PEOPLES FINANCIAL CORP /MS/
Form 10-Q
August 11, 2017

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 June 30, 2017

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	**(I.R.S. Employer**

of 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 July 31, 2017, 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)

	June 30, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Cash and due from banks	$ 49,531	$ 41,116
Available for sale securities	223,390	233,578
Held to maturity securities, fair value of $45,373 at June 30, 2017; $46,935 at December 31, 2016	45,380	48,150
Other investments	2,722	2,693
Federal Home Loan Bank Stock, at cost	543	539
Loans	286,469	315,355
Less: Allowance for loan losses	5,481	5,466
Loans, net	280,988	309,889
Bank premises and equipment, net of accumulated depreciation	20,827	21,644
Other real estate	7,358	8,513
Accrued interest receivable	1,700	1,855
Cash surrender value of life insurance	18,050	19,249
Insurance proceeds receivable	1,930	
Other assets	1,342	788
Total assets	$ 653,761	$ 688,014

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	June 30, 2017 (unaudited)	December 31, 2016 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 127,739	$ 132,381
Savings and demand, interest bearing	331,257	364,975
Time, $100,000 or more	52,713	38,650
Other time deposits	30,623	39,010
Total deposits	542,332	575,016
Borrowings from Federal Home Loan Bank	1,229	6,257
Employee and director benefit plans liabilities	17,068	16,768
Other liabilities	1,199	1,512
Total liabilities	561,828	599,553
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at June 30, 2017 and December 31, 2016	5,123	5,123
Surplus	65,780	65,780
Undivided profits	20,545	19,318
Accumulated other comprehensive income (loss), net of tax	485	(1,760)
Total shareholders equity	91,933	88,461
Total liabilities and shareholders equity	$ 653,761	$ 688,014

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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest income:				
Interest and fees on loans	$ 3,295	$ 3,568	$ 6,569	$ 7,265
Interest and dividends on securities:				
U.S. Treasuries	375	250	790	457
U.S. Government agencies	136	218	278	567
Mortgage-backed securities	268	134	533	277
States and political subdivisions	386	316	779	621
Corporate bonds		8	8	16
Other investments	3	2	6	10
Interest on balances due from depository institutions	135	54	236	117
Total interest income	4,598	4,550	9,199	9,330
Interest expense:				
Deposits	336	224	600	424
Borrowings from Federal Home Loan Bank	9	43	24	85
Total interest expense	345	267	624	509
Net interest income	4,253	4,283	8,575	8,821
Provision for allowance for loan losses	30	24	56	137
Net interest income after provision for allowance for loan losses	$ 4,223	$ 4,259	$ 8,519	$ 8,684

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Non-interest income:				
Trust department income and fees	$ 428	$ 367	$ 794	$ 763
Service charges on deposit accounts	930	918	1,852	1,850
Gain on liquidation, sales and calls of securities	120	11	137	91
Income (loss) from other investments	17	18	29	(12)
Increase in cash surrender value of life insurance	129	91	228	193
Gain from death benefits from life insurance	429		429	
Other income	122	123	248	286
Total non-interest income	2,175	1,528	3,717	3,171
Non-interest expense:				
Salaries and employee benefits	2,749	2,755	5,598	5,529
Net occupancy	520	592	1,055	1,239
Equipment rentals, depreciation and maintenance	735	752	1,529	1,466
FDIC and state banking assessments	99	203	197	429
Data processing	319	332	650	672
ATM expense	136	167	258	275
Other real estate expense	268	123	330	474
Other expense	757	724	1,730	1,556
Total non-interest expense	5,583	5,648	11,347	11,640
Income before income taxes	815	139	889	215
Income tax expense (benefit)	(338)	78	(338)	78
Net income	$ 1,153	$ 61	$ 1,227	$ 137
Basic and diluted earnings per share	$ .23	$ .01	$ .24	$ .02
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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	$ 1,153	$ 61	$ 1,227	$ 137
Other comprehensive income:				
Net unrealized gain on available for sale securities	1,271	1,409	2,382	2,730
Reclassification adjustment for realized gain on available for sale securities called or sold	(120)	(11)	(137)	(91)
Total other comprehensive income	1,151	1,398	2,245	2,639
Total comprehensive income	$ 2,304	$ 1,459	$ 3,472	$ 2,776

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity

(in thousands except share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	5,123,186	$ 5,123	$ 65,780	$ 19,318	$ (1,760)	$ 88,461
Net income				1,227		1,227
Other comprehensive income					2,245	2,245
Balance, June 30, 2017	5,123,186	$ 5,123	$ 65,780	$ 20,545	$ 485	$ 91,933

Note: Balances as of January 1, 2017 were audited.

