PEOPLES FINANCIAL CORP /MS/
Form 10-Q
May 14, 2015

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 March 31, 2015

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 **(State or other jurisdiction of** **incorporation or organization)**	**64-0709834** **(I.R.S. Employer** **Identification No.)**
Lameuse and Howard Avenues, Biloxi, Mississippi **(Address of principal executive offices)**	**39533** **(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 April 30, 2015, 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)

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Cash and due from banks	$ 45,348	$ 23,556
Federal funds sold	10,000	
Available for sale securities	226,383	215,122
Held to maturity securities, fair value of $17,938 at March 31, 2015; $17,859 at December 31, 2014	17,767	17,784
Other investments	2,903	2,962
Federal Home Loan Bank Stock, at cost	2,910	2,504
Loans	371,591	362,407
Less: Allowance for loan losses	9,985	9,206
Loans, net	361,606	353,201
Bank premises and equipment, net of accumulated depreciation	23,397	23,784
Other real estate	12,297	7,646
Accrued interest receivable	2,181	2,125
Cash surrender value of life insurance	18,302	18,145
Other assets	1,877	2,066
Total assets	$ 724,971	$ 668,895

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 121,781	$ 103,607
Savings and demand, interest bearing	237,060	212,534
Time, $100,000 or more	34,957	35,925
Other time deposits	40,641	40,648
Total deposits	434,439	392,714
Federal funds purchased and securities sold under agreements to repurchase	127,253	124,206
Borrowings from Federal Home Loan Bank	48,634	38,708
Employee and director benefit plans liabilities	17,054	16,957
Other liabilities	1,189	1,359
Total liabilities	628,569	573,944
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at March 31, 2015 and December 31, 2014	5,123	5,123
Surplus	65,780	65,780
Undivided profits	22,592	23,743
Accumulated other comprehensive income, net of tax	2,907	305
Total shareholders equity	96,402	94,951
Total liabilities and shareholders equity	$ 724,971	$ 668,895

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 March 31, 2015	Three Months Ended March 31, 2014
Interest income:		
Interest and fees on loans	$ 3,753	$ 4,252
Interest and dividends on securities:		
U.S. Treasuries	111	156
U.S. Government agencies	559	807
Mortgage-backed securities	154	245
States and political subdivisions	371	382
Other investments	4	1
Interest on federal funds sold	13	4
Total interest income	4,965	5,847
Interest expense:		
Deposits	134	209
Borrowings from Federal Home Loan Bank	46	50
Federal funds purchased and securities sold under agreements to repurchase	30	27
Total interest expense	210	286
Net interest income	4,755	5,561
Provision for allowance for loan losses	986	537
Net interest income after provision for allowance for loan losses	$ 3,769	$ 5,024

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2015	2014
Non-interest income:		
Trust department income and fees	$ 406	$ 360
Service charges on deposit accounts	1,224	1,586
Income (loss) from other investments	(58)	7
Increase in cash surrender value of life insurance	122	119
Other income	247	145
Total non-interest income	1,941	2,217
Non-interest expense:		
Salaries and employee benefits	3,039	3,213
Net occupancy	667	592
Equipment rentals, depreciation and maintenance	717	716
FDIC assessments	246	275
Data processing	359	321
ATM expense	343	655
Other real estate expense	451	198
Other expense	1,039	781
Total non-interest expense	6,861	6,751
Income (loss) before income taxes	(1,151)	490
Income tax benefit		(89)
Net income (loss)	$ (1,151)	$ 579
Basic and diluted earnings (loss) per share	$ (.22)	$ .11
Dividends declared per share	$	$

See Notes to Consolidated Financial Statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(in thousands)(unaudited)

	Three Months Ended March 31, 2015	2014
Net income (loss)	$ (1,151)	$ 579
Other comprehensive income, net of tax:		
Net unrealized gain on available for sale securities, net of tax of $995 for the three months ended March 31, 2014	2,602	1,932
Total other comprehensive income	2,602	1,932
Total comprehensive income	$ 1,451	$ 2,511

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, 2015	5,123,186	$ 5,123	$ 65,780	$ 23,743	$ 305	$ 94,951
Net loss				(1,151)		(1,151)
Other comprehensive income					2,602	2,602
Balance, March 31, 2015	5,123,186	$ 5,123	$ 65,780	$ 22,592	$ 2,907	$ 96,402

Note: Balances as of January 1, 2015 were audited.

