PEOPLES FINANCIAL CORP /MS/
Form 10-K
March 15, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015 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 incorporation or organization)	(I.R.S. Employer Identification Number)
Lameuse and Howard Avenues, Biloxi, Mississippi 39533	228-435-5511
(Address of principal executive offices) (Zip code)	(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12 (g) of the Act:

Common, $1.00 Par Value

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ____ NO _X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ____ NO __X__

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ____X___ NO ____

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. _X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ___ Smaller reporting company X_

(Do not check if a smaller reporting company)

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

At June 30, 2015, the aggregate market value of the registrant s voting stock held by non-affiliates was approximately $48,799,000.

On February 19, 2016, the registrant had outstanding 5,123,186 shares of common stock, par value of $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement issued in connection with the Annual Meeting of Shareholders to be held April 27, 2016, are incorporated by reference into Part III of this report.

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS

BACKGROUND AND CURRENT OPERATIONS

General

Peoples Financial Corporation (the Company) was organized as a one bank holding company in 1985. The Company is headquartered in Biloxi, Mississippi. At December 31, 2015, the Company operated in the state of Mississippi through its wholly-owned subsidiary, The Peoples Bank, Biloxi, Mississippi (the Bank). The Company is engaged, through this subsidiary, in the banking business. The Bank is the Company s principal asset and primary source of revenue.

The Main Office, operations center and asset management and trust services of the Bank are located in downtown Biloxi, MS. At December 31, 2015, the Bank also had 17 branches located throughout Harrison, Hancock, Jackson and Stone Counties. The Bank has automated teller machines (ATM) at its Main Office, all branch locations and at numerous non-proprietary locations.

The Bank Subsidiary

The Company s wholly-owned bank subsidiary was originally chartered in 1896 in Biloxi, Mississippi, as The Peoples Bank of Biloxi. The Bank is a state chartered bank whose deposits are insured under the Federal Deposit Insurance Act. The Bank is not a member of the Federal Reserve System. The legal name of the Bank was changed to The Peoples Bank, Biloxi, Mississippi, during 1991.

Most of the Bank s business originates from Harrison, Hancock, Stone and Jackson Counties in Mississippi; however, some business is obtained from other counties in southern Mississippi.

Nonbank Subsidiary

In 1985, PFC Service Corp. (PFC) was chartered and began operations as the second wholly-owned subsidiary of Peoples Financial Corporation. The purpose of PFC was principally the leasing of automobiles and equipment. PFC is inactive at this time.

Products And Services

The Bank currently offers a variety of services to individuals and small to middle market businesses within its trade area. The Company s trade area 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.

The Bank s primary lending focus is to offer business, commercial, real estate, construction, personal and installment loans, with an emphasis on commercial lending. The Bank s exposure for out of area, residential and land development, construction and commercial real estate loans as well as concentrations in the hotel/motel and gaming industries are monitored by the Company. Each loan officer has board approved lending limits on the principal amount of secured and unsecured loans that can be approved for a single borrower without prior approval of the senior credit committee. All loans, however, must meet the credit underwriting standards and loan policies of the Bank.

Deposit services include interest bearing and non-interest bearing checking accounts, savings accounts, certificates of deposit, and IRA accounts. The Bank generally provides depository accounts to individuals; small and middle market businesses; and state, county and local government entities in its trade area at interest rates consistent with market conditions.

The Bank s Asset Management and Trust Services Department (Trust Department) offers personal trust, agencies and estate services, including living and testamentary trusts, executorships, guardianships, and conservatorships. Benefit accounts maintained by the Trust Department primarily include self-directed individual retirement accounts. Escrow management, stock transfer and bond paying agency accounts are available to corporate customers.

The Bank also offers a variety of other services including safe deposit box rental, wire transfer services, night drop facilities, collection services, cash management and internet banking. The Bank has 35 ATMs at its branch locations and other off-site, non-proprietary locations, providing bank customers access to their depository accounts. The Bank is a member of the PULSE network.

There has been no significant change in the kind of services offered by the Bank during the last three fiscal years.

Customers

The Bank has a large number of customers acquired over a period of many years and is not dependent upon a single customer or upon a few customers. The Bank also provides services to customers representing a wide variety of industries including seafood, retail, hospitality, hotel/motel, gaming and construction. While the Company has pursued external growth strategies on a limited basis, its primary focus has been on internal growth by the Bank through the establishment of new branch locations and an emphasis on strong customer relationships.

Employees

At December 31, 2015, the Bank employed 161 full-time employees and 12 part-time employees. The Company has no employees who are not employees of the bank subsidiary. Through the Bank, employees receive salaries and benefits, which include 401(k) and ESOP plans, cafeteria plan, and life, health and disability insurance. The Company considers its relationship with its employees to be good.

Competition

The Bank is in direct competition with numerous local and regional commercial banks as well as other non-bank institutions. Interest rates paid and charged on deposits and loans are the primary competitive factors within the Bank s trade area. The Bank also competes for deposits and loans with insurance companies, finance companies, brokerage houses and credit unions. The

principal competitive factors in the markets for deposits and loans are interest rates paid and charged. The Company also competes through efficiency, quality of customer service, the range of services and products it provides, the convenience of its branch and ATM locations and the accessibility of its staff. The Bank intends to continue its strategy of being a local, community bank offering traditional bank services and providing quality service in its local trade area.

Miscellaneous

The Bank holds no patents, licenses (other than licenses required to be obtained from appropriate bank regulatory agencies), franchises or concessions.

The Bank has not engaged in any research activities relating to the development of new services or the improvement of existing services except in the normal course of its business activities. The Bank presently has no plans for any new line of business requiring the investment of a material amount of total assets.

Available Information

The Company maintains an internet website at www.thepeoples.com. The Company s Annual Report to Shareholders is available on the Company s website. Also available through the website is a link to the Company s filings with the Securities and Exchange Commission (SEC). Information on the Company s website is not incorporated into this Annual Report on Form 10-K or the Company s other securities filings and is not part of them.

REGULATION AND SUPERVISION

General

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Atlanta (Federal Reserve). The Company is required to file semi-annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of the Company.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

it may acquire direct or indirect ownership or control of any voting shares of any other bank holding company if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the other bank holding company;

it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;

- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or

- it may merge or consolidate with any other bank holding company.

The Bank Holding Company Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the performance under the Community Reinvestment Act of 1977, both of which are discussed below in more detail.

Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Exchange Act of 1934, as amended (Exchange Act); or

- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

The Company s common stock is registered under Section 12 of the Exchange Act. The regulations provide a procedure for challenging rebuttable presumptions of control.

The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries and acquiring or retaining direct or indirect control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

The Bank is incorporated under the laws of the State of Mississippi and is subject to the applicable provisions of Mississippi banking laws and the laws of the various states in which it operates, as well as federal law. The Bank is subject to the supervision of the Mississippi Department of Banking and Consumer Finance (MDBCF) and to regular examinations by that department. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) and, therefore, the Bank is subject to the provisions of the Federal Deposit Insurance Act and to examination by the FDIC.

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Federal Reserve policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) codifies this policy as a statutory requirement. This support may be required by the Federal Reserve at times when the Company might otherwise determine not to provide it. In addition, if a bank holding company commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the Federal Reserve s invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment, ahead of other creditors of the bank holding company.

In addition, the Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under federal securities laws. The common stock of the Company is listed on the NASDAQ capital market exchange, such listing subjecting the Company to compliance with the exchange s requirements with respect to reporting and other rules and regulations.

The Dodd-Frank Act

The Dodd-Frank Act, enacted in 2010, significantly restructured financial regulation in the United States, including through the creation of a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions intended to strengthen the financial services sector.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies, including financial institutions, with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous implementing regulations, many of which have not yet been issued.

In January 2013, the CFPB issued final regulations governing mainly consumer mortgage lending. One rule imposes additional requirements on lenders, including rules designed to require lenders to ensure borrowers ability to repay their mortgage. The CFPB also finalized a rule on escrow accounts for higher priced mortgage loans and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. The CFPB also issued final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing. In November 2013, the CFPB issued a final rule on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act, compliance with which was required by August 1, 2015.

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The Dodd-Frank Act authorizes national and state banks to establish de novo branches in other states to the same extent as a bank chartered by that state would be so permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are now able to enter new markets more freely.

Recently, the CFPB and banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the unfair or deceptive acts or practices (UDAP) law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to unfair, deceptive or abusive acts or practices, which has been delegated to the CFPB for supervision.

Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years. The overall financial impact on the Company and its subsidiaries or the financial services industry generally cannot be anticipated at this time.

Dividends

The Company is a legal entity that is separate and distinct from its subsidiaries. The primary source of funds for dividends paid to the Company s shareholders are dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the Company without regulatory approval. Under Mississippi law, the Bank must obtain non-objection of the Commissioner of the Mississippi Department of Banking and Consumer Finance (MDBCF) prior to paying any dividend on the Bank s common stock. In addition, the Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4, on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve s view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position, or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends.

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Capital

The Federal Reserve has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. The risk-based capital ratio guidelines establish a systematic analytical framework that:

- makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations;
- takes off-balance sheet exposures into explicit account in assessing capital adequacy; and
- minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents capital divided by total risk-weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements promulgated by the FDIC.

Generally, under the applicable guidelines, a financial institution s capital is divided into two tiers. Total capital is Tier 1 plus Tier 2 capital. These two tiers are:

- Tier 1, or core capital, that includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets; and
- Tier 2, or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.

The Federal Reserve and the other federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage-servicing rights, non-mortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in Total capital cannot exceed 100% of an institution s Tier 1 capital.

Under the risk-based capital guidelines existing prior to January 1, 2015, bank holding companies were required to maintain a risk-based ratio of 8%, with 4% being Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when they believe an institution s circumstances warrant.

Under the leverage guidelines existing prior to January 1, 2015, bank holding companies were required to maintain a leverage ratio of at least 3%. The minimum ratio was applicable only to financial institutions that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate risk exposure, and the highest regulatory rating. Financial institutions not meeting these criteria were required to maintain a minimum Tier 1 leverage ratio of 4%.

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The guidelines also provided that bank holding companies experiencing internal growth or making acquisitions would be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve indicated that it would consider a tangible Tier 1 capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under Prompt Corrective Action as applicable to under-capitalized institutions.

New Capital Rules

On July 2, 2013, the Federal Reserve approved the final rule for BASEL III capital requirements for all bank holding companies chartered in the United States. The rule was subsequently approved by the FDIC on July 9, 2013, and made applicable to the Bank as well. The rule implements in the United States certain of the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The major provisions of the new rule applicable to the Company and the Bank are:

The new rule implements higher minimum capital requirements, includes a new common equity Tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. These enhancements both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the United States banking system to deal with adverse economic conditions.

The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0% which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%.

The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity Tier 1 capital.

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Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk weighted assets. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016. Subsequent to the completion of a phase-in period, a banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds.

The new rule also increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

The transition period for implementation of Basel III is January 1, 2015, through December 31, 2018.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991, known as FDICIA, requires federal banking regulatory authorities to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

An institution is deemed to be:

well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater (6% before January 1, 2015), a Tier 1 leverage ratio of 5% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 6.5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;

adequately-capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater (4% before January 1, 2015), generally, a Tier 1 leverage ratio of 4% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 4.5% or greater, and the institution does not meet the definition of a well-capitalized institution;

- under-capitalized if it does not meet one or more of the adequately-capitalized tests;

- significantly under-capitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 4% (less than 3% before January 1, 2015), a Tier 1 leverage ratio that is less than 3%, and, after January 1, 2015, a common equity Tier 1 capital ratio that is less than 3%; and

- critically under-capitalized if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Throughout 2015, the Bank s regulatory capital ratios were in excess of the levels established for well-capitalized institutions.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would be under-capitalized after such payment. Under-capitalized institutions are subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

If an under-capitalized institution fails to submit an acceptable plan, it is treated as if it is significantly under-capitalized. Significantly under-capitalized institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately-capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks.

Critically under-capitalized institutions may not, beginning 60 days after becoming critically under-capitalized, make any payment of principal or interest on their subordinated debt. In addition, critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is well-capitalized and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had $5,000,000 of such brokered deposits at December 31, 2015.

Interstate Banking and Branching Legislation

Federal law allows banks to establish and operate a de novo branch in a state other than the bank s home state if the law of the state where the branch is to be located would permit establishment of the branch if the bank were chartered by that state, subject to standard regulatory review and approval requirements. Federal law also allows the Bank to acquire an existing branch in a state in which the bank is not headquartered and does not maintain a branch if the FDIC and MDBCF approve the branch or acquisition, and if the law of the state in which the branch is located or to be located would permit the establishment of the branch if the bank were chartered by that state.

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Once a bank has established branches in a state through an interstate merger transaction or through de novo branching, the bank may then establish and acquire additional branches within that state to the same extent that a state chartered bank is allowed to establish or acquire branches within the state.

Under the Bank Holding Company Act, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank holding company or bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states have opted out of such interstate merger authority prior to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years, and subject to certain deposit market-share limitations.

FDIC Insurance

The deposits of the Bank are insured by the Deposit Insurance Fund (the DIF), which the FDIC administers. The Dodd-Frank Act permanently increased deposit insurance on most accounts to $250,000. To fund the DIF, FDIC-insured banks are required to pay deposit insurance assessments to the FDIC. For institutions like the Bank with less than $10 billion in assets, the amount of the assessment is based on its risk classification. The higher an institution s risk classification, the higher its rate of assessments (on the assumption that such institutions pose a greater risk of loss to the DIF). An institution s risk classification is assigned based on its capital levels and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances.

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The annualized assessment rate for the first quarter of fiscal 2016 is .60% of the assessment base and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. If the FDIC terminates an institution s deposit insurance, accounts insured at the time of the termination, less withdrawals, will continue to be insured for a period of six months to two years, as determined by the FDIC.

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Affiliate Transactions

The Bank is subject to Regulation W, which comprehensively implements statutory restrictions on transactions between a bank and its affiliates. Regulation W combines the Federal Reserve s interpretations and exemptions relating to Sections 23A and 23B of the Federal Reserve Act. Regulation W and Section 23A place limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Bank s affiliates are the Company and its non-bank subsidiary.

Regulation W and Section 23B prohibit, among other things, a bank from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features.

The Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving bank holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2015, the Bank had a satisfactory rating under CRA.

Patriot Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the Patriot Act), requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The Patriot Act also requires that financial institutions follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants.

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Consumer Privacy and Other Consumer Protection Laws

The Bank, like all other financial institutions, is required to maintain the privacy of its customers non-public, personal information. Such privacy requirements direct financial institutions to:

- provide notice to customers regarding privacy policies and practices;
- inform customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties; and
- give customers an option to prevent disclosure of such information to non-affiliated third parties.

Under the Fair and Accurate Credit Transactions Act of 2003, the Bank s customers may also opt out of information sharing between and among the Bank and its affiliates.

The Bank is also subject, in connection with its deposit, lending and leasing activities, to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth-in-Savings Act, the Fair Housing Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act, the Flood Protection Act, the Bank Secrecy Act, laws and regulations governing unfair, deceptive, and/or abuse acts and practices, the Servicemembers Civil Relief Act, the Housing and Economic Recovery Act, and the Credit Card Accountability Act, among others, as well as various state laws.

Incentive Compensation

In 2010, the Federal Reserve issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The scope and content of banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company s ability to hire, retain and motivate its key employees.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 is applicable to all companies with equity or debt securities registered under the Exchange Act. In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

Effect of Governmental Policies

The Company and the Bank are affected by the policies of regulatory authorities, including the Federal Reserve, the FDIC, and the MDBCF. An important function of the Federal Reserve is to regulate the national money supply. Among the instruments of monetary policy used by the Federal Reserve are: (i) purchases and sales of U.S. government and other securities in the marketplace; (ii) changes in the discount rate, which is the rate any depository institution must pay to borrow from the Federal Reserve; (iii) changes in the reserve requirements of depository institutions; and (iv) indirectly, changes in the federal funds rate, which is the rate at which depository institutions lend money to each other overnight. These instruments are intended to influence economic and monetary growth, interest rate levels, and inflation.

The monetary policies of the Federal Reserve and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Because of changing conditions in the national and international economy and in the money markets, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels, loan demand, or the business and results of operations of the Company and the Bank, or whether changing economic conditions will have a positive or negative effect on operations and earnings.

