PEOPLES FINANCIAL CORP /MS/
Form 10-Q
November 10, 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 September 30, 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	**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 October 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)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Cash and due from banks	$ 35,495	$ 23,556
Available for sale securities	201,647	215,122
Held to maturity securities, fair value of $19,078 at September 30, 2015; $17,859 at December 31, 2014	19,056	17,784
Other investments	2,862	2,962
Federal Home Loan Bank Stock, at cost	1,471	2,504
Loans	348,699	362,407
Less: Allowance for loan losses	8,377	9,206
Loans, net	340,322	353,201
Bank premises and equipment, net of accumulated depreciation	22,702	23,784
Other real estate	10,867	7,646
Accrued interest receivable	1,931	2,125
Cash surrender value of life insurance	18,589	18,145
Other assets	1,707	2,066
Total assets	$ 656,649	$ 668,895

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

Liabilities and Shareholders Equity	**September 30, 2015 (unaudited)**	**December 31, 2014 (audited)**
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 126,694	$ 103,607
Savings and demand, interest bearing	328,130	336,740
Time, $100,000 or more	32,749	35,925
Other time deposits	40,006	40,648
Total deposits	527,579	516,920
Borrowings from Federal Home Loan Bank	18,484	38,708
Employee and director benefit plans liabilities	17,248	16,957
Other liabilities	1,743	1,359
Total liabilities	565,054	573,944
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at September 30, 2015 and December 31, 2014	5,123	5,123
Surplus	65,780	65,780
Undivided profits	18,434	23,743
Accumulated other comprehensive income, net of tax	2,258	305
Total shareholders equity	91,595	94,951
Total liabilities and shareholders equity	$ 656,649	$ 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 September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income:				
Interest and fees on loans	$ 3,665	$ 3,867	$ 11,031	$ 12,284
Interest and dividends on securities:				
U.S. Treasuries	187	159	461	473
U.S. Government agencies	475	785	1,534	2,390
Mortgage-backed securities	147	234	454	720
States and political subdivisions	245	405	970	1,169
Other investments	13	12	20	16
Interest on balances due from depository institutions	15	5	50	12
Total interest income	4,747	5,467	14,520	17,064
Interest expense:				
Deposits	179	505	508	1,037
Borrowings from Federal Home Loan Bank	57	66	152	172
Total interest expense	236	571	660	1,209
Net interest income	4,511	4,896	13,860	15,855
Provision for allowance for loan losses	285	3,541	2,807	4,615
Net interest income after provision for allowance for loan losses	$ 4,226	$ 1,355	$ 11,053	$ 11,240

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Non-interest income:				
Trust department income and fees	$ 438	$ 391	$ 1,238	$ 1,108
Service charges on deposit accounts	943	1,437	3,331	4,656
Loss from other investments	(29)	(30)	(100)	
Increase in cash surrender value of life insurance	121	115	363	360
Other income	211	166	598	452
Total non-interest income	1,684	2,079	5,430	6,576
Non-interest expense:				
Salaries and employee benefits	2,943	3,002	8,918	9,417
Net occupancy	556	600	1,871	1,867
Equipment rentals, depreciation and maintenance	716	748	2,135	2,321
FDIC and state banking assessments	243	259	704	799
Data processing	344	328	1,036	1,004
ATM expense	179	657	1,004	2,072
Other real estate expense	962	176	1,704	494
Loss on credit impairment of securities	1,695		1,695	
Other expense	825	717	2,725	2,305
Total non-interest expense	8,463	6,487	21,792	20,279
Loss before income taxes	(2,553)	(3,053)	(5,309)	(2,463)
Income tax benefit		(1,254)		(1,578)
Net loss	$ (2,553)	$ (1,799)	$ (5,309)	$ (885)
Basic and diluted loss per share	$ (0.50)	$ (0.35)	$ (1.04)	$ (0.17)
Dividends declared per share	$	$	$	$ 0.10

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Net loss	$ (2,553)	$ (1,799)	$ (5,309)	$ (885)
Other comprehensive income, net of tax:				
Net unrealized gain on available for sale securities, net of tax of $294 for the three months ended September 30, 2014 and $2,382 for the nine months ended September 30, 2014	1,824	570	1,953	4,623
Total other comprehensive income	1,824	570	1,953	4,623
Total comprehensive income (loss)	$ (729)	$ (1,229)	$ (3,356)	$ 3,738

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				(5,309)		(5,309)
Other comprehensive income, net of tax					1,953	1,953
Balance, September 30, 2015	5,123,186	$ 5,123	$ 65,780	$ 18,434	$ 2,258	$ 91,595