See notes to consolidated financial statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net income	$ 1,227	$ 137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	951	894
Provision for allowance for loan losses	56	137
Writedown of other real estate	221	420
(Gains) losses on sales of other real estate	35	(130)
(Income) loss from other investments	(29)	12
Gain from death benefits from life insurance	(429)	
Amortization of held to maturity securities	129	63
Amortization of available for sale securities	29	11
Gain on sales and calls of securities	(137)	(91)
Change in accrued interest receivable	155	169
Increase in cash surrender value of life insurance	(228)	(193)
Change in other assets	(561)	(353)
Change in other liabilities	(13)	15
Net cash provided by operating activities	$ 1,406	$ 1,091

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 54,282	$ 103,198
Proceeds from maturities of held to maturity securities	7,475	410
Purchases of available for sale securities	(41,734)	(99,850)
Purchases of held to maturity securities	(4,834)	(5,310)
Purchases of Federal Home Loan Bank stock	(4)	(5)
Proceeds from sales of other real estate	944	1,743
Loans, net change	28,800	9,180
Acquisition of bank premises and equipment	(134)	(729)
Investment in cash surrender value of life insurance	(74)	(77)
Net cash provided by investing activities	44,721	8,560
Cash flows from financing activities:		
Demand and savings deposits, net change	(38,360)	30,257
Time deposits, net change	5,676	4,559
Borrowings from Federal Home Loan Bank		98,900
Repayments to Federal Home Loan Bank	(5,028)	(109,052)
Net cash provided by (used in) financing activities	(37,712)	24,664
Net increase in cash and cash equivalents	8,415	34,315
Cash and cash equivalents, beginning of period	41,116	31,396
Cash and cash equivalents, end of period	$ 49,531	$ 65,711

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017 and 2016

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 June 30, 2017 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 2016 Annual Report and Form 10-K.

The results of operations for the quarter or six months ended June 30, 2017, 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 reporting 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, 2016.

New Accounting Pronouncements In January 2017, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016* *and November 17, 2016 EITF Meetings.* ASU 2017-03 incorporates into the Accounting Standards Codification recent SEC guidance about disclosing the effect on financial statements of adopting the revenue, leases and credit losses standards. This update is effective upon issuance. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In February 2017, the FASB issued ASU 2017-05, *Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. ASU 2017-05 conforms the derecognition guidance on nonfinancial assets with the model for transactions the new revenue standard. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* ASU 2017-07 amends the requirements related to the income statement presentation of the components of net periodic benefit cost for an entity s sponsored defined benefit pension and other postretirement plans. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-08, *Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 shortens the amortization period for the premium on such securities to the earliest call date. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 for the quarters and six months ended June 30, 2017 and 2016.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $627,233 and $507,061 for the six months ended June 30, 2017 and 2016, respectively, for interest on deposits and borrowings. No income tax payments were made during the six months ended June 30, 2017. Income tax payments of $78,435 were made during the six months ended June 30, 2016. Loans transferred to other real estate amounted to $44,391and $853,758 during the six months ended June 30, 2017 and 2016, respectively.

4. Investments:

The amortized cost and fair value of securities at June 30, 2017 and December 31, 2016, are as follows (in thousands):

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 129,803	$ 16	$ (1,098)	$ 128,721
U.S. Government agencies	19,987	92	(82)	19,997
Mortgage-backed securities	58,405	301	(415)	58,291
States and political subdivisions	15,473	450		15,923
Total debt securities	223,668	859	(1,595)	222,932
Equity securities	458			458
Total available for sale securities	$ 224,126	$ 859	$ (1,595)	$ 223,390
Held to maturity securities:				
U.S. Government agencies	$ 8,185	$	$ (178)	$ 8,007
States and political subdivisions	37,195	467	(296)	37,366
Total held to maturity securities	$ 45,380	$ 467	$ (474)	$ 45,373

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 149,676	$ 39	$ (2,091)	$ 147,624
U.S. Government agencies	24,973	58	(206)	24,825
Mortgage-backed securities	43,939	74	(1,305)	42,708
States and political subdivisions	17,513	450		17,963
Total debt securities	236,101	621	(3,602)	233,120
Equity securities	458			458
Total available for sale securities	$ 236,559	$ 621	$ (3,602)	$ 233,578
Held to maturity securities:				
U.S. Government agencies	$ 10,009	$	$ (315)	$ 9,694
States and political subdivisions	36,677	29	(927)	35,779
Corporate bond	1,464		(2)	1,462
Total held to maturity securities	$ 48,150	$ 29	$ (1,244)	$ 46,935

The amortized cost and fair value of debt securities at June 30, 2017 (in thousands), by contractual maturity, are shown on the following 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	$ 31,930	$ 31,885
Due after one year through five years	109,328	109,088
Due after five years through ten years	23,672	23,315
Due after ten years	333	353
Mortgage-backed securities	58,405	58,291
Totals	$ 223,668	$ 222,932
Held to maturity securities:		
Due in one year or less	$ 557	$ 557
Due after one year through five years	11,704	11,784
Due after five years through ten years	19,544	19,611
Due after ten years	13,575	13,421
Totals	$ 45,380	$ 45,373