Other Proposals

Bills occasionally are introduced in the United States Congress and the Mississippi State Legislature and other state legislatures, and regulations occasionally are proposed by the Company s regulatory agencies, any of which could affect our businesses, financial results, and financial condition of the Company or the Bank. Generally it cannot be predicted whether or in what form any particular proposals will be adopted or the extent to which the Company and the Bank may be affected.

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Summary

The foregoing discussion sets forth certain material elements of the regulatory framework applicable to the Company and the Bank. This discussion is a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations. Regulation of financial institutions is intended primarily for the protection of depositors, the deposit insurance fund and the banking system, and generally is not intended for the protection of shareholders. Changes in applicable laws, and their application by regulatory agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

SUPPLEMENTAL STATISTICAL INFORMATION

Schedules I-A through VII present certain statistical information regarding the Company. This information is not audited and should be read in conjunction with the Company s Consolidated Financial Statements and Notes to Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

Distribution of Assets, Liabilities and Shareholders Equity and Interest Rates and Differentials

Net Interest Income, the difference between Interest Income and Interest Expense, is the most significant component of the Company s earnings. For interest analytical purposes, Management adjusts Net Interest Income to a taxable equivalent basis using a Federal Income Tax rate of 34% in 2015, 2014 and 2013 on tax-exempt items (primarily interest on municipal securities).

Another significant statistic in the analysis of Net Interest Income is the net yield on earning assets. The net yield is the difference between the rate of interest earned on earning assets and the effective rate paid for all funds, non-interest bearing as well as interest bearing. Since a portion of the Bank s deposits do not bear interest, such as demand deposits, the rate paid for all funds is lower than the rate on interest bearing liabilities alone.

Recognizing the importance of interest differential to total earnings, Management places great emphasis on managing interest rate spreads. Although interest differential is affected by national, regional and local economic conditions, including the level of credit demand and interest rates, there are significant opportunities to influence interest differential through appropriate loan and investment policies which are designed to maximize the differential while maintaining sufficient liquidity and availability of incremental funds for purposes of meeting existing commitments and investment in lending and investment opportunities that may arise.

The information included in Schedule I-F presents the change in interest income and interest expense along with the reason(s) for these changes. The change attributable to volume is computed as the change in volume times the old rate. The change attributable to rate is computed as the change in rate times the old volume. The change in rate/volume is computed as the change in rate times the change in volume.

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Credit Risk Management and Loan Loss Experience

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through its lending policies, credit underwriting analysis, appraisal requirements, concentration and exposure limits, loan review procedures and the diversification of its loan portfolio. Although it is not possible to predict loan losses with complete accuracy, Management constantly reviews the characteristics of the loan portfolio to determine its overall risk profile and quality.

Constant attention to the quality of the loan portfolio is achieved by the loan review process. Throughout this ongoing process, Management is advised of the condition of individual loans and of the quality profile of the entire loan portfolio. Any loan or portion thereof which is classified loss by regulatory examiners or which is determined by Management to be uncollectible because of such factors as the borrower s failure to pay interest or principal, the borrower s financial condition, economic conditions in the borrower s industry or the inadequacy of underlying collateral, is charged-off.

Provisions are charged to operating expense based upon historical loss experience, and additional amounts are provided when, in the opinion of Management, such provisions are not adequate based upon the current factors affecting loan collectibility.

The allocation of the allowance for loan losses by loan category is based on the factors mentioned in the preceding paragraphs. Accordingly, since all of these factors are subject to change, the allocation is not necessarily indicative of the breakdown of future losses.

Further information concerning the provision for loan losses and the allowance for loan losses is presented in Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K and in Note A Business and Summary of Significant Accounting Policies to the 2015 Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Return on Equity and Assets

The Company s results and key ratios for 2011 2015 are summarized in the Selected Financial Data in Item 6 and Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K.

The Company s dividend payout ratio for the years ended December 31, 2015, 2014 and 2013, was as follows:

For the Years Ended December 31,	2015	2014	2013
		(5%)	

Dividends were paid in June 2014 when the Company recorded net income.

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SCHEDULE I-A

Distribution of Average Assets, Liabilities and Shareholders Equity (1) (In thousands)

For the Years Ended December 31,	2015	2014	2013
ASSETS:			
Cash and due from banks	$ 32,252	$ 29,412	$ 31,271
Available for sale securities:			
Taxable securities	184,458	225,742	247,097
Non-taxable securities	27,744	34,360	36,605
Other securities	2,466	4,065	2,316
Held to maturity securities:			
Taxable securities	452		
Non-taxable securities	17,645	13,696	9,936
Other investments	2,744	2,962	3,262
Net loans (2)	347,014	353,216	395,240
Balances due from depository institutions	11,221	7,305	26,306
Other assets	56,279	62,847	59,503
TOTAL ASSETS	$ 682,275	$ 733,605	$ 811,536
LIABILITIES AND SHAREHOLDERS EQUITY:			
Non-interest bearing deposits	$ 119,046	$ 108,786	$ 109,695
Interest bearing deposits	424,704	447,670	551,628
Total deposits	543,750	556,456	661,323
Other liabilities	44,570	74,691	43,957
Total liabilities	588,320	631,147	705,280
Shareholders equity	93,955	102,458	106,256
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 682,275	$ 733,605	$ 811,536

(1) All averages are computed on a daily basis.

(2) Gross loans and discounts, net of unearned income and allowance for loan losses.

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SCHEDULE I-B

Average (1) Amount Outstanding for Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2015	2014	2013
INTEREST EARNING ASSETS:			
Loans (2)	$ 356,294	$ 362,649	$ 405,463
Balances due from depository institutions	11,221	7,305	26,306
Available for sale securities:			
Taxable securities	184,458	225,742	247,097
Non-taxable securities	27,744	34,360	36,605
Other securities	2,466	4,065	2,316
Held to maturity securities:			
Taxable securities	452		
Non-taxable securities	17,645	13,696	9,936
TOTAL INTEREST EARNING ASSETS	$ 600,280	$ 647,817	$ 727,723
INTEREST BEARING LIABILITIES:			
Savings and negotiable interest bearing deposits	$ 349,782	$ 358,106	$ 428,430
Time deposits	74,923	89,564	123,198
Other borrowed funds	25,519	56,849	27,293
TOTAL INTEREST BEARING LIABILITIES	$ 450,224	$ 504,519	$ 578,921

(1) All averages are computed on a daily basis.

(2) Net of unearned income. Includes nonaccrual loans

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SCHEDULE I-C

Interest Earned or Paid on Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2015	2014	2013
INTEREST EARNED ON:			
Loans (1)	$ 14,759	$ 16,055	$ 18,927
Balances due from depository institutions	63	21	69
Available for sale securities:			
Taxable securities	3,178	4,502	4,407
Non-taxable securities	1,338	1,889	1,946
Other securities	22	18	29
Held to maturity securities:			
Taxable securities	9		
Non-taxable securities	600	474	363
TOTAL INTEREST EARNED (1)	$ 19,969	$ 22,959	$ 25,741
INTEREST PAID ON:			
Savings and negotiable interest bearing deposits	$ 306	$ 274	$ 337
Time deposits	371	937	919
Other borrowed funds	198	230	191
TOTAL INTEREST PAID	$ 875	$ 1,441	$ 1,447

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2015, 2014 and 2013.

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SCHEDULE I-D

Average Interest Rate Earned or Paid for Major Categories of

Interest Earning Assets And Interest Bearing Liabilities

For the Years Ended December 31,	2015	2014	2013
AVERAGE RATE EARNED ON:			
Loans	4.14%	4.43%	4.67%
Balances due from depository institutions	.56%	.29%	.26%
Available for sale securities:			
Taxable securities	1.72%	1.99%	1.78%
Non-taxable securities	4.82%	5.50%	5.32%
Other securities	.89%	.44%	1.25%
Held to maturity securities:			
Taxable securities	1.99%		
Non-taxable securities	3.40%	3.46%	3.65%
TOTAL (weighted average rate)(1)	3.33%	3.54%	3.54%
AVERAGE RATE PAID ON:			
Savings and negotiable interest bearing deposits	.09%	.08%	.08%
Time deposits	.50%	1.05%	.75%
Other borrowed funds	.78%	.40%	.70%
TOTAL (weighted average rate)	.19%	.29%	.25%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2015, 2014 and 2013.

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SCHEDULE I-E

Net Interest Earnings and Net Yield on Interest Earning Assets

(In thousands, except percentages)

For the Years Ended December 31,	2015	2014	2013
Total interest income (1)	$ 19,969	$ 22,959	$ 25,741
Total interest expense	875	1,441	1,447
Net interest earnings	$ 19,094	$ 21,518	$ 24,294
Net yield on interest earning assets	3.18%	3.32%	3.34%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2015, 2014 and 2013.

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SCHEDULE I-F

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2015	2014	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 14,759	$ 16,055	$ (1,296)	$ (281)	$ (1,033)	$ 18
Balances due from depository institutions	63	21	42	11	20	11
Available for sale securities:						
Taxable securities	3,178	4,502	(1,324)	(823)	(613)	112
Non-taxable securities	1,338	1,889	(551)	(364)	(232)	45
Other securities	22	18	4	(7)	18	(7)
Held to maturity securities:						
Taxable securities	9		9	9		
Non-taxable securities	600	474	126	152	(20)	(6)
TOTAL INTEREST EARNED (3)	$ 19,969	$ 22,959	$ (2,990)	$ (1,303)	$ (1,860)	$ 173
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 306	$ 274	$ 32	$ (6)	$ 39	$ (1)
Time deposits	371	937	(566)	(153)	(493)	80
Other borrowed funds	198	230	(32)	(127)	211	(116)
TOTAL INTEREST PAID	$ 875	$ 1,441	$ (566)	$ (286)	$ (243)	$ (37)

(1) Loan fees of $333 and $557 for 2015 and 2014, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2015 and 2014.

SCHEDULE I-F (continued)

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2014	2013	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 16,055	$ 18,927	$ (2,872)	$ (1,998)	$ (977)	$ 103
Balances due from depository institutions	21	69	(48)	(50)	7	(5)
Available for sale securities:						
Taxable securities	4,502	4,407	95	(380)	520	(45)
Non-taxable securities	1,889	1,946	(57)	(119)	66	(4)
Other securities	18	29	(11)	22	(19)	(14)
Held to maturity securities:						
Non-taxable securities	474	363	111	137	(19)	(7)
TOTAL INTEREST EARNED (3)	$ 22,959	$ 25,741	$ (2,782)	$ (2,388)	$ (422)	$ 28
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 274	$ 337	$ (63)	$ (59)	$ (9)	$ 5
Time deposits	937	919	18	(251)	370	(101)
Other borrowed funds	230	191	39	207	(81)	(87)
TOTAL INTEREST PAID	$ 1,441	$ 1,447	$ (6)	$ (103)	$ 280	$ (183)

(1) Loan fees of $557 and $911 for 2014 and 2013, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2014 and 2013.

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SCHEDULE II-A

Book Value of Securities Portfolio

(In thousands)

December 31,	2015	2014	2013
Available for sale securities:			
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 178,430	$ 183,460	$ 239,779
States and political subdivisions	23,727	31,012	35,011
Other securities	650	650	650
Total	$ 202,807	$ 215,122	$ 275,440
Held to maturity securities:			
States and political subdivisions	$ 17,507	$ 17,784	$ 11,142
Corporate bonds	1,518		
Total	$ 19,025	$ 17,784	$ 11,142

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SCHEDULE II-B

Maturity Securities Portfolio at December 31, 2015

And Weighted Average Yields of Such Securities

(In thousands, except percentage data)

	Maturity							
	Within one year		After one year but within five years		After five years but within ten years		After ten years	
December 31,	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:								
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 13,018	1.10%	$ 79,926	1.29%	$ 28,373	2.42%	$ 57,113	2.51%
States and political subdivisions	1,933	3.50%	10,617	3.55%	9,535	3.67%	1,642	3.98%
Other securities							650	2.00%
Total	$ 14,951	1.87%	$ 90,543	1.89%	$ 37,908	2.84%	$ 59,405	2.56%
Held to maturity securities:								
States and political subdivisions	$ 512	2.29%	$ 5,763	2.69%	$ 7,520	2.63%	$ 3,712	2.89%
Corporate bonds			1,518	5.88%				
Total	$ 512	2.29%	$ 7,281	3.86%	$ 7,520	2.63%	$ 3,712	2.89%

Note: The weighted average yields are calculated on the basis of cost. Average yields on investments in states and political subdivisions are based on their contractual yield. Available for sale securities are stated at fair value and held to maturity securities are stated at amortized cost.

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SCHEDULE III-A

Loan Portfolio

Loans by Type Outstanding (1) (In thousands)

December 31,	2015	2014	2013	2012	2011
Real estate, construction	$ 36,347	$ 44,129	$ 64,390	$ 79,924	$ 90,068
Real estate, mortgage	243,540	266,158	259,082	298,283	286,502
Loans to finance agricultural production	30	1,230	726	43	1,164
Commercial and industrial	50,520	37,441	42,653	43,328	43,079
Loans to individuals for household, family and other consumer expenditures	6,548	7,538	7,139	7,933	8,327
Obligations of states and political subdivisions	428	5,462	1,023	1,248	2,840
All other loans	144	449	336	324	427
Total	$ 337,557	$ 362,407	$ 375,349	$ 431,083	$ 432,407

(1) No foreign debt outstanding.

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SCHEDULE III-B

Maturities and Sensitivity to Changes in

Interest Rates of the Loan Portfolio as of December 31, 2015

(In thousands)

	Maturity			
December 31,	One year or less	Over one year through 5 years	Over 5 years	Total
Real estate, construction	$ 7,822	$ 12,891	$ 15,634	$ 36,347
Real estate, mortgage	33,150	86,940	123,450	243,540
Loans to finance agricultural production	30			30
Commercial and industrial	32,829	15,351	2,340	50,520
Loans to individuals for household, family and other consumer expenditures	2,551	3,660	337	6,548
Obligations of states and political subdivisions	415	13		428
All other loans	144			144
Total	$ 76,941	$ 118,855	$ 141,761	$ 337,557
Loans with pre-determined interest rates	$ 47,143	$ 81,667	$ 47,821	$ 176,631
Loans with floating interest rates	29,798	37,188	93,940	160,926
Total	$ 76,941	$ 118,855	$ 141,761	$ 337,557

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SCHEDULE III-C

Non-Performing Loans (In thousands)

December 31,	2015	2014	2013	2012	2011
Loans accounted for on a nonaccrual basis (1)	$ 15,186	$ 33,298	$ 26,171	$ 53,891	$ 57,592
Loans which are contractually past due 90 or more days as to interest or principal payment, but are not included above	146	763	651	1,445	1,832

(1) The Bank places loans on a nonaccrual status when, in the opinion of Management, they possess sufficient uncertainty as to timely collection of interest or principal so as to preclude the recognition in reported earnings of some or all of the contractual interest. See Note A Business and Summary of Significant Accounting Policies and Note C Loans to the 2015 Consolidated Financial Statements in Item 8 in this Annual Report on Form 10-K for discussion of impaired loans.

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SCHEDULE IV-A

Summary of Loan Loss Expenses

(In thousands, except percentage data)

December 31,	2015	2014	2013	2012	2011
Average amount of loans outstanding (1)(2)	$ 356,294	$ 362,649	$ 405,463	$ 430,205	$ 405,367
Balance of allowance for loan losses at beginning of period	$ 9,206	$ 8,934	$ 8,857	$ 8,136	$ 6,650
Loans charged-off:					
Commercial, financial and agricultural	275	4,930	499	448	22
Consumer and other	3,833	2,800	9,623	3,228	1,650
Total loans charged-off	4,108	7,730	10,122	3,676	1,672
Recoveries of loans:					
Commercial, financial and agricultural	19	277	126	23	14
Consumer and other	371	321	412	110	209
Total recoveries	390	598	538	133	223
Net loans charged-off	3,718	7,132	9,584	3,543	1,449
Provision for loan losses charged to operating expense	2,582	7,404	9,661	4,264	2,935
Balance of allowance for loan losses at end of period	$ 8,070	$ 9,206	$ 8,934	$ 8,857	$ 8,136
Ratio of net charge-offs during period to average	1.04%	1.97%	2.36%	0.82%	0.36%

loans outstanding

(1) Net of unearned income.
(2) Includes nonaccrual loans.

