PEOPLES FINANCIAL CORP /MS/
Form 10-Q
May 11, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, there were 15,000,000 shares of $1 par value common stock authorized, with 5,072,794 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, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Cash and due from banks	$ 31,519	$ 25,281
Available for sale securities	239,937	245,206
Held to maturity securities, fair value of $49,558 at March 31, 2018; $50,538 at December 31, 2017	50,882	51,163
Other investments	3,154	3,193
Federal Home Loan Bank Stock, at cost	1,432	1,370
Loans	275,452	280,449
Less: Allowance for loan losses	6,212	6,153
Loans, net	269,240	274,296
Bank premises and equipment, net of accumulated depreciation	19,919	20,153
Other real estate	8,845	8,232
Accrued interest receivable	2,098	1,904
Cash surrender value of life insurance	18,430	18,301
Other assets	1,390	1,325
Total assets	$ 646,846	$ 650,424

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 162,495	$ 127,274
Savings and demand, interest bearing	289,437	318,278
Time, $100,000 or more	58,168	43,991
Other time deposits	28,836	40,027
Total deposits	538,936	529,570
Borrowings from Federal Home Loan Bank	1,184	11,198
Employee and director benefit plans liabilities	18,503	18,370
Other liabilities	1,171	1,787
Total liabilities	559,794	560,925
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,072,794 and 5,083,186 shares issued and outstanding at March 31, 2018 and December 31, 2017	5,073	5,083
Surplus	65,780	65,780
Undivided profits	21,720	21,563
Accumulated other comprehensive loss, net of tax	(5,521)	(2,927)
Total shareholders equity	87,052	89,499
Total liabilities and shareholders equity	$ 646,846	$ 650,424

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, 2018	2017
Interest income:		
Interest and fees on loans	$ 3,233	$ 3,274
Interest and dividends on securities:		
U.S. Treasuries	379	415
U.S. Government agencies	122	142
Mortgage-backed securities	550	265
States and political subdivisions	439	393
Corporate bonds		8
Other investments	3	3
Interest on balances due from depository institutions	39	101
Total interest income	4,765	4,601
Interest expense:		
Deposits	476	264
Borrowings from Federal Home Loan Bank	20	15
Total interest expense	496	279
Net interest income	4,269	4,322
Provision for allowance for loan losses	35	26
Net interest income after provision for allowance for loan losses	$ 4,234	$ 4,296

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
Non-interest income:				
Trust department income and fees	$	433	$	366
Service charges on deposit accounts		911		922
Gain on liquidation, sales and calls of securities				17
Income (loss) from other investments		(39)		12
Increase in cash surrender value of life insurance		107		99
Other income		111		126
Total non-interest income		1,523		1,542
Non-interest expense:				
Salaries and employee benefits		2,829		2,849
Net occupancy		440		535
Equipment rentals, depreciation and maintenance		758		794
FDIC and state banking assessments		114		98
Data processing		327		331
ATM expense		138		122
Other real estate expense		120		62
Other expense		739		973
Total non-interest expense		5,465		5,764
Net income	$	292	$	74
Basic and diluted earnings per share	$	.06	$	.01
Dividends declared per share	$		$	

See Notes to Consolidated Financial Statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
Net income	$	292	$	74
Other comprehensive income (loss):				
Net unrealized gain (loss) on available for sale securities		(2,594)		1,111
Reclassification adjustment for realized gains on available for sale securities called or sold				(17)
Total other comprehensive income (loss)		(2,594)		1,094
Total comprehensive income (loss)	$	(2,302)	$	1,168

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, 2018	5,083,186	$ 5,083	$ 65,780	$ 21,563	$ (2,927)	$ 89,499
Net income				292		292
Other comprehensive loss					(2,594)	(2,594)
Retirement of stock	(10,392)	(10)		(135)		(145)
Balance, March 31, 2018	5,072,794	$ 5,073	$ 65,780	$ 21,720	$ (5,521)	$ 87,052

Note: Balances as of January 1, 2018 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, 2018	2017
Cash flows from operating activities:		
Net income	$ 292	$ 74
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	480	473
Provision for allowance for loan losses	35	26
Writedown of other real estate	17	20
Loss on sales of other real estate	4	15
(Income) loss from other investments	39	(12)
Amortization of available for sale securities	113	(5)
Amortization of held to maturity securities	61	71
Gain on liquidation, sales and calls of securities		(17)
Change in accrued interest receivable	(194)	(77)
Increase in cash surrender value of life insurance	(107)	(99)
Change in other assets	(65)	92
Change in other liabilities	(483)	(108)
Net cash provided by operating activities	$ 192	$ 453

