PEOPLES FINANCIAL CORP /MS/
Form 10-Q
August 12, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi	**64-0709834**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
Lameuse and Howard Avenues, Biloxi, Mississippi	**39533**
(Address of principal executive offices)	**(Zip Code)**

(228) 435-5511

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At July 29, 2016, there were 15,000,000 shares of $1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

Part 1 Financial Information

Item 1: Financial Statements

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks	$ 65,711	$ 31,396
Available for sale securities	202,178	202,807
Held to maturity securities, fair value of $24,403 at June 30, 2016; $19,220 at December 31, 2015	23,862	19,025
Other investments	2,732	2,744
Federal Home Loan Bank Stock, at cost	1,642	1,637
Loans	326,425	337,557
Less: Allowance for loan losses	7,109	8,070
Loans, net	319,316	329,487
Bank premises and equipment, net of accumulated depreciation	22,281	22,446
Other real estate	8,737	9,916
Accrued interest receivable	1,663	1,832
Cash surrender value of life insurance	19,005	18,735
Other assets	1,332	979
Total assets	$ 668,459	$ 641,004

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 124,553	$ 122,743
Savings and demand, interest bearing	343,588	315,141
Time, $100,000 or more	40,858	35,389
Other time deposits	38,524	39,434
Total deposits	547,523	512,707
Borrowings from Federal Home Loan Bank	8,257	18,409
Employee and director benefit plans liabilities	16,465	16,283
Other liabilities	1,599	1,766
Total liabilities	573,844	549,165
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at June 30, 2016 and December 31, 2015	5,123	5,123
Surplus	65,780	65,780
Undivided profits	19,288	19,151
Accumulated other comprehensive income, net of tax	4,424	1,785
Total shareholders equity	94,615	91,839
Total liabilities and shareholders equity	$ 668,459	$ 641,004

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income:				
Interest and fees on loans	$ 3,568	$ 3,613	$ 7,265	$ 7,366
Interest and dividends on securities:				
U.S. Treasuries	250	163	457	274
U.S. Government agencies	218	500	567	1,059
Mortgage-backed securities	134	153	277	307
States and political subdivisions	316	354	621	725
Corporate bonds	8		16	
Other investments	2	3	10	7
Interest on balances due from depository institutions	54	22	117	35
Total interest income	4,550	4,808	9,330	9,773
Interest expense:				
Deposits	224	165	424	329
Borrowings from Federal Home Loan Bank	43	49	85	95
Total interest expense	267	214	509	424
Net interest income	4,283	4,594	8,821	9,349
Provision for allowance for loan losses	24	1,536	137	2,522
Net interest income after provision for allowance for loan losses	$ 4,259	$ 3,058	$ 8,684	$ 6,827

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Non-interest income:				
Trust department income and fees	$ 367	$ 394	$ 763	$ 800
Service charges on deposit accounts	918	1,164	1,850	2,388
Gain on liquidation, sales and calls of securities	11		91	
Income (loss) from other investments	18	(13)	(13)	(71)
Increase in cash surrender value of life insurance	91	120	193	242
Other income	123	140	287	387
Total non-interest income	1,528	1,805	3,171	3,746
Non-interest expense:				
Salaries and employee benefits	2,755	2,936	5,529	5,975
Net occupancy	592	648	1,239	1,315
Equipment rentals, depreciation and maintenance	752	702	1,466	1,419
FDIC and state banking assessments	203	215	429	461
Data processing	332	333	672	692
ATM expense	167	482	275	825
Other real estate expense	123	291	474	742
Other expense	724	861	1,556	1,900
Total non-interest expense	5,648	6,468	11,640	13,329
Income (loss) before income taxes	139	(1,605)	215	(2,756)
Income tax expense	78		78	
Net income (loss)	$ 61	$ (1,605)	$ 137	$ (2,756)
Basic and diluted earnings (loss) per share	$ .01	$ (.32)	$ .02	$ (.54)
Dividends declared per share	$	$	$	$

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income (loss)	$ 61	$ (1,605)	$ 137	$ (2,756)
Other comprehensive income (loss):				
Net unrealized gain (loss) on available for sale securities	1,409	(2,473)	2,730	129
Reclassification adjustment for realized gain on available for sale securities called or sold	(11)		(91)	
Total other comprehensive income (loss)	1,398	(2,473)	2,639	129
Total comprehensive income (loss)	$ 1,459	$ (4,078)	$ 2,776	$ (2,627)

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity

(in thousands except share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2016	5,123,186	$ 5,123	$ 65,780	$ 19,151	$ 1,785	$ 91,839
Net income				137		137
Other comprehensive income					2,639	2,639
Balance, June 30, 2016	5,123,186	$ 5,123	$ 65,780	$ 19,288	$ 4,424	$ 94,615

Note: Balances as of January 1, 2016 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$ 137	$ (2,756)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	894	888
Provision for allowance for loan losses	137	2,522
Writedown of other real estate	420	411
(Gains) losses on sales of other real estate	(130)	55
Loss from other investments	13	71
Amortization of held to maturity securities	63	34
Amortization of available for sale securities	11	120
Gain on sales and calls of securities	(91)	
Change in accrued interest receivable	169	62
Increase in cash surrender value of life insurance	(193)	(242)
Change in other assets	(354)	291
Change in other liabilities	15	474
Net cash provided by operating activities	$ 1,091	$ 1,930

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 103,198	$ 35,550
Proceeds from maturities of held to maturity securities	410	210
Purchases of available for sale securities	(99,850)	(35,258)
Purchases of held to maturity securities	(5,310)	
Redemption of Federal Home Loan Bank stock	(5)	246
Proceeds from sales of other real estate	1,743	1,755
Loans, net change	9,180	(7,970)
Acquisition of bank premises and equipment	(729)	(44)
Investment in cash surrender value of life insurance	(77)	(75)
Net cash provided by (used in) investing activities	8,560	(5,586)
Cash flows from financing activities:		
Demand and savings deposits, net change	30,257	21,254
Time deposits, net change	4,559	(629)
Borrowings from Federal Home Loan Bank	98,900	456,045
Repayments to Federal Home Loan Bank	(109,052)	(463,178)
Net cash provided by financing activities	24,664	13,492
Net increase in cash and cash equivalents	34,315	9,836
Cash and cash equivalents, beginning of period	31,396	23,556
Cash and cash equivalents, end of period	$ 65,711	$ 33,392

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2016 and 2015

1. Basis of Presentation:

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. It has two operating subsidiaries, PFC Service Corp., an inactive company, and The Peoples Bank, Biloxi, Mississippi (the Bank). The Bank provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the Bank s three most outlying locations (the trade area).