SCHEDULE IV-B

Allocation of the Allowance for Loan Losses

(In thousands except percentage data)

December 31,	2015 Amount	2015 % of Loans to Total Loans	2014 Amount	2014 % of Loans to Total Loans	2013 Amount	2013 % of Loans to Total Loans	2012 Amount	2012 % of Loans to Total Loans	2011 Amount	2011 % of Loans to Total Loans
Real estate, construction	$ 778	11	$ 1,110	12	$ 1,470	17	$ 1,167	18	$ 2,018	20
Real estate, mortgage	5,964	70	7,182	73	5,825	68	5,648	69	5,185	65
Loans to finance agricultural production	1	1	2	1		1		1	10	1
Commercial and industrial	1,075	14	587	10	1,338	11	1,760	9	629	10
Loans to individuals for household, family and other consumer expenditures	247	2	282	2	289	1	273	1	264	2
Obligations of states and political subdivisions		1		1		1		1		1
All other loans	5	1	43	1	12	1	9	1	30	1
Total	$ 8,070	100	$ 9,206	100	$ 8,934	100	$ 8,857	100	$ 8,136	100

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SCHEDULE V

Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

Years Ended December 31,	2015 Amount	Rate	2014 Amount	Rate	2013 Amount	Rate
Demand deposits in domestic offices	$ 119,046	N/A	$ 108,786	N/A	$ 109,695	N/A
Negotiable interest bearing deposits in domestic offices	295,238	.07%	306,904	.08%	378,595	.08%
Savings deposits in domestic offices	54,543	.05%	51,202	.05%	49,835	.05%
Time deposits in domestic offices	74,923	.50%	89,564	1.05%	123,198	.75%
Total	$ 543,750	.33%	$ 556,456	.83%	$ 661,323	.64%

Certificates of deposit in amounts of $100,000 or more by the amount of time remaining until maturity as of December 31, 2015, are as follows (in thousands):

Remaining maturity:	
3 months or less	$ 14,844
Over 3 months through 6 months	4,194
Over 6 months through 12 months	7,501
Over 12 months	8,850
Total	$ 35,389

SCHEDULE VI

Short Term Borrowings

(In thousands, except percentage data)

	2015	2014	2013
Balance, December 31,	$ 10,000	$ 30,000	$ 70,000
Weighted average interest rate at December 31,	.55%	.08%	.19%
Maximum outstanding at any month-end during year	$ 48,634	$ 94,965	$ 87,703
Average amount outstanding during year	$ 25,680	$ 56,849	$ 27,293
Weighted average interest rate	.78%	.40%	.70%

Note: Short term borrowings include federal funds purchased from other banks and short term borrowings from the Federal Home Loan Bank.

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SCHEDULE VII

Interest Sensitivity/Gap Analysis

(In thousands)

December 31, 2015:	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
ASSETS:					
Loans (1)	$ 160,829	$ 38,887	$ 79,179	$ 43,476	$ 322,371
Available for sale securities	5,423	9,528	90,542	97,314	202,807
Held to maturity securities	280	232	7,281	11,232	19,025
Totals	$ 166,532	$ 48,647	$ 177,002	$ 152,022	$ 544,203
FUNDING SOURCES:					
Interest bearing deposits	$ 338,118	$ 25,143	$ 26,703	$	$ 389,964
Borrowings from FHLB	10,083	240	5,891	2,195	18,409
Totals	$ 348,201	$ 25,383	$ 32,594	$ 2,195	$ 408,373
REPRICING/MATURITY GAP:					
Period	$ (181,669)	$ 23,264	$ 144,408	$ 149,827	
Cumulative	(181,669)	(158,405)	(13,997)	135,830	
Cumulative Gap/Total Assets	(28.34%)	(24.71%)	(2.18%)	21.19%	

(1) Amounts stated include fixed and variable rate loans that are still accruing interest. Variable rate loans are included in the next period in which they are subject to a change in rate. The principal portions of scheduled payments on fixed instruments are included in the period in which they become due or mature.

Capital Resources

Information about the Company s capital resources is included in Note J Shareholders Equity to the 2015 Consolidated Financial Statements in this Annual Report on Form 10-K.

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ITEM 1a - RISK FACTORS

An investment in the Company s stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Annual Report on Form 10-K and the documents incorporated by reference before making an investment decision. The realization of any of the risks described below could have a material adverse effect on the Company and the price of its common stock.

RISKS RELATING TO THE COMPANY S BUSINESS

Greater than expected loan losses may adversely affect the Company s earnings.

The Company s investment and loan portfolio subject the Company to credit risk. Credit losses are always inherent in the banking business but the continuing challenging economic environment in the Company s trade area presents even more exposure to loss. The Company makes various assumptions and judgments about the collectibility of its loan portfolio and provides an allowance for loan losses based on a number of factors. The Company believes that its current allowance for loan losses is adequate and appropriate. However, if the Company s assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. In the event that our loan customers do not repay their loans according to the terms of the loans, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balances, the Company could experience significant loan losses or increase the provision for loan losses or both, which could have a material adverse effect on its operating results. In fact, these conditions were a significant cause of the net losses experienced by the Company in 2013, 2014 and 2015. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

The Company has a high concentration of loans secured by real estate, and a greater downturn in the real estate market could materially and adversely affect earnings.

A significant portion of the Company s loan portfolio is dependent on real estate. At December 31, 2015, approximately 75% of the Company s loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. Further deterioration in the value of real estate generally or in the Company s trade area specifically could significantly impair the value of the collateral and restrict the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate value or to increase the allowance for loan losses, the Company s profitability and financial condition could be adversely impacted.

The Company has a high concentration of exposure to a number of industries.

The Company has concentrations of loan exposure to the hotel/motel and gaming industries. At December 31, 2015, these exposures were approximately $39,460,000 and $31,655,000 or 12% and 9%, respectively, of the total loan portfolio. Economic conditions have negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these relationships, a significant loss in either of these portfolios could materially and adversely affect the Company s earnings.

The continuing economic downturn or a natural disaster, especially one affecting the Company s trade area, could adversely affect the Company.

The Company s trade area includes the Mississippi Gulf Coast and portions of southeast Louisiana and southwest Alabama. With the exception of a number of credits that are considered out of area, the Company s credit exposure is generally limited to the Mississippi Gulf Coast. Although the national economy has shown signs of improvement, local conditions appear to be lagging this trend. As a result, the Company is at risk from continuing adverse business developments in its trade area, including declining real estate value, increasing loan delinquencies, personal and business bankruptcies and unemployment rates. The recent decline in oil prices has effected the economy in southeast Louisiana and may negatively impact the entire trade area. The Company is also at risk to weather-related disasters including hurricanes, floods and tornadoes. If the economy in the Company s trade area experiences a natural disaster or worsening economic conditions, our operating results could be negatively impacted.

Current economic factors could negatively impact the Company s liquidity.

In addition to funds provided by its banking activities such as deposits, loan payments and proceeds from the maturity of investment securities, the Company s liquidity needs have traditionally been met through the purchase of federal funds, often on an unsecured basis, and advances from the Federal Home Loan Bank (FHLB). Disruption in the financial markets in previous years negatively impacted the availability of these unsecured funds. As a result, the Company increased its borrowing lines with the FHLB and secured approval to participate in the Federal Reserve s Discount Window Primary Credit Program.

The Company is subject to industry competition which may have an impact on its success.

The profitability of the Company depends on its ability to compete successfully. The Company operates in a highly competitive financial services environment. Certain competitors are larger and may have more resources than the Company. The Company faces competition in its trade area from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, insurance companies, brokerage and investment banking firms and other financial intermediaries. Some of these non-bank competitors are not subject to the same extensive regulations that govern the Company or the Bank and may have greater flexibility in competing for business. Increased competition could require the Company to increase the rates paid on deposits or lower the rates offered on loans, which could adversely affect and also limit future growth and earnings prospects.

The Company s profitability is vulnerable to interest rate fluctuations.

The Company s profitability is dependent to a large extent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company is asset sensitive to market interest rates, as its assets reprice more quickly to changes in interest rates than do its liabilities. Interest rates dropped by the unprecedented amount of 400 basis points during 2008 as the Federal Reserve, through its Federal Open Market

Committee, attempted to stabilize the financial markets, reduce the effects of the recession and stimulate the economy. These actions taken by the Federal Reserve continued to impact the Company s earnings in 2015. During December of 2015, the Federal Reserve increased the discount rate 25 basis points with the fed funds and prime interest rates increasing as a result. Discount or fed funds rate changes that occur in 2016 may affect the Company s earnings in the current year and/or in the future.

Changes in the policies of monetary authorities and other government action could adversely affect the Company s profitability.

Many factors affect the demand for loans and the ability to attract deposits, including changes in government economic and monetary policies, particularly by the Federal Reserve, modifications to tax, banking and credit laws and regulations, national, state and local economic growth rates and employment rates. Previous legislation such as Emergency Economic Stabilization Act of 2008 (EESA) and American Recovery and Reinvestment Act of 2009 (ARRA) were passed to address issues facing certain financial institutions, improve the general availability of credit for consumers and businesses, stimulate the national economy and promote long-term growth and stability. Further regulation impacting the Company and its operations include The Dodd-Frank Act, which was passed to increase transparency, accountability and oversight over financial firms and products as well as to provide protection to consumers. The new capital requirements under BASEL III raise minimum capital requirements, change the definition of capital, create a capital conservation buffer and increase risk weights for certain assets and exposures. There can be no assurance that EESA, ARRA, Dodd-Frank or BASEL III will achieve their intended purposes. Furthermore, their failure could result in continuing or worsening economic and market conditions, and this could adversely affect our operations.

The Company is subject to regulation by various federal and state entities.

The Company is subject to the regulations of the SEC, the Federal Reserve Board, the FDIC and the MDBCF. New regulations issued by these agencies, including but not limited to those relating to the Patriot Act, the Bank Secrecy Act, The Dodd-Frank Act and the Consumer Financial Protection Bureau, may adversely affect the Company s ability to carry on its business activities. The Company is also subject to various other federal and state laws and certain changes in these laws and regulations may adversely affect the Company s operations. Noncompliance with certain of these regulations may impact the Company s business plans or result in sanctions by regulatory agencies and/or civil money penalties, which could have a material adverse effect on the Company s business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, it cannot assure that such violations will be prevented.

The Company is also subject to laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, as well as the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of the Company and may also require additional effort or cost to implement.

The Dodd-Frank Act and other legislative and regulatory initiatives relating to the financial services industry could materially affect the Company s results of operations, financial condition, liquidity or the market price of the Company s Common Stock.

The Dodd-Frank Act, as implemented by the regulations currently being promulgated by various federal regulatory agencies, along with other regulatory initiatives relating to the financial services industry, could materially affect the Company s results of operations, financial condition, liquidity or the market price of the Company s common stock. The Company is unable to completely evaluate these potential effects at this time. It is also possible that these measures could adversely affect the creditworthiness of counterparties, which could increase the Company s risk profile.

The Company may be subject to more stringent capital and liquidity requirements which would adversely affect its net income and future growth.

The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will change the way in which hybrid securities, such as trust preferred securities, are treated for purposes of determining a bank holding company s regulatory capital. On June 14, 2011, the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for banks and bank holding companies consistent with the requirements of Section 171 of the Dodd-Frank Act. For a more detailed description of the minimum capital requirements see Supervision and Regulation Capital Standards . The Dodd-Frank Act also increased regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. These requirements, and any other new regulations, could adversely affect the Company s ability to pay dividends, or could require the Company to reduce business levels or to raise capital, including in ways that may adversely affect the Company s results of operations or financial condition.

In addition, on September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. In 2013, regulators adopted enhancements to U.S. capital standards based on Basel III. The revised standards create a new emphasis on Tier 1 common equity, modify eligibility criteria for regulatory capital instruments, and modify the methodology for calculating risk-weighted assets. The revised standards require the following:

Tier 1 Common Equity. For all supervised financial institutions, including the Company and the Bank, the ratio of Tier 1 common equity to risk-weighted assets (Tier 1 Common Equity Capital ratio) must be at least 4.5%. To be well capitalized the Tier 1 Common Equity Capital ratio must be at least 6.5%. If a capital conservation buffer of an additional 2.5% above the minimum 4.5% (or 7% overall) is not maintained, special restrictions would apply to capital distributions, such as dividends and stock repurchases, and on certain compensatory bonuses. Tier 1 common equity capital consists of core components of Tier 1 capital: common stock plus retained earnings net of goodwill, other intangible assets, and certain other required deduction items.

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Tier 1 Capital Ratio. For all banking organizations, including the Bank, the ratio of Tier 1 capital to risk-weighted assets must be at least 6%. The threshold is raised from the current 4%, and the risk-weighting method is changed as mentioned above. To be well capitalized the Tier 1 capital ratio must be at least 8%.

Total Capital Ratio. For all supervised financial institutions, including the Company and the Bank, the ratio of total capital to risk-weighted assets must be at least 8%. Although this threshold is unchanged from current requirements, as mentioned above the method for risk-weighting assets has been changed. As a result of that method change, many banks could have experienced a reduction in this ratio if the change had been effective immediately when the rules were adopted.

Leverage Ratio Base. For all banking organizations, including the Bank, the leverage ratio must be at least 4%. To be well capitalized the leverage ratio must be at least 5%.

Leverage Ratio Supplemental. For the largest internationally active banking organizations, not including the Bank, a minimum supplementary leverage ratio must be maintained that takes into account certain off-balance sheet exposures.

The revised standards took effect on January 1, 2014 for the larger, so-called advanced-approaches institutions, and on January 1, 2015 for all other institutions, including the Company and the Bank. The capital conservation buffer requirement is subject to a phase-in period.

Future increases in minimum capital requirements could adversely affect the Company s net income. Furthermore, the Company s failure to comply with the minimum capital requirements could result in regulators taking formal or informal actions against the Company which could restrict future growth or operations.

The Company relies heavily on technology and computer systems, and disruptions of, failures of, advances in and changes in technology could significantly affect business.

As is customary in the banking industry, the Company is dependent upon automated and non-automated systems to record and process our transaction volume. This poses the risk that technical system flaws, employee errors or tampering or manipulation of those systems by employees, customers or outsiders will result in losses. Any such losses, which may be difficult to detect, could adversely affect the Company s financial condition or results of operations. In addition, the occurrence of such a loss could expose the Company to reputational risk, the loss of customer business, additional regulatory scrutiny or civil litigation and possible financial liability. The Company may also be subject to disruptions of operating systems arising from events that are beyond our control, such as computer viruses, communication and energy disruption and unethical individuals with technological ability to cause disruptions or failures of data processing systems. The Company s ability to compete depends on the ability to continue to adapt to changes in technology on a timely and cost-effective basis to meet customers demands.

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RISKS RELATING TO AN INVESTMENT IN THE COMPANY S COMMON STOCK

Securities issued by the Company are not FDIC insured.

The Company s common stock is not a savings or deposit account or other obligation of the Bank and is not insured by the FDIC, the Bank Insurance Fund or any other government agency or instrumentality, or any private insurer and is subject to investment risk, including the possible loss of principal.

The directors of the Company and executive management own a significant number of shares of stock, allowing further control over business and corporate affairs.

The Company s directors and executive officers beneficially own approximately 9% of the outstanding common stock of Peoples Financial Corporation. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on the Company s business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval.

The Company s stock price can be volatile.

Stock price volatility may make it more difficult for you to sell your common stock when you want and at prices you find attractive. The Company s stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the banking and financial services industry;
- perceptions in the marketplace regarding the Company or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

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Additionally, general market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company s stock price to decrease regardless of operating results.

The trading volume in the Company s common stock is less than that of other larger bank holding companies.

The Company s common stock is listed for trading on The NASDAQ Capital Market. The average daily trading volume in the Company s common stock is low, generally less than that of many of its competitors and other larger bank holding companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company s common stock, significant sales of the Company s common stock, or the expectation of these sales, could cause volatility in the price of the Company s common stock.

Provisions of the Company s articles of incorporation and bylaws, Mississippi law and state and federal banking regulations could delay or prevent a takeover by a third party.

Certain provisions of the Company s articles of incorporation and bylaws and of state and federal law may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company s shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take in to account several factors, including the resources of the acquirer and the antitrust effects of the acquisition. There are also Mississippi statutory provisions and provisions in the Company s articles of incorporation and bylaws that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in the Company s articles and bylaws could result in the Company being less attractive to a potential acquirer.

