PEOPLES FINANCIAL CORP /MS/
Form 10-Q
May 13, 2014

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, 2014

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 April 30, 2014, there were 15,000,000 shares of $1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

Part 1 Financial Information

Item 1: Financial Statements

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Cash and due from banks	$ 31,703	$ 36,264
Available for sale securities	272,802	275,440
Held to maturity securities, fair value of		
$12,385 at March 31, 2014;		
$10,686 at December 31, 2013	12,660	11,142
Other investments	3,033	3,262
Federal Home Loan Bank Stock, at cost	3,092	3,834
Loans	368,302	375,349
Less: Allowance for loan losses	9,462	8,934
Loans, net	358,840	366,415
Bank premises and equipment, net of accumulated depreciation	24,964	25,308
Other real estate	9,084	9,630
Accrued interest receivable	2,789	2,607
Cash surrender value of life insurance	17,605	17,456
Other assets	10,107	10,906
Total assets	$ 746,679	$ 762,264

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 123,119	$ 107,117
Savings and demand, interest bearing	245,012	217,005
Time, $100,000 or more	54,227	60,519
Other time deposits	42,892	43,917
Total deposits	465,250	428,558
Federal funds purchased and securities sold under agreements to repurchase	130,035	139,639
Borrowings from Federal Home Loan Bank	32,635	77,684
Employee and director benefit plans liabilities	13,049	12,725
Other liabilities	4,052	4,511
Total liabilities	645,021	663,117
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at March 31, 2014 and December 31, 2013	5,123	5,123
Surplus	65,780	65,780
Undivided profits	34,838	34,259
Accumulated other comprehensive loss, net of tax	(4,083)	(6,015)
Total shareholders equity	101,658	99,147
Total liabilities and shareholders equity	$ 746,679	$ 762,264

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest income:		
Interest and fees on loans	$ 4,252	$ 4,439
Interest and dividends on securities:		
U.S. Treasuries	156	183
U.S. Government agencies	807	731
Mortgage-backed securities	245	91
States and political subdivisions	382	374
Other investments	1	3
Interest on federal funds sold	4	33
Total interest income	5,847	5,854
Interest expense:		
Deposits	209	320
Borrowings from Federal Home Loan Bank	50	41
Federal funds purchased and securities sold under agreements to repurchase	27	46
Total interest expense	286	407
Net interest income	5,561	5,447
Provision for allowance for loan losses	537	539
Net interest income after provision for allowance for loan losses	$ 5,024	$ 4,908

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2014	2013
Non-interest income:		
Trust department income and fees	$ 360	$ 358
Service charges on deposit accounts	1,586	1,508
Income (loss) from other investments	7	(22)
Increase in cash surrender value of life insurance	119	121
Other income	145	156
Total non-interest income	2,217	2,121
Non-interest expense:		
Salaries and employee benefits	3,213	3,141
Net occupancy	592	574
Equipment rentals, depreciation and maintenance	716	680
FDIC assessments	275	291
Data processing	321	320
ATM expense	655	578
Other expense	979	828
Total non-interest expense	6,751	6,412
Income before income tax expense (benefit)	490	617
Income tax expense (benefit)	(89)	11
Net income	$ 579	$ 606
Basic and diluted earnings per share	$ .11	$ .12
Dividends declared per share	$	$

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(in thousands)(unaudited)

	Three Months Ended March 31, 2014	2013
Net income	$ 579	$ 606
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on available for sale securities, net of taxes of $995 in 2014 and $273 in 2013	1,932	(531)
Total other comprehensive income (loss)	1,932	(531)
Total comprehensive income	$ 2,511	$ 75

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 Loss	Total
Balance, January 1, 2014	5,123,186	$ 5,123	$ 65,780	$ 34,259	$ (6,015)	$ 99,147
Net income				579		579
Other comprehensive income, net of tax					1,932	1,932
Balance, March 31, 2014	5,123,186	$ 5,123	$ 65,780	$ 34,838	$ (4,083)	$ 101,658

Note: Balances as of January 1, 2014 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands) (unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from operating activities:		
Net income	$ 579	$ 606
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	447	447
Provision for allowance for loan losses	537	539
Writedown of other real estate	92	
Loss on sales of other real estate	65	54
Gain on sale of banking premises and equipment		(15)
(Income) loss from other investments	(7)	22
Amortization of available for sale securities	80	
Accretion of held to maturity securities	(1)	(1)
Change in accrued interest receivable	(182)	(9)
Increase in cash surrender value of life insurance	(119)	(121)
Change in other assets	985	(13)
Change in other liabilities	(1,316)	(361)
Net cash provided by operating activities	$ 1,160	$ 1,148