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)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net loss	$ (5,309)	$ (885)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,341	1,364
Provision for allowance for loan losses	2,807	4,615
Writedown of other real estate	443	219
Loss on sales of other real estate	796	80
Loss from other investments	100	
(Accretion) amortization of held to maturity securities	52	(2)
Amortization of available for sale securities	175	
Gain on calls of securities	(8)	
Loss on credit impairment of securities	1,695	
Change in accrued interest receivable	194	401
Increase in cash surrender value of life insurance	(363)	(360)
Change in other assets	357	964
Change in other liabilities	675	(1,562)
Net cash provided by operating activities	$ 2,955	$ 4,834

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Nine Months Ended September 30, 2015	2014
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 48,615	$ 21,193
Proceeds from maturities of held to maturity securities	210	215
Purchases of available for sale securities	(35,049)	(1,795)
Purchases of held to maturity securities	(1,534)	(4,688)
Redemption (purchases) of Federal Home Loan Bank stock	1,033	(468)
Redemption of other investments		236
Proceeds from sales of other real estate	2,819	765
Loans, net change	2,794	13,474
Acquisition of bank premises and equipment	(259)	(161)
Investment in cash surrender value of life insurance	(80)	(80)
Net cash provided by investing activities	18,549	28,691
Cash flows from financing activities:		
Demand and savings deposits, net change	14,477	24,475
Time deposits, net change	(3,818)	(22,194)
Cash dividends		(512)
Borrowings from Federal Home Loan Bank	(717,768)	1,667,500
Repayments to Federal Home Loan Bank	697,544	(1,682,679)
Net cash used in financing activities	(9,565)	(13,410)
Net increase in cash and cash equivalents	11,939	20,115
Cash and cash equivalents, beginning of period	23,556	36,264
Cash and cash equivalents, end of period	$ 35,495	$ 56,379

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 and 2014

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 September 30, 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 or nine months ended September 30, 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 the ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In June 2015, FASB issued ASU 2015-10, *Technical Corrections and Improvements*. ASU 2015-10 includes amendments to clarify the Codification, correct unintended application of guidance or make minor improvements to the Codification and will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. The adoption of ASU 2015-10 is not expected to have a material effect on the Company s financial position, results of operations or 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 nine months ended September 30, 2015 and 2014.

3. Statements of Cash Flows:
The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $655,764 and $1,209,501 for the nine months ended September 30, 2015 and 2014, respectively, for interest on deposits and borrowings. Income tax payments of $320,000 were made during the nine months ended September 30, 2014. Loans transferred to other real estate amounted to $7,278,605 and $1,143,953 during the nine months ended September 30, 2015 and 2014, respectively.

4. Investments:

The amortized cost and fair value of securities at September 30, 2015 and December 31, 2014, are as follows (in thousands):

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 54,848	$ 281	$	$ 55,129
U.S. Government agencies	89,839	351	(556)	89,634
Mortgage-backed securities	31,503	345	(5)	31,843
States and political subdivisions	23,477	914		24,391
Total debt securities	199,667	1,891	(561)	200,997
Equity securities	650			650
Total available for sale securities	$ 200,317	$ 1,891	$ (561)	$ 201,647
Held to maturity securities:				
States and political subdivisions	$ 17,524	$ 113	$ (82)	$ 17,555
Corporate bonds	1,532		(9)	1,523
Total held to maturity securities	$ 19,056	$ 113	$ (91)	$ 19,078

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 September 30, 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	$ 11,201	$ 11,252
Due after one year through five years	88,674	89,429
Due after five years through ten years	29,744	29,863
Due after ten years	38,545	38,610
Mortgage-backed securities	31,503	31,843
Totals	$ 199,667	$ 200,997
Held to maturity securities:		
Due in one year or less	$ 514	$ 515
Due after one year through five years	6,967	6,999
Due after five years through ten years	6,429	6,464
Due after ten years	5,146	5,100
Totals	$ 19,056	$ 19,078

Available for sale and held to maturity securities with gross unrealized losses at September 30, 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
September 30, 2015:						
U.S. Government agencies	$ 21,903	$ 83	$ 12,499	$ 473	$ 34,402	$ 556
Mortgage-backed securities	3,667	5			3,667	5
States and political subdivisions	4,581	70	1,029	12	5,610	82
Corporate bonds	1,523	9			1,523	9
TOTAL	$ 31,674	$ 167	$ 13,528	$ 485	$ 45,202	$ 652
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 September 30, 2015, 6 of the 16 securities issued by U.S. Government agencies, 1 of the 10 mortgage-backed securities, 15 of the 135 securities issued by states and political subdivisions and the corporate bonds 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.