The Company s future ability to pay dividends is subject to restrictions.

Since the Company is a holding company with no significant assets other than the Bank, the Company has no material source of funds other than dividends received from the Bank. Therefore, the ability to pay dividends to the shareholders will depend on the Bank s ability to pay dividends to the Company. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. Currently, the Federal Reserve, the FDIC and the MDBCF must approve the declaration and payment of dividends by the Company and the Bank, respectively.

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ITEM 1b - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

The principal properties of the Company are its 18 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. The Armed Forces Retirement Home (AFRH) Branch located at 1800 Beach Drive, Gulfport, MS 39507, is located in space provided by the AFRH. The Keesler Branch located at 1507 Meadows Drive, Keesler AFB, MS 39534, is rented from the Department of Defense. All other branch locations are owned by the Company. The address of the other branch locations are:

Bay St. Louis Office	408 Highway 90 East, Bay St. Louis, MS 39520
Cedar Lake Office	1740 Popps Ferry Road, Biloxi, MS 39532
Diamondhead Office	5429 West Aloha Drive, Diamondhead, MS 39525
D Iberville-St. Martin Office	10491 Lemoyne Boulevard, D Iberville, MS 39540
Downtown Gulfport Office	1105 30th Avenue, Gulfport, MS 39501
Gautier Office	2609 Highway 90, Gautier, MS 39553
Handsboro Office	0412 E. Pass Road, Gulfport, MS 39507
Long Beach Office	298 Jeff Davis Avenue, Long Beach, MS 39560
Ocean Springs Office	2015 Bienville Boulevard, Ocean Springs, MS 39564
Orange Grove Office	12020 Highway 49 North, Gulfport, MS 39503
Pass Christian Office	301 East Second Street, Pass Christian, MS 39571
Saucier Office	17689 Second Street, Saucier, MS 39574
Waveland Office	470 Highway 90, Waveland, MS 39576
West Biloxi Office	2560 Pass Road, Biloxi, MS 39531
Wiggins Office	1312 S. Magnolia Drive, Wiggins, MS 39577

ITEM 3 - LEGAL PROCEEDINGS

Information relating to legal proceedings is included in Note M Contingencies to the 2015 Consolidated Financial Statements which is in Item 8 in this Annual Report on Form 10-K.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5 - MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Dividends to the Company s shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. The Company and the bank subsidiary may not declare or pay any cash dividends without prior written approval of their regulators.

At December 31, 2015, there were 464 holders of the common stock of the Company. The Company s stock is traded under the symbol PFBX and is quoted in publications under PplFnMS .

The following table sets forth the high and low sale prices of the Company s common stock as reported on the NASDAQ Capital Market.

Year	Quarter	High	Low	Dividend Per share
2015	1st	$ 12.44	$ 10.00	$
	2nd	10.99	9.21	
	3rd	11.15	9.31	
	4th	9.85	8.90	
2014	1st	$ 13.75	$ 12.91	$
	2nd	13.75	12.12	.10
	3rd	13.66	12.86	
	4th	13.59	12.35	

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ITEM 6 - SELECTED FINANCIAL DATA (In thousands except per share data)

	2015	2014	2013	2012	2011
Balance Sheet Summary					
Total assets	$ 641,004	$ 668,895	$ 762,264	$ 804,912	$ 804,152
Available for sale securities	202,807	215,122	275,440	258,875	278,918
Held to maturity securities	19,025	17,784	11,142	7,125	1,428
Loans, net of unearned discount	337,557	362,407	375,349	431,083	432,407
Deposits	512,707	392,714	428,558	475,719	468,439
Borrowings from FHLB	18,409	38,708	77,684	7,912	53,324
Shareholders equity	91,839	94,951	99,147	110,754	109,452
Summary of Operations					
Interest income	$ 19,311	$ 22,156	$ 24,956	$ 24,628	$ 25,033
Interest expense	875	1,441	1,447	2,067	3,178
Net interest income	18,436	20,715	23,509	22,561	21,855
Provision for loan losses	2,582	7,404	9,661	4,264	2,935
Net interest income after provision for loan losses	15,854	13,311	13,848	18,297	18,920
Non-interest income	6,898	8,619	9,067	9,529	9,860
Non-interest expense	28,106	27,208	25,654	25,277	28,781
Income (loss) before taxes	(5,354)	(5,278)	(2,739)	2,549	(1)
Applicable income taxes	(762)	4,726	(2,201)	(92)	(1,204)
Net income (loss)	$ (4,592)	$ (10,004)	$ (538)	$ 2,641	$ 1,203
Per Share Data					
Basic and diluted earnings per share	($ .90)	($ 1.95)	($ .10)	$ .51	$ .23
Dividends per share		.10		.20	.19
Book value	17.93	18.53	19.35	21.56	21.31
Weighted average number of shares	5,123,186	5,123,186	5,128,889	5,136,918	5,136,918
Selected Ratios					
Return on average assets	(.69%)	(1.38%)	(.07%)	0.32%	0.15%
Return on average equity	(4.92%)	(10.31%)	(.51%)	2.40%	1.14%
Primary capital to average assets	15.06%	14.38%	13.64%	14.71%	14.59%
Risk-based capital ratios:					
Tier 1	20.58%	20.70%	21.54%	20.04%	19.61%
Total	21.83%	21.95%	22.79%	21.29%	20.86%

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ITEM 7 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2015, 2014 and 2013. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

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 new accounting standards updates in 2015, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not expect that these updates will have a material impact on its financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

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

Investments

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

Allowance for Loan Losses

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

Other Real Estate

Other real estate (ORE) includes real estate acquired through foreclosure. Each other real estate property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals performed by third-party valuation specialists. If Management determines that the fair value of a property has decreased subsequent to foreclosure, the Company records a write down which is included in non-interest expense.

Employee Benefit Plans

Employee benefit plan liabilities and pension costs are determined utilizing actuarially determined present value calculations. The valuation of the benefit obligation and net periodic expense is considered critical, as it requires Management and its actuaries to make estimates regarding the amount and timing of expected cash outflows including assumptions about mortality, expected service periods and the rate of compensation increases.

Income Taxes

GAAP requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. See Note I to the Consolidated Financial Statements for additional details. 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 within the tax provision in the consolidated statement of operations.

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in our trade area, which is defined as those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the bank subsidiary s three most outlying locations. Maintaining a strong core deposit base and providing commercial and real estate lending in our trade area are the traditional focuses of the Company. Growth has largely been achieved through de novo branching activity, and it is expected that these strategies will continue to be emphasized in the future.

The Company incurred a net loss of $4,592,000 for 2015 compared with a net loss of $10,004,000 for 2014 and a net loss of $538,000 for 2013. Results in 2015 were primarily impacted by a decrease in net interest income and non-interest income and an increase non-interest expense, which were partially offset by a decrease in the provision for the allowance for loan losses and income tax expense, as compared with 2014. Results in 2014 included a decrease in net interest income, a decrease in non-interest income, an increase in non-interest expense and an increase in income tax expense, which were partially offset by a decrease in the provision for the allowance for loan losses, as compared with 2013.

Managing the net interest margin in the Company s highly competitive market continues to be very challenging. Net interest income was impacted primarily by the decrease in interest income on loans of $1,296,000 and the decrease in interest income on taxable available for sale securities of $1,324,000 for 2015 as compared with 2014. The decrease in interest income on loans was primarily the result of a loan with an original balance of $20,000,000 on which the contractual rate is below the weighted average rate of other loans, which decreased the yield on average loans. The decrease in interest income on taxable available for sales securities is the result of shorter durations, and therefore lower yields, on new investments, in anticipation of rising rates. Net interest income was impacted primarily by the decrease in interest income on loans of $2,872,000 for 2014 as compared with 2013 primarily as the result of the decrease in average loans as principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeded new loans. Results in 2013 also included $1,523,000 in interest and fees from the sale of a nonaccrual loan.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized as the local economy has negatively impacted collateral values and borrowers ability to repay their loans. The Company s nonaccrual loans totaled $15,186,000, $33,298,000 and $26,171,000 at December 31, 2015, 2014 and 2013, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The Company is working diligently to address and reduce its non-performing assets, and some stability in collateral values has occurred. The provision for the allowance for loan losses was $2,582,000, $7,404,000 and $9,661,000 for 2015, 2014 and 2013, respectively.

Non-interest income decreased $1,721,000 for 2015 as compared with 2014 results and $448,000 for 2014 as compared with 2013 results. Service charges on deposit accounts decreased $1,637,000 for 2015 as compared with 2014 and decreased $336,000 for 2014 as compared with 2013 primarily as a result of decreased ATM fee income.

Non-interest expense increased $898,000 for 2015 as compared with 2014 and $1,554,000 for 2014 as compared with 2013. Results for 2015 were impacted by a loss of $1,695,000 from the credit impairment of a municipal security. The increase for 2015 as compared with 2014 was also the result of the increase in ORE expenses of $654,000, partially offset by decreases in salaries and employee benefits of $309,000 and ATM expenses of $1,226,000 as compared with 2014. The increase for 2014 as compared with 2013 was the result of the increase in salaries and employees benefits of $457,000 and the increase in ORE expense of $647,000 as compared with 2013.

The Company recorded an income tax benefit of $762,000 for 2015 relating to change in the valuation allowance. The Company recorded income tax expense of $4,726,000 for 2014 as compared with an income tax benefit of $2,201,000 for 2013 as a result of establishing a valuation allowance of $8,140,000 based on an evaluation of the Company s deferred tax assets in 2014.

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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.

2015 as compared with 2014

The Company s average interest-earning assets decreased approximately $47,537,000, or 7%, from approximately $647,817,000 for 2014 to approximately $600,280,000 for 2015. The Company s average balance sheet decreased primarily as decreased public funds enabled us to reduce our investment in securities. The average yield on interest-earning assets was 3.54% for 2014 compared with 3.33% for 2015. The yield on average loans decreased in 2015 as compared with 2014 as discussed in the Overview. The yield on taxable available for sale securities decreased from 1.99% for 2014 to 1.72% for 2015 as recent investment purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately $54,295,000, or 11%, from approximately $504,519,000 for 2014 to approximately $450,224,000 for 2015. Average borrowings from the Federal Home Loan Bank (the FHLB) decreased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 10 basis points, from .29% for 2014 to .19% for 2015. This decrease was due to an immaterial interest expense adjustment on time deposits in 2014.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.32% for 2014 as compared with 3.18% for 2015.

2014 as compared with 2013

The Company s average interest-earning assets decreased approximately $79,906,000, or 11%, from approximately $727,723,000 for 2013 to approximately $647,817,000 for 2014. The Company s average balance sheet decreased primarily as decreased public funds enabled us to reduce our investment in securities and principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. Average balances due from financial institutions also decreased based on the liquidity position of the bank subsidiary. The average yield on interest-earning assets was at 3.54% for 2014 and 2013. The yield on average loans

decreased in 2014 as compared with 2013 as the prior year included $1,523,000 in interest and fees from the sale of a gaming loan which had been on nonaccrual. The yield on taxable available for sale securities increased from 1.78% for 2013 to 1.99% for 2014 due to the Company s strategy of extending the duration of new investments in 2014.

Average interest-bearing liabilities decreased approximately $74,402,000, or 13%, from approximately $578,921,000 for 2013 to approximately $504,519,000 for 2014. Average savings and interest-bearing DDA decreased as these customers reallocate their balances periodically. Average time deposits decreased primarily as brokered deposits matured during 2013. Average borrowings from the FHLB increased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 4 basis points, from .25% for 2013 to .29% for 2014. This increase was due to an immaterial interest expense adjustment on time deposits in 2014.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.34% for 2013 as compared with 3.32% for 2014.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2015, 2014 and 2013.

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	2015			2014			2013	
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid
3)	$ 356,294	$ 14,759	4.14%	$ 362,649	$ 16,055	4.43%	$ 405,463	$ 18,927
ory	11,221	63	0.56%	7,305	21	0.29%	26,306	69
	452	9	1.99%					
4)	17,645	600	3.40%	13,696	474	3.46%	9,936	363
	184,458	3,178	1.72%	225,742	4,502	1.99%	247,097	4,407
4)	27,744	1,338	4.82%	34,360	1,889	5.50%	36,605	1,946
	2,466	22	0.89%	4,065	18	0.44%	2,316	29
	$ 600,280	$ 19,969	3.33%	$ 647,817	$ 22,959	3.54%	$ 727,723	$ 25,741
ng	$ 349,782	$ 306	0.09%	$ 358,106	$ 274	0.08%	$ 428,430	$ 337
s	74,923	371	0.50%	89,564	937	1.05%	123,198	919
	25,519	198	0.78%	56,849	230	0.40%	27,293	191
	$ 450,224	$ 875	0.19%	$ 504,519	$ 1,441	0.29%	$ 578,921	$ 1,447
t			3.14%			3.25%		
t			3.18%			3.32%		

(1) 2013 includes interest and fees of $1,523 recognized from the sale of a nonaccrual loan.
(2) Loan fees of $333, $557 and $911 for 2015, 2014 and 2013, respectively, are included in these figures.
(3) Includes nonaccrual loans.
(4) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2015, 2014 and 2013.

ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE (in thousands)

	For the Year Ended December 31, 2015 Compared With December 31, 2014			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (281)	$ (1,033)	$ 18	$ (1,296)
Balances due from depository institutions	11	20	11	42
Held to maturity securities:				
Taxable	9			9
Non taxable	152	(20)	(6)	126
Available for sale securities:				
Taxable	(823)	(613)	112	(1,324)
Non taxable	(364)	(232)	45	(551)
Other	(7)	18	(7)	4
Total	$ (1,303)	$ (1,860)	$ 173	$ (2,990)
Interest paid on:				
Savings and interest-bearing				
DDA	$ (6)	$ 39	$ (1)	$ 32
Time deposits	(153)	(493)	80	(566)
Borrowings from FHLB	(127)	211	(116)	(32)
Total	$ (286)	$ (243)	$ (37)	$ (566)

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	For the Year Ended December 31, 2014 Compared With December 31, 2013			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,998)	$ (977)	$ 103	$ (2,872)
Balances due from depository institutions	(50)	7	(5)	(48)
Held to maturity securities:				
Non taxable	137	(19)	(7)	111
Available for sale securities:				
Taxable	(380)	520	(45)	95
Non taxable	(119)	66	(4)	(57)
Other	22	(19)	(14)	(11)
Total	$ (2,388)	$ (422)	$ 28	$ (2,782)
Interest paid on:				
Savings and interest-bearing				
DDA	$ (59)	$ (9)	$ 5	$ (63)
Time deposits	(251)	370	(101)	18
Borrowings from FHLB	207	(81)	(87)	39
Total	$ (103)	$ 280	$ (183)	$ (6)

Provision for Allowance for Loan Losses

In the normal course of business, the Company assumes risk in extending credit to its customers. This credit risk is managed through compliance with the loan policy, which is approved by the Board of Directors. The policy establishes guidelines relating to underwriting standards, including but not limited to financial analysis, collateral valuation, lending limits, pricing considerations and loan grading. The Company s Loan Review and Special Assets Departments play key roles in monitoring the loan portfolio and managing problem loans. New loans and, on a periodic basis, existing loans are reviewed to evaluate compliance with the loan policy. Loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area; residential and land development; construction and commercial real estate loans, and their direct and indirect impact on the Company s operations are evaluated on a monthly basis. Loan delinquencies and deposit overdrafts are closely monitored in order to identify developing problems as early as possible. Lenders experienced in workout scenarios consult with loan officers and customers to address non-performing loans. A monthly watch list of credits which pose a potential loss to the Company is prepared based on the loan grading system. This list forms the foundation of the Company s allowance for loan loss computation.

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and to identify and estimate potential losses based on the best available information. The potential effect of declines 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. Note A to the Consolidated Financial Statements discloses a summary of the accounting principles applicable to impaired and nonaccrual loans as well as the allowance for loan losses. Note C to the Consolidated Financial Statements presents additional analyses of the composition, aging and performance of the loan portfolio as well as the transactions in the allowance for loan losses.