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 13,285	$ 20,123
Purchases of available for sale securities	(10,723)	(8,774)
Proceeds from maturities and calls of held to maturity securities	220	390
Purchases of Federal Home Loan Bank stock	(62)	(2)
Proceeds from sales of other real estate	120	276
Loans, net change	4,267	12,108
Acquisition of bank premises and equipment	(247)	(24)
Investment in cash surrender value of life insurance	(21)	(40)
Net cash provided by investing activities	6,839	24,057
Cash flows from financing activities:		
Demand and savings deposits, net change	6,380	35,768
Time deposits, net change	2,986	5,559
Borrowings from Federal Home Loan Bank	161,400	
Repayments to Federal Home Loan Bank	(171,414)	(5,014)
Retirement of common stock	(145)	
Net cash provided by (used in) financing activities	(793)	36,313
Net increase in cash and cash equivalents	6,238	60,823
Cash and cash equivalents, beginning of period	25,281	41,116
Cash and cash equivalents, end of period	$ 31,519	$ 101,939

See Notes to Consolidated Financial Statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three Months Ended March 31, 2018 and 2017

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, 2018 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 2017 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2018, 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, 2017.

Revenue Recognition - As of January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606),* using the modified retrospective method. Disclosures of revenue from contracts with customers for periods beginning after January 1, 2018 are presented under ASC Topic 606 and have not materially changed from the prior year amounts. This update prescribes the process related to the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 excludes revenue streams relating to loans and investment securities, which are the major source of revenue for the Company from its scope. As a result, the adoption of the guidance had no material impact on the measurement or recognition of revenue. Consistent with this guidance, the Company recognizes non-interest income within the scope of this guidance as services are transferred to its customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services. Other types of revenue contracts, the income from which is included in non-interest income, that are within the scope of ASU 2014-09 are:

Trust department income and fees: A contract for fiduciary and/or investment administration services on personal trust accounts and corporate trust services. Personal trust fee income is determined as a percentage of assets under management and is recognized over the period the underlying trust is serviced. Corporate trust fee income is recognized over the period the Company provides service to the entity.

Service charges on deposit accounts: The deposit contract obligates the Company to serve as a custodian of the customer s deposited funds and is generally terminable at will by either party. The contract permits the customer to access the funds on deposit and request additional services for which the Company earns a fee, including NSF and analysis charges, related to the deposit account. Income for deposit accounts is recognized over the statement cycle period (typically on a monthly basis) or at the time the service is provided, if additional services are requested.

ATM fee income: A contract between the Company, as a card-issuing bank, and its customers whereby the Company receives a transaction fee from the merchant s bank whenever a customer uses a debit or credit card to make a purchase. These fees are earned as the service is provided (i.e., when the customer uses a debit or ATM card).

Other noninterest income: Other noninterest income includes several items, such as wire transfer income, check cashing fees, the increase in cash surrender value of life insurance, rental income from bank properties and safe deposit box rental fees. This income is generally recognized at the time the service is provided and/or the income is earned.

New Accounting Pronouncements In February 2018, the Financial Accounting Standards Board (the FASB) issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, that Clarifies the Guidance in ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10).* ASU 2018-03 clarifies guidance in ASU No. 2016-01 relating to equity securities without a readily determinable fair value, forward contracts and purchased options and fair value option liabilities. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after June 15, 2018. The Company adopted the amendments in this ASU effective January 1, 2018. The adoption of this ASU did not have a material effect on the Company s financial position, result of operations or cash flows.

In March 2018, the FASB issued ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.* ASU 2018-05 adds SEC guidance to the accounting standards codification regarding the Tax Cuts and Jobs Act. This update became effective upon addition to the FASB Codification. The adoption of this ASU is not expected to have a material effect on the Company s financial position, result of operations or cash flows.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,080,514 and 5,123,186 for the three months ended March 31, 2018 and 2017, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $489,389 and $259,953 for the three months ended March 31, 2018 and 2017, respectively, for interest on deposits and borrowings. No income tax payments were made during the three months ended March 31, 2018 and 2017. Loans transferred to other real estate amounted to $753,674 and $44,391 during the three months ended March 31, 2018 and 2017, respectively.