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 5,485	$ 48,274
Purchases of available for sale securities		(88,406)
Purchases of held to maturity securities	(1,517)	(1,362)
Redemption of Federal Home Loan Bank stock	742	1,729
Redemption of other investments	236	230
Proceeds from sales of banking premises and equipment		19
Proceeds from sales of other real estate	465	375
Insurance proceeds from casualty loss on other real estate		57
Loans, net change	6,962	13,845
Acquisition of premises and equipment	(103)	(652)
Investment in cash surrender value of life insurance	(30)	(32)
Net cash provided by (used in) investing activities	12,240	(25,923)
Cash flows from financing activities:		
Demand and savings deposits, net change	44,009	52,147
Time deposits, net change	(7,317)	(10,986)
Retirement of common stock		(6)
Borrowings from Federal Home Loan Bank	536,000	
Repayments to Federal Home Loan Bank	(581,049)	(56)
Federal funds purchased and securities sold under agreements to repurchase, net change	(9,604)	1,856
Net cash provided by (used in) financing activities	(17,961)	42,955
Net increase (decrease) in cash and cash equivalents	(4,561)	18,180
Cash and cash equivalents, beginning of period	36,264	54,020
Cash and cash equivalents, end of period	$ 31,703	$ 72,200

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2014 and 2013

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 March 31, 2014 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 2013 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2014, 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 with 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, 2013.

New Accounting Pronouncements In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-06, *Technical Corrections and Improvements Related to Glossary Terms*. This ASU added, deleted, corrected and modified terms in the Master Glossary of the Codification and was effective upon issuance. The adoption of this ASU did not 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 and 5,136,771 for the quarters ended March 31, 2014 and 2013, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $245,052 and $418,289 for the quarters ended March 31, 2014 and 2013, respectively, for interest on deposits and borrowings. No income tax payments were made during the quarters ended March 31, 2014 and 2013. Loans transferred to other real estate amounted to $76,028 and $135,000 during the quarters ended March 31, 2014 and 2013, respectively.

4. Investments:

The amortized cost and fair value of securities at March 31, 2014 and December 31, 2013, are as follows (in thousands):

March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 44,647	$ 98	$ (844)	$ 43,901
U.S. Government agencies	151,784	741	(8,656)	143,869
Mortgage-backed securities	49,863	302	(873)	49,292
States and political subdivisions	33,767	1,323		35,090
Total debt securities	280,061	2,464	(10,373)	272,152
Equity securities	650			650
Total available for sale securities	$ 280,711	$ 2,464	$ (10,373)	$ 272,802
Held to maturity securities:				
States and political subdivisions	$ 12,660	$ 24	$ (299)	$ 12,385
Total held to maturity securities	$ 12,660	$ 24	$ (299)	$ 12,385

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 44,636	$ 54	$ (1,042)	$ 43,648
U.S. Government agencies	155,772	734	(10,701)	145,805
Mortgage-backed securities	51,454	141	(1,269)	50,326
States and political subdivisions	33,764	1,248	(1)	35,011
Total debt securities	285,626	2,177	(13,013)	274,790
Equity securities	650			650
Total available for sale securities	$ 286,276	$ 2,177	$ (13,013)	$ 275,440
Held to maturity securities:				
States and political subdivisions	$ 11,142	$ 13	$ (469)	$ 10,686
Total held to maturity securities	$ 11,142	$ 13	$ (469)	$ 10,686

The amortized cost and fair value of debt securities at March 31, 2014 (in thousands), by contractual maturity, are shown on the next page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 12,539	$ 12,585
Due after one year through five years	69,590	69,593
Due after five years through ten years	60,229	59,811
Due after ten years	87,840	80,871
Mortgage-backed securities	49,863	49,292
Totals	$ 280,061	$ 272,152
Held to maturity securities:		
Due in one year or less	$ 662	$ 668
Due after one year through five years	2,087	2,084
Due after five years through ten years	7,042	6,945
Due after ten years	2,869	2,688
Totals	$ 12,660	$ 12,385