Available for sale and held to maturity securities with gross unrealized losses at June 30, 2017 and December 31, 2016, 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	
June 30, 2017:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 103,761	$ 1,098	$	$	$ 103,761	$ 1,098
U.S. Government agencies	14,729	260			14,729	260
Mortgage-backed securities	21,649	415			21,649	415
States and political subdivisions	11,079	296			11,079	296
TOTAL	$ 151,218	$ 2,069	$	$	$ 151,218	$ 2,069
December 31, 2016:						
U.S. Treasuries	$ 97,634	$ 2,091	$	$	$ 97,634	$ 2,091
U.S. Government agencies	24,478	521			24,478	521
Mortgage-backed securities	37,663	1,305			37,663	1,305
States and political subdivisions	24,627	926	589	1	25,216	927
Corporate bond			1,462	2	1,462	2
TOTAL	$ 184,402	$ 4,843	$ 2,051	$ 3	$ 186,453	$ 4,846

At June 30, 2017, 21 of 26 securities issued by the U.S. Treasury, 3 of the 6 securities issued by U.S. Government agencies, 30 of the 136 securities issued by states and political subdivisions and 10 of the 26 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 securities were $23,703,484 and $21,250,806 during the six months ended June 30, 2017 and 2016, respectively. Available for sale debt securities were sold or called for a realized gain of $136,781 and $90,738 for the six months ended June 30, 2017 and 2016, respectively.

Securities with a fair value of $186,710,004 and $180,659,168 at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, is as follows (in thousands):

	June 30, 2017	December 31, 2016
Gaming	$ 19,278	$ 31,311
Residential and land development	273	291
Real estate, construction	30,978	32,503
Real estate, mortgage	191,817	206,172
Commercial and industrial	37,319	37,035
Other	6,804	8,043
Total	$ 286,469	$ 315,355

The age analysis of the loan portfolio, segregated by class of loans, as of June 30, 2017 and December 31, 2016, is as follows (in thousands):

	Number of Days Past Due 30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Loans Past Due Greater Than 90 Days & Still Accruing
June 30, 2017:							
Gaming	$	$	$	$	$ 19,278	$ 19,278	$
Residential and land development			273	273		273	
Real estate, construction	795	117	1,063	1,975	29,003	30,978	
Real estate, mortgage	3,759	483	8,551	12,793	179,024	191,817	13
Commercial and industrial	250	199	443	892	36,427	37,319	
Other	13			13	6,791	6,804	
Total	$ 4,817	$ 799	$ 10,330	$ 15,946	$ 270,523	$ 286,469	$ 13
December 31, 2016:							
Gaming	$	$	$	$	$ 31,311	$ 31,311	$
Residential and land development			291	291		291	
Real estate, construction	902	216	1,082	2,200	30,303	32,503	
Real estate, mortgage	4,608	1,923	4,471	11,002	195,170	206,172	
Commercial and industrial	867		8	875	36,160	37,035	
Other	44	36	80	160	7,883	8,043	
Total	$ 6,421	$ 2,175	$ 5,932	$ 14,528	$ 300,827	$ 315,355	$

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 5 is assigned to the loan on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A, B, C, S, D, E or F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. A grade of S will generally be applied to loans for customers who meet the criteria for a grade of C but also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. 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 June 30, 2017 and December 31, 2016, is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
June 30, 2017:						
Gaming	$ 19,278	$	$	$	$	$ 19,278
Residential and land development				273		273
Real estate, construction	28,538	414	375	1,651		30,978
Real estate, mortgage	142,891	16,188	21,867	10,871		191,817
Commercial and industrial	12,258	21,832	2,228	1,001		37,319
Other	6,774		26	4		6,804
Total	$ 209,739	$ 38,434	$ 24,496	$ 13,800	$	$ 286,469
December 31, 2016:						
Gaming	$ 31,311	$	$	$	$	$ 31,311
Residential and land development				291		291
Real estate, construction	29,954	435	517	1,597		32,503
Real estate, mortgage	155,671	17,651	22,901	9,949		206,172
Commercial and industrial	13,926	21,680	867	562		37,035
Other	7,996		42	5		8,043
Total	$ 238,858	$ 39,766	$ 24,327	$ 12,404	$	$ 315,355

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 June 30, 2017 and December 31, 2016, are as follows (in thousands):

	June 30, 2017	December 31, 2016
Residential and land development	$ 273	$ 291
Real estate, construction	1,651	1,598
Real estate, mortgage	10,822	9,445
Commercial and industrial	955	515
Other	4	5
Total	$ 13,705	$ 11,854

Prior to 2016, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2016 and 2017, the Company did not restructure any additional loans. Specific reserves of $92,000 and $100,000 were allocated to troubled debt restructurings as of June 30, 2017 and December 31, 2016, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of June 30, 2017 and December 31, 2016.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of June 30, 2017 and December 31, 2016, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2017:					
With no related allowance recorded:					
Real estate, construction	$ 1,570	$ 1,096	$	$ 1,126	$
Real estate, mortgage	11,131	10,170		10,223	16
Commercial and industrial	941	903		917	
Total	13,642	12,169		12,266	16
With a related allowance recorded:					
Residential and land development	273	273	58	281	
Real estate, construction	774	555	122	563	
Real estate, mortgage	2,703	1,809	311	1,827	14
Commercial and industrial	52	52	43	52	
Other	4	4	1	4	
Total	3,806	2,693	535	2,727	14
Total by class of loans:					
Residential and land development	273	273	58	281	
Real estate, construction	2,344	1,651	122	1,689	
Real estate, mortgage	13,834	11,979	311	12,050	30
Commercial and industrial	993	955	43	969	
Other	4	4	1	4	
Total	$ 17,448	$ 14,862	$ 535	$ 14,993	$ 30

