense | 1,033 | 730 | 723 | 890 | 748 |
| Amortization of intangible assets | 258 | 268 | 287 | 297 | 297 |
| Other expenses | 3,235 | 2,689 | 3,116 | 3,048 | 2,919 |
| Total noninterest expense | 14,002 | 12,356 | 12,282 | 12,017 | 12,113 |
| Income before income taxes | 7,312 | 6,069 | 5,951 | 6,508 | 6,093 |
| Income tax expense | 1,653 | 1,269 | 1,223 | 1,390 | 1,238 |
| Net income | $ 5,659 | $ 4,800 | $ 4,728 | $ 5,118 | $ 4,855 |
| Other comprehensive (loss) income : | | | | | |
| Unrealized gains (losses) on investment securities available-for-sale | $ 1,184 | $ 273 | $ (4,420) | $ (1,120) | $ 1,128 |
| Reclassification adjustment for gains included in net income | | | 917 | | (381) |
| Change in pension liability | | | | | |
| Income tax expense (benefit) related to other comprehensive income (loss) | 415 | 96 | (1,226) | (392) | 262 |
| Other comprehensive income (loss), net of income taxes | 769 | 177 | (2,277) | (728) | 485 |
| Comprehensive income | $ 6,428 | $ 4,977 | $ 2,451 | $ 4,390 | $ 5,340 |
| Per share data: | | | | | |
| Net income | $ 0.76 | $ 0.65 | $ 0.64 | $ 0.69 | $ 0.66 |
| Cash dividends declared | $ 0.31 | $ 0.31 | $ 0.31 | $ 0.31 | $ 0.31 |
| Average common shares outstanding | 7,396,163 | 7,394,143 | 7,394,143 | 7,394,143 | 7,395,127 |

Peoples Financial Services Corp.
Details of Net Interest and Net Interest Margin
(In thousands, fully taxable equivalent basis)

| Three months ended | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Net interest income: | | | | | |
| Interest income | | | | | |
| Loans, net: | | | | | |
| Taxable | $ 15,945 | $ 15,541 | $ 15,502 | $ 15,294 | $ 14,760 |
| Tax-exempt | 1,223 | 1,117 | 1,123 | 1,184 | 1,200 |
| Total loans, net | 17,168 | 16,658 | 16,625 | 16,478 | 15,960 |
| Investments: | | | | | |
| Taxable | 768 | 709 | 653 | 585 | 628 |
| Tax-exempt | 1,156 | 1,222 | 1,272 | 1,325 | 1,346 |

| | | | | | |
|---|---|---|---|---|---|
| Total investments | 1,924 | 1,931 | 1,925 | 1,910 | 1,974 |
| Interest on interest-bearing balances in other banks | 1 | 29 | 3 | 15 | 15 |
| Federal funds sold | | | | | |
| Total interest income | 19,093 | 18,618 | 18,553 | 18,403 | 17,949 |
| Interest expense: | | | | | |
| Deposits | 1,529 | 1,434 | 1,468 | 1,356 | 1,322 |
| Short-term borrowings | 248 | 174 | 120 | 116 | 89 |
| Long-term debt | 349 | 348 | 353 | 353 | 354 |
| Total interest expense | 2,126 | 1,956 | 1,941 | 1,825 | 1,765 |
| Net interest income | $ 16,967 | $ 16,662 | $ 16,612 | $ 16,578 | $ 16,184 |
| Loans, net: | | | | | |
| Taxable | 4.37 % | 4.41 % | 4.33 % | 4.39 % | 4.47 % |
| Tax-exempt | 4.29 % | 4.30 % | 4.25 % | 4.36 % | 4.40 % |
| Total loans, net | 4.36 % | 4.40 % | 4.33 % | 4.39 % | 4.47 % |
| Investments: | | | | | |
| Taxable | 1.93 % | 1.87 % | 1.72 % | 1.74 % | 1.79 % |
| Tax-exempt | 4.17 % | 4.30 % | 4.22 % | 4.28 % | 4.28 % |
| Total investments | 2.85 % | 2.89 % | 2.83 % | 2.94 % | 2.95 % |
| Interest-bearing balances with banks | 1.31 % | 1.16 % | 3.58 % | 1.93 % | 2.16 % |
| Federal funds sold | | | | | |
| Total interest-bearing assets | 4.14 % | 4.17 % | 4.10 % | 4.17 % | 4.23 % |
| Interest expense: | | | | | |
| Deposits | 0.48 % | 0.47 % | 0.47 % | 0.45 % | 0.45 % |
| Short-term borrowings | 1.13 % | 0.86 % | 0.63 % | 0.58 % | 0.57 % |
| Long-term debt | 2.44 % | 2.44 % | 2.40 % | 2.38 % | 2.39 % |
| Total interest-bearing liabilities | 0.60 % | 0.57 % | 0.56 % | 0.54 % | 0.55 % |
| Net interest spread | 3.54 % | 3.60 % | 3.54 % | 3.63 % | 3.68 % |
| Net interest margin | 3.68 % | 3.73 % | 3.67 % | 3.76 % | 3.81 % |