As part of its routine evaluation of securities for other-than-temporary impairment, the Company identified a potential credit loss on bonds issued by a municipality with a carrying value of $1,875,000 at September 30, 2015. The Company s evaluation considered the failure of the issuer to make scheduled interest payments and expectations of future performance. Principal and interest payments due under the current terms of the bonds are funded by sales and property tax collections by the related municipality. During the third quarter of 2015, the assessed value of the related real estate parcels was significantly reduced, which will reduce the level of future cash flows supporting the principal and interest payments on the bonds. The present value of the expected future cash flows was calculated by the Company. Based on its evaluation, it was determined that the investment in the bonds is impaired and that a credit loss should be recognized in earnings. During the third quarter of 2015, the Company recorded a loss of $1,695,000 from the credit impairment of these bonds. Accrued interest of $92,564 relating to these securities was also charged off during the third quarter of 2015.

Securities with a fair value of $169,114,936 and $200,474,637 at September 30, 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 September 30, 2015 and December 31, 2014, is as follows (in thousands):

	September 30, 2015		December 31, 2014	
Gaming	$	32,181	$	31,353
Residential and land development		3,767		10,119
Real estate, construction		35,497		34,010
Real estate, mortgage		220,285		234,713
Commercial and industrial		44,317		37,534
Other		12,652		14,678
Total	$	348,699	$	362,407

The age analysis of the loan portfolio, segregated by class of loans, as of September 30, 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
September 30, 2015:							
Gaming	$	$	$	$	$ 32,181	$ 32,181	$
Residential and land development			342	342	3,425	3,767	
Real estate, construction	1,060		1,928	2,988	32,509	35,497	
Real estate, mortgage	2,802	1,947	3,561	8,310	211,975	220,285	50
Commercial and industrial	1,672	15	495	2,182	42,135	44,317	
Other	52	3		55	12,597	12,652	
Total	$ 5,586	$ 1,965	$ 6,326	$ 13,877	$ 334,822	$ 348,699	$ 50
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	216,348	234,713	733
Commercial and industrial	1,154	7	205	1,366	36,168	37,534	
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, 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.

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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 September 30, 2015 and December 31, 2014, is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
September 30, 2015:						
Gaming	$ 32,181	$	$	$	$	$ 32,181
Residential and land development	650			3,117		3,767
Real estate, construction	31,273		1,371	2,853		35,497
Real estate, mortgage	167,032	16,306	24,246	12,701		220,285
Commercial and industrial	25,762	15,007	2,849	699		44,317
Other	12,632		20			12,652
Total	$ 269,530	$ 31,313	$ 28,486	$ 19,370	$	$ 348,699
December 31, 2014:						
Gaming	$ 31,353	$	$	$	$	$ 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	191,458	4,051	16,591	22,613		234,713
Commercial and industrial	32,505	25	1,579	3,425		37,534
Other	14,583	6	89			14,678
Total	$ 300,893	$ 6,124	$ 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 September 30, 2015 and December 31, 2014, are as follows (in thousands):

	September 30, 2015	December 31, 2014
Residential and land development	$ 3,117	$ 8,233
Real estate, construction	2,778	3,287
Real estate, mortgage	12,118	21,152
Commercial and industrial	645	626
Total	$ 18,658	$ 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 September 30, 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
September 30, 2015:				
Real estate, mortgage	3	$ 1,238	$ 1,238	$ 107
Total	3	$ 1,238	$ 1,238	$ 107
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 September 30, 2015 and December 31, 2014, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2015:					
With no related allowance recorded:					
Residential and land development	$ 2,775	$ 2,775	$	$ 2,857	$
Real estate, construction	2,477	2,090		2,111	
Real estate, mortgage	9,026	9,026		9,153	17
Commercial and industrial	645	645		670	
Total	14,923	14,536		14,791	17
With a related allowance recorded:					
Residential and land development	342	342	117	347	
Real estate, construction	688	688	182	813	
Real estate, mortgage	4,330	4,330	1,431	3,975	11
Total	5,360	5,360	1,730	5,135	11
Total by class of loans:					
Residential and land development	3,117	3,117	117	3,204	
Real estate, construction	3,165	2,778	182	2,924	
Real estate, mortgage	13,356	13,356	1,431	13,128	28
Commercial and industrial	645	645		670	
Total	$ 20,283	$ 19,896	$ 1,730	$ 19,926	$ 28