See Notes to Consolidated Financial Statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$ (1,151)	$ 579
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	445	447
Provision for allowance for loan losses	986	537
Writedown of other real estate	411	92
(Gain) loss on sales of other real estate	(24)	65
(Income) loss from other investments	58	(7)
Amortization of available for sale securities	61	80
Amortization (accretion) of held to maturity securities	17	(1)
Change in accrued interest receivable	(56)	(182)
Increase in cash surrender value of life insurance	(122)	(119)
Change in other assets	190	985
Change in other liabilities	(73)	(1,316)
Net cash provided by operating activities	$ 742	$ 1,160

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Three Months Ended March 31, 2015	2014
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 26,327	$ 5,485
Purchases of available for sale securities	(35,047)	
Purchases of held to maturity securities		(1,517)
(Purchases) redemption of Federal Home Loan Bank stock	(406)	742
Redemption of other investments		236
Proceeds from sales of other real estate	513	465
Loans, net change	(14,942)	6,962
Acquisition of bank premises and equipment	(58)	(103)
Investment in cash surrender value of life insurance	(35)	(30)
Net cash provided by (used in) investing activities	(23,648)	12,240
Cash flows from financing activities:		
Demand and savings deposits, net change	42,700	44,009
Time deposits, net change	(975)	(7,317)
Borrowings from Federal Home Loan Bank	319,000	536,000
Repayments to Federal Home Loan Bank	(309,074)	(581,049)
Federal funds purchased and securities sold under agreements to repurchase, net change	3,047	(9,604)
Net cash provided by (used in) financing activities	54,698	(17,961)
Net increase (decrease) in cash and cash equivalents	31,792	(4,561)
Cash and cash equivalents, beginning of period	23,556	36,264
Cash and cash equivalents, end of period	$ 55,348	$ 31,703

See Notes to Consolidated Financial Statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three Months Ended March 31, 2015 and 2014

1. Basis of Presentation:
Peoples Financial Corporation (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 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 March 31, 2015 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 2014 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2015, 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 reported 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, 2014.

New Accounting Pronouncements - In January 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2015-01, *Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary items*. ASU No. 2015-01 eliminated the concept of extraordinary items from U.S. GAAP. ASU 2015-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. 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.

2. Earnings (Loss) Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 for the three months ended March 31, 2015 and 2014.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks and federal funds sold. The Company paid $204,656 and $245,052 for the three months ended March 31, 2015 and 2014, respectively, for interest on deposits and borrowings. No income tax payments were made during the three months ended March 31, 2015 and 2014. Loans transferred to other real estate amounted to $5,551,393 and $76,028 during the three months ended March 31, 2015 and 2014, respectively.

4. Investments:

The amortized cost and fair value of securities at March 31, 2015 and December 31, 2014, are as follows (in thousands):

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 54,842	$ 345	$	$ 55,187
U.S. Government agencies	104,814	516	(506)	104,824
Mortgage-backed securities	34,363	466	(8)	34,821
States and political subdivisions	29,735	1,166		30,901
Total debt securities	223,754	2,493	(514)	225,733
Equity securities	650			650
Total available for sale securities	$ 224,404	$ 2,493	$ (514)	$ 226,383
Held to maturity securities:				
States and political subdivisions	$ 17,767	$ 200	$ (29)	$ 17,938