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of June 30, 2016 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company s 2015 Annual Report and Form 10-K.

The results of operations for the quarter or six months ended June 30, 2016, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates - 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies - The accounting and reporting policies of the Company conform to GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2015.

New Accounting Pronouncements In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 82)*. ASU 2016-02 provides certain targeted improvements to align lessor accounting with the lessee accounting model. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-03, *Intangibles Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance.* ASU 2016-03 amends the guidance in ASUs 2014-02, 2014-03, 2014-07 and 2014-18 to remove their effective dates and render them effective immediately. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retroactively on a step by step basis. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2016. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of determining the effect of ASU 2016-13 on its financial position, results of operations and cash flows.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 for the quarters and six months ended June 30, 2016 and 2015.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $507,061 and $426,168 for the six months ended June 30, 2016 and 2015, respectively, for interest on deposits and borrowings. Income tax payments of $78,435 were made during the six months ended June 30, 2016. Loans transferred to other real estate amounted to $853,758 and $6,337,091 during the six months ended June 30, 2016 and 2015, respectively.

4. Investments:

The amortized cost and fair value of securities at June 30, 2016 and December 31, 2015, are as follows (in thousands):

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 112,774	$ 1,108	$	$ 113,882
U.S. Government agencies	37,955	485		38,440
Mortgage-backed securities	27,535	719		28,254
States and political subdivisions	20,293	851		21,144
Total debt securities	198,557	3,163		201,720
Equity securities	458			458
Total available for sale securities	$ 199,015	$ 3,163	$	$ 202,178
Held to maturity securities:				
States and political subdivisions	$ 22,371	$ 549	$ (2)	$ 22,918
Corporate bond	1,491		(6)	1,485
Total held to maturity securities	$ 23,862	$ 549	$ (8)	$ 24,403

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 63,845	$ 20	$ (111)	$ 63,754
U.S. Government agencies	84,849	176	(479)	84,546
Mortgage-backed securities	30,106	155	(131)	30,130
States and political subdivisions	22,833	894		23,727
Total debt securities	201,633	1,245	(721)	202,157
Equity securities	650			650
Total available for sale securities	$ 202,283	$ 1,245	$ (721)	$ 202,807
Held to maturity securities:				
States and political subdivisions	$ 17,507	$ 222	$ (16)	$ 17,713
Corporate bond	1,518		(11)	1,507
Total held to maturity securities	$ 19,025	$ 222	$ (27)	$ 19,220

The amortized cost and fair value of debt securities at June 30, 2016 (in thousands), by contractual maturity, are shown on the following page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 57,012	$ 57,116
Due after one year through five years	88,774	90,368
Due after five years through ten years	24,903	25,617
Due after ten years	333	365
Mortgage-backed securities	27,535	28,254
Totals	$ 198,557	$ 201,720
Held to maturity securities:		
Due in one year or less	$ 2,623	$ 2,617
Due after one year through five years	7,346	7,462
Due after five years through ten years	7,588	7,843
Due after ten years	6,305	6,481
Totals	$ 23,862	$ 24,403

Available for sale and held to maturity securities with gross unrealized losses at June 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2016:						
States and political subdivisions	$ 904	$ 1	$ 594	$ 1	$ 1,498	$ 2
Corporate bond	1,485	6			1,485	6
TOTAL	$ 2,389	$ 7	$ 594	$ 1	$ 2,983	$ 8
December 31, 2015:						
U.S. Treasuries	$ 39,889	$ 111	$	$	$ 39,889	$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bond	1,507	11			1,507	11
TOTAL	$ 75,072	$ 348	$ 13,943	$ 400	$ 89,015	$ 748

At June 30, 2016, 7 of the 143 securities issued by states and political subdivisions and the corporate bond contained unrealized losses.

Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost, the fact that the Company s securities are primarily issued by U.S. Treasury and U.S. Government Agencies and the cause of the decline in value are considered. In addition, the Company does not intend to sell and it is not more likely than not that it will be required to sell these securities before maturity. While some available for sale securities have been sold for liquidity purposes or for gains, the Company has traditionally held its securities, including those classified as available for sale, until maturity. As a result of the evaluation of these securities, the Company has determined that the unrealized losses summarized in the tables above are not deemed to be other-than-temporary.

Proceeds from sales and calls of available for sale securities were $21,250,806 during the six months ended June 30, 2016. Available for sale debt securities were sold or called for a realized gain of $90,738 for the six months ended June 30, 2016. There were no sales or calls of available for sale debt securities for the six months ended June 30, 2015.

Securities with a fair value of $181,526,145 and $168,724,920 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

5. Loans:

The composition of the loan portfolio at June 30, 2016 and December 31, 2015, is as follows (in thousands):

	June 30, 2016	December 31, 2015
Gaming	$ 30,421	$ 31,655
Residential and land development	910	933
Real estate, construction	39,281	35,414
Real estate, mortgage	207,649	219,925
Commercial and industrial	41,045	42,480
Other	7,119	7,150
Total	$ 326,425	$ 337,557

The age analysis of the loan portfolio, segregated by class of loans, as of June 30, 2016 and December 31, 2015, is as follows (in thousands):