	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	7,700	7,101	2,557	7,111	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 quarters and nine months ended September 30, 2015 and 2014, and the balances of loans, individually and collectively evaluated for impairment, as of September 30, 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 Nine Months Ended September 30, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs		(1,504)	(955)	(1,171)	(62)	(141)	(3,833)
Recoveries			102	20	14	61	197
Provision	38	1,484	606	243	350	86	2,807
Ending Balance	$ 611	$ 231	$ 613	$ 5,701	$ 889	$ 332	$ 8,377
For the Quarter Ended September 30, 2015:							
Allowance for Loan Losses:							
Beginning balance	$ 570	$ 226	$ 1,104	$ 6,639	$ 655	$ 356	$ 9,550
Charge-offs			(546)	(952)	(38)	(44)	(1,580)
Recoveries			102	7	1	12	122
Provision	41	5	(47)	7	271	8	285
Ending Balance	$ 611	$ 231	$ 613	$ 5,701	$ 889	$ 332	$ 8,377
Allowance for loan losses, September 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 117	$ 479	$ 1,759	$ 364	$ 4	$ 2,723
Ending balance: collectively evaluated for impairment	$ 611	$ 114	$ 134	$ 3,942	$ 525	$ 328	$ 5,654
Total Loans, September 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 3,117	$ 4,223	$ 36,947	$ 3,548	$ 20	$ 47,855
Ending balance: collectively evaluated for impairment	$ 32,181	$ 650	$ 31,274	$ 183,338	$ 40,769	$ 12,632	$ 300,844

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Nine Months Ended September 30, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs	(701)	(1,875)	(108)	(163)	(9)	(176)	(3,032)
Recoveries	261			147	18	67	493
Provision	12	1,550	73	2,975	(98)	103	4,615
Ending Balance	$ 549	$ 451	$ 660	$ 8,512	$ 543	$ 295	$ 11,010
For the Quarter Ended September 30, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 355	$ 705	$ 686	$ 6,749	$ 653	$ 286	$ 9,434
Charge-offs	(75)	(1,875)	(104)	(127)	(3)	(60)	(2,244)
Recoveries	171			66	4	38	279
Provision	98	1,621	78	1,824	(111)	31	3,541
Ending Balance	$ 549	$ 451	$ 660	$ 8,512	$ 543	$ 295	$ 11,010
Allowance for loan losses, September 30, 2014:							
Ending balance: individually evaluated for impairment	$ 166	$ 177	$ 563	$ 5,102	$ 293	$ 2	$ 6,303
Ending balance: collectively evaluated for impairment	$ 383	$ 274	$ 97	$ 3,410	$ 250	$ 293	$ 4,707
Total Loans, September 30, 2014:							
Ending balance: individually evaluated for impairment	$ 591	$ 11,467	$ 6,179	$ 35,518	$ 2,792	$ 33	$ 56,580
Ending balance: collectively evaluated for impairment	$ 23,156	$ 5,406	$ 33,797	$ 206,610	$ 23,257	$ 9,386	$ 301,612

7. Deposits:

Prior to June 30, 2015, the Company reported its funds management sweep accounts which amounted to approximately $100,153,710 and $124,206,000 at September 30, 2015 and December 31, 2014, respectively, as federal funds purchased and securities sold under agreements to repurchase (federal funds purchased). Management has determined that these balances should be reported as interest-bearing demand deposits. The amount previously reported as federal funds purchased at December 31, 2014 has been reclassified in these financial statements to conform to current year presentation.

Time deposits of $100,000 or more at September 30, 2015 and December 31, 2014 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $23,172,000 and $25,321,000 at September 30, 2015 and December 31, 2014, respectively.

8. Borrowings:
The Company s line of credit with the Federal Home Loan Bank (FHLB) has been collateralized by a blanket floating lien on a substantial portion of its real estate loans. The Company was notified on July 1, 2015, that this line has been changed to a custody status, which requires that specific loans serve as collateral and that certain documents relating to such loans will be held in custody by the FHLB.