Total held to maturity securities	$	17,767	$	200	$	(29)	$	17,938

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 29,787	$ 27	$ (160)	$ 29,654
U.S. Government agencies	119,805	115	(1,931)	117,989
Mortgage-backed securities	35,671	282	(136)	35,817
States and political subdivisions	29,832	1,180		31,012
Total debt securities	215,095	1,604	(2,227)	214,472
Equity securities	650			650
Total available for sale securities	$ 215,745	$ 1,604	$ (2,227)	$ 215,122
Held to maturity securities:				
States and political subdivisions	$ 17,784	$ 132	$ (57)	$ 17,859
Total held to maturity securities	$ 17,784	$ 132	$ (57)	$ 17,859

The amortized cost and fair value of debt securities at March 31, 2015 (in thousands), by contractual maturity, are shown below. 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	$ 11,033	$ 11,098
Due after one year through five years	81,730	82,361
Due after five years through ten years	47,316	47,853
Due after ten years	49,312	49,600
Mortgage-backed securities	34,363	34,821
Totals	$ 223,754	$ 225,733
Held to maturity securities:		
Due in one year or less	$ 492	$ 493
Due after one year through five years	4,426	4,467
Due after five years through ten years	7,363	7,467
Due after ten years	5,486	5,511
Totals	$ 17,767	$ 17,938

Available for sale and held to maturity securities with gross unrealized losses at March 31, 2015 and December 31, 2014, 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
March 31, 2015:						
U.S. Government agencies	$	$	$ 22,465	$ 506	$ 22,465	$ 506
Mortgage-backed securities			3,852	8	3,852	8
States and political subdivisions	3,972	25	780	4	4,752	29
TOTAL	$ 3,972	$ 25	$ 27,097	$ 518	$ 31,069	$ 543
December 31, 2014:						
U.S. Treasuries	$ 4,968	$ 15	$ 14,795	$ 145	$ 19,763	$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
TOTAL	$ 20,407	$ 69	$ 128,598	$ 2,215	$ 149,005	$ 2,284

At March 31, 2015, 4 of the 19 securities issued by U.S. Government agencies, 1 of the 10 mortgage-backed securities and 15 of the 151 securities issued by states and political subdivisions 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.

Securities with a fair value of $234,804,116 and $200,474,637 at March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, is as follows (in thousands):

	March 31, 2015	December 31, 2014
Gaming	$ 29,760	$ 31,353
Residential and land development	6,086	10,119
Real estate, construction	37,676	34,010
Real estate, mortgage	239,495	241,863
Commercial and industrial	45,103	30,384
Other	13,471	14,678
Total	$ 371,591	$ 362,407

The age analysis of the loan portfolio, segregated by class of loans, as of March 31, 2015 and December 31, 2014, is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days &
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Still Accruing
March 31, 2015:							
Gaming	$	$	$	$	$ 29,760	$ 29,760	$
Residential and land development			1,872	1,872	4,214	6,086	
Real estate, construction	3,065	517	1,763	5,345	32,331	37,676	8
Real estate, mortgage	2,362	2,368	4,112	8,842	230,653	239,495	
Commercial and industrial	3,050	26	538	3,614	41,489	45,103	
Other	80		10	90	13,381	13,471	289
Total	$ 8,557	$ 2,911	$ 8,295	$ 19,763	$ 351,828	$ 371,591	$ 297
December 31, 2014:							
Gaming	$	$	$	$	$ 31,353	$ 31,353	$
Residential and land development			5,262	5,262	4,857	10,119	
Real estate, construction	1,665	85	1,944	3,694	30,316	34,010	30
Real estate, mortgage	3,257	3,101	12,007	18,365	223,498	241,863	733
Commercial and industrial	1,154	7	205	1,366	29,018	30,384	
Other	168	10		178	14,500	14,678	
Total	$ 6,244	$ 3,203	$ 19,418	$ 28,865	$ 333,542	$ 362,407	$ 763

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 - 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. Loans with a grade of C may be placed on the watch list if weaknesses are not resolved which could result in potential loss or for other circumstances that require monitoring. 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 March 31, 2015 and December 31, 2014, is as follows (in thousands):