4. Investments:

The amortized cost and fair value of securities at March 31, 2018 and December 31, 2017, are as follows (in thousands):

March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Treasuries	$ 119,831	$	$ (2,994)	$ 116,837
U.S. Government agencies	14,989		(323)	14,666
Mortgage-backed securities	96,952	27	(2,508)	94,471
States and political subdivisions	13,746	217		13,963
Total available for sale securities	$ 245,518	$ 244	$ (5,825)	$ 239,937
Held to maturity securities:				
U.S. Government agencies	$ 8,185	$	$ (408)	$ 7,777
States and political subdivisions	42,697	80	(996)	41,781
Total held to maturity securities	$ 50,882	$ 80	$ (1,404)	$ 49,558

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Treasuries	$ 124,820	$	$ (2,176)	$ 122,644
U.S. Government agencies	19,989		(158)	19,831
Mortgage-backed securities	89,207	96	(1,042)	88,261
States and political subdivisions	14,178	292		14,470
Total available for sale securities	$ 248,194	$ 388	$ (3,376)	$ 245,206
Held to maturity securities:				
U.S. Government agencies	$ 8,185	$	$ (302)	$ 7,883
States and political subdivisions	42,978	227	(550)	42,655
Total held to maturity securities	$ 51,163	$ 227	$ (852)	$ 50,538

The amortized cost and fair value of debt securities at March 31, 2018 (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	$ 42,425	$ 42,269
Due after one year through five years	83,351	81,607
Due after five years through ten years	22,457	21,242
Due after ten years	333	348
Mortgage-backed securities	96,952	94,471
Totals	$ 245,518	$ 239,937
Held to maturity securities:		
Due in one year or less	$ 995	$ 995
Due after one year through five years	14,479	14,364
Due after five years through ten years	20,113	19,527
Due after ten years	15,295	14,672
Totals	$ 50,882	$ 49,558

Available for sale and held to maturity securities with gross unrealized losses at March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2018:						
U.S. Treasuries	$ 39,351	$ 602	$ 77,486	$ 2,392	$ 116,837	$ 2,994
U.S. Government agencies	13,035	149	9,408	582	22,443	731
States and political subdivisions	18,678	451	6,829	545	25,507	996
Mortgage-backed securities	73,089	1,624	13,220	884	86,309	2,508
TOTAL	$ 144,153	$ 2,826	$ 106,943	$ 4,403	$ 251,096	$ 7,229
December 31, 2017:						
U.S. Treasuries	$ 49,586	$ 364	$ 73,058	$ 1,812	$ 122,644	$ 2,176
U.S. Government agencies	8,145	37	14,567	423	22,712	460
Mortgage-backed securities	60,230	415	13,492	627	73,722	1,042
States and political subdivisions	11,552	168	7,010	382	18,562	550
TOTAL	$ 129,513	$ 984	$ 108,127	$ 3,244	$ 237,640	$ 4,228

At March 31, 2018, 24 of the 24 securities issued by the U.S. Treasury, 5 of the 5 securities issued by U.S. Government agencies, 62 of the 156 securities issued by states and political subdivisions and 34 of the 39 mortgage-backed securities contained unrealized losses.

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

Proceeds from sales and calls of available for sale debt securities were $1,227,141 during the three months ended March 31, 2017 which resulted in a realized gain of $16,729 for the three months ended March 31, 2017. There were no sales or calls of available for sale debt securities in 2018.

Securities with a fair value of $225,527,287 and $196,702,218 at March 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, is as follows (in thousands):

	March 31, 2018	December 31, 2017
Gaming	$ 24,475	$ 26,142
Residential and land development	253	263
Real estate, construction	35,282	31,947
Real estate, mortgage	185,238	189,201
Commercial and industrial	23,938	26,360
Other	6,266	6,536
Total	$ 275,452	$ 280,449

The age analysis of the loan portfolio, segregated by class of loans, as of March 31, 2018 and December 31, 2017, 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, 2018:							
Gaming	$	$	$	$	$ 24,475	$ 24,475	$
Residential and land development					253	253	
Real estate, construction	183	207	621	1,011	34,271	35,282	
Real estate, mortgage	4,960	678	4,614	10,252	174,986	185,238	
Commercial and industrial	318	5	2,133	2,456	21,482	23,938	
Other	18	1		19	6,247	6,266	
Total	$ 5,479	$ 891	$ 7,368	$ 13,738	$ 261,714	$ 275,452	$
December 31, 2017:							
Gaming	$	$	$	$	$ 26,142	$ 26,142	$
Residential and land development					263	263	
Real estate, construction	747	121	522	1,390	30,557	31,947	
Real estate, mortgage	5,321	790	4,884	10,995	178,206	189,201	
Commercial and industrial	375	2	2,344	2,721	23,639	26,360	
Other	26	3		29	6,507	6,536	
Total	$ 6,469	$ 916	$ 7,750	$ 15,135	$ 265,314	$ 280,449	$