9. 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. 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. 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 September 30, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
September 30, 2015:				
U.S. Treasuries	$ 55,129	$	$ 55,129	$
U.S. Government agencies	89,634		89,634	
Mortgage-backed securities	31,843		31,843	
States and political subdivisions	24,391		24,211	180
Equity securities	650		650	
Total	$ 201,647	$	$ 201,467	$ 180
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		29,017	1,995
Equity securities	650		650	
Total	$ 215,122	$	$ 213,127	$ 1,995

The following table presents a summary of changes in the fair value of certain available for sale securities which are measured using level 3 inputs (in thousands):

	For the Nine Months Ended September 30, 2015	For the Year Ended December 31, 2014
Balance, beginning of period	$ 1,995	$
Purchase of investment		1,995
Principal reduction	(120)	
Loss on credit impairment	(1,695)	
Balance, end of period	$ 180	$ 1,995

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of September 30, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
September 30, 2015	$ 4,043	$	$	$ 4,043
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 September 30, 2015 and December 31, 2014 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
September 30, 2015	$ 10,867	$	$	$ 10,867
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 Nine Months Ended September 30, 2015	For the Year Ended December 31, 2014
Balance, beginning of period	$ 7,646	$ 9,630
Loans transferred to ORE	7,279	1,345
Sales	(3,615)	(2,068)
Writedowns	(443)	(1,261)
Balance, end of period	$ 10,867	$ 7,646

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at September 30, 2015 and December 31, 2014, are as follows (in thousands):

	Carrying	Fair Value Measurements Using			
	Amount	Level 1	Level 2	Level 3	Total
September 30, 2015:					
Financial Assets:					
Cash and due from banks	$ 35,495	$ 35,495			$ 35,495
Available for sale securities	201,647		201,467	180	201,647
Held to maturity securities	19,056		19,078		19,078
Other investments	2,862	2,862			2,862
Federal Home Loan Bank stock	1,471		1,471		1,471
Loans, net	340,322			353,103	353,103
Cash surrender value of life insurance	18,589		18,589		18,589
Financial Liabilities:					
Deposits:					
Non-interest bearing	126,694	126,694			126,694
Interest bearing	400,885			401,212	401,212
Borrowings from Federal Home Loan Bank	18,484		20,080		20,080
December 31, 2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		213,127	1,995	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
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	413,313			413,672	413,672
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720

10. 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. 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 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) issued two new accounting standards updates during the first three quarters of 2015 which are disclosed in the Notes to Unaudited Consolidated Financial Statements. The Company does not expect that these updates 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.

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 allowance for loan losses (ALL) 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 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 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 incurred a net loss of $2,553,000 for the third quarter of 2015 compared with a net loss of $1,799,000 for the third quarter of 2014 and a net loss of $5,309,000 for the first three quarters of 2015 compared with a net loss of $885,000 for the first three quarters of 2014. Results in 2015 for both time periods were primarily impacted by a decrease in net interest income and the provision for the allowance for loan losses and an increase non-interest expense as compared with 2014. Included in the quarter and year to date amounts in 2015 was an impairment loss on a municipal security of $1,695,000.

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 $202,000 and $1,253,000 for the third quarter and three quarters ended September 30, 2015, respectively as compared with 2014. This decrease was the result of a loan with an original balance of $20,000,000 on which the contractual rate is below the weighted average rate of other loans, which decreased the yield on average 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. The Company s nonaccrual loans totaled $18,658,000 and $33,298,000 at September 30, 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. The Company is working diligently to address and reduce its non-performing assets, and some stability in collateral values has occurred. The provision for the allowance for loan losses was $285,000 and $2,807,000 for the third quarter and first three quarters of 2015, respectively, compared with $3,541,000 and $4,615,000, respectively, for the third quarter and first three quarters of 2014.

Non-interest income decreased $395,000 and $1,146,000 for the third quarter and first three quarters of 2015 as compared with 2014 results. Service charges on deposit accounts decreased $494,000 and $1,325,000 for the third quarter and first three quarters of 2015 as compared with 2014 primarily as a result of decreased ATM fee income.

Non-interest expense increased $1,976,000 for the third quarter and increased $1,513,000 for first three quarters of 2015 as compared with 2014 results. Results for the first quarter and first three quarters of 2015 were impacted by a loss of $1,695,000 from the credit impairment of a municipal security. The increase for the third quarter of 2015 was the result of the increase in the credit impairment on securities; increases in ORE and other expenses, partially offset by decreases in salaries and employee benefits of $59,000; net occupancy of $44,000; equipment rentals, depreciation and maintenance of $32,000 and ATM expenses of $478,000. ORE expense and other expenses increased $786,000 and $108,000 as compared with 2014. The increase for the first three quarters of 2015 was the result of the increase in the credit impairment of a municipal security; increases in ORE and other expenses, partially offset by decreases in salaries and employee benefits of $499,000; equipment rentals, depreciation and maintenance of $186,000; FDIC assessments of $95,000; and ATM expenses of $1,068,000. ORE expense and other expense increased $1,210,000 and $420,000 as compared with 2014.