The Company s analysis includes evaluating the current value of collateral securing all nonaccrual loans. Nonaccrual loans totaled $15,186,000, $33,298,000 and $26,171,000 with specific reserves on these loans of $1,697,000, $2,507,000 and $1,280,000 as of December 31, 2015, 2014 and 2013, respectively. The specific reserves allocated to nonaccrual loans are relatively low 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 total provision for the allowance for loan losses of $2,582,000, $7,404,000 and $9,661,000 in 2015, 2014 and 2013, respectively. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased its provision for loan losses during the first three quarters of 2015 and for all of 2014 and 2013. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision significantly for several non-performing loans during these years. An additional loan loss provision of $1,317,000 was recorded for one out of area residential development loan during 2015. Additional loan loss provisions of $1,600,000 and $7,600,000 were recorded for another out of area residential development loan in 2014 and 2013, respectively. An additional loan loss provision of $3,300,000 was recorded for one commercial real estate loan secured by a hotel in our trade area in 2014. The allowance for loan losses as a percentage of loans was 2.39%, 2.54% and 2.38% at December 31, 2015, 2014 and 2013, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2015.

The allowance for loan losses is an estimate, and as such, events may occur in the future which may affect its accuracy. The Company anticipates that it is possible that additional information will be gathered in the future 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

2015 as compared with 2014

Total non-interest income decreased $1,721,000 in 2015 as compared with 2014. Trust department income and fees increased $179,000 as a result of the increase in market value, on which fees are based, of personal trust accounts and an increase in fees charged. Service charges on deposit accounts decreased $1,637,000 primarily as a result of decreased ATM fees. ATM fees decreased $1,386,000 as the Company s off-site ATMs at a casino transferred to another vendor during 2015 which reduced ATM transactions. The Company realized a loss of $218,000 from operations of its investment in a low income housing partnership in 2015 as compared with a loss from operations of $64,000 in 2014 as a result of decreased occupancy.

2014 as compared with 2013

Total non-interest income decreased $448,000 in 2014 as compared with 2013. Service charges on deposit accounts decreased $336,000 in 2014 as compared with 2013 as a result of decreased ATM fees. ATM fees decreased $333,000 as the Company s off-site ATMs at a casino transferred to another vendor during 2014 which reduced ATM transactions. Gains from liquidation, sales and calls of securities decreased $159,000 as sales were executed when proceeds would be maximized. The Company realized a loss from operations of its investment in a low income housing partnership in 2014 as compared with income from operations in 2013 as a result of decreased occupancy.

Non-interest Expense

2015 as compared with 2014

Total non-interest expense increased $898,000 in 2015 as compared with 2014. Salaries and employee benefits decreased $309,000 primarily as a result of decreased salaries and health insurance costs. Salaries decreased $113,000 due to attrition. Health insurance costs decreased $150,000 as a result of decreasing claims. Equipment rentals, depreciation and maintenance decreased $245,000 as 2014 results included additional servicing costs associated with bank-wide hardware and software conversion costs. The Company recorded a loss of $1,695,000 from the credit impairment of a municipal security during 2015. Other expense decreased $128,000 for 2015 as compared with 2014. This increase was the result of a decrease in ATM expenses and increases in legal and other real estate expenses. ATM expense decreased $1,226,000 as a result of decreased ATM activity as off-site ATMs at a casino transferred to another vendor. Legal expenses increased $292,000 primarily as a result of legal fees associated with non-performing loans. Increased write downs of other real estate to fair value and losses on sales of ORE caused these expenses to increase $654,000 in 2015 as compared with 2014.

2014 as compared with 2013

Total non-interest expense increased $1,554,000 in 2014 as compared with 2013. Salaries and employee benefits increased $457,000 in 2014 as compared with 2013. Salaries increased $293,000 in 2014 as compared with 2013 due to merit raises. Expenses relating to the retiree health

plan increased $123,000 as 2013 s results included the effect of an amendment to the plan which lowered the expense. Equipment rentals, depreciation and maintenance increased $176,000 in 2014 as compared with 2013 primarily as a result of an increase of $63,000 in depreciation and servicing costs on new computer hardware and software placed into service during 2014. Other expense increased $856,000 for 2014 as compared with 2013. This increase was the result of increases in FDIC and state assessments and other real estate expenses. FDIC and state assessments increased $163,000 in 2014 as 2013 results included an adjustment in the estimate of prepaid assessments. Increased write downs of other real estate to fair value caused these expenses to increase $647,000 in 2014 as compared with 2013.

Income Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2015, 2014 and 2013. The Company recognized an income tax benefit of $762,000 in 2015, expense of $4,726,000 in 2014 and a benefit of $2,201,000 in 2013. During 2014, Management established a valuation allowance against its net deferred tax asset of approximately $8,140,000, which caused the expense to increase during this period. As of December 31, 2015, the valuation allowance is still in place and the 2015 benefit was the result of changes in certain components of the Company s deferred tax assets and liabilities. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years and further analysis of the valuation allowance.

FINANCIAL CONDITION

Cash and due from banks increased $7,840,000 at December 31, 2015, compared with December 31, 2014 in the management of the bank subsidiary s liquidity position.

Available for sale securities decreased $12,315,000 at December 31, 2015 compared with December 31, 2014 as a result of maturities of these investments during the current year.

Loans decreased $24,850,000 at December 31, 2015 compared with December 31, 2014, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

ORE increased $2,270,000 at December 31, 2015 as compared with December 31, 2014. Loans totaling $7,502,000 were transferred into ORE while $4,295,000 was sold for a loss of $789,000 and write-downs of ORE to fair value were $937,000 during 2015.

Other assets decreased $1,087,000 at December 31, 2015 as compared with December 31, 2014. During 2015, the Company charged off $464,000 in repossessed assets to their updated value, and collected income taxes receivable of $547,000.

Total deposits decreased $4,213,000 at December 31, 2015, as compared with December 31, 2014. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year 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. The primary and risk-based capital ratios are important indicators of the strength of a Company s capital. These figures are presented in the Five-Year Comparative Summary of Selected Financial Information. The Company has established the goal of maintaining the classification of well-capitalized by the banking regulatory authorities.

Significant transactions affecting shareholders equity during 2015 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders Equity also presents all activity in the Company s equity accounts.

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. Note L to the Consolidated Financial Statements discloses information relating to financial instruments with off-balance-sheet risk, including letters of credit and outstanding unused loan commitments. The Company closely monitors the potential effects of funding these commitments on its liquidity position. Management monitors these funding requirements in such a manner as to satisfy these demands and to provide the maximum return on its earning assets.

The Company monitors and manages its liquidity position diligently 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 continuous basis in the management of its liquidity needs and also conducts contingency testing on its liquidity plan. The Company has also been approved to participate in the Federal Reserve s Discount Window Primary Credit Program, which it intends to use only as a contingency. Management carefully monitors its liquidity needs, particularly relating to potentially volatile deposits, and the Company has encountered no problems with meeting its liquidity needs.

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.

The Company also uses other sources of funds, including borrowings from the FHLB. The Company generally anticipates relying on deposits, purchases of federal funds and borrowings from the FHLB for its liquidity needs in 2016.

REGULATORY MATTERS

During 2014, Management identified opportunities for improving 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 has identified specific corrective steps and actions to enhance its 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is a party to off-balance-sheet arrangements in the normal course of business to meet the financing needs of its customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet arrangements. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amount does not necessarily represent future cash requirements. As discussed previously, the Company carefully monitors its liquidity needs and considers its cash requirements, especially for loan commitments, in making decisions on investments and obtaining funds from its other sources. Further information relating to off-balance-sheet instruments can be found in Note L to the Consolidated Financial Statements.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide this information.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

December 31,	**2015**	**2014**	**2013**
Assets			
Cash and due from banks	$ 31,396	$ 23,556	$ 36,264
Available for sale securities	202,807	215,122	275,440
Held to maturity securities, fair value of $19,220 - 2015; $17,859 - 2014; $10,686 - 2013	19,025	17,784	11,142
Other investments	2,744	2,962	3,262
Federal Home Loan Bank Stock, at cost	1,637	2,504	3,834
Loans	337,557	362,407	375,349
Less: Allowance for loan losses	8,070	9,206	8,934
Loans, net	329,487	353,201	366,415
Bank premises and equipment, net of accumulated depreciation	22,446	23,784	25,308
Other real estate	9,916	7,646	9,630
Accrued interest receivable	1,832	2,125	2,607
Cash surrender value of life insurance	18,735	18,145	17,456
Other assets	979	2,066	10,906
Total assets	$ 641,004	$ 668,895	$ 762,264

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

December 31,	2015	2014	2013
Liabilities and Shareholders Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 122,743	$ 103,607	$ 107,117
Savings and demand, interest bearing	315,141	336,740	356,644
Time, $100,000 or more	35,389	35,925	60,519
Other time deposits	39,434	40,648	43,917
Total deposits	512,707	516,920	568,197
Borrowings from Federal Home Loan Bank	18,409	38,708	77,684
Employee and director benefit plans liabilities	16,283	16,957	15,837
Other liabilities	1,766	1,359	1,399
Total liabilities	549,165	573,944	663,117
Shareholders Equity:			
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2015, 2014 and 2013	5,123	5,123	5,123
Surplus	65,780	65,780	65,780
Undivided profits	19,151	23,743	34,259
Accumulated other comprehensive income (loss), net of tax	1,785	305	(6,015)
Total shareholders equity	91,839	94,951	99,147

Total liabilities and shareholders equity	$ 641,004	$ 668,895	$ 762,264

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)

Years Ended December 31,	**2015**	**2014**	**2013**
Interest income:			
Interest and fees on loans	$ 14,759	$ 16,055	$ 18,927
Interest and dividends on securities:			
U. S. Treasuries	626	587	590
U.S. Government agencies	1,956	3,027	3,114
Mortgage-backed securities	596	888	703
States and political subdivisions	1,280	1,560	1,524
Other investments	31	18	29
Interest on balances due from depository institutions	63	21	69
Total interest income	19,311	22,156	24,956
Interest expense:			
Deposits	677	1,211	1,256
Borrowings from Federal Home Loan Bank	198	230	191
Total interest expense	875	1,441	1,447
Net interest income	18,436	20,715	23,509
Provision for allowance for loan losses	2,582	7,404	9,661
Net interest income after provision for allowance for loan losses	$ 15,854	$ 13,311	$ 13,848

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)

Years Ended December 31,	**2015**	**2014**	**2013**
Non-interest income:			
Trust department income and fees	1,642	1,463	1,423
Service charges on deposit accounts	4,263	5,900	6,236
Gain on liquidation, sales and calls of securities	8	99	258
Income (loss) on other investments	(218)	(64)	42
Increase in cash surrender value of life insurance	489	589	501
Other income	714	632	607
Total non-interest income	6,898	8,619	9,067
Non-interest expense:			
Salaries and employee benefits	11,716	12,025	11,568
Net occupancy	2,365	2,480	2,415
Equipment rentals, depreciation and maintenance	2,809	3,054	2,878
Loss on credit impairment of securities	1,695		
Other expense	9,521	9,649	8,793
Total non-interest expense	28,106	27,208	25,654
Loss before income taxes	(5,354)	(5,278)	(2,739)
Income tax (benefit) expense	(762)	4,726	(2,201)
Net loss	$ (4,592)	$ (10,004)	$ (538)
Basic and diluted loss per share	($ .90)	($ 1.95)	($.10)

Dividends declared per share	$	$ .10	$

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

Years Ended December 31,	**2015**	**2014**	**2013**
Net loss	$ (4,592)	$ (10,004)	$ (538)
Other comprehensive income (loss), net of tax			
Net unrealized gain (loss) on available for sale securities, net of tax of $390, $3,506 and $5,153 for the years ended December 31, 2015, 2014 and 2013, respectively	762	6,806	(10,002)
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $3, $34 and $88 for the years ended December 31, 2015, 2014 and 2013, respectively	(5)	(65)	(170)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of $372, $217 and $369 for the years ended December 31, 2015, 2014 and 2013, respectively	723	(421)	(716)
Total other comprehensive income (loss)	1,480	6,320	(10,888)
Total comprehensive loss	$ (3,112)	$ (3,684)	$ (11,426)

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity

(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2013	5,136,918	$ 5,137	$ 65,780	$ 34,964	$ 4,873	$ 110,754
Net loss				(538)		(538)
Other comprehensive loss, net of tax					(10,888)	(10,888)
Retirement of stock	(13,732)	(14)		(167)		(181)
Balance, December 31, 2013	5,123,186	5,123	65,780	34,259	(6,015)	99,147
Net loss				(10,004)		(10,004)
Other comprehensive income, net of tax					6,320	6,320
Cash dividend ($.10 per share)				(512)		(512)
Balance, December 31, 2014	5,123,186	5,123	65,780	23,743	305	94,951
Net loss				(4,592)		(4,592)
Other comprehensive income, net of tax					1,480	1,480
Balance, December 31, 2015	5,123,186	$ 5,123	$ 65,780	$ 19,151	$ 1,785	$ 91,839

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31,	**2015**	**2014**	**2013**
Cash flows from operating activities:			
Net loss	$ (4,592)	$ (10,004)	$ (538)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	1,754	1,817	1,750
Provision for allowance for loan losses	2,582	7,404	9,661
Writedown of other real estate	937	1,261	670
(Gain) loss on sales of other real estate	789	(47)	63
Loss on credit impairment of securities	1,695		
(Income) loss on other investments	218	64	(42)
Amortization of available for sale securities	224	250	514
(Accretion) amortization of held to maturity securities	83	(3)	(2)
Gain on liquidation, sales and calls of securities	(8)	(99)	(258)
Increase in cash surrender value of life insurance	(489)	(589)	(501)
Gain on sale of bank premises and equipment			(15)
Change in accrued interest receivable	293	482	288
Change in other assets	1,087	810	(467)
Change in other liabilities	66	5,218	(1,122)
Net cash provided by operating activities	$ 4,639	$ 6,564	$ 10,001

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands)

Years Ended December 31,	**2015**	**2014**	**2013**
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	$ 56,593	$ 72,374	$ 142,355
Purchases of available for sale securities	(45,042)	(1,995)	(174,588)
Proceeds from maturities of held to maturity securities	210	660	795
Purchases of held to maturity securities	(1,534)	(7,299)	(4,810)
Purchases of Federal Home Loan Bank Stock			(1,454)
Redemption of Federal Home Loan Bank Stock	867	1,330	
Redemption of other investments		236	230
Proceeds from sales of other real estate	3,506	2,115	1,125
Loans, net change	13,630	4,465	41,613
Acquisition of premises and equipment	(416)	(293)	(840)
Proceeds from sales of banking premises and equipment			19
Insurance proceeds from casualty loss on other real estate			57
Investment in cash surrender value of life insurance	(101)	(100)	(94)
Net cash provided by investing activities	27,713	71,493	4,408
Cash flows from financing activities:			
Demand and savings deposits, net change	(2,463)	(23,414)	(65,483)
Time deposits, net change	(1,750)	(27,863)	(36,273)
Cash dividends		(512)	
Retirement of common stock			(181)
Borrowings from Federal Home Loan Bank	992,545	2,013,013	868,560
Repayments to Federal Home Loan Bank	(1,012,844)	(2,051,989)	(798,788)
Net cash used in financing activities	(24,512)	(90,765)	(32,165)

Net increase (decrease) in cash and cash equivalents		7,840		(12,708)		(17,756)
Cash and cash equivalents, beginning of year		23,556		36,264		54,020
Cash and cash equivalents, end of year	$	31,396	$	23,556	$	36,264

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE A BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business of The Company

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. Its two operating subsidiaries are The Peoples Bank, Biloxi, Mississippi (the Bank), and PFC Service Corp. Its principal subsidiary is the Bank, which 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).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Company and its subsidiaries recognize assets and liabilities, and income and expense, on the accrual basis of accounting. 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. Actual results could differ from these 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, assumptions relating to employee and director benefit plan liabilities and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

New Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2015-01, *Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. ASU No. 2015-01 eliminated the concept of extraordinary items from U.S. GAAP. ASU 2015-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

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

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In January 2016, FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 revises the accounting related to classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value as well as amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of the ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

Cash and Due from Banks

The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately $2,084,000, $417,000 and $407,000 for the years ending December 31, 2015, 2014 and 2013, respectively.