	Loans With A Grade Of:					
	A or B	C	D	E	F	Total
March 31, 2015:						
Gaming	$ 8,756	$ 21,004	$	$	$	$ 29,760
Residential and land development	650		7	5,429		6,086
Real estate, construction	31,439	691	2,359	3,187		37,676
Real estate, mortgage	197,257	3,910	16,377	21,951		239,495
Commercial and industrial	42,953	23	1,353	774		45,103
Other	13,426	5	30	10		13,471
Total	$ 294,481	$ 25,633	$ 20,126	$ 31,351	$	$ 371,591
December 31, 2014:						
Gaming	$ 8,400	$ 22,953	$	$	$	$ 31,353
Residential and land development	3,520	1,319	17	5,263		10,119
Real estate, construction	27,474	723	2,496	3,317		34,010
Real estate, mortgage	198,608	4,051	16,591	22,613		241,863
Commercial and industrial	25,355	25	1,579	3,425		30,384
Other	14,583	6	89			14,678
Total	$ 277,940	$ 29,077	$ 20,772	$ 34,618	$	$ 362,407

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 March 31, 2015 and December 31, 2014, are as follows (in thousands):

	March 31, 2015	December 31, 2014
Residential and land development	$ 5,429	$ 8,233
Real estate, construction	3,156	3,287
Real estate, mortgage	20,870	21,152
Commercial and industrial	703	626
Other	10	
Total	$ 30,168	$ 33,298

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 March 31, 2015 and December 31, 2014 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
March 31, 2015:				
Real estate, mortgage	2	$ 827	$ 827	$ 50
Total	2	$ 827	$ 827	$ 50
December 31, 2014:				
Real estate, mortgage	2	$ 837	$ 837	$ 50
Total	2	$ 837	$ 837	$ 50

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2015:					
With no related allowance recorded:					
Residential and land development	$ 3,963	$ 3,963	$	$ 3,526	$
Real estate, construction	2,446	2,446		2,450	
Real estate, mortgage	10,478	10,478		10,524	6
Commercial and industrial	457	457		406	
Total	17,344	17,344		16,906	6
With a related allowance recorded:					
Residential and land development	2,746	1,466	894	1,045	
Real estate, construction	729	710	389	696	
Real estate, mortgage	15,092	11,219	2,223	11,201	2
Commercial and industrial	246	246	55	246	
Other	10	10	10	9	
Total	18,823	13,651	3,571	13,197	2
Total by class of loans:					
Residential and land development	6,709	5,429	894	4,571	
Real estate, construction	3,175	3,156	389	3,146	
Real estate, mortgage	25,570	21,697	2,223	21,725	8
Commercial and industrial	703	703	55	652	
Other	10	10	10	9	
Total	$ 36,167	$ 30,995	$ 3,571	$ 30,103	$ 8

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 9,513	$ 8,233	$	$ 8,380	$
Real estate, construction	2,198	2,178		2,222	
Real estate, mortgage	19,517	16,243		18,258	26
Commercial and industrial	380	380		384	
Total	31,608	27,034		29,244	26
With a related allowance recorded:					
Real estate, construction	1,109	1,109	422	1,115	
Real estate, mortgage	6,345	5,746	2,080	5,749	9
Commercial and industrial	246	246	55	247	
Total	7,454	6,855	2,502	6,864	9
Total by class of loans:					
Residential and land development	9,513	8,233		8,380	
Real estate, construction	3,307	3,287	422	3,337	
Real estate, mortgage	25,862	21,989	2,080	24,007	35
Commercial and industrial	626	626	55	631	
Total	$ 39,308	$ 34,135	$ 2,557	$ 36,355	$ 35

