PEOPLES FINANCIAL CORP /MS/
Form 10-Q
May 13, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi	**64-0709834**

(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Lameuse and Howard Avenues, Biloxi, Mississippi	**39533**
(Address of principal executive offices)	**(Zip Code)**

(228) 435-5511

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ Do not check if a smaller reporting company	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At April 29, 2013, there were 15,000,000 shares of $1 par value common stock authorized, with 5,134,186 shares issued and outstanding.

Part 1 Financial Information

Item 1: Financial Statements

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Cash and due from banks	$ 72,200	$ 54,020
Available for sale securities	298,205	258,876
Held to maturity securities, fair value of $8,508 at March 31, 2013; $7,225 at December 31, 2012	8,488	7,125
Other investments	3,198	3,450
Federal Home Loan Bank Stock, at cost	651	2,380
Loans	416,542	431,083
Less: Allowance for loan losses	8,835	8,857
Loans, net	407,707	422,226
Bank premises and equipment, net of accumulated depreciation	26,423	26,222
Other real estate	6,657	7,008
Accrued interest receivable	2,904	2,895
Cash surrender value of life insurance	17,014	16,861
Prepaid FDIC assessments	1,450	1,705
Other assets	2,889	2,144
Total assets	$ 847,786	$ 804,912

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 113,301	$ 102,609
Savings and demand, interest bearing	273,856	232,401
Time, $100,000 or more	83,945	94,606
Other time deposits	45,778	46,103
Total deposits	516,880	475,719
Federal funds purchased and securities sold under agreements to repurchase	196,090	194,234
Borrowings from Federal Home Loan Bank	7,856	7,912
Employee and director benefit plans liabilities	12,514	12,162
Other liabilities	3,623	4,131
Total liabilities	736,963	694,158
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,136,490 and 5,136,918 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	5,136	5,137
Surplus	65,780	65,780
Undivided profits	35,565	34,964
Accumulated other comprehensive income, net of tax	4,342	4,873
Total shareholders equity	110,823	110,754
Total liabilities and shareholders equity	$ 847,786	$ 804,912

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Interest income:		
Interest and fees on loans	$ 4,439	$ 4,642
Interest and dividends on securities:		
U.S. Treasuries	183	55
U.S. Government agencies	731	1,042
Mortgage-backed securities	91	80
States and political subdivisions	374	363
Other investments	3	5
Interest on federal funds sold	33	6
Total interest income	5,854	6,193
Interest expense:		
Deposits	320	435
Borrowings from Federal Home Loan Bank	41	50
Federal funds purchased and securities sold under agreements to repurchase	46	119
Total interest expense	407	604
Net interest income	5,447	5,589
Provision for allowance for loan losses	539	540
Net interest income after provision for allowance for loan losses	$ 4,908	$ 5,049

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Income (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended March 31, 2013	2012
Non-interest income:		
Trust department income and fees	$ 358	$ 344
Service charges on deposit accounts	1,508	1,457
Gain on sales and calls of securities		104
Loss on other investments	(22)	(55)
Increase in cash surrender value of life insurance	121	121
Other income	156	147
Total non-interest income	2,121	2,118
Non-interest expense:		
Salaries and employee benefits	3,141	3,271
Net occupancy	574	619
Equipment rentals, depreciation and maintenance	680	777
FDIC assessments	291	441
Data processing	320	372
ATM expense	578	479
Other expense	828	793
Total non-interest expense	6,412	6,752
Income before income tax expense (benefit)	617	415
Income tax expense (benefit)	11	(90)
Net income	$ 606	$ 505
Basic and diluted earnings per share	$ .12	$ .10
Dividends declared per share	$	$

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended March 31, 2013	2012
Net income	$ 606	$ 505
Other comprehensive income (loss), net of tax:		
Net unrealized loss on available for sale securities, net of taxes of $273 in 2013 and $876 in 2012	(531)	(1,700)
Reclassification adjustment for realized gains on available for sale securities called or sold, net of tax of tax of $87 in 2012		(158)
Total other comprehensive loss	(531)	(1,858)
Total comprehensive income (loss)	$ 75	$ (1,353)

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity

(in thousands except share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2013	5,136,918	$ 5,137	$ 65,780	$ 34,964	$ 4,873	$ 110,754
Net income				606		606
Other comprehensive loss, net of tax					(531)	(531)
Retirement of common stock	(428)	(1)		(5)		(6)
Balance, March 31, 2013	5,136,490	$ 5,136	$ 65,780	$ 35,565	$ 4,342	$ 110,823

Note: Balances as of January 1, 2013 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 606	$ 505
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	447	529
Provision for allowance for loan losses	539	540
Loss on sales of other real estate	54	14
Gain on sale of premises and equipment	(15)	
Loss on other investments	22	55
Gain on sales and calls of securities		(104)
Accretion of held to maturity securities	(1)	(1)
Change in accrued interest receivable	(9)	(165)
Increase in cash surrender value of life insurance	(121)	(121)
Change in other assets	(13)	288
Change in other liabilities	(361)	268
Net cash provided by operating activities	$ 1,148	$ 1,808