Securities

The classification of securities is determined by Management at the time of purchase. Securities are classified as held to maturity when the Company has the positive intent and ability to hold the security until maturity. Securities held to maturity are stated at amortized cost. Securities not classified as held to maturity are classified as available for sale and are stated at fair value. Unrealized gains and losses, net of tax, on these securities are recorded in shareholders equity as accumulated other comprehensive income. The amortized cost of available for sale securities and held to maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, determined using the interest method. Such amortization and accretion is included in interest income on securities. A decline in the market value of any 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. In estimating other-than-temporary losses, Management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and nature of the issuer, the cause of the decline, especially if related to a change in interest rates, and the intent and ability of the Company to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The specific identification method is used to determine realized gains and losses on sales of securities, which are reported as gain (loss) on sales and calls of securities in non-interest income.

Other Investments

Other investments include a low income housing partnership in which the Company is a 99% limited partner. The partnership has qualified to receive annual low income housing federal tax credits that are recognized as a reduction of the current tax expense. The investment is accounted for using the equity method.

Federal Home Loan Bank Stock

The Company is a member of the Federal Home Loan Bank of Dallas (FHLB) and as such is required to maintain a minimum investment in its stock that varies with the level of FHLB advances outstanding. The stock is bought from and sold to the FHLB based on its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment in accordance with GAAP.

Loans

The loan portfolio consists of commercial and industrial and real estate loans within the Company s trade area that we have the intent and ability to hold for the foreseeable future or until maturity. The loan policy establishes guidelines relating to pricing; repayment terms; collateral standards including loan to value limits, appraisal and environmental standards; lending authority; lending limits and documentation requirements.

Loans are stated at the amount of unpaid principal, reduced by unearned income and the allowance for loan losses. Interest on loans is recognized on a daily basis over the terms of each loan based on the unpaid principal balance. Loan origination fees are recognized as income when received. Revenue from these fees is not material to the financial statements.

The Company continuously monitors its relationships with its loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area, land development, construction and commercial real estate loans, and their direct and indirect impact on its operations. Loan delinquencies and deposit overdrafts are monitored on a weekly basis in order to identify developing problems as early as possible. On a monthly basis, a watch list of credits based on our loan grading system is prepared. Grades are applied to individual loans based on factors including repayment ability, financial condition of the borrower and payment performance. Loans with lower grades are placed on the watch list of credits. The watch list is the primary tool for monitoring the credit quality of the loan portfolio. Once loans are determined to be past due, the loan officer and the special assets department work vigorously to return the loans to a current status.

The Company places loans on a nonaccrual status when, in the opinion of Management, they possess sufficient uncertainty as to timely collection of interest or principal so as to preclude the recognition in reported earnings of some or all of the contractual interest. Accrued interest on loans classified as nonaccrual is reversed at the time the loans are placed on nonaccrual. Interest received on nonaccrual loans is applied against principal. Loans are restored to accrual status when the obligation is brought current or has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The placement of loans on and removal of loans from nonaccrual status must be approved by Management.

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Loans which become 90 days delinquent are reviewed relative to collectibility. Unless such loans are in the process of terms revision to bring them to a current status or foreclosure or in the process of collection, these loans are placed on nonaccrual and, if deemed uncollectible, are charged off against the allowance for loan losses. That portion of a loan which is deemed uncollectible will be charged off against the allowance as a partial charge off. All charge offs must be approved by Management and are reported to the Board of Directors.

Allowance for Loan Losses

The allowance for loan losses (ALL) is a valuation account available to absorb losses on loans. The ALL is established through provisions for loan losses charged against earnings. Loans deemed to be uncollectible are charged against the ALL, and subsequent recoveries, if any, are credited to the allowance.

The ALL is based on Management s evaluation of the loan portfolio under current economic conditions and is an amount that Management believes will be adequate to absorb probable losses on loans existing at the reporting date. On a quarterly basis, the Company s problem asset committee meets to review the watch list of credits, which is formulated from the loan grading system. Members of this committee include loan officers, collection officers, the special assets director, the chief lending officer, the chief credit officer, the chief financial officer and the chief executive officer. The evaluation includes Management s assessment of several factors: review and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current and anticipated economic conditions and the related impact on specific borrowers and industry groups, a study of loss experience, a review of classified, nonperforming and delinquent loans, the estimated value of any underlying collateral, an estimate of the possibility of loss based on the risk characteristics of the portfolio, adverse situations that may affect the borrower s ability to repay and the results of regulatory examinations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2015.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company s impaired loans include troubled debt restructurings and performing and non-performing major loans for which full payment of principal or interest is not expected. Payments received for impaired loans not on nonaccrual status are applied to principal and interest.

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All impaired loans are reviewed, at a minimum, on a quarterly basis. The Company calculates the specific allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of its collateral. Most of the Company s impaired loans are collateral-dependent.

The fair value of the collateral for collateral-dependent loans is based on appraisals performed by third-party valuation specialists, comparable sales and other estimates of fair value obtained principally from independent sources such as the Multiple Listing Service or county tax assessment valuations, adjusted for estimated selling costs. The Company has a Real Estate Appraisal Policy (the Policy) which is in compliance with the guidelines set forth in the Interagency Appraisal and Evaluation Guidelines which implement Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and the revised Interagency Appraisal and Evaluation Guidelines issued in 2010. The Policy further requires that appraisals be in writing and conform to the Uniform Standards of Professional Appraisal Practice (USPAP). An appraisal prepared by a state-licensed or state-certified appraiser is required on all new loans secured by real estate in excess of $250,000. Loans secured by real estate in an amount of $250,000 or less, or that qualify for an exemption under FIRREA, must have a summary appraisal report or in-house evaluation, depending on the facts and circumstances. Factors including the assumptions and techniques utilized by the appraiser, which could result in a downward adjustment to the collateral value estimates indicated in the appraisal, are considered by the Company.

When Management determines that a loan is impaired and the loan is collateral-dependent, an evaluation of the fair value of the collateral is performed. The Company maintains established criteria for assessing whether an existing appraisal continues to reflect the fair value of the property for collateral-dependent loans. Appraisals are generally considered to be valid for a period of at least twelve months. However, appraisals that are less than 12 months old may need to be adjusted. Management considers such factors as the property type, property condition, current use of the property, current market conditions and the passage of time when determining the relevance and validity of the most recent appraisal of the property. If Management determines that the most recent appraisal is no longer valid, a new appraisal is ordered from an independent and qualified appraiser.

During the interim period between ordering and receipt of the new appraisal, Management considers if the existing appraisal should be discounted to determine the estimated fair value of collateral. Discounts are applied to the existing appraisal and take into consideration the property type, condition of the property, external market data, internal data, reviews of recently obtained appraisals and evaluations of similar properties, comparable sales of similar properties and tax assessment valuations. When the new appraisal is received and approved by Management, the valuation stated in the appraisal is used as the fair value of the collateral in determining impairment, if any. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a specific component of the allowance for loan losses. Any specific reserves recorded in the interim are adjusted accordingly.

The general component of the ALL is the loss estimated by applying historical loss percentages to non-classified loans which have been divided into segments. These segments include gaming; residential and land development; real estate, construction; real estate, mortgage; commercial and industrial and all other. The loss percentages are based on each segment s historical five year average loss experience which may be adjusted by qualitative factors such as changes in the general economy, or economy or real estate market in a particular geographic area or industry.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets.

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. Any excess of the carrying value of the related loan over the fair value of the real estate at the date of foreclosure is charged against the ALL. Any expense incurred in connection with holding such real estate or resulting from any writedowns in value subsequent to foreclosure is included in non-interest expense. When the other real estate property is sold, a gain or loss is recognized on the sale for the difference, if any, between the sales proceeds and the carrying amount of the property. If the fair value of the ORE, less estimated costs to sell at the time of foreclosure, decreases during the holding period, the ORE is written down with a charge to non-interest expense. Generally, ORE properties are actively marketed for sale and Management is continuously monitoring these properties in order to minimize any losses.

Trust Department Income and Fees

Corporate trust fees are accounted for on an accrual basis and personal trust fees are recorded when received.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss carry forwards, is required to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company s assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required.

A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company currently evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred and the amount of such loss can be reasonably estimated.

Post-Retirement Benefit Plan

The Company accounts for its post-retirement benefit plan under Accounting Standards Codification (Codification or ASC) Topic 715, Retirement Benefits (ASC 715). The under or over funded status of the Company s post-retirement benefit plan is recognized as a liability or asset in the statement of condition. Changes in the plan s funded status are reflected in other comprehensive income. Net actuarial gains and losses and adjustments to prior service costs that are not recorded as components of the net periodic benefit cost are charged to other comprehensive income.

Earnings Per Share

Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, 5,123,186 in 2015 and 2014, and 5,128,889 in 2013.

Accumulated Other Comprehensive Income (Loss)

At December 31, 2015, 2014 and 2013, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company s post-retirement benefit plan.

Statements of Cash Flows

The Company has defined cash and cash equivalents to include cash and due from banks. The Company paid $874,890, $1,447,133 and $1,470,945 in 2015, 2014 and 2013, respectively, for interest on deposits and borrowings. Income tax payments totaled $320,000 and $810,000 in 2014 and 2013, respectively. Loans transferred to other real estate amounted to $7,502,496, $1,345,170 and $4,536,710 in 2015, 2014 and 2013, respectively.

Fair Value Measurement

The Company reports certain assets and liabilities at their estimated fair value. These assets and liabilities are classified and disclosed in one of three categories based on the inputs used to develop the measurements. The categories establish a hierarchy for ranking the quality and reliability of the information used to determine fair value.

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Reclassification

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

NOTE B SECURITIES:

The amortized cost and fair value of securities at December 31, 2015, 2014 and 2013, respectively, are as follows (in thousands):

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 63,845	$ 20	$ (111)	$ 63,754
U.S. Government agencies	84,849	176	(479)	84,546
Mortgage-backed securities	30,106	155	(131)	30,130
States and political subdivisions	22,833	894		23,727
Total debt securities	201,633	1,245	(721)	202,157
Equity securities	650			650
Total available for sale securities	$ 202,283	$ 1,245	$ (721)	$ 202,807
Held to maturity securities:				
States and political subdivisions	$ 17,507	$ 222	$ (16)	$ 17,713
Corporate bonds	1,518		(11)	1,507
Total held to maturity securities	$ 19,025	$ 222	$ (27)	$ 19,220

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December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 29,787	$ 27	$ (160)	$ 29,654
U.S. Government agencies	119,805	115	(1,931)	117,989
Mortgage-backed securities	35,671	282	(136)	35,817
States and political subdivisions	29,832	1,180		31,012
Total debt securities	215,095	1,604	(2,227)	214,472
Equity securities	650			650
Total available for sale securities	$ 215,745	$ 1,604	$ (2,227)	$ 215,122
Held to maturity securities:				
States and political subdivisions	$ 17,784	$ 132	$ (57)	$ 17,859
Total held to maturity securities	$ 17,784	$ 132	$ (57)	$ 17,859

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

The amortized cost and fair value of debt securities at December 31, 2015, (in thousands) by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 14,913	$ 14,951
Due after one year through five years	90,222	90,542
Due after five years through ten years	37,943	37,908
Due after ten years	28,449	28,626
Mortgage-backed securities	30,106	30,130
Total	$ 201,633	$ 202,157
Held to maturity securities:		
Due in one year or less	$ 512	$ 513
Due after one year through five years	7,281	7,309
Due after five years through ten years	7,520	7,634
Due after ten years	3,712	3,764
Total	$ 19,025	$ 19,220

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2015, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2015:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 39,889	$ 111	$	$	$ 39,889	$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bonds	1,507	11			1,507	11
Total	$ 75,072	$ 348	$ 13,943	$ 400	$ 89,015	$ 748
December 31, 2014:						
U.S. Treasuries	$ 4,968	$ 15	$ 14,795	$ 145	$ 19,763	$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
Total	$ 20,407	$ 69	$ 128,598	$ 2,215	$ 149,005	$ 2,284
December 31, 2013:						
U.S. Treasuries	$ 29,708	$ 1,042	$	$	$ 29,708	$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
Total	$ 195,113	$ 13,103	$ 4,621	$ 379	$ 199,734	$ 13,482

At December 31, 2015, 9 of the 15 securities issued by the U.S. Treasury, 4 of the 15 securities issued by U.S. Government agencies, 5 of the 10 mortgage-backed securities, 25 of the 133 securities issued by states and political subdivisions and the corporate bonds contained unrealized losses.

Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost, the fact that the Company s securities are primarily issued by U.S. Treasury and U.S. Government agencies and the cause of the decline in value are considered. In addition, the Company does not intend to sell and it is not more likely than not that we 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 this evaluation, the Company has determined that the declines summarized in the tables above are not deemed to be other-than-temporary.

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

Proceeds from sales of available for sale debt securities were $44,279,605 and $26,075,225 during 2014 and 2013, respectively. Available for sale debt securities were sold and called for realized gains of $7,993, $98,859 and $257,997 during 2015, 2014 and 2013, respectively.

Securities with a fair value of $168,724,920, $200,474,637 and $262,830,011 at December 31, 2015, 2014 and 2013, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

NOTE C - LOANS:

The composition of the loan portfolio at December 31, 2015, 2014 and 2013 is as follows (in thousands):

December 31,	2015	2014	2013
Gaming	$ 31,655	$ 31,353	$ 29,570
Residential and land development	933	10,119	19,403
Real estate, construction	35,414	34,010	44,987
Real estate, mortgage	219,925	234,713	237,158
Commercial and industrial	42,480	37,534	35,007
Other	7,150	14,678	9,224
Total	$ 337,557	$ 362,407	$ 375,349

In the ordinary course of business, the Company s bank subsidiary extends loans to certain officers and directors and their personal business interests at, in the opinion of Management, the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans of similar credit risk with persons not related to the Company or its subsidiaries. These loans do not involve more than normal risk of collectibility and do not include other unfavorable features. An analysis of the activity with respect to such loans to related parties is as follows (in thousands):

Years Ended December 31,	2015	2014	2013
Balance, January 1	$ 7,760	$ 6,761	$ 6,310
New loans and advances	458	2,516	1,647
Repayments	(3,855)	(1,517)	(1,196)
Balance, December 31	$ 4,363	$ 7,760	$ 6,761

As part of its evaluation of the quality of the loan portfolio, Management monitors the Company s credit concentrations on a monthly basis. Total outstanding concentrations were as follows (in thousands):

December 31,	2015	2014	2013
Gaming	$ 31,655	$ 31,353	$ 29,570
Hotel/motel	39,460	47,144	49,842

Out of area	14,526	19,179	24,945

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The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Days and Still Accruing
December 31, 2015:							
Gaming	$	$	$	$	$ 31,655	$ 31,655	$
Residential and land development			323	323	610	933	
Real estate, construction	851	448	1,346	2,645	32,769	35,414	
Real estate, mortgage	7,094	3,673	1,352	12,119	207,806	219,925	146
Commercial and industrial	1,206	31	237	1,474	41,006	42,480	
Other	67			67	7,083	7,150	
Total	$ 9,218	$ 4,152	$ 3,258	$ 16,628	$ 320,929	$ 337,557	$ 146
December 31, 2014:							
Gaming	$	$	$	$	$ 31,353	$ 31,353	$
Residential and land development			5,262	5,262	4,857	10,119	
Real estate, construction	1,665	85	1,944	3,694	30,316	34,010	30
Real estate, mortgage	3,257	3,101	12,007	18,365	216,348	234,713	733
Commercial and industrial	1,154	7	205	1,366	36,168	37,534	
Other	168	10		178	14,500	14,678	
Total	$ 6,244	$ 3,203	$ 19,418	$ 28,865	$ 333,542	$ 362,407	$ 763

December 31, 2013:							
Gaming	$	$	$	$	$ 29,570	$ 29,570	$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	$ 12,226	$ 2,689	$ 28,158	$ 43,073	$ 332,276	$ 375,349	$ 651

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 5 is assigned to the loan 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 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.