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:					
With no related allowance recorded:					
Real estate, construction	$ 2,023	$ 1,331	$	$ 1,395	$
Real estate, mortgage	11,811	9,282		10,582	23
Commercial and industrial	553	515		538	
Total	14,387	11,128		12,515	23
With a related allowance recorded:					
Residential and land development	291	291	66	304	
Real estate, construction	267	267	141	283	
Real estate, mortgage	1,347	1,347	195	1,080	30
Other	5	5	1	1	
Total	1,910	1,910	403	1,668	30
Total by class of loans:					
Residential and land development	291	291	66	304	
Real estate, construction	2,290	1,598	141	1,678	
Real estate, mortgage	13,158	10,629	195	11,662	53
Commercial and industrial	553	515		538	
Other	5	5	1	1	
Total	$ 16,297	$ 13,038	$ 403	$ 14,183	$ 53

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters and six months ended June 30, 2017 and 2016, and the balances of loans, individually and collectively evaluated for impairment, as of June 30, 2017 and 2016, are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2017:							
Allowance for Loan Losses:							
Beginning balance	$ 545	$ 66	$ 199	$ 3,800	$ 651	$ 205	$ 5,466
Charge-offs				(8)		(95)	(103)
Recoveries			12	8	11	31	62
Provision	(149)	(8)	21	116	10	66	56
Ending Balance	$ 396	$ 58	$ 232	$ 3,916	$ 672	$ 207	$ 5,481
For the Quarter Ended June 30, 2017:							
Allowance for Loan Losses:							
Beginning Balance	$ 377	$ 66	$ 211	$ 3,936	$ 683	$ 209	$ 5,482
Charge-offs				(8)		(36)	(44)
Recoveries			2			11	13
Provision	19	(8)	19	(12)	(11)	23	30
Ending Balance	$ 396	$ 58	$ 232	$ 3,916	$ 672	$ 207	$ 5,481
Allowance for Loan Losses, June 30, 2017:							
Ending balance: individually evaluated for impairment	$	$ 58	$ 122	$ 580	$ 247	$ 17	$ 1,024
Ending balance: collectively evaluated for impairment	$ 396	$	$ 110	$ 3,336	$ 425	$ 190	$ 4,457
Total Loans, June 30, 2017:							
Ending balance: individually evaluated for impairment	$	$ 273	$ 2,026	$ 32,738	$ 3,229	$ 30	$ 38,296
Ending balance: collectively evaluated for impairment	$ 19,278	$	$ 28,952	$ 159,079	$ 34,090	$ 6,774	$ 248,173

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Charge-offs			(173)	(553)	(509)	(94)	(1,329)
Recoveries			38	99	60	34	231
Provision		13	(79)	48	92	63	137
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
For the Quarter Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning Balance	$ 567	$ 195	$ 452	$ 5,414	$ 686	$ 250	$ 7,564
Charge-offs			(84)	(538)		(44)	(666)
Recoveries			37	92	45	13	187
Provision	15	7	(30)	8	(13)	37	24
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
Allowance for Loan Losses, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 109	$ 243	$ 1,364	$ 147	$ 3	$ 1,866
Ending balance: collectively evaluated for impairment	$ 582	$ 93	$ 132	$ 3,612	$ 571	$ 253	$ 5,243
Total Loans, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 300	$ 2,732	$ 36,606	$ 2,043	$ 19	$ 41,700
Ending balance: collectively evaluated for impairment	$ 30,421	$ 610	$ 36,549	$ 171,043	$ 39,002	$ 7,100	$ 284,725

7. Deposits:

Time deposits of $100,000 or more at June 30, 2017 and December 31, 2016 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $29,260,000 and $25,143,000 at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2017:				
U.S. Treasuries	$ 128,721	$	$ 128,721	$
U.S. Government agencies	19,997		19,997	
Mortgage-backed securities	58,291		58,291	
States and political subdivisions	15,923		15,923	
Equity securities	458		458	
Total	$ 223,390	$	$ 223,390	$
December 31, 2016:				
U.S. Treasuries	$ 147,624	$	$ 147,624	$
U.S. Government agencies	24,825		24,825	
Mortgage-backed securities	42,708		42,708	
States and political subdivisions	17,963		17,963	
Equity securities	458		458	
Total	$ 233,578	$	$ 233,578	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of June 30, 2017 and December 31, 2016 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2017	$ 4,901	$	$	$ 4,901
December 31, 2016	5,006			5,006

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of June 30, 2017 and December 31, 2016 are as follows (in thousands):