Available for sale and held to maturity securities with gross unrealized losses at March 31, 2014 and December 31, 2013, 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	
March 31, 2014:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 29,913	$ 844	$	$	$ 29,913	$ 844
U.S. Government agencies	115,408	8,375	4,720	281	120,128	8,656
Mortgage-backed securities	25,227	704	4,442	169	29,669	873
States and political subdivisions	7,831	299			7,831	299
TOTAL	$ 178,379	$ 10,222	$ 9,162	$ 450	$ 187,541	$ 10,672
December 31, 2013:						
U.S. Treasuries	$ 29,708	$ 1,042	$	$	$ 29,708	$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
TOTAL	$ 195,113	$ 13,103	$ 4,621	$ 379	$ 199,734	$ 13,482

At March 31, 2014, 7 of the 11 securities issued by the U.S. Treasury, 25 of the 30 securities issued by U.S. Government agencies, 7 of the 13 mortgage-backed securities and 27 of the 147 securities issued by states and political subdivisions contained unrealized losses.

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

Securities with a fair value of $272,208,237 and $262,830,011 at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

5. Loans:

The composition of the loan portfolio at March 31, 2014 and December 31, 2013, is as follows (in thousands):

	March 31, 2014	December 31, 2013
Gaming	$ 28,615	$ 29,570
Residential and land development	19,173	19,403
Real estate, construction	44,608	44,987
Real estate, mortgage	234,966	237,158
Commercial and industrial	32,366	35,007
Other	8,574	9,224
Total	$ 368,302	$ 375,349

The age analysis of the loan portfolio, segregated by class of loans, as of March 31, 2014 and December 31, 2013, is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90
	30-59	60-89	Greater Than 90	Total Past Due	Current	Total Loans	Days & Still Accruing
March 31, 2014:							
Gaming	$	$ 1,220	$	$ 1,220	$ 27,395	$ 28,615	$
Residential and land development			13,389	13,389	5,784	19,173	
Real estate, construction	3,921	247	1,963	6,131	38,477	44,608	
Real estate, mortgage	13,544	703	4,904	19,151	215,815	234,966	109
Commercial and industrial	2,423	477	3,016	5,916	26,450	32,366	3,016
Other	243	14		257	8,317	8,574	
Total	$ 20,131	$ 2,661	$ 23,272	$ 46,064	$ 322,238	$ 368,302	$ 3,125
December 31, 2013:							
Gaming	$	$	$	$	$ 29,570	$ 29,570	$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	$ 12,226	$ 2,689	$ 28,158	$ 43,073	$ 332,276	$ 375,349	$ 651

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

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of March 31, 2014 and December 31, 2013, is as follows (in thousands):

	Loans With A Grade Of:					
	A or B	C	D	E	F	Total
March 31, 2014:						
Gaming	$ 21,548	$ 3,975	$	$ 3,092	$	$ 28,615
Residential and land development	4,198	1,544	42	13,389		19,173
Real estate, construction	38,285	1,116	2,216	2,991		44,608
Real estate, mortgage	202,220	4,972	17,156	10,618		234,966
Commercial and industrial	29,206	830	2,294	36		32,366
Other	8,496	31	29	18		8,574
Total	$ 303,953	$ 12,468	$ 21,737	$ 30,144	$	$ 368,302
December 31, 2013:						
Gaming	$ 23,975	$ 2,500	$	$ 3,095	$	$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	$ 312,621	$ 10,026	$ 22,575	$ 30,127	$	$ 375,349

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of March 31, 2014 and December 31, 2013, are as follows (in thousands):

	March 31, 2014	December 31, 2013
Gaming	$ 1,220	$ 1,223
Residential and land development	13,389	13,572
Real estate, construction	2,552	2,588
Real estate, mortgage	8,824	8,788
Total	$ 25,985	$ 26,171

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of March 31, 2014 and December 31, 2013 were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
March 31, 2014:				
Real estate, construction	2	$ 883	$ 883	$ 267
Real estate, mortgage	6	9,992	9,992	928
Commercial and industrial	1	675	675	
Total	9	$ 11,550	$ 11,550	$ 1,195
December 31, 2013:				
Real estate, construction	2	$ 891	$ 891	$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	$ 11,581	$ 11,581	$ 1,264