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the three months ended March 31, 2015 and 2014, and the balances of loans, individually and collectively evaluated for impairment, as of March 31, 2015 and 2014, are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Quarter Ended March 31, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs			(97)	(83)	(24)	(60)	(264)
Recoveries				7	10	40	57
Provision	(36)	817	(17)	134	68	20	986
Ending Balance	$ 537	$ 1,068	$ 746	$ 6,667	$ 641	$ 326	$ 9,985
Allowance for loan losses, March 31, 2015:							
Ending balance: individually evaluated for impairment	$	$ 894	$ 687	$ 2,922	$ 264	$ 12	$ 4,779
Ending balance: collectively evaluated for impairment	$ 537	$ 174	$ 59	$ 3,745	$ 377	$ 314	$ 5,206
Total Loans, March 31, 2015:							
Ending balance: individually evaluated for impairment	$	$ 5,436	$ 5,546	$ 38,574	$ 1,852	$ 31	$ 51,439
Ending balance: collectively evaluated for impairment	$ 29,760	$ 650	$ 32,130	$ 200,921	$ 43,251	$ 13,440	$ 320,152

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Quarter Ended March 31, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs			(4)			(77)	(81)
Recoveries	45				12	15	72
Provision	(18)	(1)	86	430	(1)	41	537
Ending Balance	$ 1,004	$ 775	$ 777	$ 5,983	$ 643	$ 280	$ 9,462
Allowance for loan losses, March 31, 2014:							
Ending balance: individually evaluated for impairment	$ 626	$ 436	$ 623	$ 1,842	$ 335	$	$ 3,862
Ending balance: collectively evaluated for impairment	$ 378	$ 339	$ 154	$ 4,141	$ 308	$ 280	$ 5,600
Total Loans, March 31, 2014:							
Ending balance: individually evaluated for impairment	$ 3,092	$ 13,431	$ 6,207	$ 27,774	$ 2,330	$ 47	$ 52,881
Ending balance: collectively evaluated for impairment	$ 25,523	$ 5,742	$ 38,401	$ 207,192	$ 30,036	$ 8,527	$ 315,421

7. Deposits:

Time deposits of $100,000 or more at March 31, 2015 and December 31, 2014 include brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $24,978,000 and $25,321,000 at March 31, 2015 and December 31, 2014, 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.

Federal Funds Sold

The carrying amount shown as federal funds sold 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. The other 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. All of the Company s available for sale securities are Level 2 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.

Federal Funds Purchased and Securities Sold under Agreements to Repurchase

The carrying amount shown as federal funds purchased and securities sold under agreements to repurchase approximates fair value.

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 March 31, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2015:				
U.S. Treasuries	$ 55,187	$	$ 55,187	$
U.S. Government agencies	104,824		104,824	
Mortgage-backed securities	34,821		34,821	
States and political subdivisions	30,901		30,901	
Equity securities	650		650	
Total	$ 226,383	$	$ 226,383	$
December 31, 2014:				
U.S. Treasuries	$ 29,654	$	$ 29,654	$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
Total	$ 215,122	$	$ 215,122	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2015	$ 10,312	$	$	$ 10,312
December 31, 2014	10,610			10,610

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2015	$ 12,297	$	$	$ 12,297
December 31, 2014	7,646			7,646

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 Three Months Ended March 31, 2015	For the Year Ended December 31, 2014
Balance, beginning of period	$ 7,646	$ 9,630
Loans transferred to ORE	5,551	1,345
Sales	(489)	(2,068)
Writedowns	(411)	(1,261)
Balance, end of period	$ 12,297	$ 7,646

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Carrying	Fair Value Measurements Using			
	Amount	Level 1	Level 2	Level 3	Total
March 31, 2015:					
Financial Assets:					
Cash and due from banks	$ 45,348	$ 45,348	$	$	$ 45,348
Federal funds sold	10,000	10,000			10,000
Available for sale securities	226,383		226,383		226,383
Held to maturity securities	17,767		17,938		17,938
Other investments	2,903	2,903			2,903
Federal Home Loan Bank stock	2,910		2,910		2,910
Loans, net	361,606			373,336	373,336
Other real estate	12,297			12,297	12,297
Cash surrender value of life insurance	18,302		18,302		18,302
Financial Liabilities:					
Deposits:					
Non-interest bearing	121,781	121,781			121,781
Interest bearing	312,658			313,062	313,062
Federal funds purchased and securities sold under agreements to repurchase	127,253	127,253			127,253
Borrowings from Federal Home Loan Bank	48,634		50,660		50,660

December 31, 2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
Financial Liabilities:					
Deposits:					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	289,107			289,466	289,466
Federal funds purchased and securities sold under agreements to repurchase	124,206	124,206			124,206
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720

9. Reclassifications:

Certain reclassifications, which had no effect on prior year net income, have been made to prior period statements to conform to current year presentation.