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 September 30, 2015 as Compared with Quarter Ended September 30, 2014

The Company s average interest-earning assets decreased approximately $63,280,000, or 10%, from approximately $654,491,000 for the third quarter of 2014 to approximately $591,211,000 for the third quarter of 2015. The Company s average balance sheet decreased primarily as decreased public funds enabled us to reduce our investment in securities.

The average yield on interest-earning assets decreased by 17 basis points, from 3.47% for the third quarter of 2014 to 3.30% for the third quarter of 2015. The yield on average loans decreased from 4.33% in 2014 to 4.13% in 2015 as discussed in the Overview. The yield on average taxable available for sale securities decreased from 2.01% for the third quarter of 2014 to 1.75% for the third quarter of 2015 as recent purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately $68,485,000, or 13%, from approximately $509,941,000 for the third quarter of 2014 to approximately $441,456,000 for the third quarter of 2015. Average borrowings from the Federal Home Loan Bank decreased approximately $59,005,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest-bearing liabilities for the third quarter of 2014 was ..45% as compared with .21% for the third quarter of 2015. In 2014, the Company recorded an immaterial interest adjustment which impacted the average rate in that year. Without this adjustment, the average rate on interest-bearing liabilities would have been .27%.

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 quarter ended September 30, 2014 compared with 3.14% for the quarter ended September 30, 2015.

Nine Months Ended September 30, 2015 as Compared with Nine Months Ended September 30, 2014

The Company s average interest-earning assets decreased approximately $53,730,000, or 8%, from approximately $660,723,000 for the first three quarters of 2014 to approximately $606,993,000 for the first three quarters of 2015. The Company s average balance sheet decreased primarily as decreased public funds enabled us to reduce our investment in securities.

The average yield on interest-earning assets decreased by 27 basis points, from 3.57% for the first three quarters of 2014 to 3.30% for the first three quarters of 2015. The yield on average loans decreased from 4.49% for the first three quarters of 2014 to 4.07% for the first three quarters of 2015 as discussed in the Overview. The yield on average taxable available for sale

securities decreased from 2.01% for the first three quarters of 2014 to 1.73% for the first three quarters of 2015 as recent purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately $54,477,000, or 11%, from approximately $518,488,000 for the first three quarters of 2014 to approximately $464,011,000 for the first three quarters of 2015. Average borrowings from the Federal Home Loan Bank decreased $33,682,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest-bearing liabilities for the first three quarters of 2014 was .31% compared with .19% for the first three quarters of 2015. In 2014, the Company recorded an immaterial interest adjustment which impacted the average rate in that year. Without this adjustment, the average rate on interest-bearing liabilities would have been .25%.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average interest-earning assets, was 3.32% for the first three quarters of 2014 compared with 3.15% for the first three quarters of 2015.

The tables on the following pages analyze the changes in tax-equivalent net interest income for the quarters and nine months ended September 30, 2015 and 2014.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Quarter Ended September 30, 2015			Quarter Ended September 30, 2014		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 354,833	$ 3,665	4.13%	$ 356,980	$ 3,868	4.33%
Balances due from depository institutions	4,862	15	1.23%	9,083	5	0.22%
HTM:						
Non taxable (1)	17,534	150	3.42%	13,427	116	3.46%
AFS:						
Taxable	184,473	809	1.75%	234,779	1,178	2.01%
Non taxable (1)	26,779	221	3.30%	35,437	498	5.62%
Other	2,730	13	1.90%	4,785	12	1.00%
Total	$ 591,211	$ 4,873	3.30%	$ 654,491	$ 5,677	3.47%
Savings & interest-bearing DDA	$ 342,225	$ 87	0.10%	$ 339,335	$ 65	0.08%
Time deposits	74,159	92	0.50%	86,529	440	2.03%
Borrowings from FHLB	25,072	57	0.91%	84,077	66	0.31%
Total	$ 441,456	$ 236	0.21%	$ 509,941	$ 571	0.45%
Net tax-equivalent spread			3.09%			3.02%
Net tax-equivalent margin on earning assets			3.14%			3.12%