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of March 31, 2014 and December 31, 2013, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 4,425	$ 4,425	$	$ 4,425	$
Real estate, construction	2,272	2,272		2,272	6
Real estate, mortgage	10,085	9,486		9,510	9
Commercial and industrial	675	675		676	7
Total	17,457	16,858		16,883	22
With a related allowance recorded:					
Gaming	1,695	1,220	626	1,222	
Residential and land development	17,393	8,964	436	8,974	4
Real estate, construction	1,163	1,163	315	1,171	
Real estate, mortgage	9,330	9,330	1,067	9,281	83
Total	29,581	20,677	2,444	20,648	87
Total by class of loans:					
Gaming	1,695	1,220	626	1,222	
Residential and land development	21,818	13,389	436	13,399	4
Real estate, construction	3,435	3,435	315	3,443	6
Real estate, mortgage	19,415	18,816	1,067	18,791	92
Commercial and industrial	675	675		676	7
Total	$ 47,038	$ 37,535	$ 2,444	$ 37,531	$ 109

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013:					
With no related allowance recorded:					
Residential and land development	$ 4,425	$ 4,425	$	$ 4,465	$
Real estate, construction	2,294	2,294		2,054	26
Real estate, mortgage	9,722	9,123		9,097	26
Commercial and industrial	678	678		689	24
Total	17,119	16,520		16,305	76
With a related allowance recorded:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	17,576	9,147	471	15,909	
Real estate, construction	1,185	1,185	337	1,239	23
Real estate, mortgage	9,677	9,677	1,110	8,801	306
Total	30,136	21,232	2,544	27,265	329
Total by class of loans:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	22,001	13,572	471	20,374	
Real estate, construction	3,479	3,479	337	3,293	49
Real estate, mortgage	19,399	18,800	1,110	17,898	332
Commercial and industrial	678	678		689	24
Total	$ 47,255	$ 37,752	$ 2,544	$ 43,570	$ 405

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters ended March 31, 2014 and 2013, and the balances of loans, individually and collectively evaluated for impairment, as of March 31, 2014 and 2013, are as follows (in thousands):

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

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Quarter Ended March 31, 2013:							
Allowance for Loan Losses:							
Beginning Balance	$ 1,541	$ 200	$ 967	$ 5,273	$ 593	$ 283	$ 8,857
Charge-offs	(474)			(58)		(65)	(597)
Recoveries				1	11	24	36
Provision	79	38	(32)	335	63	56	539
Ending Balance	$ 1,146	$ 238	$ 935	$ 5,551	$ 667	$ 298	$ 8,835
Allowance for loan losses, March 31, 2013:							
Ending balance: individually evaluated for impairment	$ 626	$	$ 843	$ 1,760	$ 332	$ 34	$ 3,595
Ending balance: collectively evaluated for impairment	$ 520	$ 238	$ 92	$ 3,791	$ 335	$ 264	$ 5,240
Total Loans, March 31, 2013:							
Ending balance: individually evaluated for impairment	$ 14,746	$ 21,083	$ 7,949	$ 33,118	$ 2,472	$ 112	$ 79,480
Ending balance: collectively evaluated for impairment	$ 36,548	$ 6,198	$ 42,790	$ 210,759	$ 31,511	$ 9,256	$ 337,062

7. Deposits:

At March 31, 2014, time deposits of $100,000 or more include brokered deposits of $5,000,000 which mature in 2017.

8. Fair Value Measurements and Disclosures:

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

Fair Value Hierarchy

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

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

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

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

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

Cash and Due from Banks

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

Available for Sale Securities

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

Held to Maturity Securities

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

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

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

Loans

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

Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as a non-recurring Level 2 asset. When an appraised value is not available or Management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as a non-recurring Level 3 asset.

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. When the fair value of the property is based on observable market price, the Company records the other real estate as a non-recurring Level 2 asset. When an appraised value is not available or Management determines the fair value of the other real estate is further impaired below the appraised value and there is no observable market price, the Company records the other real estate as a non-recurring Level 3 asset.