	Number of Days Past Due						
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Loans Past Due Greater Than 90 Days & Still Accruing
June 30, 2016:							
Gaming	$	$	$	$	$ 30,421	$ 30,421	$
Residential and land development			300	300	610	910	
Real estate, construction	516		1,095	1,611	37,670	39,281	
Real estate, mortgage	4,885	1,886	3,187	9,958	197,691	207,649	287
Commercial and industrial	580		16	596	40,449	41,045	
Other	6		76	82	7,037	7,119	
Total	$ 5,987	$ 1,886	$ 4,674	$ 12,547	$ 313,878	$ 326,425	$ 287
December 31, 2015:							
Gaming	$	$	$	$	$ 31,655	$ 31,655	$
Residential and land development			323	323	610	933	
Real estate, construction	851	448	1,346	2,645	32,769	35,414	
Real estate, mortgage	7,094	3,673	1,352	12,119	207,806	219,925	146
Commercial and industrial	1,206	31	237	1,474	41,006	42,480	
Other	67			67	7,083	7,150	
Total	$ 9,218	$ 4,152	$ 3,258	$ 16,628	$ 320,929	$ 337,557	$ 146

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 5 is assigned to the loan on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A, B, C, S, D, E or F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. A grade of S will generally be applied to loans for customers who meet the criteria for a grade of C but also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of June 30, 2016 and December 31, 2015, is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
June 30, 2016:						
Gaming	$ 30,421	$	$	$	$	$ 30,421
Residential and land development	610			300		910
Real estate, construction	36,549		531	2,201		39,281
Real estate, mortgage	155,236	15,807	23,903	12,703		207,649
Commercial and industrial	24,002	15,000	1,447	596		41,045
Other	7,099	1	19			7,119
Total	$ 253,917	$ 30,808	$ 25,900	$ 15,800	$	$ 326,425
December 31, 2015:						
Gaming	$ 31,655	$	$	$	$	$ 31,655
Residential and land development	610			323		933
Real estate, construction	31,935		883	2,596		35,414
Real estate, mortgage	167,286	16,678	23,686	12,275		219,925
Commercial and industrial	24,466	15,007	2,368	639		42,480
Other	7,114	1	35			7,150
Total	$ 263,066	$ 31,686	$ 26,972	$ 15,833	$	$ 337,557

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	June 30, 2016	December 31, 2015
Residential and land development	$ 300	$ 323
Real estate, construction	2,201	2,523
Real estate, mortgage	11,706	11,759
Commercial and industrial	548	581
Total	$ 14,755	$ 15,186

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of June 30, 2016 and December 31, 2015 were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
June 30, 2016:				
Real estate, mortgage	3	$ 1,204	$ 1,204	$ 107
Total	3	$ 1,204	$ 1,204	$ 107
December 31, 2015:				
Real estate, mortgage	3	$ 1,232	$ 1,232	$ 107
Total	3	$ 1,232	$ 1,232	$ 107

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2016:					
With no related allowance recorded:					
Real estate, construction	$ 2,521	$ 1,916	$	$ 1,820	$
Real estate, mortgage	10,291	9,337		9,312	14
Commercial and industrial	336	336		334	
Total	13,148	11,589		11,466	14
With a related allowance recorded:					
Residential and land development	300	300	109	312	
Real estate, construction	285	285	166	292	
Real estate, mortgage	3,573	3,573	1,127	2,859	15
Commercial and industrial	251	212	6	210	
Total	4,409	4,370	1,408	3,673	15
Total by class of loans:					
Residential and land development	300	300	109	312	
Real estate, construction	2,806	2,201	166	2,112	
Real estate, mortgage	13,864	12,910	1,127	12,171	29
Commercial and industrial	587	548	6	544	
Total	$ 17,557	$ 15,959	$ 1,408	$ 15,139	$ 29

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015:					
With no related allowance recorded:					
Real estate, construction	$ 2,228	$ 1,842	$	$ 1,878	$
Real estate, mortgage	9,771	9,014		9,175	21
Commercial and industrial	619	581		653	
Total	12,618	11,437		11,706	21
With a related allowance recorded:					
Residential and land development	323	323	109	343	
Real estate, construction	814	681	252	780	
Real estate, mortgage	3,977	3,977	1,443	3,920	18
Total	5,114	4,981	1,804	5,043	18
Total by class of loans:					
Residential and land development	323	323	109	343	
Real estate, construction	3,042	2,523	252	2,658	
Real estate, mortgage	13,748	12,991	1,443	13,095	39
Commercial and industrial	619	581		653	
Total	$ 17,732	$ 16,418	$ 1,804	$ 16,749	$ 39

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters and six months ended June 30, 2016 and 2015, and the balances of loans, individually and collectively evaluated for impairment, as of June 30, 2016 and 2015, are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Charge-offs			(173)	(553)	(509)	(94)	(1,329)
Recoveries			38	99	60	34	231
Provision		13	(79)	48	92	63	137
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
For the Quarter Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning Balance	$ 567	$ 195	$ 452	$ 5,414	$ 686	$ 250	$ 7,564
Charge-offs			(84)	(538)		(44)	(666)
Recoveries			37	92	45	13	187
Provision	15	7	(30)	8	(13)	37	24
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
Allowance for Loan Losses, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 109	$ 243	$ 1,364	$ 147	$ 3	$ 1,866
Ending balance: collectively evaluated for impairment	$ 582	$ 93	$ 132	$ 3,612	$ 571	$ 253	$ 5,243
Total Loans, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 300	$ 2,732	$ 36,606	$ 2,043	$ 19	$ 41,700
Ending balance: collectively evaluated for impairment	$ 30,421	$ 610	$ 36,549	$ 171,043	$ 39,002	$ 7,100	$ 284,725

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs		(1,504)	(409)	(219)	(24)	(97)	(2,253)
Recoveries				13	13	49	75
Provision	(3)	1,479	653	236	79	78	2,522
Ending Balance	$ 570	$ 226	$ 1,104	$ 6,639	$ 655	$ 356	$ 9,550
For the Quarter Ended June 30, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 537	$ 1,068	$ 746	$ 6,667	$ 641	$ 326	$ 9,985
Charge-offs		(1,504)	(312)	(137)		(36)	(1,989)
Recoveries				7	3	8	18
Provision	33	662	670	102	11	58	1,536
Ending Balance	$ 570	$ 226	$ 1,104	$ 6,639	$ 655	$ 356	$ 9,550
Allowance for Loan Losses, June 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 127	$ 1,023	$ 2,913	$ 309	$ 4	$ 4,376
Ending balance: collectively evaluated for impairment	$ 570	$ 99	$ 81	$ 3,726	$ 346	$ 352	$ 5,174
Total Loans, June 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 3,117	$ 5,704	$ 39,340	$ 3,750	$ 20	$ 51,931
Ending balance: collectively evaluated for impairment	$ 30,102	$ 650	$ 31,507	$ 187,868	$ 45,841	$ 13,963	$ 309,931

7. Deposits:

Time deposits of $100,000 or more at June 30, 2016 and December 31, 2015 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $29,019,000 and $24,090,000 at June 30, 2016 and December 31, 2015, respectively.