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, 2014.

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 one new accounting standards update for the first quarter of 2015, which has been disclosed in the Notes to Unaudited Consolidated Financial Statements. The Company does not expect that this update will have a material effect on its financial position, or results of operations.

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.

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 other real estate 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 noninterest 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 a benefit within the tax provisions 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 incurred a net loss of $1,151,000 for the first quarter of 2015 compared with net income of $579,000 for the first quarter of 2014. Results in 2015 included a decrease in net interest income, an increase in the provision for the allowance for loan losses, a decrease in non-interest income and an increase in non-interest expense.

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 income on loans of $499,000. This decrease was the result of the decrease in average loans and the yield on average loans. The decrease in average loans was a result of principal payments, maturities, charge-offs and foreclosures on existing loans exceeding new loans. The decrease in yield on average loans was the result of a new loan totaling $20,000,000 that s contractual rate is below the weighted average rate of other loans.

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. A provision for the allowance for loan losses of $986,000 was recorded in 2015 as compared with $537,000 in 2014. The Company is working diligently to address and reduce its non-performing assets. The Company s nonaccrual loans totaled $30,168,000 and $33,298,000 at March 31, 2015 and December 31, 2014, 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 $276,000 for the three months ended March 31, 2015 as compared with 2014 results. Service charges on deposit accounts decreased $362,000 for 2015 as compared with 2014 primarily as a result of decreased ATM fee income.

Non-interest expense increased $110,000 for the three months ended March 31, 2015 as compared with 2014 results. This increase for the three months ended March 31, 2015 was the result of increases in net occupancy expense of $75,000, other real estate (ORE) expense of $253,000 and other expenses of $258,000 while salaries and employee benefits decreased $174,000 and ATM expense decreased $312,000 as compared with 2014. Other expenses includes legal fees which increased $205,000 for the three months ended March 31, 2015 as compared with the same period for 2014.

Total assets at March 31, 2015 increased $56,076,000 as compared with December 31, 2014. Cash and due from banks and federal funds sold increased $31,792,000 in the management of the Company s liquidity position. Available for sale securities increased $11,261,000 primarily as a result of increased purchases of these investments during the first quarter of 2015. Loans increased $9,184,000 at March 31, 2015 as compared with December 31, 2014, as new loans exceeded principal payments, maturities, charge-offs and foreclosures on existing loans.

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.

The Company s average interest earning assets decreased approximately $51,373,000 or 8%, from approximately $670,043,000 for the first quarter of 2014 to approximately $618,670,000 for the first quarter of 2015. The Company s average balance sheet decreased primarily as decreased public funds reduced our investment in securities. The average yield on interest-earning assets decreased 28 basis points from 3.61% for the first quarter of 2014 to 3.33% for the first quarter of 2015. The yield on average loans decreased in 2015 as compared with 2014, as discussed in the Overview. The yield on taxable available for sale securities decreased from 2.02% for 2014 to 1.78% for 2015 as recent purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest bearing liabilities decreased approximately $52,498,000, or 10%, from approximately $530,792,000 for the first quarter of 2014 to approximately $478,294,000 for the first quarter of 2015. Average time deposits decreased $24,903,000 primarily as customers have moved their accounts to transaction deposits. Average borrowings from the Federal Home Loan Bank decreased $18,706,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest bearing liabilities for the first quarter of 2015 was .18% as compared with .22% for the first quarter of 2014.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.20% for the quarter ended March 31, 2015, down 24 basis points from 3.44% for the quarter ended March 31, 2014.