(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 $67 and $193 for 2015 and 2014, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 361,101	$ 11,031	4.07%	$ 364,427	$ 12,284	4.49%
Balances due from depository institutions	8,072	50	0.83%	6,753	12	0.24%
HTM:						
Non taxable (1)	17,687	452	3.41%	12,786	334	3.48%
AFS:						
Taxable	188,650	2,449	1.73%	237,569	3,583	2.01%
Non taxable (1)	28,838	1,018	4.71%	35,023	1,438	5.47%
Other	2,645	20	1.01%	4,165	16	0.51%
Total	$ 606,993	$ 15,020	3.30%	$ 660,723	$ 17,667	3.57%
Savings & interest-bearing DDA	$ 360,757	$ 232	0.09%	$ 363,702	$ 202	0.07%
Time deposits	75,231	276	0.49%	93,081	835	1.20%
Borrowings from FHLB	28,023	152	0.72%	61,705	172	0.37%
Total	$ 464,011	$ 660	0.19%	$ 518,488	$ 1,209	0.31%
Net tax-equivalent spread			3.11%			3.25%
Net tax-equivalent margin on earning assets			3.15%			3.32%

(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 $251 and $449 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 Quarter Ended September 30, 2015 compared with September 30, 2014			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (23)	$ (180)	$	$ (203)
Balances due from depository institutions	(2)	23	(11)	10
Held to maturity securities:				
Non taxable	35	(1)		34
Available for sale securities:				
Taxable	(252)	(148)	31	(369)
Non taxable	(122)	(206)	51	(277)
Other	(5)	10	(4)	1
Total	$ (369)	$ (502)	$ 67	$ (804)
Interest paid on:				
Savings & interest-bearing DDA	$ 1	$ 21	$	$ 22
Time deposits	(63)	(333)	48	(348)
Borrowings from FHLB	(46)	125	(88)	(9)
Total	$ (108)	$ (187)	$ (40)	$ (335)

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Nine Months Ended September 30, 2015 compared with September 30, 2014			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (112)	$ (1,151)	$ 10	$ (1,253)
Balances due from depository institutions	2	30	6	38
Held to maturity securities:				
Non taxable	128	(7)	(3)	118
Available for sale securities:				
Taxable	(738)	(499)	103	(1,134)
Non taxable	(254)	(202)	36	(420)
Other	(6)	15	(5)	4
Total	$ (980)	$ (1,814)	$ 147	$ (2,647)
Interest paid on:				
Savings & interest-bearing DDA	$ (1)	$ 32	$ (1)	$ 30
Time deposits	(160)	(493)	94	(559)
Borrowings from FHLB	(94)	163	(89)	(20)
Total	$ (255)	$ (298)	$ 4	$ (549)

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 $18,658,000 and $33,298,000 at September 30, 2015 and December 31, 2014, respectively, specific reserves of only $1,623,000 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 $285,000 and $3,541,000 for the third quarters of 2015 and 2014, respectively, and $2,807,000 and $4,615,000 for the first three quarters of 2015 and 2014, respectively. As a result of receiving new information during the first three quarters of 2015 and the first three quarters of 2014, the Management updated its evaluation of the collateral values for several non-performing loans which resulted in the Company recording a loan loss provisions during those quarters. The allowance for loan losses as a percentage of loans was 2.40% and 2.54% at September 30, 2015 and December 31, 2014, respectively. The Company believes that its allowance for loan losses is appropriate as of September 30, 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

<u>Quarter Ended September 30, 2015 as Compared with Quarter Ended September 30, 2014</u>

Non-interest income decreased $395,000 for the third quarter of 2015 as compared with the third quarter of 2014 primarily as the result of a decrease in service charges on deposit accounts, partially offset by an increase in Trust department income and fees.

Trust department income and fees increased $47,000 in 2015 as compared with 2014 as a result of the increase on market value, on which fees are based, of personal trust accounts.

Service charges decreased by $494,000 in 2015 as compared with 2014. More specifically, ATM fee income decreased $424,000 as the Company s off-site ATMs at two casinos transferred to other vendors.

Nine Months Ended September 30, 2015 as Compared with Nine Months Ended September 30, 2014

Non-interest income decreased $1,146,000 in 2015 as compared with 2014. This decrease was the result of a decrease in service charges on deposit accounts, a loss from other investments and an increase in Trust department income and fees and other income.

Trust department income and fees increased $130,000 in 2015 as compared with 2014 as a result of the increase on market value, on which fees are based, of personal trust accounts.

Service charges decreased by $1,325,000 in 2015 as compared with 2014. More specifically, ATM fee income decreased $1,150,000 as the Company s off-site ATMs at two casinos transferred to other vendors.

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

Other income increased $145,000 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

Quarter Ended September 30, 2015 as Compared with Quarter Ended September 30, 2014

Total non-interest expense increased $1,976,000 in 2015 as compared with 2014. Salaries and employee benefits decreased $59,000; net occupancy decreased $44,000; equipment rentals, depreciation and maintenance decreased $32,000; ATM expense decreased $478,000, other real estate expense increased $786,000; other expenses increased $108,000 in 2015 as compared with 2014 and the Company recorded a loss from the credit impairment of a municipal security.