8. Fair Value Measurements and Disclosures:

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record other assets at fair value on a non-recurring basis, such as impaired loans and ORE. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used to determine the fair value of financial assets and liabilities.

Cash and Due from Banks

The carrying amount shown as cash and due from banks approximates fair value.

Available for Sale Securities

The fair value of available for sale securities is based on quoted market prices. The Company s available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based on asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. Another source for determining fair value is matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark securities. The Company s available for sale securities for which fair value is determined through the use of such pricing models and matrix pricing are classified as Level 2 assets. If the fair value of available for sale securities is generated through model-based techniques, including the discounting of estimated cash flows, such securities are classified as Level 3 assets.

Held to Maturity Securities

The fair value of held to maturity securities is based on quoted market prices.

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

The carrying amount shown as Federal Home Loan Bank Stock approximates fair value.

Loans

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the remaining maturities. The cash flows considered in computing the fair value of such loans are segmented into categories relating to the nature of the contract and collateral based on contractual principal maturities. Appropriate adjustments are made to reflect probable credit losses. Cash flows have not been adjusted for such factors as prepayment risk or the effect of the maturity of balloon notes. The fair value of floating rate loans is estimated to be its carrying value. At each reporting period, the Company determines which loans are impaired. Accordingly, the Company s impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans are non-recurring Level 3 assets.

Other Real Estate

In the course of lending operations, Management may determine that it is necessary to foreclose on the related collateral. Other real estate acquired through foreclosure is carried at fair value, less estimated costs to sell. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the current appraisal is more than one year old and/or the loan balance is more than $200,000, a new appraisal is obtained. Otherwise, the Bank s in-house property evaluator and Management will determine the fair value of the collateral, based on comparable sales, market conditions, Management s plans for disposition and other estimates of fair value obtained from principally independent sources, adjusted for estimated selling costs. Other real estate is a non-recurring Level 3 asset.

Cash Surrender Value of Life Insurance

The carrying amount of cash surrender value of bank-owned life insurance approximates fair value.

Deposits

The fair value of non-interest bearing demand and interest bearing savings and demand deposits is the amount reported in the financial statements. The fair value of time deposits is estimated by discounting the cash flows using current rates of time deposits with similar remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates.

Borrowings from Federal Home Loan Bank

The fair value of Federal Home Loan Bank (FHLB) fixed rate borrowings is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of FHLB variable rate borrowings is estimated to be its carrying value.

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of June 30, 2016 and December 31, 2015 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2016:				
U.S. Treasuries	$ 113,882	$	$ 113,882	$
U.S. Government agencies	38,440		38,440	
Mortgage-backed securities	28,254		28,254	
States and political subdivisions	21,144		21,107	37
Equity securities	458		458	
Total	$ 202,178	$	$ 202,141	$ 37
December 31, 2015:				
U.S. Treasuries	$ 63,754	$	$ 63,754	$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
Total	$ 202,807	$	$ 202,627	$ 180

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of June 30, 2016 and December 31, 2015 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2016	$ 6,967	$	$	$ 6,967
December 31, 2015	4,981			4,981

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of June 30, 2016 and December 31, 2015 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2016	$ 8,737	$	$	$ 8,737

December 31, 2015	9,916	9,916

The following table presents a summary of changes in the fair value of other real estate which is measured using level 3 inputs (in thousands):

	For the Six Months Ended June 30, 2016	For the Year Ended December 31, 2015
Balance, beginning of period	$ 9,916	$ 7,646
Loans transferred to ORE	854	7,502
Sales	(1,613)	(4,295)
Writedowns	(420)	(937)
Balance, end of period	$ 8,737	$ 9,916

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at June 30, 2016 and December 31, 2015, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
June 30, 2016:					
Financial Assets:					
Cash and due from banks	$ 65,711	$ 65,711	$	$	$ 65,711
Available for sale securities	202,178		202,141	37	202,178
Held to maturity securities	23,862		24,403		24,403
Other investments	2,732	2,732			2,732
Federal Home Loan Bank stock	1,642		1,642		1,642
Loans, net	319,316			323,665	323,665
Other real estate	8,737			8,737	8,737
Cash surrender value of life insurance	19,005		19,005		19,005
Financial Liabilities:					
Deposits:					
Non-interest bearing	124,553	124,553			124,553
Interest bearing	422,970			423,274	423,274
Borrowings from Federal Home Loan Bank	8,257		9,928		9,928
December 31, 2015:					
Financial Assets:					
Cash and due from banks	$ 31,396	$ 31,396	$	$	$ 31,396
Available for sale securities	202,807		202,627	180	202,807
Held to maturity securities	19,025		19,220		19,220
Other investments	2,744	2,744			2,744
Federal Home Loan Bank stock	1,637		1,637		1,637

Loans, net	329,487			331,026	331,026
Other real estate	9,916			9,916	9,916
Cash surrender value of life insurance	18,735		18,735		18,735
Financial Liabilities:					
Deposits:					
Non-interest bearing	122,743	122,743			122,743
Interest bearing	389,964			390,205	390,205
Borrowings from Federal Home Loan Bank	18,409		19,731		19,731

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The Company is a one-bank holding company headquartered in Biloxi, Mississippi. The Company has two operating subsidiaries, PFC Service Corp., an inactive company, and The Peoples Bank, Biloxi, Mississippi (the Bank). The Bank provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the Bank s three most outlying locations (the trade area).

The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of Peoples Financial Corporation and Subsidiaries. These comments should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this report on Form 10-Q and the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management s Discussion and Analysis included in the Company s Form 10-K for the year ended December 31, 2015.