Cash Surrender Value of Life Insurance

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

Deposits

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

Federal Funds Purchased and Securities Sold under Agreements to Repurchase

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

Borrowings from Federal Home Loan Bank

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

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of March 31, 2014 and December 31, 2013 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2014:				
U.S. Treasuries	$ 43,901	$	$ 43,901	$
U.S. Government agencies	143,869		143,869	
Mortgage-backed securities	49,292		49,292	
States and political subdivisions	35,090		35,090	
Equity securities	650		650	
Total	$ 272,802	$	$ 272,802	$
December 31, 2013:				
U.S. Treasuries	$ 43,648	$	$ 43,648	$
U.S. Government agencies	145,805		145,805	
Mortgage-backed securities	50,326		50,326	
States and political subdivisions	35,011		35,011	
Equity securities	650		650	
Total	$ 275,440	$	$ 275,440	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy, as of March 31, 2014 and December 31, 2013 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2014	$ 18,377	$	$	$ 18,377
December 31, 2013	18,831			18,831

The following table presents a summary of changes in the fair value of impaired loans which are measured using level 3 inputs (in thousands):

	For the Three Months Ended March 31, 2014	For the Year Ended December 31, 2013
Balance, beginning of period	$ 18,831	$ 16,030
Additions to impaired loans and troubled debt restructurings	154	17,424
Principal payments, charge-offs and transfers to other real estate	(708)	(15,153)
Change in allowance for loan losses on impaired loans	100	530
Balance, end of period	$ 18,377	$ 18,831

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2014 and December 31, 2013 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2014	$ 9,084	$	$	$ 9,084
December 31, 2013	9,630			9,630

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

	For the Three Months Ended March 31, 2014	For the Year Ended December 31, 2013
Balance, beginning of period	$ 9,630	$ 7,008
Loans transferred to ORE	76	4,537
Sales	(530)	(1,188)
Writedowns	(92)	(670)
Insurance proceeds for casualty loss		(57)
Balance, end of period	$ 9,084	$ 9,630

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at March 31, 2014 and December 31, 2013, are as follows (in thousands):

	Carrying	Fair Value Measurements Using			
	Amount	Level 1	Level 2	Level 3	Total
March 31, 2014:					
Financial Assets:					
Cash and due from banks	$ 31,703	$ 31,703	$	$	$ 31,703
Available for sale securities	272,802		272,802		272,802
Held to maturity securities	12,660		12,385		12,385
Other investments	3,033	3,033			3,033
Federal Home Loan Bank stock	3,092		3,092		3,092
Loans, net	358,840			365,766	365,766
Other real estate	9,084			9,084	9,084
Cash surrender value of life insurance	17,605			17,605	17,605
Financial Liabilities:					
Deposits:					
Non-interest bearing	123,119	123,119			123,119
Interest bearing	342,131			348,136	348,136
Federal funds purchased and securities sold under agreements to repurchase	130,035	130,035			130,035
Borrowings from Federal Home Loan Bank	32,635		33,858		33,858
December 31, 2013:					
Financial Assets:					
Cash and due from banks	$ 36,264	$ 36,264	$	$	$ 36,264
Available for sale securities	275,440		275,440		275,440
Held to maturity securities	11,142		10,686		10,686
Other investments	3,262	3,262			3,262
Federal Home Loan Bank stock	3,834		3,834		3,834
Loans, net	366,415			369,117	369,117
Other real estate	9,630			9,630	9,630
Cash surrender value of life insurance	17,456			17,456	17,456
Financial Liabilities:					
Deposits:					
Non-interest bearing	107,117	107,117			107,117
Interest bearing	321,441			322,535	322,535
Federal funds purchased and securities sold under agreements to repurchase	139,639	139,639			139,639
Borrowings from Federal Home Loan Bank	77,684		79,051		79,051

9. Reclassifications:

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

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

GENERAL

The Company is a one-bank holding company headquartered in Biloxi, Mississippi. 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, 2013.

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

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-06, *Technical Corrections and Improvements Related to Glossary Terms*. This ASU added, deleted, corrected and modified terms in the Master Glossary of the Codification and was effective upon issuance. The adoption of this ASU did not have a material effect on the Company s financial position, results of operations or cash flows.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and assumptions on an on-going basis using historical experience and other factors, including the current economic environment. We adjust such estimates and assumptions when facts and circumstances dictate. Certain critical accounting policies affect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Allowance for loan losses:

The Company s most critical accounting policy relates to its allowance for loan losses (ALL), which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The ALL is established and maintained at an amount sufficient to cover the estimated loss associated with the loan portfolio of the Company as of the 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 provisions in the consolidated statement of income.

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in its trade area. Maintaining a strong core deposit base and providing commercial and real estate lending in our trade area are the traditional focus 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.

