

PEOPLES FINANCIAL CORP /MS/  
Form 10-Q  
May 11, 2016

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2016**

**or**

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

**Commission File Number 001-12103**

**PEOPLES FINANCIAL CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Mississippi**

**64-0709834  
(I.R.S. Employer Identification No.)**

**(State or other jurisdiction of incorporation or organization)**

**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  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  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

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

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, 2016, there were 15,000,000 shares of \$1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

**Part 1 Financial Information****Item 1: Financial Statements****Peoples Financial Corporation and Subsidiaries****Consolidated Statements of Condition****(in thousands except share data)**

	<b>March 31, 2016</b> <b>(unaudited)</b>	<b>December 31, 2015</b> <b>(audited)</b>
<b>Assets</b>		
Cash and due from banks	\$ 71,609	\$ 31,396
Available for sale securities	217,884	202,807
Held to maturity securities, fair value of \$22,046 at March 31, 2016; \$19,220 at December 31, 2015	21,743	19,025
Other investments	2,713	2,744
Federal Home Loan Bank Stock, at cost	1,642	1,637
Loans	337,911	337,557
Less: Allowance for loan losses	7,564	8,070
Loans, net	330,347	329,487
Bank premises and equipment, net of accumulated depreciation	22,513	22,446
Other real estate	9,840	9,916
Accrued interest receivable	1,932	1,832
Cash surrender value of life insurance	18,884	18,735
Other assets	1,130	979
<b>Total assets</b>	<b>\$ 700,237</b>	<b>\$ 641,004</b>

## Peoples Financial Corporation and Subsidiaries

## Consolidated Statements of Condition (continued)

(in thousands except share data)

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
<b>Liabilities and Shareholders Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Demand, non-interest bearing	\$ 130,617	\$ 122,743
Savings and demand, interest bearing	375,041	315,141
Time, \$100,000 or more	36,364	35,389
Other time deposits	39,213	39,434
Total deposits	581,235	512,707
Borrowings from Federal Home Loan Bank	8,333	18,409
Employee and director benefit plans liabilities	16,374	16,283
Other liabilities	1,139	1,766
<b>Total liabilities</b>	607,081	549,165
<b>Shareholders Equity:</b>		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at March 31, 2016 and December 31, 2015	5,123	5,123
Surplus	65,780	65,780
Undivided profits	19,227	19,151
Accumulated other comprehensive income, net of tax	3,026	1,785
<b>Total shareholders equity</b>	93,156	91,839
<b>Total liabilities and shareholders equity</b>	\$ 700,237	\$ 641,004

See Notes to Consolidated Financial Statements.

**Peoples Financial Corporation and Subsidiaries**

**Consolidated Statements of Operations**

**(in thousands except per share data)(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Interest income:</b>		
Interest and fees on loans	\$ 3,697	\$ 3,753
Interest and dividends on securities:		
U.S. Treasuries	207	111
U.S. Government agencies	349	559
Mortgage-backed securities	143	154
States and political subdivisions	305	371
Corporate bonds	8	
Other investments	8	4
Interest on balances due from depository institutions	63	13
<b>Total interest income</b>	<b>4,780</b>	<b>4,965</b>
<b>Interest expense:</b>		
Deposits	200	164
Borrowings from Federal Home Loan Bank	42	46
<b>Total interest expense</b>	<b>242</b>	<b>210</b>
<b>Net interest income</b>	<b>4,538</b>	<b>4,755</b>
<b>Provision for allowance for loan losses</b>	<b>113</b>	<b>986</b>
<b>Net interest income after provision for allowance for loan losses</b>	<b>\$ 4,425</b>	<b>\$ 3,769</b>

**Peoples Financial Corporation and Subsidiaries**

**Consolidated Statements of Operations (continued)**

**(in thousands except per share data)(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Non-interest income:</b>		
Trust department income and fees	\$ 396	\$ 406
Service charges on deposit accounts	932	1,224
Gain on liquidation, sales and calls of securities	80	
Loss from other investments	(31)	(58)
Increase in cash surrender value of life insurance	102	122
Other income	164	247
<b>Total non-interest income</b>	<b>1,643</b>	<b>1,941</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	2,774	3,039
Net occupancy	647	667
Equipment rentals, depreciation and maintenance	714	717
FDIC and state banking assessments	226	246
Data processing	340	359
ATM expense	108	343
Other real estate expense	351	451
Other expense	832	1,039
<b>Total non-interest expense</b>	<b>5,992</b>	<b>6,861</b>
<b>Net income (loss)</b>	<b>\$ 76</b>	<b>\$ (1,151)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ .01</b>	<b>\$ (.22)</b>
<b>Dividends declared per share</b>	<b>\$</b>	<b>\$</b>

See Notes to Consolidated Financial Statements.