The tables on the following pages analyze the changes in tax-equivalent net interest income for the quarters ended March 31, 2015 and 2014.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 362,443	$ 3,753	4.14%	$ 371,755	$ 4,252	4.58%
Federal funds sold	15,188	13	0.34%	7,421	4	0.22%
HTM:						
Non taxable (1)	17,777	151	3.40%	12,255	107	3.49%
AFS:						
Taxable	185,512	824	1.78%	239,632	1,208	2.02%
Non taxable (1)	35,428	411	4.64%	35,134	472	5.37%
Other	2,322	4	0.69%	3,846	1	0.10%
Total	$ 618,670	$ 5,156	3.33%	$ 670,043	$ 6,044	3.61%
Savings & interest-bearing DDA	$ 225,781	$ 40	0.07%	$ 231,431	$ 42	0.07%
Time deposits	74,851	94	0.50%	99,754	167	0.67%
Federal funds purchased	156,061	30	0.08%	159,300	27	0.07%
FHLB advances	21,601	46	0.85%	40,307	50	0.50%
Total	$ 478,294	$ 210	0.18%	$ 530,792	$ 286	0.22%
Net tax-equivalent spread			3.15%			3.39%
Net tax-equivalent margin on earning assets			3.20%			3.44%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2015 and 2014.
(2) Loan fees of $90 and $128 for 2015 and 2014, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Three Months Ended March 31, 2015 compared with March 31, 2014			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (106)	$ (403)	$ 10	$ (499)
Federal funds sold	4	3	2	9
Held to maturity securities:				
Non taxable	48	(3)	(1)	44
Available for sale securities:				
Taxable	(272)	(144)	32	(384)
Non taxable	4	(64)	(1)	(61)
Other		5	(2)	3
Total	$ (322)	$ (606)	$ 40	$ (888)
Interest paid on:				
Savings & interest-bearing DDA	$ (1)	$ (1)	$	$ (2)
Time deposits	(41)	(42)	10	(73)
Federal funds purchased	(1)	4		3
FHLB advances	(23)	36	(17)	(4)
Total	$ (66)	$ (3)	$ (7)	$ (76)

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 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 $30,168,000 and $33,298,000 at March 31, 2015 and December 31, 2014, respectively, specific reserves of only $3,521,000 and $2,507,000, 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 $986,000 and $537,000 for the first quarters of 2015 and 2014, respectively. As a result of receiving new information during the first quarter of 2015, the Company updated the evaluation of the collateral value and recorded a loan loss provision of $632,000 on an out-of-area residential development loan. The allowance for loan losses as a percentage of loans was 2.69% and 2.54% at March 31, 2015 and December 31, 2014, respectively. The Company believes that its allowance for loan losses is appropriate as of March 31, 2015.

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

Non-interest income decreased $276,000 for the first quarter of 2015 as compared with the first quarter of 2014. Trust department income and fees and other income increased while service charges on deposit accounts and income from other investments decreased in 2015 as compared with 2014.

Trust department income and fees increased $46,000 in 2015 as compared with 2014 as a result of the increase in market value, on which fees are based, of personal trust accounts.

Service charges on deposit accounts decreased by $362,000 during the first quarter of 2015 as compared with the third quarter of 2014. ATM fee income decreased $327,000 as the Company s off-site ATMs at a casino transferred to another vendor during 2014.

The Company realized a loss of $58,000 from operations of its investment in a low income housing partnership in 2015 as compared with income of $7,000 from operations in 2014 as a result of decreased occupancy.

Other income increased $102,000 in 2015 as compared with 2014 due to the recognition of a deferred gain of $100,000 from the sale of a loan.

Non-interest expense

Total non-interest expense increased $110,000 for the first quarter of 2015 as compared with the first quarter of 2014. Salaries and employee benefits decreased $174,000, net occupancy increased $75,000; ATM expense decreased $312,000, ORE expense increased $253,000 and other expenses increased $258,000 for the first quarter of 2015 as compared with the first quarter of 2014.

Salaries and employee benefits decreased in 2015 as the Company updated the estimates of costs associated with its deferred compensation plans in 2014.

The increase in net occupancy was primarily the result of increased insurance costs during 2015.