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 based 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 who also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of March 31, 2018 and December 31, 2017, is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
March 31, 2018:						
Gaming	$ 24,475	$	$	$	$	$ 24,475
Residential and land development				253		253
Real estate, construction	33,880		257	1,145		35,282
Real estate, mortgage	150,338	11,244	14,553	9,103		185,238
Commercial and industrial	21,025		181	2,732		23,938
Other	6,254		9	3		6,266
Total	$ 235,972	$ 11,244	$ 15,000	$ 13,236	$	$ 275,452
December 31, 2017:						
Gaming	$ 26,142	$	$	$	$	$ 26,142
Residential and land development				263		263
Real estate, construction	30,412		358	1,177		31,947
Real estate, mortgage	148,284	11,550	19,606	9,761		189,201
Commercial and industrial	23,133		265	2,962		26,360
Other	6,516		16	4		6,536
Total	$ 234,487	$ 11,550	$ 20,245	$ 14,167	$	$ 280,449

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, 2018 and December 31, 2017, are as follows (in thousands):

	March 31, 2018	December 31, 2017
Residential and land development	$ 253	$ 263
Real estate, construction	1,145	1,177
Real estate, mortgage	8,888	9,548
Commercial and industrial	2,597	2,818
Other	3	4
Total	$ 12,886	$ 13,810

Prior to 2017, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2017 and 2018, the Company did not restructure any additional loans. Specific reserves of $80,000 and $86,000 were allocated to troubled debt restructurings as of March 31, 2018 and December 31, 2017, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of March 31, 2018 and December 31, 2017.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of March 31, 2018 and December 31, 2017, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2018:					
With no related allowance recorded:					
Real estate, construction	$ 1,411	$ 938	$	$ 948	$
Real estate, mortgage	8,206	7,311		7,349	6
Commercial and industrial	899	861		870	
Total	10,516	9,110		9,167	6
With a related allowance recorded:					
Residential and land development	253	253	40	260	
Real estate, construction	207	207	98	208	
Real estate, mortgage	3,597	2,713	712	2,576	7
Commercial and industrial	1,736	1,736	321	1,769	
Other	3	3		3	
Total	5,796	4,912	1,171	4,816	7
Total by class of loans:					
Residential and land development	253	253	40	260	
Real estate, construction	1,618	1,145	98	1,156	
Real estate, mortgage	11,803	10,024	712	9,925	13
Commercial and industrial	2,635	2,597	321	2,639	
Other	3	3		3	
Total	$ 16,312	$ 14,022	$ 1,171	$ 13,983	$ 13

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017:					
With no related allowance recorded:					
Real estate, construction	$ 1,441	$ 967	$	$ 1,024	$
Real estate, mortgage	8,920	8,025		8,654	31
Commercial and industrial	922	884		916	
Other	4	4		4	
Total	11,287	9,880		10,598	31
With a related allowance recorded:					
Residential and land development	263	263	40	275	
Real estate, construction	210	210	105	226	
Real estate, mortgage	3,556	2,672	725	2,676	28
Commercial and industrial	1,934	1,934	342	1,923	
Total	5,963	5,079	1,212	5,100	28
Total by class of loans:					
Residential and land development	263	263	40	275	
Real estate, construction	1,651	1,177	105	1,250	
Real estate, mortgage	12,476	10,697	725	11,330	59
Commercial and industrial	2,856	2,818	342	2,839	
Other	4	4		4	
Total	$ 17,250	$ 14,959	$ 1,212	$ 15,698	$ 59

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the three months ended March 31, 2018 and 2017, and the balances of loans, individually and collectively evaluated for impairment, as of March 31, 2018 and 2017, 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, 2018:							
Allowance for Loan Losses:							
Beginning Balance	$ 536	$ 40	$ 202	$ 4,305	$ 892	$ 178	$ 6,153
Charge-offs				(14)	(44)	(94)	(152)
Recoveries				118	13	45	176
Provision	(98)		(12)	176	(63)	32	35
Ending Balance	$ 438	$ 40	$ 190	$ 4,585	$ 798	$ 161	$ 6,212
Allowance for loan losses, March 31, 2018:							
Ending balance: individually evaluated for impairment	$	$ 40	$ 98	$ 1,080	$ 560	$ 3	$ 1,781
Ending balance: collectively evaluated for impairment	$ 438	$	$ 92	$ 3,505	$ 238	$ 158	$ 4,431
Total Loans, March 31, 2018:							
Ending balance: individually evaluated for impairment	$	$ 253	$ 1,402	$ 23,656	$ 2,913	$ 12	$ 28,236
Ending balance: collectively evaluated for impairment	$ 24,475	$	$ 33,880	$ 161,582	$ 21,025	$ 6,254	$ 247,216