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An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
December 31, 2015:						
Gaming	$ 31,655	$	$	$	$	$ 31,655
Residential and land development	610			323		933
Real estate, construction	31,935		883	2,596		35,414
Real estate, mortgage	167,286	16,678	23,686	12,275		219,925
Commercial and industrial	24,466	15,007	2,368	639		42,480
Other	7,114	1	35			7,150
Total	$ 263,066	$ 31,686	$ 26,972	$ 15,833	$	$ 337,557
December 31, 2014:						
Gaming	$ 31,353	$	$	$	$	$ 31,353
Residential and land development	3,520	1,319	17	5,263		10,119
Real estate, construction	27,474	723	2,496	3,317		34,010
Real estate, mortgage	191,458	4,051	16,591	22,613		234,713
Commercial and industrial	32,505	25	1,579	3,425		37,534
Other	14,583	6	89			14,678
Total	$ 300,893	$ 6,124	$ 20,772	$ 34,618	$	$ 362,407

December 31, 2013:						
Gaming	$ 23,975	$ 2,500	$	$ 3,095	$	$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	$ 312,621	$ 10,026	$ 22,575	$ 30,127	$	$ 375,349

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of December 31, 2015, 2014 and 2013 are as follows (in thousands):

December 31,	2015	2014	2013
Gaming	$	$	$ 1,223
Residential and land development	323	8,233	13,572
Real estate, construction	2,523	3,287	2,588
Real estate, mortgage	11,759	21,398	8,788
Commercial and industrial	581	380	
Total	$ 15,186	$ 33,298	$ 26,171

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of December 31, 2015, 2014 and 2013, were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
December 31, 2015:				
Real estate, mortgage	3	$ 1,232	$ 1,232	$ 107
Total	3	$ 1,232	$ 1,232	$ 107
December 31, 2014:				
Real estate, mortgage	2	$ 837	$ 837	$ 50
Total	2	$ 837	$ 837	$ 50
December 31, 2013:				
Real estate, construction	2	$ 891	$ 891	$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	$ 11,581	$ 11,581	$ 1,264

During 2014, seven loans which had been classified as troubled debt restructurings at December 31, 2013 became in default of their modified terms and were placed on nonaccrual. These loans included two loans that were included in the real estate, construction segment with a total balance of $891,782, four loans that were included in the real estate, mortgage segment with a total balance of $9,136,954 and one loan that was included in the commercial and industrial

segment with a balance of $677,901 as of December 31, 2013.

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Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2015, 2014 and 2013 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015:					
With no related allowance recorded:					
Real estate, construction	$ 1,842	$ 1,842	$	$ 1,878	$
Real estate, mortgage	9,014	9,014		9,175	21
Commercial and industrial	581	581		653	
Total	11,437	11,437		11,706	21
With a related allowance recorded:					
Residential and land development	323	323	109	343	
Real estate, construction	681	681	252	780	
Real estate, mortgage	3,977	3,977	1,443	3,920	18
Total	4,981	4,981	1,804	5,043	18
Total by class of loans:					
Residential and land development	323	323	109	343	
Real estate, construction	2,523	2,523	252	2,658	
Real estate, mortgage	12,991	12,991	1,443	13,095	39
Commercial and industrial	581	581		653	
Total	$ 16,418	$ 16,418	$ 1,804	$ 16,749	$ 39

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	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 9,513	$ 8,233	$	$ 8,380	$
Real estate, construction	2,198	2,178		2,222	
Real estate, mortgage	19,517	16,243		18,258	26
Commercial and industrial	380	380		384	
Total	31,608	27,034		29,244	26
With a related allowance recorded:					
Real estate, construction	1,109	1,109	422	1,115	
Real estate, mortgage	6,591	5,992	2,135	5,996	9
Total	7,700	7,101	2,557	7,111	9
Total by class of loans:					
Residential and land development	9,513	8,233		8,380	
Real estate, construction	3,307	3,287	422	3,337	
Real estate, mortgage	26,108	22,235	2,135	24,254	35
Commercial and industrial	380	380		384	
Total	$ 39,308	$ 34,135	$ 2,557	$ 36,355	$ 35

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

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Transactions in the allowance for loan losses for the years ended December 31, 2015, 2014 and 2013, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2015, 2014 and 2013 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs		(1,504)	(955)	(1,171)	(275)	(203)	(4,108)
Recoveries			102	190	19	79	390
Provision	9	1,442	582	(246)	744	51	2,582
Ending Balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$ 109	$ 484	$ 1,751	$ 614	$ 4	$ 2,962
Ending balance: collectively evaluated for impairment	$ 582	$ 80	$ 105	$ 3,631	$ 461	$ 249	$ 5,108
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 323	$ 3,479	$ 35,961	$ 3,003	$ 35	$ 42,801

Ending balance: collectively evaluated for impairment	$ 31,655	$ 610	$ 31,935	$ 183,964	$ 39,477	$ 7,115	$ 294,756
December 31, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs	(992)	(2,060)	(127)	(368)	(3,948)	(235)	(7,730)
Recoveries	260		35	193	20	90	598
Provision	328	1,535	257	1,231	3,883	170	7,404
Ending Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 742	$ 2,706	$ 289	$ 6	$ 3,743
Ending balance: collectively evaluated for impairment	$ 573	$ 251	$ 118	$ 3,903	$ 298	$ 320	$ 5,463
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 7,232	$ 6,830	$ 39,204	$ 2,035	$ 89	$ 55,390
Ending balance: collectively evaluated for impairment	$ 31,353	$ 2,887	$ 27,180	$ 195,509	$ 35,499	$ 14,589	$ 307,017

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December 31, 2013:														
Allowance for Loan Losses:														
Beginning Balance	$	1,541	$	200	$	967	$	5,273	$	593	$	283	$	8,857
Charge-offs		(474)		(7,325)		(1,013)		(1,048)		(24)		(238)		(10,122)
Recoveries		110		67		97		150		26		88		538
Provision		(200)		7,834		644		1,178		37		168		9,661
Ending Balance	$	977	$	776	$	695	$	5,553	$	632	$	301	$	8,934
Allowance for Loan Losses:														
Ending balance: individually evaluated for impairment	$	626	$	471	$	615	$	1,698	$	342	$	33	$	3,785
Ending balance: collectively evaluated for impairment	$	351	$	305	$	80	$	3,855	$	290	$	268	$	5,149
Total Loans:														
Ending balance: individually evaluated for impairment	$	3,095	$	13,624	$	5,399	$	28,094	$	2,423	$	69	$	52,704
Ending balance: collectively evaluated for impairment	$	26,475	$	5,779	$	39,588	$	209,064	$	32,584	$	9,155	$	322,645

NOTE D - BANK PREMISES AND EQUIPMENT:

Bank premises and equipment are shown as follows (in thousands):

December 31,	Estimated Useful Lives	2015	2014	2013
Land		$ 5,982	$ 5,982	$ 5,982
Building	5 - 40 years	30,641	30,593	30,540
Furniture, fixtures and equipment	3 - 10 years	15,879	15,511	15,272
Totals, at cost		52,502	52,086	51,794
Less: Accumulated depreciation		30,056	28,302	26,486
Totals		$ 22,446	$ 23,784	$ 25,308

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NOTE E OTHER REAL ESTATE:

The Company s other real estate consisted of the following as of December 31, 2015, 2014 and 2013, respectively (in thousands except number of properties):

December 31,	2015		2014		2013	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	19	$ 8,792	15	$ 5,034	18	$ 4,887
1 - 4 family residential properties	3	368	10	431	6	180
Nonfarm nonresidential	4	756	14	2,030	17	4,563
Other			1	151		
Total	26	$ 9,916	40	$ 7,646	41	$ 9,630

NOTE F- DEPOSITS:

At December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

2016	$ 48,120
2017	18,630
2018	3,802
2019	2,562
2020	1,709
Total	$74,823

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

Time deposits of $250,000 or more totaled approximately $24,090,000, $25,321,000 and $49,773,000 at December 31, 2015, 2014 and 2013, respectively.

Deposits held for related parties amounted to $7,640,079, $6,607,646 and $7,511,446 at December 31, 2015, 2014 and 2013, respectively.

Overdrafts totaling $663,511, $822,730 and $764,262 were reclassified as loans at December 31, 2015, 2014 and 2013, respectively.

NOTE G FEDERAL FUNDS PURCHASED:

At December 31, 2015, the Company had facilities in place to purchase federal funds up to $40,000,000 under established credit arrangements.

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NOTE H - BORROWINGS:

At December 31, 2015, the Company was able to borrow up to $28,518,930 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank s portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day. There was no outstanding balance at December 31, 2015.

At December 31, 2015, the Company had $18,408,666 outstanding in advances under a $61,844,373 line of credit with the FHLB. One advance in the amount of $5,000,000 bears interest at a variable rate of 43.2 basis points above the 1 month LIBOR rate, which was .749% at December 31, 2015, and matures in 2017. An additional advance in the amount of $10,000,000 bears interest at .31% and matured in January of 2016. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. The remaining balance consists of smaller advances bearing interest from 2.604% to 7.00% with maturity dates from 2016 2042. The advances are collateralized by specific loans, for which certain documents are held in custody by the FHLB, and, if needed, specific investment securities that are held in safekeeping at the FHLB.

NOTE I - INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2015, 2014 and 2013, included in other assets, were as follows (in thousands):

December 31,	2015	2014	2013
Deferred tax assets:			
Allowance for loan losses	$ 2,744	$ 3,130	$ 3,037
Employee benefit plans liabilities	4,633	4,490	4,326
Unrealized loss on available for sale securities, charged from equity		210	3,684
Loss on credit impairment of securities	576		
Earned retiree health benefits plan liability	1,638	1,638	1,638
General business and AMT credits	2,011	1,735	
Tax net operating loss carryforward	2,514	651	
Other	1,535	1,637	1,218
Valuation allowance	(10,106)	(8,140)	
Deferred tax assets	5,545	5,351	13,903
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity	180		
Unearned retiree health benefits plan asset	734	362	579
Bank premises and equipment	4,369	4,760	5,075
Other	262	229	129
Deferred tax liabilities	5,545	5,351	5,783
Net deferred taxes	$	$	$ 8,120

Income taxes consist of the following components (in thousands):

Years Ended December 31,	2015	2014	2013
Current	$	$ (137)	$ (1,717)
Deferred:			
Federal	(2,728)	(3,277)	(484)
Change in valuation allowance	1,966	8,140	
Total deferred	(762)	4,863	(484)
Totals	$ (762)	$ 4,726	$ (2,201)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2015, 2014 and 2013 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2015		2014		2013	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ (1,820)	(34)	$ (1,794)	(34)	$ (931)	(34)
Increase (decrease) resulting from:						
Tax-exempt interest income	(447)	(8)	(532)	(10)	(539)	(20)
Income from BOLI	(166)	(3)	(200)	(4)	(170)	(6)
Federal tax credits	(298)	(6)	(298)	(6)	(298)	(11)
Other	3		(590)	(10)	(263)	(9)
Change in valuation allowance	1,966	37	8,140	154		
Total income tax (benefit) expense	$ (762)	(14)	$ 4,726	90	$ (2,201)	(80)

A valuation allowance is recognized against deferred tax assets when, based on the consideration of all available positive and negative evidence using a more likely than not criteria, it is determined that all or a portion of these tax benefits may not be realized. This assessment requires consideration of all sources of taxable income available to realize the deferred tax asset including taxable income in prior carry-back years, future reversals of existing temporary differences, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. The Company incurred losses on a cumulative basis for the three-year period ended December 31, 2014, which is considered to be significant negative evidence. The positive evidence considered in support was insufficient to overcome this negative evidence. As a result, the Company established a full valuation allowance for its net deferred tax asset in the amount of $8,140,000 as of December 31, 2014.

The Company intends to maintain this valuation allowance until it determines it is more likely than not that the asset can be realized through current and future taxable income. If not utilized, the Company s federal net operating loss of $7,000,000 will begin to expire in 2034.

The Company has reviewed its income tax positions and specifically considered the recognition and measurement requirements of the benefits recorded in its financial statements for tax positions taken or expected to be taken in its tax returns. The Company currently has no unrecognized tax benefits that, if recognized, would favorably affect the income tax rate in future periods.

Income tax expense (or benefit) for each year is allocated to continuing operations, discontinued operations, other comprehensive income and other charges or credits recorded directly to shareholders equity. This allocation is commonly referred to as intra-period tax allocation as outlined in Accounting Standards Codification Topic 740, Income Taxes (ASC 740). ASC 740 also includes an exception to the general principle of intra-period tax allocation discussed above. This exception requires that all items, i.e., discontinued operations and items charged or credited directly to other comprehensive income, be considered in determining the amount of the tax benefit that results from a loss from continuing operations. That is, when a company has a current period loss from continuing operations, management must consider income recorded in other categories in determining the tax benefit that is allocated to continuing operations. The ASC 740 exception, however, only relates to the allocation of the current year tax provision, which may be zero, and does not change a company s overall tax provision.

Accordingly, for the year ended December 31, 2015, the Company recorded a tax benefit of $762,000 in continuing operations and a corresponding income tax expense in other comprehensive income associated with the increase in the unrealized gain on available for sale securities and the decrease in the unfunded post-retirement benefit obligation.

NOTE J - SHAREHOLDERS EQUITY:

Shareholders equity of the Company includes the undistributed earnings of the bank subsidiary. Dividends to the Company s shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. Dividends paid by the bank subsidiary are subject to the written approval of the Commissioner of Banking and Consumer Finance of the State of Mississippi and the Federal Deposit Insurance Corporation (the FDIC). At December 31, 2015, $11,161,710 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank (FRB).

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company s common stock. As a result of this repurchase plan, 47,756 shares have been repurchased and retired through December 31, 2015.

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The Company and the bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the bank subsidiary and the Company are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

New rules relating to risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act became effective for the Company January 1, 2015. The rules establish a new Common equity tier 1 minimum capital requirement, increase the minimum capital ratios and assign a higher risk weight to certain assets based on the risk associated with these assets.

Quantitative measures established by regulation to ensure capital adequacy require the bank subsidiary to maintain minimum amounts and ratios of Total, Common equity tier 1 and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets.

As of December 31, 2015, the most recent notification from the FDIC 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. 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 for 2015, 2014 and 2013, are as follows (in thousands):

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	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2015:				
Total Capital (to Risk Weighted Assets)	$ 95,395	21.83%	$ 34,954	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	19,662	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	26,215	6.00%
Tier 1 Capital (to Average Assets)	89,901	13.18%	27,291	4.00%
December 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 100,243	21.95%	$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%
December 31, 2013:				
Total Capital (to Risk Weighted Assets)	$ 111,141	22.79%	$ 39,022	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,009	21.54%	19,511	4.00%
Tier 1 Capital (to Average Assets)	105,009	13.48%	31,170	4.00%

The bank subsidiary s actual capital amounts and ratios and required minimum capital amounts and ratios and capital amounts and ratios to be well capitalized for 2015, 2014 and 2013, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 91,963	21.09%	$ 34,889	8.00%	$ 43,611	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	19,625	4.50%	28,347	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	26,166	6.00%	34,889	8.00%
Tier 1 Capital (to Average Assets)	86,479	13.47%	25,680	4.00%	32,100	5.00%
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 96,427	21.28%	$ 36,247	8.00%	$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%
December 31, 2013:						
Total Capital (to Risk Weighted Assets)	$ 106,870	21.94%	$ 38,968	8.00%	$ 48,711	10.00%
Tier 1 Capital (to Risk Weighted Assets)	100,746	20.69%	19,484	4.00%	29,227	6.00%
Tier 1 Capital (to Average Assets)	100,746	13.02%	30,958	4.00%	38,697	5.00%

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NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2015	2014	2013
Other service charges, commissions and fees	$ 109	$ 84	$ 74
Rentals	393	435	433
Other	212	113	100
Totals	$ 714	$ 632	$ 607

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2015	2014	2013
Advertising	$ 505	$ 552	$ 596
Data processing	1,403	1,339	1,254
FDIC and state banking assessments	928	1,033	870
Legal and accounting	785	493	535
Other real estate	2,264	1,610	963
ATM expense	1,183	2,409	2,367
Trust expense	355	323	332
Other	2,098	1,890	1,876
Totals	$ 9,521	$ 9,649	$ 8,793

NOTE L - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and irrevocable letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the bank subsidiary has in particular classes of financial instruments. The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and irrevocable letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the agreement. Irrevocable letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments and irrevocable letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments and

irrevocable letters of credit may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluated each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on Management s credit evaluation of the customer. Collateral obtained varies but may include equipment, real property and inventory.

The Company generally grants loans to customers in its trade area.

At December 31, 2015, 2014 and 2013, the Company had outstanding irrevocable letters of credit aggregating $1,919,678, $1,879,678 and $3,059,011, respectively. At December 31, 2015, 2014 and 2013, the Company had outstanding unused loan commitments aggregating $41,935,725, $66,663,320 and $68,171,024, respectively. Approximately $30,601,000, $35,753,000 and $38,324,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2015, 2014 and 2013, respectively.