ATM expenses decreased in 2015 as a result of decreased ATM activity in the current year as a result of off-site ATMs at a casino transferring to another vendor.

ORE expense increased in 2015 as compared with 2014 due to increased writedowns of other real estate based on updated values.

Other expense increased in 2015 primarily as a result of increased legal fees associated with non-performing loans of $205,000, as compared with 2014.

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 be recorded.

Income taxes were impacted by non-taxable income and federal tax credits during the three months ended March 31, 2014, as follows (in thousands except rate):

	Three Months Ended March 31, 2014	
	Tax	Rate
Taxes at statutory rate	$ 167	34
Increase (decrease) resulting from:		
Tax-exempt interest income	(130)	(27)
Income from BOLI	(40)	(8)
Federal tax credits	(74)	(15)
Other	(12)	(2)
Total income tax benefit	$ (89)	(18)

FINANCIAL CONDITION

Cash and due from banks increased $21,792,000 at March 31, 2015, compared with December 31, 2014 in the management of the bank subsidiary s liquidity position.

Federal funds sold totaled $10,000,000 at March 31, 2015 as a result of the bank subsidiary s liquidity position.

Available for sale securities increased $11,261,000 at March 31, 2015, compared with December 31, 2014 as the Company invested excess funds until loan demand increases.

Loans increased $9,184,000 at March 31, 2015 compared with December 31, 2014, as new loans exceeded principal payments, maturities, charge-offs and foreclosures on existing loans.

Other real estate (ORE) increased $4,651,000 at March 31, 2015 as compared with December 31, 2014. Loans totaling $5,551,000 were transferred into ORE while $513,000 was sold for a loss of $24,000 and writedowns of ORE to fair value were $411,000 during the first three months of 2015.

Total deposits increased $41,725,000 at March 31, 2015, as compared with December 31, 2014. 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 increased $9,926,000 at March 31, 2015 as compared with December 31, 2014 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $97,000 at March 31, 2015 as compared with December 31, 2014 due to deferred compensation benefits earned by officers and directors during 2015.

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 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 March 31, 2015, 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 as of March 31, 2015, 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 March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2015:				
Total Capital (to Risk Weighted Assets)	$ 99,400	20.68%	$ 38,458	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	93,342	19.42%	21,632	4.50%
Tier 1 Capital (to Risk Weighted Assets)	93,342	19.42%	28,843	6.00%
Tier 1 Capital (to Average Assets)	93,342	13.39%	27,877	4.00%
December 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 100,243	21.95%	$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 95,714	20.06%	$ 38,170	8.00%	$ 47,712	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,701	18.80%	21,471	4.50%	31,013	6.50%
Tier 1 Capital (to Risk Weighted Assets)	89,701	18.80%	28,627	6.00%	38,170	8.00%
Tier 1 Capital (to Average Assets)	89,701	12.77%	28,104	4.00%	35,130	5.00%
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 96,427	21.28%	$ 36,247	8.00%	$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%

In addition to monitoring its risk-based capital ratios, the Company also determines the primary capital ratio on a quarterly basis. This ratio was 15.06% at March 31, 2015, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as 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 2009, Management identified opportunities for improving risk management, addressing asset quality concerns, managing concentrations of credit risk and ensuring sufficient liquidity at the Bank as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company and the Bank identified specific corrective steps and actions to enhance its risk management, asset quality and liquidity policies, controls and procedures. 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 March 31, 2015, 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 March 31, 2015 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 March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at March 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the quarters ended March 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2015 and 2014, (iv) Consolidated Statement of Changes in Shareholders Equity for the quarter ended March 31, 2015, (v) Consolidated Statements of Cash Flows for the quarters ended March 31, 2015 and 2014 and (vi) Notes to the Unaudited Consolidated Financial Statements for the quarters ended March 31, 2015 and 2014.

(b) Reports on Form 8-K

A Form 8-K was filed on January 29, 2015, April 22, 2015 and April 23, 2015.

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: May 14, 2015

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

Date: May 14, 2015

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