Forward-Looking Information

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company s anticipated future financial performance. This act provides a safe harbor for such disclosure which protects the companies from unwarranted litigation if actual results are different from management expectations. This report contains forward-looking statements and reflects industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company s actual results and experience to differ from the anticipated results and expectations expressed in such forward-looking statements. Such factors and uncertainties include, but are not limited to: changes in interest rates and market prices, changes in local economic and business conditions, increased competition for deposits and loans, a deviation in actual experience from the underlying assumptions used to determine and establish the allowance for loan losses, changes in the availability of funds resulting from reduced liquidity, changes in government regulations and acts of terrorism, weather or other events beyond the Company s control.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued several new accounting standards updates for the first half of 2016 which are disclosed in the Notes to Unaudited Consolidated Financial Statements. The Company does not generally expect that these updates will have a material effect on its financial position or results of operations but the effect of ASU 2016-13 is still being considered.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 reporting period. The Company evaluates these estimates and assumptions on an on-going basis using historical experience and other factors, including the current economic environment. We adjust such estimates and assumptions when facts and circumstances dictate. Certain critical accounting policies affect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Investments

Investments which are classified as available for sale are stated at fair value. A decline in the market value of an investment below cost that is deemed to be other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income. The determination of the fair value of securities may require Management to develop estimates and assumptions regarding the amount and timing of cash flows.

Allowance for loan losses

The Company s most critical accounting policy relates to its allowance for loan losses (ALL), which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The ALL is established and maintained at an amount sufficient to cover the estimated loss associated with the loan portfolio of the Company as of the date of the financial statements. Credit losses arise not only from credit risk, but also from other risks inherent in the lending process including, but not limited to, collateral risk, operation risk, concentration risk and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the ALL. On a quarterly basis, Management estimates the probable level of losses to determine whether the allowance is adequate to absorb reasonably foreseeable, anticipated losses in the existing portfolio based on our past loan loss experience, known and inherent risk in the portfolio, adverse situations that may affect the borrowers ability to repay and the estimated value of any underlying collateral and current economic conditions. Management believes that the ALL is adequate and appropriate for all periods presented in these financial statements. If there was a deterioration of any of the factors considered by Management in evaluating the ALL, the estimate of loss would be updated, and additional provisions for loan losses may be required. The analysis divides the portfolio into two segments: a pool analysis of loans based upon a five year average loss history which is updated on a quarterly basis and which may be adjusted by qualitative factors by loan type and a specific reserve analysis for those loans considered impaired under GAAP. All credit relationships with an outstanding balance of $100,000 or greater that are included in Management s loan watch list are individually reviewed for impairment. All losses are charged to the ALL when the loss actually occurs or when a determination is made that a loss is likely to occur; recoveries are credited to the ALL at the time of receipt.

Other Real Estate

Other real estate (ORE) includes real estate acquired through foreclosure. Each ORE property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals performed by third-party valuation specialists. If Management determines that the fair value of a property has decreased subsequent to foreclosure, the Company records a write down which is included in non-interest expense.

Employee Benefit Plans

Employee benefit plan liabilities and pension costs are determined utilizing actuarially determined present value calculations. The valuation of the benefit obligation and net periodic expense is considered critical, as it requires Management and its actuaries to make estimates regarding the amount and timing of expected cash outflows including assumptions about mortality, expected service periods and the rate of compensation increases.

Income Taxes

GAAP requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. As part of the process of preparing our consolidated financial statements, the Company is required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the provision for loan losses, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities that are included in our consolidated statement of condition. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent the Company establishes a valuation allowance or adjusts this allowance in a period, we must include an expense or benefit within the tax provision in the consolidated statement of income.

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in our trade area, which is defined as those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the bank subsidiary s three most outlying locations. Maintaining a strong core deposit base and providing commercial and real estate lending in our trade area are the traditional focuses of the Company. Growth has largely been achieved through de novo branching activity, and it is expected that these strategies will continue to be emphasized in the future.

The Company earned net income of $61,000 for the second quarter of 2016 compared with a net loss of $1,605,000 for the second quarter of 2015 and earned net income of $137,000 for the first two quarters of 2016 compared with a net loss of $2,756,000 for the first two quarters of 2015. Results in 2016 for both time periods included decreases in the provision for the allowance for loan losses and non-interest expense which were partially offset by decreases in net interest income and non-interest income as compared with 2015.

Managing the net interest margin in the Company s highly competitive market and in context of larger economic conditions has been very challenging and will continue to be so, for the foreseeable future. Net interest income was impacted primarily by the decrease in interest on U.S. Government agency securities of $282,000 and $492,000 for the second quarter and first two quarters ended June 30, 2016, respectively, as compared with 2015. This decrease in both time periods is the result of recent purchases of these securities having shorter durations, and therefore lower yields, in anticipation of rising rates as well as proceeds from calls and maturities of U.S. Agency securities being invested in U.S. Treasury securities which generally have a lower rate.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized during these difficult economic times, as the local economy continues to negatively impact collateral values and borrowers ability to repay their loans. The provision for the allowance for loan losses was $24,000 and $137,000 for the second quarter and first two quarters of 2016, respectively, compared with $1,536,000 and $2,522,000, respectively, for the second quarter and first two quarters of 2015. The Company is working diligently to address and reduce its non-performing assets. The Company s nonaccrual loans totaled $14,755,000 and $15,186,000 at June 30, 2016 and December 31, 2015, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

Non-interest income decreased $277,000 and $575,000 for the second quarter and first two quarters of 2016 as compared with 2015 results. Service charges on deposit accounts decreased $246,000 and $538,000 for the second quarter and first two quarters of 2016 as compared with 2015 primarily as a result of decreased ATM fee income.

Non-interest expense decreased $820,000 and $1,689,000 for the second quarter and first two quarters of 2016 as compared with 2015 results. This decrease for the second quarter of 2016 was the result of decreases in salaries and employee benefits of $181,000, ATM expenses of $315,000, ORE expense of $168,000 and other expenses of $137,000 as compared with 2015. This decrease for the first two quarters of 2016 was the result of decreases in salaries and employee benefits of $446,000, ATM expenses of $550,000, ORE expense of $268,000 and other expense of $344,000 as compared with 2015.