Net income for the first quarter of 2014 was $579,000 compared with $606,000 for the first quarter of 2013. The increase in salaries and employee benefits, ATM expense and other non-interest expense exceeded the increase in net interest income and service charges on deposit accounts and other non-interest income for the first quarter of 2014 as compared with the first quarter of 2013.

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. The yield on average loans has increased as nonaccrual loans have decreased significantly since the first quarter of 2013. The Company has also extended durations on its investments in order to increase yield.

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 and national economy have negatively impacted collateral values and borrowers ability to repay their loans. There has been improvement in nonaccrual loans in recent quarters, and the Company is working diligently to continue that trend. The Company s nonaccrual loans totaled $25,985,000 and $26,171,000 at March 31, 2014 and December 31, 2013, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

The increase in non-interest income for the first quarter of 2014 of $96,000 included increases in service charges on deposit accounts of $78,000. Also, the Company recognized income from its other investments in 2014 as compared with a loss in 2013.

Non-interest expense increased $339,000 for the first quarter of 2014 as compared with the first quarter of 2013. This was primarily due to the increase in salaries and employee benefits of $72,000, an increase in ATM expense of $77,000 and the increase in other non-interest expense of $151,000.

Total assets at March 31, 2014 decreased $15,585,000 as compared with December 31, 2013. Loans decreased as principal payments, maturities, charge-offs and foreclosures on loans have exceeded new loans during the first quarter of 2014. Based on an increase in total deposits of $36,692,000 and reduced pledging requirements, the Company s available for sale portfolio decreased $2,638,000 and borrowings from the Federal Home Loan Bank decreased $45,049,000.

RESULTS OF OPERATIONS

Net Interest Income

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

The Company s average interest earning assets decreased approximately $73,209,000, or 10%, from approximately $743,252,000 for the first quarter of 2013 to approximately $670,043,000 for the first quarter of 2014. Average loans decreased $51,375,000 for the first quarter of 2014 as compared with the first quarter of 2013, as discussed in the Overview above.

The average yield on earning assets increased by 36 basis points, from 3.25% for the first quarter of 2013 to 3.61% for the first quarter of 2014. The yield on average loans increased from 4.20% in 2013 to 4.58% in 2014 as a result of the reduction in nonaccrual loans. The yield on average available for sale taxable securities increased from 1.68% in 2013 to 2.02% in 2014 as a result of the Company s strategy of extending the duration of new investments.

Average interest bearing liabilities decreased approximately $88,407,000, or 14%, from approximately $619,199,000 for the first quarter of 2013 to approximately $530,792,000 for the first quarter of 2014. Time deposits decreased primarily as $24,000,000 in brokered deposits matured in 2013. Federal funds purchased and securities sold under agreements to repurchase which only includes non-deposit accounts, decreased $46,565,000 as these customers reallocate their balances.

The average rate paid on interest bearing liabilities decreased 4 basis points, from .26% for the first quarter of 2013 to .22% for the first quarter of 2014. The current unprecedented low rate environment which exists on a national and local level has caused customers to tolerate lower interest rates in return for less risk. The Company believes that it is unlikely that its cost of funds can be materially reduced further; however, any opportunity to do so will be considered.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.44% for the three months ended March 31, 2014 and 3.04% for the three months ended March 31, 2013.

The tables below analyze the changes in tax-equivalent net interest income for the quarters ended March 31, 2014 and 2013.

Analysis of Average Balances, Interest Earned/Paid and Yield

(in thousands)