Peoples Financial Services Corp.
Consolidated Balance Sheets
(In thousands)

| At period end | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and due from banks | $ 41,026 | $ 31,511 | $ 39,496 | $ 31,620 | $ 29,805 |
| Interest-bearing balances in other banks | 375 | 304 | 445 | 294 | 272 |
| Federal funds sold | | | | | |
| Investment securities: | | | | | |
| Available-for-sale | 256,774 | 264,644 | 259,410 | 249,913 | 251,382 |
| Held-to-maturity | 9,868 | 10,180 | 10,517 | 10,864 | 11,262 |
| Total investments | 266,642 | 274,824 | 269,927 | 260,777 | 262,644 |
| Loans held for sale | | 444 | | 360 | |
| Loans, net | 1,597,362 | 1,559,867 | 1,532,965 | 1,522,391 | 1,464,808 |
| Less: allowance for loan losses | 17,802 | 16,969 | 15,961 | 15,712 | 14,799 |
| Net loans | 1,579,560 | 1,542,898 | 1,517,004 | 1,506,679 | 1,450,009 |
| Premises and equipment, net | 35,892 | 34,967 | 33,260 | 33,049 | 29,510 |
| Accrued interest receivable | 6,206 | 5,604 | 6,228 | 5,309 | 5,952 |
| Goodwill | 63,370 | 63,370 | 63,370 | 63,370 | 63,370 |
| Other intangible assets, net | 3,685 | 3,944 | 4,211 | 4,498 | 4,795 |
| Other assets | 68,002 | 65,640 | 65,501 | 65,283 | 65,253 |
| Total assets | $ 2,064,758 | $ 2,023,506 | $ 1,999,442 | $ 1,971,239 | $ 1,911,610 |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $ 356,435 | $ 358,538 | $ 353,686 | $ 342,782 | $ 323,785 |
| Interest-bearing | 1,282,998 | 1,257,006 | 1,235,071 | 1,223,028 | 1,173,078 |
| Total deposits | 1,639,433 | 1,615,544 | 1,588,757 | 1,565,810 | 1,496,863 |
| Short-term borrowings | 91,500 | 77,475 | 82,700 | 75,300 | 86,300 |
| Long-term debt | 57,160 | 57,615 | 58,134 | 58,685 | 59,232 |
| Accrued interest payable | 431 | 457 | 462 | 434 | 453 |
| Other liabilities | 12,725 | 13,096 | 12,771 | 14,570 | 14,437 |
| Total liabilities | 1,801,249 | 1,764,187 | 1,742,824 | 1,714,799 | 1,657,285 |
| Stockholders' equity: | | | | | |
| Common stock | 14,792 | 14,788 | 14,788 | 14,788 | 14,788 |
| Capital surplus | 134,937 | 134,888 | 134,871 | 134,853 | 134,835 |
| Retained earnings | 116,988 | 113,621 | 111,114 | 108,677 | 105,852 |
| Accumulated other comprehensive loss | (3,208) | (3,978) | (4,155) | (1,878) | (1,150) |
| Total stockholders' equity | 263,509 | 259,319 | 256,618 | 256,440 | 254,325 |
| Total liabilities and stockholders' equity | $ 2,064,758 | $ 2,023,506 | $ 1,999,442 | $ 1,971,239 | $ 1,911,610 |

Peoples Financial Services Corp.
Consolidated Balance Sheets
(In thousands)