Total assets at June 30, 2016 increased $27,455,000 as compared with December 31, 2015. Cash and due from banks increased $34,315,000 in management of the Company s liquidity position. Total deposits increased $34,816,000 at June 30, 2016 as compared with December 31, 2015 as customers in the casino industry and county and municipal entities reallocate their resources periodically.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income on loans, investments and other interest- earning assets exceeds interest expense on deposits and other borrowed funds, is the single largest component of the Company s income. Management s objective is to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risk. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities combined with changes in market rates of interest directly affect net interest income.

Quarter Ended June 30, 2016 as Compared with Quarter Ended June 30, 2015

The Company s average interest-earning assets decreased approximately $28,782,000, or 5%, from approximately $626,289,000 for the second quarter of 2015 to approximately $597,507,000 for the second quarter of 2016. Average balances due from financial institutions increased approximately $10,933,000 as a result of the decrease in average loans. The Company s average loans decreased approximately $35,080,000 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

The average yield on earning assets decreased by 4 basis points, from 3.19% for the second quarter of 2015 to 3.15% for the second quarter of 2016. The yield on average loans increased from 3.95% for the second quarter of 2015 to 4.31% for the second quarter of 2016 primarily as a result of the effect of the increase in prime rate during December 2015 on the Company s floating rate loans. The yield on average taxable available for sale securities decreased from 1.70% for the second quarter of 2015 to 1.27% for the second quarter of 2016 as recent purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest bearing liabilities decreased approximately $27,890,000, or 6%, from approximately $473,816,000 for the second quarter of 2015 to approximately $445,926,000 for the second quarter of 2016. Average borrowings from the Federal Home Loan Bank decreased approximately $29,069,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest bearing liabilities for the second quarter of 2015 was .18% as compared with .24% for the second quarter of 2016 as the Company was able to pay off lower rate borrowings from FHLB.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.05% for the second quarter of 2015 as compared with 2.98% for the second quarter of 2016.

Six Months Ended June 30, 2016 as Compared with Six Months Ended June 30, 2015

The Company s average interest-earning assets decreased approximately $22,490,000, or 4%, from approximately $622,464,000 for the first two quarters of 2015 to approximately $599,974,000 for the first two quarters of 2016. Average balances due from financial institutions increased approximately $13,546,000 as a result of the decrease in average loans. The Company s average loans decreased approximately $29,797,000 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

The average yield on earning assets decreased by 4 basis points, from 3.26% for the first two quarters of 2015 to 3.22% for the first two quarters of 2016. The yield on average loans increased from 4.04% for the first two quarters of 2015 to 4.34% for the first two quarters of 2016 primarily as a result of the effect of the increase in prime rate during December 2015 on the Company s floating rate loans. The yield on average taxable available for sale securities decreased from 1.72% for the first two quarters of 2015 to 1.38% for the first two quarters of 2016 as recent purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately $28,140,000, or 6%, from approximately $476,054,000 for the first two quarters of 2015 to approximately $447,914,000 for the first two quarters of 2016. Average savings and interest bearing DDA balances decreased approximately $9,546,000 primarily as several large commercial customers reallocate their balances periodically. Average borrowings from the Federal Home Loan Bank decreased approximately $19,615,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest-bearing liabilities for the first two quarters of 2015 was .18% compared with .23% for the first two quarters of 2016 as the Company was able to pay off lower rate borrowings from FHLB.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.12% for the first two quarters of 2015 as compared with 3.05% for the first two quarters of 2016.

The tables below analyze the changes in tax-equivalent net interest income for the quarters and six months ended June 30, 2016 and 2015.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Quarter Ended June 30, 2016			Quarter Ended June 30, 2015		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 331,031	$ 3,568	4.31%	$ 366,111	$ 3,613	3.95%
Balances due from depository institutions	30,099	54	0.72%	19,166	22	0.46%
HTM:						
Taxable	75	1	5.33%			
Non taxable (1)	20,174	189	3.75%	17,757	151	3.40%
AFS:						
Taxable	192,579	610	1.27%	191,603	816	1.70%
Non taxable (1)	21,449	288	5.37%	28,774	386	5.37%
Other	2,100	2	0.38%	2,878	3	0.42%
Total	$ 597,507	$ 4,712	3.15%	$ 626,289	$ 4,991	3.19%
Savings & interest-bearing DDA	$ 358,964	$ 115	0.13%	$ 359,765	$ 75	0.08%
Time deposits	78,671	109	0.55%	76,691	90	0.47%
Borrowings from FHLB	8,291	43	2.07%	37,360	49	0.52%
Total	$ 445,926	$ 267	0.24%	$ 473,816	$ 214	0.18%
Net tax-equivalent spread			2.91%			3.01%
Net tax-equivalent margin on earning assets			2.98%			3.05%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2016 and 2015.
(2) Loan fees of $83 and $94 for 2016 and 2015, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Six Months Ended June 30, 2016					Six Months Ended June 30, 2015				
	Average Balance		Interest Earned/Paid		Rate	Average Balance		Interest Earned/Paid		Rate
Loans (2)(3)	$ 334,490	$	7,265		4.34%	$ 364,287	$	7,366		4.04%
Balances due from depository institutions	30,699		117		0.76%	17,153		35		0.41%
HTM:										
Taxable	38		1		5.26%					
Non taxable (1)	19,216		350		3.64%	17,766		302		3.40%
AFS:										
Taxable	191,413		1,318		1.38%	190,773		1,640		1.72%
Non taxable (1)	22,019		588		5.34%	29,884		797		5.33%
Other	2,099		10		0.95%	2,601		7		0.54%
Total	$ 599,974	$	9,649		3.22%	$ 622,464	$	10,147		3.26%
Savings & interest-bearing DDA	$ 361,208	$	214		0.12%	$ 370,754	$	145		0.08%
Time deposits	76,797		210		0.55%	75,776		184		0.49%
Borrowings from FHLB	9,909		85		1.72%	29,524		95		0.64%
Total	$ 447,914	$	509		0.23%	$ 476,054	$	424		0.18%
Net tax-equivalent spread					2.99%					3.08%
Net tax-equivalent margin on earning assets					3.05%					3.12%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2016 and 2015.
(2) Loan fees of $195 and $184 for 2016 and 2015, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Quarter Ended June 30, 2016 compared with June 30, 2015			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (346)	$ 333	$ (32)	$ (45)
Balances due from financial institutions	13	12	7	32
Held to maturity securities:				
Taxable	1			1
Non taxable	22	14	2	38
Available for sale securities:				
Taxable	4	(209)	(1)	(206)
Non taxable	(98)	(1)	1	(98)
Other	(1)			(1)
Total	$ (405)	$ 149	$ (23)	$ (279)
Interest paid on:				
Savings & interest-bearing DDA	$	$ 40	$	$ 40
Time deposits	2	16	1	19
Borrowings from FHLB	(38)	144	(112)	(6)
Total	$ (36)	$ 200	$ (111)	$ 53