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Quarter Ended March 31, 2017:							
Allowance for Loan Losses:							
Beginning Balance	$ 545	$ 66	$ 199	$ 3,800	$ 651	$ 205	$ 5,466
Charge-offs						(59)	(59)
Recoveries			10	8	11	20	49
Provision	(168)		2	128	21	43	26
Ending Balance	$ 377	$ 66	$ 211	$ 3,936	$ 683	$ 209	$ 5,482
Allowance for loan losses, March 31, 2017:							
Ending balance: individually evaluated for impairment	$	$ 66	$ 141	$ 485	$ 210	$ 18	$ 920
Ending balance: collectively evaluated for impairment	$ 377	$	$ 70	$ 3,451	$ 473	$ 191	$ 4,562
Total Loans, March 31, 2017:							
Ending balance: individually evaluated for impairment	$	$ 282	$ 2,067	$ 32,489	$ 1,349	$ 32	$ 36,219
Ending balance: collectively evaluated for impairment	$ 20,379	$	$ 29,381	$ 171,913	$ 37,159	$ 8,141	$ 266,973

7. Deposits:

Time deposits of $250,000 or more totaled approximately $34,108,000 and $20,494,000 at March 31, 2018 and December 31, 2017, respectively.

8. Fair Value Measurements and Disclosures:

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

Fair Value Hierarchy

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

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

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

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

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

Cash and Due from Banks

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

Available for Sale Securities

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

Held to Maturity Securities

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

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

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

Loans

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

Other Real Estate

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

Cash Surrender Value of Life Insurance

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

Deposits

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

Borrowings from Federal Home Loan Bank

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

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of March 31, 2018 and December 31, 2017 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2018:				
U.S. Treasuries	$ 116,837	$	$ 116,837	$
U.S. Government agencies	14,666		14,666	
Mortgage-backed securities	94,471		94,471	
States and political subdivisions	13,963		13,963	
Total	$ 239,937	$	$ 239,937	$
December 31, 2017:				
U.S. Treasuries	$ 122,644	$	$ 122,644	$
U.S. Government agencies	19,831		19,831	
Mortgage-backed securities	88,261		88,261	
States and political subdivisions	14,470		14,470	
Total	$ 245,206	$	$ 245,206	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2018 and December 31, 2017 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2018	$ 6,137	$	$	$ 6,137
December 31, 2017	6,511			6,511

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, 2018 and December 31, 2017 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2018	$ 8,845	$	$	$ 8,845
December 31, 2017	8,232			8,232

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, 2018	For the Year Ended December 31, 2017
Balance, beginning of period	$ 8,232	$ 8,513
Loans transferred to ORE	754	1,946
Sales	(124)	(1,767)
Writedowns	(17)	(460)
Balance, end of period	$ 8,845	$ 8,232

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at March 31, 2018 and December 31, 2017, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
March 31, 2018:					
Financial Assets:					
Cash and due from banks	$ 31,519	$ 31,519	$	$	$ 31,519
Available for sale securities	239,937		239,937		239,937
Held to maturity securities	50,882		49,558		49,558
Other investments	3,154	3,154			3,154
Federal Home Loan Bank stock	1,432		1,432		1,432
Loans, net	269,240			264,041	264,041
Other real estate	8,845			8,845	8,845
Cash surrender value of life insurance	18,430		18,430		18,430
Financial Liabilities:					
Deposits:					
Non-interest bearing	162,495	162,495			162,495
Interest bearing	376,441			376,860	376,860
Borrowings from Federal Home Loan Bank	1,184		1,351		1,351

December 31, 2017:					
Financial Assets:					
Cash and due from banks	$ 25,281	$ 25,281	$	$	$ 25,281
Available for sale securities	245,664		245,664		245,664
Held to maturity securities	51,163		50,538		50,538
Other investments	3,193	3,193			3,193
Federal Home Loan Bank stock	1,370		1,370		1,370
Loans, net	274,296			270,924	270,924
Other real estate	8,232			8,232	8,232
Cash surrender value of life insurance	18,301		18,301		18,301
Financial Liabilities:					
Deposits:					
Non-interest bearing	127,274	127,274			127,274
Interest bearing	402,296			402,610	402,610
Borrowings from Federal Home Loan Bank	11,198		11,389		11,389

9. Reclassifications:

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

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

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

The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of Peoples Financial Corporation and Subsidiaries. These comments should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this report on Form 10-Q and the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management s Discussion and Analysis included in the Company s Form 10-K for the year ended December 31, 2017.