| Average quarterly balances | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Loans, net: | | | | | |
| Taxable | $ 1,464,401 | $ 1,429,323 | $ 1,422,725 | $ 1,385,800 | $ 1,327,003 |
| Tax-exempt | 114,287 | 105,442 | 105,119 | 108,105 | 109,770 |
| Total loans, net | 1,578,688 | 1,534,765 | 1,527,844 | 1,493,905 | 1,436,773 |
| Investments: | | | | | |
| Taxable | 159,841 | 159,593 | 150,697 | 136,645 | 144,223 |
| Tax-exempt | 111,061 | 115,347 | 119,805 | 123,177 | 126,620 |
| Total investments | 270,902 | 274,940 | 270,502 | 259,822 | 270,843 |
| Interest-bearing balances with banks | 307 | 349 | 333 | 412 | 372 |
| Federal funds sold | | | | | |
| Total interest-bearing assets | 1,849,897 | 1,810,054 | 1,798,679 | 1,754,139 | 1,707,988 |
| Other assets | 196,913 | 194,499 | 192,266 | 188,256 | 184,714 |
| Total assets | $ 2,046,810 | $ 2,004,553 | $ 1,990,945 | $ 1,942,395 | $ 1,892,702 |
| Liabilities and stockholders' equity: | | | | | |
| Deposits: | | | | | |
| Interest-bearing | $ 1,270,459 | $ 1,244,021 | $ 1,241,586 | $ 1,195,645 | $ 1,174,686 |
| Noninterest-bearing | 356,282 | 346,567 | 341,795 | 337,337 | 327,937 |
| Total deposits | 1,626,741 | 1,590,588 | 1,583,381 | 1,532,982 | 1,502,623 |
| Short-term borrowings | 87,739 | 82,002 | 75,518 | 78,974 | 62,659 |
| Long-term debt | 57,372 | 57,856 | 58,404 | 58,960 | 59,504 |
| Other liabilities | 14,305 | 14,872 | 15,616 | 15,349 | 15,131 |
| Total liabilities | 1,786,157 | 1,745,318 | 1,732,919 | 1,686,265 | 1,639,917 |
| Stockholders' equity | 260,653 | 259,235 | 258,026 | 256,130 | 252,785 |
| Total liabilities and stockholders' equity | $ 2,046,810 | $ 2,004,553 | $ 1,990,945 | $ 1,942,395 | $ 1,892,702 |

## Peoples Financial Services Corp.
## Asset Quality Data
## (In thousands)

| | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| At quarter end | | | | | |
| Nonperforming assets: | | | | | |
| Nonaccrual/restructured loans | $ 10,429 | $ 11,446 | $ 12,974 | $ 12,409 | $ 9,778 |
| Accruing loans past due 90 days or more | 835 | 462 | 844 | 1,109 | 2,071 |
| Foreclosed assets | 384 | 236 | 393 | 703 | 1,353 |
| Total nonperforming assets | $ 11,648 | $ 12,144 | $ 14,211 | $ 14,221 | $ 13,202 |
| Three months ended | | | | | |
| Allowance for loan losses: | | | | | |
| Beginning balance | $ 16,969 | $ 15,961 | $ 15,712 | $ 14,799 | $ 14,158 |
| Charge-offs | 431 | 311 | 1,358 | 355 | 632 |
| Recoveries | 64 | 119 | 207 | 68 | 73 |
| Provision for loan losses | 1,200 | 1,200 | 1,400 | 1,200 | 1,200 |
| Ending balance | $ 17,802 | $ 16,969 | $ 15,961 | $ 15,712 | $ 14,799 |

## Peoples Financial Services Corp.
## Reconciliation of Non-GAAP Financial Measures
## (In thousands, except share and per share data)

| Three months ended | June 30 2017 | Mar 31 2017 | Dec 31 2016 | Sept 30 2016 | June 30 2016 |
|---|---|---|---|---|---|
| Core net income per share: | | | | | |
| Net income GAAP | $ 5,659 | $ 4,800 | $ 4,728 | $ 5,118 | $ 4,855 |
| Adjustments: | | | | | |
| Less: Gain on sale of merchant services business | 2,278 | | | | |
| Less: Gains on sale of investment securities | | | | | 381 |
| Add: Expenses related to sale of merchant services business | 271 | | | | |
| Add: Gain on sale of merchant services business tax adjustment | 702 | | | | |
| Add: Gains on sale of investment securities tax adjustment | | | | | 133 |
| Net income Core | $ 4,354 | $ 4,800 | $ 4,728 | $ 5,118 | $ 4,607 |
| Average common shares outstanding | 7,396,163 | 7,394,143 | 7,394,143 | 7,394,143 | 7,395,127 |
| Core net income per share | $ 0.59 | $ 0.65 | $ 0.64 | $ 0.69 | $ 0.62 |
| Tangible book value: | | | | | |
| | 263,509 | 259,319 | 256,618 | 256,440 | 254,325 |