NOTE M - CONTINGENCIES:

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 are expected, in the opinion of Management, to have a material adverse effect upon the financial position or results of operations of the Company.

NOTE N - CONDENSED PARENT COMPANY ONLY FINANCIAL INFORMATION:

Peoples Financial Corporation began its operations September 30, 1985, when it acquired all the outstanding stock of The Peoples Bank, Biloxi, Mississippi. A condensed summary of its financial information is shown below.

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CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2015	2014	2013
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 88,415	$ 91,179	$ 94,883
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	28	160	487
Other assets	3,395	3,611	3,937
Total assets	$ 91,839	$ 94,951	$ 99,308
Liabilities and Shareholders Equity:			
Other liabilities	$	$	$ 161
Total liabilities			161
Shareholders equity	91,839	94,951	99,147
Total liabilities and shareholders equity	$ 91,839	$ 94,951	$ 99,308

CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2015	2014	2013
Income			
Undistributed loss of unconsolidated bank subsidiary	$ (4,242)	$ (10,025)	$ (494)
Other income (loss)	(208)	(53)	57
Total loss	(4,450)	(10,078)	(437)
Expenses			
Other	142	124	122
Total expenses	142	124	122
Loss before income taxes	(4,592)	(10,202)	(559)
Income tax benefit		(198)	(21)
Net loss	$ (4,592)	$ (10,004)	$ (538)

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2015	2014	2013
Cash flows from operating activities:			
Net loss	$ (4,592)	$ (10,004)	$ (538)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
(Income) loss on other investments	218	64	(42)
Undistributed loss of unconsolidated subsidiaries	4,242	10,025	494
Other assets		25	164
Other liabilities		(161)	
Net cash provided by (used in) operating activities	(132)	(51)	78
Cash flows from investing activities:			
Redemption of equity securities		236	230
Net cash provided by investing activities		236	230
Cash flows from financing activities:			
Retirement of stock			(181)
Dividends paid		(512)	
Net cash used in financing activities		(512)	(181)
Net increase (decrease) in cash	(132)	(327)	127
Cash, beginning of year	160	487	360
Cash, end of year	$ 28	$ 160	$ 487

NOTE O - EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan (ESOP). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan. Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts contributed by the employee (up

to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation common stock. Total contributions to the plans charged to operating expense were $260,000, $280,000 and $220,000 in 2015, 2014 and 2013, respectively.

Compensation expense of $7,576,755, $7,678,640 and $7,594,790 was the basis for determining the ESOP contribution allocation to participants for 2015, 2014 and 2013, respectively. The ESOP held 285,785, 315,269 and 359,030 allocated shares at December 31, 2015, 2014 and 2013, respectively.

The Company established an Executive Supplemental Income Plan and a Directors Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors fees until age sixty-five. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director s normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. Interest on deferred fees accrues at an annual rate of ten percent, compounded annually. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $16,820,058, $16,370,384 and $15,824,497 at December 31, 2015, 2014 and 2013, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.50% in 2015, 2014 and 2013, and the interest ramp-up method has been accrued. The accrual amounted to $11,813,343, $11,465,119 and $11,004,738 at December 31, 2015, 2014 and 2013, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $1,473,607, $1,346,910 and $1,218,175 at December 31, 2015, 2014 and 2013, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2015 and 4.50% in 2014 and 2013, and the projected unit cost method has been accrued. The accrual amounted to $1,519,537, $1,450,280, and $1,435,554 at December 31, 2015, 2014 and 2013, respectively, and is included in Employee and director benefit plans liabilities.

Additionally, there are two endorsement split dollar policies, with the bank subsidiary as owner and beneficiary, which provide a guaranteed death benefit to the participants beneficiaries. These contracts are carried at their cash surrender value, which amounted to $284,664, $277,278 and $269,271 at December 31, 2015, 2014 and 2013, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2015, 2014 and 2013, and the projected unit cost method has been accrued. The accrual amounted to $82,202, $80,997 and $78,759 at December 31, 2015, 2014 and 2013, respectively, and is included in Employee and director benefit plans liabilities.

The Company has additional plans for post-retirement benefits for directors. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $157,051, $150,687 and $138,001 at December 31, 2015, 2014 and 2013, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2015 and 4.50% in 2014 and 2013, and the projected unit cost method has been accrued. The accrual amounted to $212,662, $210,207 and $206,650 at December 31, 2015, 2014 and 2013, respectively, and is included in Employee and director benefit plans liabilities.

The Company provides post-retirement health insurance to certain of its retired employees. Employees are eligible to participate in the retiree health plan if they retire from active service no earlier than their Social Security normal retirement age, which varies from 65 to 67 based on the year of birth. In addition, the employee must have at least 25 continuous years of service with the Company immediately preceding retirement. However, any active employee who was at least age 65 as of January 1, 1995, does not have to meet the 25 years of service requirement. The accumulated post-retirement benefit obligation at January 1, 1995, was $517,599, which the Company elected to amortize over 20 years. The Company reserves the right to modify, reduce or eliminate these health benefits. The Company has chosen to not offer this post-retirement benefit to individuals entering the employ of the Company after December 31, 2006. Effective January 1, 2012, the Company amended the retiree health plan. This amendment requires that employees who are eligible and enroll in the bank subsidiary s group medical and dental health care plans upon their retirement must enroll in Medicare Parts A, B and D when first eligible upon their retirement from the bank subsidiary. This results in the bank subsidiary s programs being secondary insurance coverage for retired employees and any dependent(s), if applicable, while Medicare Parts A and B will be their primary coverage, and Medicare Part D will be the sole and exclusive prescription drug benefit plan for retired employees. This amendment reduced the accumulated post-retirement benefit obligation by $3,799,308 as of December 31, 2011. Effective January 1, 2014, the Company amended the retiree health plan. This amendment reduces the age for eligibility to 60 for those employees meeting all other eligibility requirements. This amendment increased the accumulated post-retirement benefit obligation by $1,150,229 as of December 31, 2013.

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The following is a summary of the components of the net periodic post-retirement benefit cost (credit)(in thousands):

Years Ended December 31,	2015	2014	2013
Service cost	$ 94	$ 105	$ 55
Interest cost	102	132	82
Amortization of net gain	(44)	(14)	(2)
Amortization of prior service credit	(82)	(81)	(183)
Net periodic post-retirement benefit cost (credit)	$ 70	$ 142	$ (48)

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.20% in 2015, 4.00% in 2014 and 4.80% in 2013. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.75% in 2015. The rate was assumed to decrease gradually to 5.00% for 2022 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2015, would be increased by 13.81%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have increased by 17.85%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2015, would be decreased by 11.28%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 14.23%.

The following table presents the estimated benefit payments for each of the next five years and in the aggregate for the next five years (in thousands):

2016	$ 191
2017	146
2018	119
2019	57
2020	78
2021-2025	808

The following is a reconciliation of the accumulated post-retirement benefit obligation, which is included in Employee and director benefit plans liabilities (in thousands):

Accumulated post-retirement benefit obligation as of December 31, 2014	$	3,570
Service cost		94
Interest cost		102
Actuarial gain		(1,221)
Benefits paid		(37)
Accumulated post-retirement benefit obligation as of December 31, 2015	$	2,508

The following is a summary of the change in plan assets (in thousands):

		2015		2014		2013
Fair value of plan assets at beginning of year	$		$		$	
Actual return on assets						
Employer contribution		37		64		90
Benefits paid, net		(37)		(64)		(90)
Fair value of plan assets at end of year	$		$		$	

Amounts recognized in the Accumulated Other Comprehensive Income (Loss), net of tax, were (in thousands):

For the year ended December 31,		2015		2014		2013
Net gain (loss)	$	697	$	(80)	$	288
Prior service charge		730		783		837
Total accumulated other comprehensive income	$	1,427	$	703	$	1,125

Amounts recognized in the accumulated post-retirement benefit obligation and other comprehensive income (loss) were (in thousands):

For the year ended December 31,		2015
Unrecognized actuarial gain	$	1,176
Amortization of prior service cost		(82)
Total accumulated other comprehensive gain	$	1,094

The prior service credit that will be recognized in accumulated other comprehensive income during 2016 is $81,381.

NOTE P - 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

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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 the 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 by 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.

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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 for 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 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 December 31, 2015, 2014 and 2013, were as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
December 31, 2015:				
U.S. Treasuries	$ 63,754	$	$ 63,754	$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
Total	$ 202,807	$	$ 202,627	$ 180
December 31, 2014:				
U.S. Treasuries	$ 29,654	$	$ 29,654	$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
Total	$ 215,122	$	$ 215,122	$
December 31, 2013:				
U.S. Treasuries	$ 43,648	$	$ 43,648	$
U.S. Government agencies	145,805		145,805	
Mortgage-backed securities	50,326		50,326	
States and political subdivisions	35,011		35,011	
Equity securities	650		650	

Total	$	275,440	$	$	275,440	$

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Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2015, 2014 and 2013 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2015	$ 4,981	$	$	$ 4,981
2014	10,610			10,610
2013	18,831			18,831

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2015, 2014 and 2013 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2015	$ 9,916	$	$	$ 9,916
2014	7,646			7,646
2013	9,630			9,630

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

	2015	2014	2013
Balance, beginning of year	$ 7,646	$ 9,630	$ 7,008
Loans transferred to ORE	7,502	1,345	4,537
Sales	(4,295)	(2,068)	(1,188)
Writedowns	(937)	(1,261)	(670)
Insurance proceeds from casualty loss			(57)
Balance, end of year	$ 9,916	$ 7,646	$ 9,630

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2015, 2014 and 2013, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using			
		Level 1	Level 2	Level 3	Total
December 31, 2015:					
Financial Assets:					
Cash and due from banks	$ 31,396	$ 31,396	$	$	$ 31,396
Available for sale securities	202,807		202,627	180	202,807
Held to maturity securities	19,025		19,220		19,220
Other investments	2,744	2,744			2,744
Federal Home Loan Bank stock	1,637		1,637		1,637
Loans, net	329,487			331,026	331,026
Other real estate	9,916			9,916	9,916
Cash surrender value of life insurance	18,735		18,735		18,735
Financial Liabilities:					
Deposits:					
Non-interest bearing	122,743	122,743			122,743
Interest bearing	389,964			390,205	390,205
Borrowings from Federal Home Loan Bank	18,409		19,731		19,731

	Carrying Amount	Fair Value Measurements Using			
		Level 1	Level 2	Level 3	Total
December 31, 2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
Financial Liabilities:					
Deposits:					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	413,313			413,672	413,672
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
December 31, 2013:					
Financial Assets:					
Cash and due from banks	$ 36,264	$ 36,264	$	$	$ 36,264
Available for sale securities	275,440		275,440		275,440
Held to maturity securities	11,142		10,686		10,686
Other investments	3,262	3,262			3,262
Federal Home Loan Bank stock	3,834		3,834		3,834
Loans, net	366,415			369,117	369,117
Other real estate	9,630			9,630	9,630
Cash surrender value of life insurance	17,456		17,456		17,456
Financial Liabilities:					
Deposits:					
Non-interest bearing	107,117	107,117			107,117
Interest bearing	461,080			452,174	452,174
Borrowings from Federal Home Loan Bank	77,684		79,051		79,051

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Peoples Financial Corporation

Biloxi, Mississippi

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2015, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Atlanta, Georgia

March 15, 2016

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ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9a - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2015, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Management s Report on Internal Controls Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13(a) 15 (f) of the Securities Exchange Act of 1934. In meeting its responsibility, management relies on its accounting and other related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in the Company s financial records and to safeguard the Company s assets from material loss or misappropriation.

Management of the Company, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2015, using the criteria set forth in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment included a review of the documentation of controls, evaluations of the design of the internal control system and tests of operating effectiveness of the internal controls. Based on the assessment, management has concluded that the Company had effective internal control over financial reporting as of December 31, 2015.

Chevis C. Swetman
Chairman, President and Chief Executive Officer
March 15, 2016

Lauri A. Wood
Chief Financial Officer
March 15, 2016

ITEM 9b - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in Sections II, III, VIII and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2016, which was filed by the Company in definitive form with the Commission on March 15, 2016, is incorporated herein by reference.

The Company s Board of Directors has adopted a Code of Conduct that applies to not only the chief executive officer and the chief financial officer, but also all of the officers, directors and employees of the Company and its subsidiaries. A copy of this Code of Conduct can be found at the Company s internet website at www.thepeoples.com. The Company intends to disclose any amendments to its Code of Conduct, and any waiver from a provision of the Code of Conduct granted to the Company s Chief Executive Officer or Chief Financial Officer on the Company s internet website within five business days following such amendment or waiver. The information contained on or connected to the Company s internet website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report that the Company may file with or furnish to the SEC.

ITEM 11 - EXECUTIVE COMPENSATION

The information in Section VI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2016, which was filed by the Company in definitive form with the Commission on March 15, 2016, is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in Sections IV and V contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2016, which was filed by the Company in definitive form with the Commission on March 15, 2016, is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in Sections III and VII contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2016, which was filed by the Company in definitive form with the Commission on March 15, 2016, is incorporated herein by reference.

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ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in Section XI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 27, 2016, which was filed by the Company in definitive form with the Commission on March 15, 2016, is incorporated herein by reference.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Index of Financial Statements:
See Item 8.

(a) 2. Index of Financial Statement Schedules:
All other schedules have been omitted as not applicable or not required or because the information has been included in the financial statements or applicable notes.

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(a) 3. Index of Exhibits:

	Description	Incorporated by Reference to Registration or File Number	Form of Report	Date of Report	Exhibit Number in Report
(3.1)	Articles of Incorporation	0-30050	10/a	6/21/1999	3.1
(3.2)	By-Laws	0-30050	10/a	6/21/1999	3.2
(10.1)	Description of Automobile Plan	0-30050	10-K	12/31/2003	10.1
(10.2)	Directors Deferred Income Plan Agreements	0-30050	10-K	12/31/2003	10.2
(10.3)	Executive Supplemental Income Plan Agreement - Chevis C. Swetman	001-12103	10-Q	9/30/2007	10.2
(10.4)	Executive Supplemental Income Plan Agreement - A. Wes Fulmer	001-12103	10-Q	9/30/2007	10.3
(10.5)	Executive Supplemental Income Plan Agreement - Lauri A. Wood	001-12103	10-Q	9/30/2007	10.4
(10.6)	Split Dollar Agreements	0-30050	10-K	12/31/2003	10.4
(10.7)	Deferred Compensation Plan	001-12103	10-Q	9/30/2007	10.1
(10.8)	Description of Stock Incentive Plan	33-15595	10-K	12/31/2001	10.6
(10.9)	Description of Bonus Plan	001-12103	10-Q	9/30/2010	10.1
(21)	Subsidiaries of the registrant	33-15595	10-K	12/31/1988	22
(23.1)	Consent of Independent Registered Public Accounting Firm - Porter Keadle Moore, LLC*				
(31.1)	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *				
(31.2)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes -				

	Oxley Act of 2002 *
(32.1)	Certification of Principal Executive Officer Pursuant to 18 U.S.C. ss. 1350*
(32.2)	Certification of Principal Financial Officer Pursuant to 18 U.S.C. ss. 1350*
(101)	The following materials from the Company s 2015 Annual Report to Shareholders, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at December 31, 2015, 2014 and 2013, (ii) Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2015, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013 and (vi) Notes to the Consolidated Financial Statements for the years ended December 31, 2015, 2014 and 2013.*

* Filed herewith.

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SIGNATURES

Pursuant to the requirements 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: March 15, 2016

BY: /s/ Chevis C. Swetman

Chevis C. Swetman, Chairman of the Board

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY: /s/ Chevis C. Swetman

Date: March 15, 2016

Chevis C. Swetman, Chairman, President and CEO

(principal executive officer)

BY: /s/ Drew Allen

Date: March 15, 2016

Drew Allen, Director

BY: /s/ Rex E. Kelly

Date: March 15, 2016

Rex E. Kelly, Director

BY: /s/ Dan Magruder

Date: March 15, 2016

Dan Magruder, Director

BY: /s/ Jeffrey H. O Keefe

Date: March 15, 2016

Jeffrey H. O Keefe, Director

BY: /s/ Lauri A. Wood

Date: March 15, 2016

Lauri A. Wood, Chief Financial Officer
(principal financial and accounting officer)