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 several new accounting standards updates and several accounting standards became effective during the first quarter of 2018, which have been disclosed in the Notes to Unaudited Consolidated Financial Statements. The Company adopted ASU 2014-09 and ASU 2018-03 effective January 1, 2018, neither of which had a material effect on its financial position, results of operations or cash flows. The Company does not expect that the other updates discussed in the Notes will have a material effect on its financial position, results of operations or cash flows. The Company is in the process of determining the effect of ASU 2016-03, which will be effective for the Company on January 1, 2020, on its 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.

Investments

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

Allowance for loan losses

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

Other Real Estate

Other real estate (ORE) includes real estate acquired through foreclosure. Each 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 or a benefit within the tax provisions in the consolidated statement of income.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include taxable equivalent interest income and taxable equivalent net interest income. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures for the three months ended March 31, 2018 and 2017 is included in the table on the following page.

RECONCILATION OF NON-GAAP PERFORMANCE MEASURES (In thousands)

For the Three Months Ended March 31,	2018	2017
Interest income reconciliation:		
Interest income - taxable equivalent	$ 5,023	$ 4,742
Taxable equivalent adjustment	(258)	(141)
Interest income (GAAP)	$ 4,765	$ 4,601
Net interest income reconciliation:		
Net interest income - taxable equivalent	$ 4,527	$ 4,463
Taxable equivalent adjustment	(258)	(141)
Net interest income (GAAP)	$ 4,269	$ 4,322

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 reported net income of $292,000 for the first quarter of 2018 compared with net income of $74,000 for the first quarter of 2017. Results in 2018 included the decrease in non-interest expense which was partially offset by a decrease in net interest income as compared with 2017.

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 increase in interest income on taxable held to maturity securities of $204,000 and on taxable available for sale securities of $225,000 as the Company changed its investment strategy to improve yield while not compromising duration and credit risk.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized during these difficult economic times, as the local economy continues to negatively impact collateral values and borrowers ability to repay their loans. A provision for the allowance for loan losses of $35,000 was recorded in 2018 as compared with $26,000 in 2017. The Company is working diligently to address and reduce its non-performing assets. The Company s nonaccrual loans totaled $12,886,000 and $13,810,000 at March 31, 2018 and December 31, 2017, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

Non-interest income decreased $19,000 for the three months ended March 31, 2018 as compared with 2017 results. Trust department income and fees increased $67,000 for 2018 as compared with 2017. The Company did not realize a gain from any sales or calls of securities in 2018 while such gains were $17,000 in 2017. The Company realized a loss from the operations of an investment in a low income housing partnership in 2018 as compared with income from operations in 2017 results as a result of decreased occupancy.

Non-interest expense decreased $299,000 for the three months ended March 31, 2018 as compared with 2017 results. This decrease for the three months ended March 31, 2018 was primarily the result of decreases in net occupancy expense of $95,000 and other expense of $234,000, while other real estate expenses increased $58,000 in 2018 as compared with 2017.

Total assets at March 31, 2018 decreased $3,578,000 as compared with December 31, 2017. Cash and due from banks increased $6,238,000 in the management of the Company s liquidity position. Available for sale securities decreased $5,269,000 and loans decreased $4,997,000 at March 31, 2018 as compared with December 31, 2017. Proceeds from maturities, sales and calls of available for sale securities funded liquidity needs. Loans decreased as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

RESULTS OF OPERATIONS

Net Interest Income

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

The Company s average interest earning assets decreased approximately $41,396,000 or 7%, from approximately $626,368,000 for the first quarter of 2017 to approximately $584,972,000 for the first quarter of 2018. The Company s average balance sheet decreased primarily as average loans decreased approximately $29,202,000 and balances due from financial institutions decreased $23,858,000 while average taxable available for sale securities increased approximately $10,444,000 for the first quarter of 2018 as compared with the first quarter of 2017. Average loans decreased as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. Average balances due from financial institutions decreased and average taxable available for sale securities increased as excess funds were invested to increase interest income.