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Six Months Ended June 30, 2016 compared with June 30, 2015			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (602)	$ 546	$ (45)	$ (101)
Balances due from financial institutions	28	30	24	82
Held to maturity securities:				
Taxable	1			1
Non taxable	24	22	2	48
Available for sale securities:				
Taxable	6	(327)	(1)	(322)
Non taxable	(210)	1		(209)
Other	(1)	5	(1)	3
Total	$ (754)	$ 277	$ (21)	$ (498)
Interest paid on:				
Savings & interest-bearing DDA	$ (4)	$ 75	$ (2)	$ 69
Time deposits	2	23	1	26
Borrowings from FHLB	(63)	158	(105)	(10)
Total	$ (65)	$ 256	$ (106)	$ 85

Provision for Loan Losses

In the normal course of business, the Company assumes risk in extending credit to its customers. This credit risk is managed through compliance with the loan policy, which is approved by the Board of Directors. The policy establishes guidelines relating to underwriting standards, including but not limited to financial analysis, collateral valuation, lending limits, pricing considerations and loan grading. The Company s Loan Review and Special Assets Departments play key roles in monitoring the loan portfolio and managing problem loans. New loans and, on a periodic basis, existing loans are reviewed to evaluate compliance with the loan policy. Loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area; residential and land development; construction and commercial real estate loans, and their direct and indirect impact on its operations are evaluated on a monthly basis. Loan delinquencies and deposit overdrafts are closely monitored in order to identify developing

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problems as early as possible. Lenders experienced in workout scenarios consult with loan officers and customers to address non-performing loans. A watch list of credits which pose a potential loss to the Company is prepared based on the loan grading system. This list forms the foundation of the Company s allowance for loan loss computation.

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and identify and estimate potential losses based on the best available information. The potential effect of the continuing decline in real estate values and actual losses incurred by the Company were key factors in our analysis. Much of the Company s loan portfolio is collateral-dependent, requiring careful consideration of changes in the value of the collateral.

The Company s analysis includes evaluating the current values of collateral securing all nonaccrual loans. Even though nonaccrual loans were $14,755,000 and $15,186,000 at June 30, 2016 and December 31, 2015, respectively, specific reserves of only $1,301,000 and $1,697,000, respectively, have been allocated to these loans as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company s on-going, systematic evaluation resulted in the Company recording a provision for loan losses of $24,000 and $1,536,000 for the second quarters of 2016 and 2015, respectively, and $137,000 and $2,522,000 for the first two quarters of 2016 and 2015, respectively. The allowance for loan losses as a percentage of loans was 2.18% and 2.39% at June 30, 2016 and December 31, 2015, respectively. The Company believes that its allowance for loan losses is appropriate as of June 30, 2016.

The allowance for loan losses is an estimate, and as such, events may occur in the future which may affect its accuracy. The Company anticipates that it is possible that additional information will be gathered in future quarters which may require an adjustment to the allowance for loan losses. Management will continue to closely monitor its portfolio and take such action as it deems appropriate to accurately report its financial condition and results of operations.

Non-interest income

Quarter Ended June 30, 2016 as Compared with Quarter Ended June 30, 2015

Non-interest income decreased $277,000 for the second quarter of 2016 as compared with the second quarter of 2015 primarily as the result of the decrease in service charges on deposit accounts of $246,000. More specifically, ATM fee income decreased $216,000 as the Company s off-site ATMs at two casinos transferred to other vendors.

Six Months Ended June 30, 2016 as Compared with Six Months Ended June 30, 2015

Non-interest income decreased $575,000 for the first two quarters of 2016 as compared with the first two quarters of 2015 primarily as the result of the decrease in service charges on deposit accounts of $538,000. More specifically, ATM fee income decreased $487,000 as the Company s off-site ATMs at two casinos transferred to other vendors.

Non-interest expense

Quarter Ended June 30, 2016 as Compared with Quarter Ended June 30, 2015

Total non-interest expense decreased $820,000 for the first quarter of 2016 as compared with the first quarter of 2015. Salaries and employee benefits decreased $181,000, ATM expense decreased $315,000, other real estate expense decreased $168,000 and other expenses decreased $137,000 in 2016 as compared with 2015.

Salaries and employee benefits decreased in 2016 as salaries decreased as a result of attrition and health insurance costs declined as a result of decreasing claims.

ATM expenses decreased in 2016 as a result of decreased ATM activity in the current year as a result of off-site ATMs at two casinos transferring to other vendors.

ORE expense decreased in 2016 as compared with 2015 due to the decrease in ORE.

Other expenses decreased in 2016 primarily as 2015 results included additional legal fees associated with non-performing loans.

Six Months Ended June 30, 2016 as Compared with Six Months Ended June 30, 2015

Total non-interest expense decreased $1,689,000 for the first two quarters of 2016 as compared with the first two quarters of 2015. Salaries and employee benefits decreased $446,000, ATM expense decreased $550,000, other real estate expense decreased $268,000 and other expenses decreased $344,000 in 2016 as compared with 2015.