Fair Value Measurements Using

	Total	Level 1	Level 2	Level 3
June 30, 2017	$ 7,358	$	$	$ 7,358
December 31, 2016	8,513			8,513

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 Six Months Ended June 30, 2017	For the Year Ended December 31, 2016
Balance, beginning of period	$ 8,513	$ 9,916
Loans transferred to ORE	45	1,903
Sales	(979)	(2,524)
Writedowns	(221)	(782)
Balance, end of period	$ 7,358	$ 8,513

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at June 30, 2017 and December 31, 2016, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
June 30, 2017:					
Financial Assets:					
Cash and due from banks	$ 49,531	$ 49,531	$	$	$ 49,531
Available for sale securities	223,390		223,390		223,390
Held to maturity securities	45,380		45,373		45,373
Other investments	2,722	2,722			2,722
Federal Home Loan Bank stock	543		543		543
Loans, net	280,988			273,442	273,442
Other real estate	7,358			7,358	7,358
Cash surrender value of life insurance	18,050		18,050		18,050
Financial Liabilities:					
Deposits:					
Non-interest bearing	127,739	127,739			127,739
Interest bearing	414,593			415,158	415,158
Borrowings from Federal Home Loan Bank	1,229		1,525		1,525

December 31, 2016:					
Financial Assets:					
Cash and due from banks	$ 41,116	$ 41,116	$	$	$ 41,116
Available for sale securities	233,578		233,578		233,578
Held to maturity securities	48,150		46,935		46,935
Other investments	2,693	2,693			2,693
Federal Home Loan Bank stock	539		539		539
Loans, net	309,889			313,613	313,613
Other real estate	8,513			8,513	8,513
Cash surrender value of life insurance	19,249		19,249		19,249
Financial Liabilities:					
Deposits:					
Non-interest bearing	132,381	132,381			132,381
Interest bearing	442,635			442,937	442,937
Borrowings from Federal Home Loan Bank	6,257		6,491		6,491

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, 2016.

Forward-Looking Information

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company s anticipated future financial performance. This act provides a safe harbor for such disclosure which protects the companies from unwarranted litigation if actual results are different from management expectations. This report contains forward-looking statements and reflects industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company s actual results and experience to differ from the anticipated results and expectations expressed in such forward-looking statements. Such factors and uncertainties include, but are not limited to: changes in interest rates and market prices, changes in local economic and business conditions, increased competition for deposits and loans, a deviation in actual experience from the underlying assumptions used to determine and establish the allowance for loan losses, changes in the availability of funds resulting from reduced liquidity, changes in government regulations and acts of terrorism, weather or other events beyond the Company s control.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued several new accounting standards updates for the first half of 2017 which are disclosed in the Notes to Unaudited Consolidated Financial Statements. The Company does not generally expect that these updates will have a material effect on its financial position or results of operations but the effect of ASU 2016-13 is still being considered.

Critical Accounting Policies

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

Investments

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

Allowance for loan losses

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

Other Real Estate

Other real estate (ORE) includes real estate acquired through foreclosure. Each ORE 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 the allowance 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 benefit within the tax provision 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 and six months ended June 30, 2017 and 2016 is included in the table on the following page.

RECONCILIATION OF NON-GAAP PERFORMANCE MEASURES (In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Interest income reconciliation:				
Interest income - taxable equivalent	$ 4,739	$ 4,712	$ 9,481	$ 9,649
Taxable equivalent adjustment	(141)	(162)	(282)	(319)
Interest income (GAAP)	$ 4,598	$ 4,550	$ 9,199	$ 9,330
Net interest income reconciliation:				
Net interest income - taxable equivalent	$ 4,394	$ 4,445	$ 8,857	$ 9,140
Taxable equivalent adjustment	(141)	(162)	(282)	(319)
Net interest income (GAAP)	$ 4,253	$ 4,283	$ 8,575	$ 8,821

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 earned net income of $1,153,000 for the second quarter of 2017 compared with net income of $61,000 for the second quarter of 2016 and earned net income of $1,227,000 for the first two quarters of 2017 compared with net income of $137,000 for the first two quarters of 2016. Results in 2017 for both time periods were significantly impacted by a non-recurring gain of $429,000 from the redemption of death benefits on bank owned life insurance and a tax benefit of $338,000, which reflects a correction to expected refunds for prior years.

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 for the second quarter of 2017 as compared with the second quarter of 2016 decreased $30,000 as the reduction in interest and fees on loans was offset by the increase in interest and dividends on securities. Net interest income for the two quarters ended June 30, 2017, decreased $246,000 as the decrease in interest and fees on loans decreased more than the increase in interest and dividends on investments.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized during these difficult economic times, as the local economy continues to negatively impact collateral values and borrowers ability to repay their loans. The provision for the allowance for loan losses was $30,000 and $56,000 for the second quarter and first two quarters of 2017, respectively, compared with $24,000 and $ 137,000, respectively, for the second quarter and first two quarters of 2016. The Company is working diligently to address and reduce its non-performing assets. The Company s nonaccrual loans totaled $13,705,000 and $11,854,000 at June 30, 2017 and December 31, 2016, 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 increased $647,000 and $546,000 for the second quarter and first two quarters of 2017 as compared with 2016 results as a result of the gain discussed in the Overview.