**Peoples Financial Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
(in thousands)(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net income (loss)</b>	\$ 76	\$ (1,151)
<b>Other comprehensive income:</b>		
Net unrealized gain on available for sale securities	1,313	2,602
Reclassification adjustment for realized gains on available for sale securities called or sold	(72)	
<b>Total other comprehensive income</b>	1,241	2,602
<b>Total comprehensive income</b>	\$ 1,317	\$ 1,451

See Notes to Consolidated Financial Statements.

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**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
<b>Balance, January 1, 2016</b>	5,123,186	\$ 5,123	\$ 65,780	\$ 19,151	\$ 1,785	\$ 91,839
Net income				76		76
Other comprehensive income					1,241	1,241
<b>Balance, March 31, 2016</b>	5,123,186	\$ 5,123	\$ 65,780	\$ 19,227	\$ 3,026	\$ 93,156

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

See Notes to Consolidated Financial Statements.



**Peoples Financial Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**

(in thousands)(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
<b>Net income (loss)</b>	\$ 76	\$ (1,151)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	447	445
Provision for allowance for loan losses	113	986
Writedown of other real estate	355	411
Gain on sales of other real estate	(57)	(24)
Loss from other investments	31	58
Amortization of available for sale securities	18	61
Amortization of held to maturity securities	30	17
Gain on liquidation, sales and calls of securities	(80)	
Change in accrued interest receivable	(100)	(56)
Increase in cash surrender value of life insurance	(102)	(122)
Change in other assets	(151)	190
Change in other liabilities	(536)	(73)
<b>Net cash provided by operating activities</b>	<b>\$ 44</b>	<b>\$ 742</b>

**Peoples Financial Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows (continued)**  
(in thousands) (unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities, sales and calls of available for sale securities	\$ 56,126	\$ 26,327
Purchases of available for sale securities	(69,900)	(35,047)
Proceeds from maturities and calls of held to maturity securities	280	
Purchases of held to maturity securities	(3,028)	
Purchases of Federal Home Loan Bank stock	(5)	(406)
Proceeds from sales of other real estate	592	513
Loans, net change	(1,787)	(14,942)
Acquisition of bank premises and equipment	(514)	(58)
Investment in cash surrender value of life insurance	(47)	(35)
<b>Net cash used in investing activities</b>	<b>(18,283)</b>	<b>(23,648)</b>
<b>Cash flows from financing activities:</b>		
Demand and savings deposits, net change	67,774	45,747
Time deposits, net change	754	(975)
Borrowings from Federal Home Loan Bank	98,900	319,000
Repayments to Federal Home Loan Bank	(108,976)	(309,074)
<b>Net cash provided by financing activities</b>	<b>58,452</b>	<b>54,698</b>
<b>Net increase in cash and cash equivalents</b>	<b>40,213</b>	<b>31,792</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>31,396</b>	<b>23,556</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 71,609</b>	<b>\$ 55,348</b>

See Notes to Consolidated Financial Statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three Months Ended March 31, 2016 and 2015

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, 2016 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2015 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2016, are not necessarily indicative of the results to be expected for the full year.

**Use of Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the 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, 2015.

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

In March 2016, FASB issued ASU 2016-03, *Intangibles – Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*. ASU 2016-03 amends the guidance in ASUs 2014-02, 2014-03, 2014-7 and 2014-18 to remove their effective dates and render them effective immediately. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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

## 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, 2016 and 2015.

## 3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid \$235,325 and \$204,656 for the three months ended March 31, 2016 and 2015, respectively, for interest on deposits and borrowings. No income tax payments were made during the three months ended March 31, 2016 and 2015. Loans transferred to other real estate amounted to \$813,589 and \$5,551,393 during the three months ended March 31, 2016 and 2015, respectively.

4. Investments:

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

	Gross Unrealized	Gross Unrealized
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