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 371,755	$ 4,252	4.58%	$ 423,130	$ 4,439	4.20%
Federal funds Sold	7,421	4	0.22%	33,109	33	0.40%
HTM:						
Non taxable (1)	12,255	107	3.49%	8,050	77	3.83%
AFS:						
Taxable	239,632	1,208	2.02%	239,376	1,005	1.68%
Non taxable (1)	35,134	472	5.37%	37,595	490	5.21%
Other	3,846	1	0.10%	1,992	3	0.60%
Total	$ 670,043	$ 6,044	3.61%	$ 743,252	$ 6,047	3.25%
Savings & interest-bearing demand deposits	$ 231,431	$ 42	0.07%	$ 270,159	$ 47	0.07%
Time deposits	99,754	167	0.67%	135,292	273	0.81%
Federal funds purchased	159,300	27	0.07%	205,865	46	0.09%
Borrowings from FHLB	40,307	50	0.50%	7,883	41	2.08%
Total	$ 530,792	$ 286	0.22%	$ 619,199	$ 407	0.26%
Net tax-equivalent spread			3.39%			2.99%
Net tax-equivalent margin on earning assets			3.44%			3.04%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2014 and 2013.
(2) Loan fees of $128 and $150 for 2014 and 2013, 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 March 31, 2014 compared with March 31, 2013			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (539)	$ 401	$ (49)	$ (187)
Federal funds sold	(26)	(15)	12	(29)
Held to maturity securities:				
Non taxable	40	(7)	(3)	30
Available for sale securities:				
Taxable	1	201	1	203
Non taxable	(32)	15	(1)	(18)
Other	3	(5)		(2)
Total	$ (553)	$ 590	$ (40)	$ (3)
Interest paid on:				
Savings & interest-bearing demand deposits	$ (6)	$ 2	$ (1)	$ (5)
Time deposits	(72)	(46)	12	(106)
Federal funds purchased	(10)	(11)	2	(19)
Borrowings from FHLB	169	(31)	(129)	9
Total	$ 81	$ (86)	$ (116)	$ (121)

Provision for Allowance 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 monthly 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 resulting from the economic downturn on a national and local level, the 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 on-going, systematic evaluation resulted in the Company recording a provision for loan losses of $537,000 and $539,000 for the first quarters of 2014 and 2013, respectively. The allowance for loan losses as a percentage of loans was 2.57% and 2.38% at March 31, 2014 and December 31, 2013, respectively. The Company s analysis includes evaluating the current values of collateral securing all nonaccrual loans. Even though nonaccrual loans were $25,985,000 and $26,171,000 at March 31, 2014 and December 31, 2013, respectively, specific reserves of only $1,249,000 and $1,280,000, 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 believes that its allowance for loan losses is appropriate as of March 31, 2014.

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

Non-interest income

Non-interest income increased $96,000 for the first quarter of 2014 as compared with the first quarter of 2013. Service charges on deposit accounts increased $78,000 primarily due to the increase in ATM income of $76,000 as the Company added three new off-site ATMs and per transaction fees increased. In 2013, the Company has a loss of $22,000 from other investments as compared with income of $7,000 in 2014.

Non-interest expense

Total non-interest expense increased $339,000 for the first quarter of 2014 as compared with the first quarter of 2013. Salaries and employee benefits increased $72,000; ATM expenses increased $77,000 and other non-interest expense increased $151,000 for the first quarter of 2014 as compared with the first quarter of 2013.

Salaries and employee benefits increased primarily as merit raises increased salaries expense $57,000 in 2014.

ATM expense increased in 2014 as a result of increased ATM activity in the current year.

Expenses relating to other real estate, which are included in other non-interest expense, increased $114,000 in 2014 as compared in 2013 primarily due to costs associated with increased foreclosures and writedowns of property to fair value. Consulting fees relating to a revenue enhancement study were $33,000 in 2014 were also included in other non-interest expense.

Income Tax Expense (Benefit)

Income taxes have been impacted by non-taxable income and federal tax credits during the quarters ended March 31, 2014 and 2013, as follows (in thousands except rate):

	Quarter Ended March 31,			
	2014		2013	
	Tax	Rate	Tax	Rate
Taxes at statutory rate	$ 167	34	$ 210	34
Increase (decrease) resulting from:				
Tax-exempt interest income	(130)	(27)	(85)	(13)
Income from BOLI	(40)	(8)	(41)	(7)
Federal tax credits	(74)	(15)	(74)	(12)
Other	(12)	(2)	1	
Total income tax expense (benefit)	$ (89)	(18)	$ 11	2

FINANCIAL CONDITION

The Company decreased its investment in Federal Home Loan Bank (FHLB) stock by $742,000 at March 31, 2014 as compared with December 31, 2013 as a result of a reduced need to borrow from FHLB during the quarter.

Loans decreased $7,047,000 at March 31, 2014 as compared with December 31, 2013. Loan demand has not met expectations, and principal payments, maturities, charge-offs and foreclosures on loans have exceeded new loans.

Other real estate (ORE) decreased $546,000 at March 31, 2014 as compared with December 31, 2013. Loans totaling $76,000 were transferred into ORE and writedowns of $92,000 were recorded while $465,000 was sold for a loss of $65,000 during the first quarter of 2014.

Other assets decreased $799,000 at March 31, 2014 as compared with December 31, 2013 as deferred tax assets decreased $919,000 and other prepaid assets and receivables increased $120,000.