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

Net occupancy decreased in 2015 as compared with 2014 results primarily due to decreased costs associated with telecommunication activities.

Equipment rentals, depreciation and maintenance decreased in 2015 as 2014 results included additional servicing costs associated with bank-wide hardware and software conversion costs.

ATM expenses decreased in 2015 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 increased in 2015 as compared with 2014 due to increased writedowns of other real estate based on updated values and expenses and losses from the auction and other sales of ORE properties during the current year. During the current year, the Company engaged a third party auction firm to conduct an auction of a large portion of its ORE portfolio. As a result of the auction, 18 real estate parcels were sold for a net loss of $857,815.

Other expenses increased in 2015 primarily as a result of increased consulting fees associated with a number of technology and operations projects as compared with 2014.

Nine Months Ended September 30, 2015 as Compared with Nine Months Ended September 30, 2014

Total non-interest expense increased $1,513,000 for the first three quarters of 2015 as compared with the first three quarters of 2014. Salaries and employee benefits decreased $499,000; equipment rentals, depreciation and maintenance decreased $186,000; ATM expense decreased $1,068,000, other real estate expense increased $1,210,000; other expenses increased $420,000 and the Company recorded a loss from the credit impairment of a municipal security in 2015 as compared with 2014.

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

Equipment rentals, depreciation and maintenance decreased in 2015 as 2014 results included additional servicing costs associated with bank-wide hardware and software conversion costs.

ATM expenses decreased in 2015 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 increased in 2015 as compared with 2014 due to increased writedowns of other real estate based on updated values and expenses and losses from the auction and other sales of ORE properties during the current year.

Other expenses increased in 2015 primarily as a result of increased legal fees associated with non-performing loans and increased consulting fees associated with a number of technology and operations projects 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 and nine months ended September 30, 2014, as follows (in thousands except rate):

	Quarter Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Tax	Rate	Tax	Rate
Taxes at statutory rate	$ (1,038)	(34)	$ (837)	(34)
Increase (decrease) resulting from:				
Tax-exempt interest income	(142)	(5)	(402)	(16)
Income from BOLI	(39)	(1)	(122)	(5)
Federal tax credits	(75)	(2)	(223)	(10)
Other	40	1	6	1
Total income tax benefit	$ (1,254)	(41)	$ (1,578)	(64)

FINANCIAL CONDITION

Cash and due from banks increased $11,939,000 at September 30, 2015, compared with December 31, 2014 in the management of the bank subsidiary s liquidity position.

Loans decreased $13,708,000 at September 30, 2015 as compared with December 31, 2014 as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Other real estate (ORE) increased $3,221,000 at September 30, 2015 as compared with December 31, 2014. Loans totaling $7,279,000 were transferred into ORE while $3,615,000 was sold for a loss of $796,000 and writedowns of ORE to fair value were $443,000 during the first three quarters of 2015.

Total deposits increased $10,659,000 at September 30, 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 decreased $20,224,000 at September 30, 2015 as compared with December 31, 2014 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 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 September 30, 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 September 30, 2015 and December 31, 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
September 30, 2015 :				
Total Capital (to Risk Weighted Assets)	$ 95,211	19.84%	$ 38,385	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Asset)	89,184	18.59%	21,592	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,184	18.59%	28,789	6.00%
Tier 1 Capital (to Average Assets)	89,184	12.83%	27,804	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 September 30, 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
September 30, 2015 :						
Total Capital (to Risk Weighted Assets)	$ 91,326	20.14%	$ 36,275	8.00%	$ 45,343	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	85,625	18.88%	20,405	4.50%	29,473	6.50%
Tier 1 Capital (to Risk Weighted Assets)	85,625	18.88%	27,206	6.00%	36,275	8.00%
Tier 1 Capital (to Average Assets)	85,625	12.74%	26,891	4.00%	33,614	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 14.89% at September 30, 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 September 30, 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 September 30, 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 September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at September 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the quarters and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income (Loss) for the quarters and nine months ended September 30, 2015 and 2014, (iv) Consolidated Statement of Changes in Shareholders Equity for the nine months ended September 30, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (vi) Notes to the Unaudited Consolidated Financial Statements for the nine months ended September 30, 2015 and 2014.

(b) Reports on Form 8-K

A Form 8-K was filed on July 30, 2015, September 23, 2015, October 8, 2015 and October 28, 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: November 10, 2015

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

Date: November 10, 2015

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