The average yield on interest-earning assets increased from 3.03% for the first quarter of 2017 to 3.43% for the first quarter of 2018. This increase is primarily the result of the yield on average loans increasing as a result of the increase in prime rate in 2017 and 2018.

Average interest bearing liabilities decreased approximately $37,094,000, or 8%, from approximately $465,870,000 for the first quarter of 2017 to approximately $428,776,000 for the first quarter of 2018. Average savings and interest bearing DDA decreased $45,155,000 primarily as several large customers reallocated their funds to other institutions in the current year.

The average rate paid on interest bearing liabilities for the first quarter of 2017 was .24% as compared with .46% for the first quarter of 2018. This increase is primarily due to the increased rates in the current year.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 2.85% for the quarter ended March 31, 2017 and 3.10% for the quarter ended March 31, 2018.

The tables on the following pages analyze the changes in tax-equivalent net interest income for the quarters ended March 31, 2018 and 2017.

Analysis of Average Balances, Interest Earned/Paid and Yield (In Thousands)

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 278,042	$ 3,233	4.65%	$ 307,244	$ 3,274	4.26%
Balances due from financial institutions	10,778	38	1.41%	34,636	101	1.17%
HTM:						
Taxable	32,517	364	4.48%	28,173	160	2.27%
Non taxable (1)	18,547	176	3.80%	19,667	182	3.70%
AFS:						
Taxable	228,931	1,011	1.77%	218,487	786	1.44%
Non taxable (1)	14,302	198	5.54%	17,162	236	5.50%
Other	1,855	3	0.65%	999	3	1.20%
Total	$ 584,972	$ 5,023	3.43%	$ 626,368	$ 4,742	3.03%
Savings & interest- bearing DDA	$ 340,384	$ 282	0.33%	$ 385,539	$ 136	0.14%
Time deposits	83,909	189	0.90%	78,309	128	0.65%
Federal funds purchased	769	5	2.60%	107	1	3.74%
Borrowings from FHLB	3,714	20	2.15%	1,915	14	2.92%
Total	$ 428,776	$ 496	0.46%	$ 465,870	$ 279	0.24%
Net tax-equivalent spread			2.97%			2.79%
Net tax-equivalent margin on earning assets			3.10%			2.85%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 21% in 2018 and 34% in 2017. See disclosure of Non-GAAP financial measures on pages 30 and 31.

(2) Loan fees of $122 and $66 for 2018 and 2017, respectively, are included in these figures.

(3) Includes nonaccrual loans.

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Three Months Ended March 31, 2018 compared with March 31, 2017			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (311)	$ 299	$ (29)	$ (41)
Balances due from finanicial institutions	(70)	21	(14)	(63)
Held to maturity securities:				
Taxable	25	155	24	204
Non taxable	(10)	5	(1)	(6)
Available for sale securities:				
Taxable	38	179	8	225
Non taxable	(39)	2	(1)	(38)
Other	3	(2)	(1)	
Total	$ (364)	$ 659	$ (14)	$ 281
Interest paid on:				
Savings & interest-bearing				
DDA	$ (16)	$ 183	$ (21)	$ 146
Time deposits	9	48	4	61
Federal funds purchased	6		(2)	4
Borrowings from FHLB	13	(4)	(3)	6
Total	$ 12	$ 227	$ (22)	$ 217

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 $12,886,000 and $13,810,000 at March 31, 2018 and December 31, 2017, respectively, specific reserves of only $1,090,000 and $1,125,000, 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 $35,000 and $26,000 for the first quarters of 2018 and 2017, respectively. The allowance for loan losses as a percentage of loans was 2.26% and 2.19% at March 31, 2018 and December 31, 2017, respectively. The Company believes that its allowance for loan losses is appropriate as of March 31, 2018.

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

Non-interest income

Non-interest income decreased $19,000 for the first quarter of 2018 as compared with the first quarter of 2017 primarily as Trust department income and fees increased $67,000, income from other investments decreased $51,000 and gains on sales and calls of securities decreased $17,000.

Trust income increased due to several new account relationships in 2018.

Income or loss from other investments relates to income or loss from operations of an investment in a low income housing partnership. In 2018, occupancy rates have decreased, which resulted in a loss.

There were no calls or sales of securities in 2018.