Salaries and employee benefits decreased in 2016 as salaries decreased as a result of attrition and health insurance costs declined as a result of decreasing claims.

ATM expenses decreased in 2016 as a result of decreased ATM activity in the current year as a result of off-site ATMs at two casinos transferring to other vendors.

ORE expense decreased in 2016 as compared with 2015 due to the decrease in ORE.

Other expenses decreased in 2016 primarily as 2015 results included additional legal fees associated with non-performing loans.

Income Taxes

At December 31, 2014, the Company established a full valuation allowance on its deferred tax assets. Until such time as the Company returns to sustained earnings, and it is determined that it is more likely than not that the deferred tax asset will be realized, no income tax benefit or expense will generally be recorded. The Company did record income tax expense of $78,000 during the second quarter of 2016 relating to the resolution of a recent examination by the Internal Revenue Service.

FINANCIAL CONDITION

Cash and due from banks increased $34,315,000 at June 30, 2016, compared with December 31, 2015 in the management of the bank subsidiary s liquidity position.

Loan decreased $11,132,000 at June 30, 2016, as compared with December 31, 2015 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

Other real estate (ORE) decreased $1,179,000 at June 30, 2016 as compared with December 31, 2015. Loans totaling $854,000 were transferred into ORE while $1,613,000 was sold for a gain of $130,000 and writedowns of ORE to fair value were $420,000 during the first two quarters of 2016.

Total deposits increased $34,816,000 at June 30, 2016, as compared with December 31, 2015. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from quarter to quarter are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

Borrowings from the Federal Home Loan Bank decreased $10,152,000 at June 30, 2016 as compared with December 31, 2015 based on the liquidity needs of the bank subsidiary.

SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY

Strength, security and stability have been the hallmark of the Company since its founding in 1985 and of its bank subsidiary since its founding in 1896. A strong capital foundation is fundamental to the continuing prosperity of the Company and the security of its customers and shareholders.

New rules relating to risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act became effective for the Company on January 1, 2015. The rules establish a new common equity Tier 1 minimum capital requirement, increase the minimum capital ratios and assign a higher risk weight to certain assets based on the risk associated with these assets.

As of June 30, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Common Equity Tier 1 Capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater and a Leverage capital ratio of 5.00% or greater. There are no conditions or events since that notification that Management believes have changed the bank subsidiary s category.

The Company s actual capital amounts and ratios and required minimum capital amounts and ratios as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
June 30, 2016:				
Total Capital (to Risk Weighted Assets)	$ 95,335	22.59%	$ 33,755	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,038	21.34%	18,987	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,038	21.34%	25,316	6.00%
Tier 1 Capital (to Average Assets)	90,038	12.76%	28,215	4.00%
December 31, 2015:				
Total Capital (to Risk Weighted Assets)	$ 95,395	21.83%	$ 34,954	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	19,662	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	26,215	6.00%
Tier 1 Capital (to Average Assets)	89,901	13.18%	27,291	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2016:						
Total Capital (to Risk Weighted Assets)	$ 91,899	21.86%	$ 33,626	8.00%	$ 42,033	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,622	20.61%	18,915	4.50%	27,322	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,622	20.61%	25,220	6.00%	33,626	8.00%
Tier 1 Capital (to Average Assets)	86,622	12.81%	27,045	4.00%	33,806	5.00%
December 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 91,963	21.09%	$ 34,889	8.00%	$ 43,611	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	19,625	4.50%	28,347	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	26,166	6.00%	34,889	8.00%
Tier 1 Capital (to Average Assets)	86,479	13.47%	25,680	4.00%	32,100	5.00%

Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of being well-capitalized by the banking regulatory authorities.

LIQUIDITY

Liquidity represents the Company s ability to adequately provide funds to satisfy demands from depositors, borrowers and other commitments by either converting assets to cash or accessing new or existing sources of funds. Management monitors these funds requirements in such a manner as to satisfy these demands and provide the maximum earnings on its earning assets. The Company manages and monitors its liquidity position through a number of methods, including through the computation of liquidity risk targets and the preparation of various analyses of its funding sources and utilization of those sources on a monthly basis. The Company also uses proforma liquidity projections which are updated on a monthly basis in the management of its liquidity needs and also conducts periodic contingency testing on its liquidity plan.

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. Borrowings from the FHLB, federal funds sold and federal funds purchased are utilized by the Company to manage its daily liquidity position. The Company has also been approved to participate in the Federal Reserve Bank s Discount Window Primary Credit Program, which it intends to use only as a contingency.

REGULATORY MATTERS

During 2014, Management identified opportunities for improving risk management and earnings, addressing asset quality concerns, analyzing and assessing the Bank s management and staffing needs, and managing concentrations of credit risk as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company had identified specific corrective steps and actions to enhance its risk management, earnings, asset quality and staffing. The Company and the Bank may not declare or pay any cash dividends without the prior written approval of their regulators.

Item 4: Controls and Procedures

As of June 30, 2016, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

The Bank is involved in various legal matters and claims which are being defended and handled in the ordinary course of business. None of these matters is expected, in the opinion of Management, to have a material adverse effect upon the financial position or results of operations of the Company.

Item 5: Other Information

None.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1:	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
Exhibit 32.1:	Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 32.2:	Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 101	The following materials from the Company s quarterly report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at June 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Operations for the quarters and six months ended June 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income (Loss) for the quarters and six months ended June 30, 2016 and 2015, (iv) Consolidated Statement of Changes in Shareholders Equity for the six months ended June 30, 2016, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 and (vi) Notes to the Unaudited Consolidated Financial Statements for the six months ended June 30, 2016 and 2015.

(b) Reports on Form 8-K

A Form 8-K was filed on April 27, 2016, April 28, 2016 and July 27, 2016.

SIGNATURES

Pursuant to the requirement of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEOPLES FINANCIAL CORPORATION
(Registrant)

Date: August 12, 2016

By: /s/ Chevis C. Swetman
Chevis C. Swetman
Chairman, President and Chief Executive Officer
(principal executive officer)

Date: August 12, 2016

By: /s/ Lauri A. Wood
Lauri A. Wood
Chief Financial Officer and Controller
(principal financial and accounting officer)