Non-interest expense decreased $65,000 and $293,000 for the second quarter and first two quarters of 2017 as compared with 2016 results. This decrease for the second quarter of 2017 was the result of decreases in net occupancy expenses of $72,000 and FDIC and state banking assessments of $104,000, which were partially offset by an increase in Other real estate expense of $145,000 as compared with 2016. This decrease for the first two quarters of 2017 was the result of decreases in net occupancy expenses of $184,000, FDIC and state banking assessments of $232,000, and Other real estate expense of $144,000, which were partially offset by an increase in Other expense as compared with 2016.

Total assets at June 30, 2017 decreased $34,253,000 as compared with December 31, 2016. Total loans decreased $28,886,000 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. Total deposits decreased $32,684,000 at June 30, 2017 as compared with December 31, 2016 as customers in the casino industry and county and municipal entities reallocate their resources periodically.

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.

<u>Quarter Ended June 30, 2017 as Compared with Quarter Ended June 30, 2016</u>

The Company s average interest-earning assets increased approximately $7,686,000, or 1%, from approximately $597,507,000 for the second quarter of 2016 to approximately $605,173,000 for the second quarter of 2017. Average balances due from financial institutions increased approximately $17,246,000 and Held to maturity taxable securities increased approximately $26,947,000 as a result of the decrease in average loans. The Company s average loans decreased approximately $34,266,000 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

The average yield on earning assets decreased by 2 basis points, from 3.15% for the second quarter of 2016 to 3.13% for the second quarter of 2017. The yield on average loans increased from 4.31% for the second quarter of 2016 to 4.44% for the second quarter of 2017 primarily as a result of the effect of the increase in prime rate during December 2016 on the Company s floating rate loans. The yield on average taxable available for sale securities increased from 1.27% for the second quarter of 2016 to 1.50% for the second quarter of 2017 as the Company has changed its investment strategy to improve yield while not compromising duration and credit risk.

Average interest-bearing liabilities decreased approximately $2,996,000, or 1%, from approximately $445,926,000 for the second quarter of 2016 to approximately $442,930,000 for the second quarter of 2017. Average time deposits increased $4,136,000 as a result of a promotion on these accounts. Average borrowings from the Federal Home Loan Bank decreased approximately $7,057,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest-bearing liabilities for the second quarter of 2016 was .24% as compared with .31% for the second quarter of 2017 as the Company was able to pay off lower rate borrowings from FHLB.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 2.98% for the second quarter of 2016 as compared with 2.90% for the second quarter of 2017.

Six Months Ended June 30, 2017 as Compared with Six Months Ended June 30, 2016

The Company s average interest-earning assets increased approximately $14,367,000, or 2%, from approximately $599,974,000 for the first two quarters of 2016 to approximately $614,341,000 for the first two quarters of 2017. Average balances due from financial institutions increased approximately $8,945,000 and held to maturity taxable securities increased approximately $ 27,556,000 as a result of the decrease in average loans. The Company s average loans decreased approximately $32,515,000 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

The average yield on earning assets decreased by 13 basis points, from 3.22% for the first two quarters of 2016 to 3.09% for the first two quarters of 2017. The yield on average taxable available for sale securities increased from 1.38% for the first two quarters of 2016 to 1.47% for the first two quarters of 2017 as the Company has changed its investment strategy to improve yield while not compromising duration and credit risk.

Average interest-bearing liabilities increased approximately $6,377,000, or 1%, from approximately $447,914,000 for the first two quarters of 2016 to approximately $454,291,000 for the first two quarters of 2017. Average savings and interest bearing DDA balances increased approximately $10,940,000 and average time deposits increased $3,773,000 primarily as several large commercial customers reallocate their balances periodically. Average borrowings from the Federal Home Loan Bank decreased approximately 8,336,000 due to the liquidity needs of the bank subsidiary.

The average rate paid on interest-bearing liabilities for the first two quarters of 2016 was .23% compared with ..27% for the first two quarters of 2017 as a result of the increase in prime rate.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.05% for the first two quarters of 2016 as compared with 2.88% for the first two quarters of 2017.