Non-interest expense

Total non-interest expense decreased $299,000 for the first quarter of 2018 as compared with the first quarter of 2017. Net occupancy decreased $95,000, other real estate expense increased $58,000 and other expenses decreased $234,000 for the first quarter of 2018 as compared with the first quarter of 2017.

Net occupancy expense decreased as a result of the Company s continuing efforts to decrease its telecommunication and insurance costs.

Other real estate expense increased as a result of repair costs associated with recent foreclosures.

Other expense decreased in 2018 as the Company engaged consultants to assist with several projects relating to improve I/T security and operations in the prior year.

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.

FINANCIAL CONDITION

Cash and due from banks increased $6,238,000 at March 31, 2018, compared with December 31, 2017 in the management of the bank subsidiary s liquidity position.

Available for sale securities decreased $5,269,000 at March 31, 2018, compared with December 31, 2017 as maturities and unrealized losses exceeded investment purchases.

Loans decreased $4,997,000 at March 31, 2018 as compared with December 31, 2017 as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Total deposits increased $9,366,000 at March 31, 2018, as compared with December 31, 2017. 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. Deposits from county and municipal entities increase significantly during the first quarter of each year based on property tax collections.

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.

As of March 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Common Equity Tier 1 Capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater and a Leverage capital ratio of 5.00% or greater. As of January1, 2018, the Company must have a capital conservation buffer above these requirements of 1.875% for 2018. There are no conditions or events since that notification that Management believes have changed the bank subsidiary s category.

The Company s actual capital amounts and ratios and required minimum capital amounts and ratios as of March 31, 2018 and December 31, 2017, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2018:				
Total Capital (to Risk Weighted Assets)	$ 97,065	26.23%	$ 29,604	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	92,420	24.98%	16,652	4.50%
Tier 1 Capital (to Risk Weighted Assets)	92,420	24.98%	22,203	6.00%
Tier 1 Capital (to Average Assets)	92,420	14.25%	25,945	4.00%
December 31, 2017:				
Total Capital (to Risk Weighted Assets)	$ 97,122	25.12%	$ 30,930	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	92,273	23.87%	17,398	4.50%
Tier 1 Capital (to Risk Weighted Assets)	92,273	23.87%	23,197	6.00%
Tier 1 Capital (to Average Assets)	92,273	13.79%	26,769	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of March 31, 2018 and December 31, 2017, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2018:						
Total Capital (to Risk Weighted Assets)	$ 92,643	25.14%	$ 29,477	8.00%	$ 36,846	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	88,018	23.89%	16,581	4.50%	23,950	6.50%
Tier 1 Capital (to Risk Weighted Assets)	88,018	23.89%	22,107	6.00%	29,477	8.00%
Tier 1 Capital (to Average Assets)	88,018	13.46%	26,164	4.00%	32,705	5.00%
December 31, 2017:						
Total Capital (to Risk Weighted Assets)	$ 92,493	24.04%	$ 30,778	8.00%	$ 38,473	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	87,668	22.79%	17,313	4.50%	25,007	6.50%
Tier 1 Capital (to Risk Weighted Assets)	87,668	22.79%	23,084	6.00%	30,778	8.00%
Tier 1 Capital (to Average Assets)	87,668	13.47%	26,031	4.00%	32,539	5.00%

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

LIQUIDITY

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

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

REGULATORY MATTERS

During 2016, Management identified opportunities for improving information technology operations and security, risk management and earnings, addressing asset quality concerns, analyzing and assessing the Bank s management and staffing needs, and managing concentrations of credit risk as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company had identified specific corrective steps and actions to enhance its information technology operations and security, risk management, earnings, asset quality and staffing. The Company and the Bank may not declare or pay any cash dividends without the prior written approval of their regulators.

Item 4: Controls and Procedures

As of March 31, 2018, 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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 5: Other Information

None.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1:	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
Exhibit 32.1:	Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 32.2:	Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 101	The following materials from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at March 31, 2018 and December 31, 2017, (ii) Consolidated Statements of Income for the quarters ended March 31, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2018 and 2017, (iv) Consolidated Statement of Changes in Shareholders Equity for the quarter ended March 31, 2018, (v) Consolidated Statements of Cash Flows for the quarters ended March 31, 2018 and 2017 and (vi) Notes to the Unaudited Consolidated Financial Statements for the quarters ended March 31, 2018 and 2017.

(b) Reports on Form 8-K

A Form 8-K was filed on January 24, 2018, April 25, 2018, April 26, 2018 and May 7, 2018.

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 11, 2018

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

Date: May 11, 2018

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