Total deposits increased $36,692,000 at March 31, 2014, as compared with December 31, 2013. 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. Savings and demand, interest bearing, increased $28,007,000 as a result of the public fund deposits increasing due to tax collections during the first quarter.

Borrowings from the Federal Home Loan Bank decreased $45,049,000 at March 31, 2014 as compared with December 31, 2013 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $324,000 at March 31, 2014 as compared with December 31, 2013 due to deferred compensation benefits earned by officers and directors during 2014.

Other liabilities decreased $459,000 at March 31, 2014 as compared with December 31, 2013 as a result of the payment of property tax, directors fees and certain officer incentives which had been accrued at December 31, 2013.

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.

The Company and the Bank are subject to regulatory capital adequacy requirements imposed by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of the bank subsidiary s assets and certain off-balance sheet items, adjusted for credit risk, as calculated under regulatory accounting practices must be met. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks and to account for off-balance sheet exposure. Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets.

As of March 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% 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 actual capital amounts and ratios and required minimum capital amounts and ratios for the Company as of March 31, 2014 and December 31, 2013, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 111,623	23.29%	$ 38,347	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,588	22.04%	19,174	4.00%
Tier 1 Capital (to Average Assets)	105,588	14.00%	30,179	4.00%
December 31, 2013:				
Total Capital (to Risk Weighted Assets)	$ 111,141	22.79%	$ 39,022	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,009	21.54%	19,511	4.00%
Tier 1 Capital (to Average Assets)	105,009	13.48%	31,170	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of March 31, 2014 and December 31, 2013, are as follows (in thousands):

	Acutal		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 107,380	22.43%	$ 38,298	8.00%	$ 47,872	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,353	21.18%	19,149	4.00%	28,723	6.00%
Tier 1 Capital (to Average Assets)	101,353	13.41%	30,237	4.00%	37,797	5.00%
December 31, 2013:						
Total Capital (to Risk Weighted Assets)	$ 106,870	21.94%	$ 38,968	8.00%	$ 48,711	10.00%
Tier 1 Capital (to Risk Weighted Assets)	100,746	20.69%	19,484	4.00%	29,227	6.00%
Tier 1 Capital (to Average Assets)	100,746	13.02%	30,958	4.00%	38,697	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 14.55% at March 31, 2014, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being well-capitalized by the banking regulatory authorities.

LIQUIDITY

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

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

REGULATORY MATTERS

During 2009, Management identified opportunities for improving risk management, addressing asset quality concerns, managing concentrations of credit risk and ensuring sufficient liquidity at the Bank as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company and the Bank identified specific corrective steps and actions to enhance its risk management, asset quality and liquidity policies, controls and procedures. The Company and the Bank may not declare or pay any cash dividends without the prior written approval of their regulators.

Item 4: Controls and Procedures

As of March 31, 2014, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended March 31, 2014 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

(a) On February 26, 2014, the Board of Directors appointed the following officers of the Company:

President and CEO	Chevis C. Swetman
Executive Vice President	A. Wes Fulmer
First Vice President	Thomas J. Sliman
Second Vice President	Ann F. Guice
Chief Financial Officer and Controller	Lauri A. Wood
Vice President and Secretary	J. Patrick Wild
Vice President	Evelyn R. Herrington

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1:	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 32.1:	Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 32.2:	Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 101	The following materials from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at March 31, 2014 and December 31, 2013, (ii)Consolidated Statements of Income for the quarters ended March 31, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2014 and 2013, (iv) Statement of Changes in Shareholders Equity for the quarter ended March 31, 2014, (v) Consolidated Statements of Cash Flows for the quarters ended March 31, 2014 and 2013 and (vi) Notes to the Unaudited Consolidated Financial Statements for the quarters ended March 31, 2014 and 2013.

(b) Reports on Form 8-K

A Form 8-K was filed on January 22, 2014, April 23, 2014 and April 24, 2014.

SIGNATURES

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

PEOPLES FINANCIAL CORPORATION

(Registrant)

Date: May 13, 2014

By: /s/ Chevis C. Swetman
Chevis C. Swetman
Chairman, President and Chief Executive Officer

(principal executive officer)

Date: May 13, 2014

By: /s/ Lauri A. Wood
Lauri A. Wood
Chief Financial Officer and Controller

(principal financial and accounting officer)