The tables on the following pages analyze the changes in tax-equivalent net interest income for the quarters and six months ended June 30, 2017 and 2016.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Quarter Ended June 30, 2017			Quarter Ended June 30, 2016		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 296,765	$ 3,295	4.44%	$ 331,031	$ 3,568	4.31%
Balances due from depository institutions	47,345	135	1.14%	30,099	54	0.72%
HTM:						
Taxable	27,022	157	2.32%	75	1	0.01%
Non taxable (1)	19,259	182	3.78%	20,174	189	3.75%
AFS:						
Taxable	197,593	742	1.50%	192,579	610	1.27%
Non taxable (1)	16,208	225	5.55%	21,449	288	5.37%
Other	1,001	3	1.20%	2,100	2	0.38%
Total	$ 605,193	$ 4,739	3.13%	$ 597,507	$ 4,712	3.15%
Savings & interest-bearing DDA	$ 358,889	$ 181	0.20%	$ 358,964	$ 115	0.13%
Time deposits	82,807	155	0.75%	78,671	109	0.55%
Borrowings from FHLB	1,234	9	2.92%	8,291	43	2.07%
Total	$ 442,930	$ 345	0.31%	$ 445,926	$ 267	0.24%
Net tax-equivalent spread			2.82%			2.91%
Net tax-equivalent margin on earning assets			2.90%			2.98%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2017 and 2016. See disclosure of Non-GAAP financial measures on pages 31 and 32.
(2) Loan fees of $114 and $83 for 2017 and 2016, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 301,975	$ 6,569	4.35%	$ 334,490	$ 7,265	4.34%
Balances due from depository institutions	39,644	236	1.19%	30,699	117	0.76%
HTM:						
Taxable	27,594	317	2.30%	38	1	0.01%
Non taxable (1)	19,462	364	3.74%	19,216	350	3.64%
AFS:						
Taxable	207,983	1,528	1.47%	191,413	1,318	1.38%
Non taxable (1)	16,683	461	5.53%	22,019	588	5.34%
Other	1,000	6	1.20%	2,099	10	0.95%
Total	$ 614,341	$ 9,481	3.09%	$ 599,974	$ 9,649	3.22%
Savings & interest-bearing DDA	$ 372,148	$ 317	0.17%	$ 361,208	$ 214	0.12%
Time deposits	80,570	283	0.70%	76,797	210	0.55%
Borrowings from						
FHLB	1,573	24	3.05%	9,909	85	1.72%
Total	$ 454,291	$ 624	0.27%	$ 447,914	$ 509	0.23%
Net tax-equivalent spread			2.81%			2.99%
Net tax-equivalent margin on earning assets			2.88%			3.05%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2017 and 2016. See disclosure of Non-GAAP financial measures on pages 31 and 32.

(2) Loan fees of $179 and $195 for 2017 and 2016, 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 June 30, 2017 compared with June 30, 2016			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (369)	$ 107	$ (11)	$ (273)
Balances due from financial institutions	31	32	18	81
Held to maturity securities:				
Taxable			157	157
Non taxable	(9)	2		(7)
Available for sale securities:				
Taxable	16	113	3	132
Non taxable	(71)	10	(2)	(63)
Other	(1)	4	(2)	1
Total	$ (403)	$ 268	$ 163	$ 28
Interest paid on:				
Savings & interest-bearing DDA	$	$ 66	$	$ 66
Time deposits	6	38	2	46
Borrowings from FHLB	(37)	25	(22)	(34)
Total	$ (31)	$ 129	$ (20)	$ 78

Analysis of Changes in Interest Income and Interest Expense

(In Thousands)

	For the Six Months Ended June 30, 2017 compared with June 30, 2016			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (706)	$ 11	$ (1)	$ (696)
Balances due from financial institutions	34	66	19	119
Held to maturity securities:				
Taxable			316	316
Non taxable	5	9		14
Available for sale securities:				
Taxable	114	89	8	211
Non taxable	(142)	20	(5)	(127)
Other	(6)	3	(1)	(4)
Total	$ (701)	$ 198	$ 336	$ (167)
Interest paid on:				
Savings & interest-bearing DDA	$ 6	$ 94	$ 3	$ 103
Time deposits	10	60	3	73
Borrowings from FHLB	(71)	66	(56)	(61)
Total	$ (55)	$ 220	$ (50)	$ 115

Provision for the 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 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 $13,705,000 and $11,854,000 at June 30, 2017 and December 31, 2016, respectively, specific reserves of only $443,000 and $317,000, 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 the allowance for loan losses of $30,000 and $24,000 for the second quarters of 2017 and 2016, respectively, and $56,000 and $137,000 for the first two quarters of 2017 and 2016, respectively. The allowance for loan losses as a percentage of loans was 1.91% and 1.73% at June 30, 2017 and December 31, 2016, respectively. The Company believes that its allowance for loan losses is appropriate as of June 30, 2017.

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

Quarter Ended June 30, 2017 as Compared with Quarter Ended June 30, 2016

Non-interest income increased $647,000 for the second quarter of 2017 as compared with the second quarter of 2016 primarily as the result of the increase in gain on liquidation, sales and calls of securities and the gain from death benefits from life insurance. The Company had more opportunities to sell securities in order to generate gains in the current year and, as a result, recognized $109,000 more in 2017 as compared with 2016. As a result of the death of a participant in the Company s deferred compensation plans during 2017, a non-recurring gain of $429,000 from the redemption of bank owned life insurance was recorded.