| | | | | | |
|---|---|---|---|---|---|
| Total stockholders' equity | $ 63,370 | $ 63,370 | $ 63,370 | $ 63,370 | $ 63,370 |
| Less: Goodwill | 3,685 | 3,944 | 4,211 | 4,498 | 4,795 |
| Less: Other intangible assets, net | | | | | |
| Total tangible stockholders' equity | 196,454 | 192,005 | 189,037 | 188,572 | 186,160 |
| | $ 7,396,163 | $ 7,394,143 | $ 7,394,143 | $ 7,394,143 | $ 7,394,143 |
| Common shares outstanding | 26.56 | 25.97 | 25.57 | 25.50 | 25.18 |
| Tangible book value per share | $ | $ | $ | $ | $ |
| Core return on average stockholders' equity: | 5,659 | 4,800 | 4,728 | 5,118 | 4,855 |
| Net income GAAP | $ | $ | $ | $ | $ |
| Adjustments: | 2,278 | | | | |
| Less: Gain on sale of merchant services business | | | | | 381 |
| Less: Gains on sale of investment securities | 271 | | | | |
| Add: Expenses related to sale of merchant services business | 702 | | | | |
| Add: Gain on sale of merchant services business tax adjustment | | | | | 133 |
| Add: Gains on sale of investment securities tax adjustment | 4,354 | 4,800 | 4,728 | 5,118 | 4,607 |
| Net income Core | $ 260,653 | $ 259,235 | $ 258,026 | $ 256,130 | $ 252,785 |
| Average stockholders' equity | $ 6.70 | $ 7.51 | $ 7.29 | $ 7.95 | $ 7.33 |
| Core return on average stockholders' equity | % | % | % | % | % |
| Return on average tangible equity: | 5,659 | 4,800 | 4,728 | 5,118 | 4,855 |
| Net income GAAP | $ 260,653 | $ 259,235 | $ 258,026 | $ 256,130 | $ 252,785 |
| Average stockholders' equity | $ 67,185 | $ 67,448 | $ 67,725 | $ 68,017 | $ 68,313 |
| Less: average intangibles | 193,468 | 191,787 | 190,301 | 188,113 | 184,472 |
| Average tangible stockholders' equity | $ 11.73 | $ 10.15 | $ 9.88 | $ 10.82 | $ 10.59 |
| Return on average tangible stockholders' equity | % | % | % | % | % |
| Core return on average tangible stockholders' equity: | 5,659 | 4,800 | 4,728 | 5,118 | 4,855 |
| Net income GAAP | $ | $ | $ | $ | $ |
| Adjustments: | 2,278 | | | | |
| Less: Gain on sale of merchant services business | | | | | 381 |
| Less: Gains on sale of investment securities | 271 | | | | |
| Add: Expenses related to sale of merchant services business | 702 | | | | |
| Add: Gain on sale of merchant services business tax adjustment | | | | | 133 |
| Add: Gains on sale of investment securities tax adjustment | 4,354 | 4,800 | 4,728 | 5,118 | 4,607 |
| Net income Core | $ 260,653 | $ 259,235 | $ 258,026 | $ 256,130 | $ 252,785 |
| Average stockholders' equity | $ 67,185 | $ 67,448 | $ 67,725 | $ 68,017 | $ 68,313 |
| Less: average intangibles | 193,468 | 191,787 | 190,301 | 188,113 | 184,472 |
| Average tangible stockholders' equity | $ 9.03 | $ 10.15 | $ 9.88 | $ 10.82 | $ 10.05 |
| Core return on average tangible stockholders' equity | % | % | % | % | % |
| Core return on average assets: | 5,659 | 4,800 | 4,728 | 5,118 | 4,855 |

| | | | | | |
|---|---|---|---|---|---|
| Net income GAAP | $ | $ | $ | $ | $ |
| Adjustments: | | | | | |
| | 2,278 | | | | |
| Less: Gain on sale of merchant services business | | | | | |
| | | | | | 381 |
| Less: Gains on sale of investment securities | | | | | |
| | 271 | | | | |
| Add: Expenses related to sale of merchant services business | | | | | |
| | 702 | | | | |
| Add: Gain on sale of merchant services business tax adjustment | | | | | |
| | | | | | 133 |
| Add: Gains on sale of investment securities tax adjustment | | | | | |
| | 4,354 | 4,800 | 4,728 | 5,118 | 4,607 |
| Net income Core | $ | $ | $ | $ | $ |
| | 2,046,810 | 2,004,553 | 1,990,945 | 1,942,395 | 1,892,702 |
| Average assets | $ | $ | $ | $ | $ |
| | 0.85 | 0.97 | 0.94 | 1.05 | 0.98 |
| Core return on average assets | % | % | % | % | % |

Peoples Financial Services Corp.
Reconciliation of Non-GAAP Financial Measures
(In thousands, except share and per share data)

| Six Months Ended | June 30 2017 | June 30 2016 |
|---|---|---|
| Core net income per share: | | |
| | 10,459 | 9,737 |
| Net income GAAP | $ | $ |
| Adjustments: | | |
| | 2,278 | |
| Less: Gain on sale of merchant services business | | |
| | | 623 |
| Less: Gains on sale of investment securities | | |
| | 271 | |
| Add: Expenses related to sale of merchant services business | | |
| | 702 | |
| Add: Gain on sale of merchant services business tax adjustment | | |
| | | 218 |
| Add: Gains on sale of investment securities tax adjustment | | |
| | 9,154 | 9,332 |
| Net income Core | $ | $ |
| | 7,395,158 | 7,399,318 |
| Average common shares outstanding | | |
| | 1.24 | 1.26 |
| Core net income per share | $ | $ |

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