Six Months Ended June 30, 2017 as Compared with Six Months Ended June 30, 2016

Non-interest income increased $546,000 for the first two quarters of 2017 as compared with the first two quarters of 2016 primarily as the result of the increase in gain on liquidation, sales and calls of securities and income from other investments as well as the gain from death benefits from life insurance. The Company had more opportunities to sell securities in order to generate gains in the current year and, as a result, recognized $46,000 more in 2017 as compared with 2016. Income from other investments increased $42,000 from operations of the investment in a low income housing partnership as a result of increased occupancy in 2017 as compared with 2016. As a result of the death of a participant in the Company s deferred compensation plans during 2017, a non-recurring gain of $429,000 from the redemption of bank owned life insurance was recorded.

Non-interest expense

Quarter Ended June 30, 2017 as Compared with Quarter Ended June 30, 2016

Total non-interest expense decreased $65,000 for the second quarter of 2017 as compared with the first quarter of 2016. Net occupancy decreased $72,000, FDIC and state banking assessments decreased $104,000 and other real estate expense increased $145,000 in 2017 as compared with 2016.

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

FDIC and state banking assessments decreased as the regulators decreased the premiums for deposit insurance in the current year.

ORE expense increased due to the increase in writedowns in the value of ORE.

Six Months Ended June 30, 2017 as Compared with Six Months Ended June 30, 2016

Total non-interest expense decreased $293,000 for the first two quarters of 2017 as compared with the first two quarters of 2016. Net occupancy decreased $184,000, FDIC and state banking assessments decreased $232,000, other real estate expense decreased $144,000 and other expense increased $174,000 in 2017 as compared with 2016.

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

FDIC and state banking assessments decreased as the regulators decreased the premiums for deposit insurance in the current year.

ORE expense decreased due to the decrease in writedowns in the value of ORE.

Other expense increased primarily as the Company engaged consultants to assist with several projects related to improving I/T security and operations.

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 generally be recorded.

The Company did record income tax expense of $78,000 during the second quarter of 2016 relating to the resolution of a recent examination by the Internal Revenue Service.

For the year ended December 31, 2014, the Company estimated it would be able to carryback net operating losses and general business credits resulting in Federal refunds totaling $300,000. Accordingly, a $300,000 income tax receivable was recorded at December 31, 2014. Upon preparation of the amended 2011 and 2012 Federal tax returns, the actual refunds recoverable were $642,000. As a result, the Company recorded an income tax benefit of $338,000 during the second quarter of 2017 as an immaterial correction of an error.

FINANCIAL CONDITION

Cash and due from banks increased $8,415,000 at June 30, 2017, compared with December 31, 2016 in the management of the bank subsidiary s liquidity position.

Available for sale securities decreased $10,188,000 at June 30, 2017, as compared with December 31, 2016. This is the result of the Company investing some of the proceeds of maturities of these securities in cash to meet liquidity needs.

Loan decreased $28,886,000 at June 30, 2017, as compared with December 31, 2016 as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans.

Insurance proceeds receivable is the amount due the bank subsidiary from the death benefits on bank owned life insurance.

Total deposits decreased $32,684,000 at June 30, 2017, as compared with December 31, 2016. 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.

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 June 30, 2017, 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 January 1, 2017, the Company must have a capital conservation buffer above these requirements of 1.25% for 2017. 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 June 30, 2017 and December 31, 2016, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
June 30, 2017:				
Total Capital (to Risk Weighted Assets)	$ 96,205	24.53%	$ 31,376	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	91,295	23.28%	17,649	4.50%
Tier 1 Capital (to Risk Weighted Assets)	91,295	23.28%	23,532	6.00%
Tier 1 Capital (to Average Assets)	91,295	13.11%	27,863	4.00%
December 31, 2016:				
Total Capital (to Risk Weighted Assets)	$ 95,262	22.94%	$ 33,220	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	18,687	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	24,915	6.00%
Tier 1 Capital (to Average Assets)	90,068	13.12%	27,464	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of June 30, 2017 and December 31, 2016, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2017:						
Total Capital (to Risk Weighted Assets)	$ 92,877	23.85%	$ 31,158	8.00%	$ 38,947	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	88,001	22.59%	17,526	4.50%	25,316	6.50%
Tier 1 Capital (to Risk Weighted Assets)	88,001	22.59%	23,368	6.00%	31,158	8.00%
Tier 1 Capital (to Average Assets)	88,001	12.95%	27,176	4.00%	33,969	5.00%
December 31, 2016:						
Total Capital (to Risk Weighted Assets)	$ 91,882	22.29%	$ 32,975	8.00%	$ 41,219	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	18,548	4.50%	26,792	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	24,731	6.00%	32,975	8.00%
Tier 1 Capital (to Average Assets)	86,726	12.47%	27,820	4.00%	34,775	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 June 30, 2017, 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 June 30, 2017 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 June 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at June 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Income for the quarters and six months ended June 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the quarters and six months ended June 30, 2017 and 2016, (iv) Consolidated Statement of Changes in Shareholders Equity for the six months ended June 30, 2017, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 and (vi) Notes to the Unaudited Consolidated Financial Statements for the six months ended June 30, 2017 and 2016.

(b) Reports on Form 8-K

A Form 8-K was filed on April 26, 2017, April 27, 2017 and July 26, 2017.

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: August 11, 2017

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

Date: August 11, 2017

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