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 48,274	$ 121,626
Purchases of available for sale securities	(88,406)	(212,632)
Purchases of held to maturity securities	(1,362)	(1,348)
(Purchases) redemption of Federal Home Loan Bank stock	1,729	(1,269)
Redemption of other investments	230	
Proceeds from sales of premises and equipment	19	
Proceeds from sales of other real estate	375	251
Insurance proceeds from casualty loss on other real estate	57	
Loans, net change	13,845	1,743
Acquisition of premises and equipment	(652)	(6)
Investment in cash surrender value of life insurance	(32)	(36)
Net cash used in investing activities	(25,923)	(91,671)
Cash flows from financing activities:		
Demand and savings deposits, net change	52,147	45,057
Time deposits, net change	(10,986)	(9,738)
Cash dividends		(514)
Retirement of common stock	(6)	
Borrowings from Federal Home Loan Bank		319,000
Repayments to Federal Home Loan Bank	(56)	(278,052)
Federal funds purchased and securities sold under agreements to repurchase, net change	1,856	20,994
Net cash provided by financing activities	42,955	96,747
Net increase in cash and cash equivalents	18,180	6,884
Cash and cash equivalents, beginning of period	54,020	36,929
Cash and cash equivalents, end of period	$ 72,200	$ 43,813

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2013 and 2012

1. Basis of Presentation:

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 Peoples Bank, Biloxi, Mississippi, 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).

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of March 31, 2013 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company s 2012 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2013, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2012.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,136,771 and 5,136,918 for the quarters ended March 31, 2013 and 2012, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $418,289 and $604,472 for the quarters ended March 31, 2013 and 2012, respectively, for interest on deposits and borrowings. No income tax payments were made during the quarters ended March 31, 2013 and 2012. Loans transferred to other real estate amounted to $135,000 and $1,837,673 during the quarters ended March 31, 2013 and 2012, respectively. Dividends payable of $513,692 as of December 31, 2011 were paid during the first quarter of 2012.

4. Investments:

The amortized cost and fair value of securities at March 31, 2013 and December 31, 2012, are as follows (in thousands):

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 53,670	$ 392	$ (208)	$ 53,854
U.S. Government agencies	159,725	1,671	(488)	160,908
Mortgage-backed securities	44,953	461	(48)	45,366
States and political subdivisions	35,434	1,993		37,427
Total debt securities	293,782	4,517	(744)	297,555
Equity securities	650			650
Total available for sale securities	$ 294,432	$ 4,517	$ (744)	$ 298,205
Held to maturity securities:				
States and political subdivisions	$ 8,488	$ 63	$ (43)	$ 8,508
Total held to maturity securities	$ 8,488	$ 63	$ (43)	$ 8,508

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 53,661	$ 490	$ (55)	$ 54,096
U.S. Government agencies	147,652	1,810	(364)	149,098
Mortgage-backed securities	16,903	538		17,441
States and political subdivisions	35,433	2,158		37,591
Total debt securities	253,649	4,996	(419)	258,226
Equity securities	650			650
Total available for sale securities	$ 254,299	$ 4,996	$ (419)	$ 258,876
Held to maturity securities:				
States and political subdivisions	$ 7,125	$ 112	$ (12)	$ 7,225
Total held to maturity securities	$ 7,125	$ 112	$ (12)	$ 7,225

The amortized cost and fair value of debt securities at March 31, 2013 (in thousands), by contractual maturity, are shown on the next page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 10,374	$ 10,425
Due after one year through five years	60,485	61,348
Due after five years through ten years	107,344	109,609
Due after ten years	70,626	70,807
Mortgage-backed securities	44,953	45,366
Totals	$ 293,782	$ 297,555
Held to maturity securities:		
Due in one year or less	$ 795	$ 810
Due after one year through five years	750	765
Due after five years through ten years	3,493	3,506
Due after ten years	3,450	3,427
Totals	$ 8,488	$ 8,508

Available for Sale and Held to Maturity Securities with gross unrealized losses at March 31, 2013 and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2013:						
U.S. Treasuries	$ 24,525	$ 208	$	$	$ 24,525	$ 208
U.S. Government agencies	57,291	488			57,291	488
Mortgage-backed securities	8,644	48			8,644	48
States and political subdivisions	4,947	43			4,947	43
TOTAL	$ 95,407	$ 787	$	$	$ 95,407	$ 787
December 31, 2012:						
U.S. Treasuries	$ 9,887	$ 55	$	$	$ 9,887	$ 55
U.S. Government agencies	30,335	364			30,335	364
States and political subdivisions	1,451	12			1,451	12
TOTAL	$ 41,673	$ 431	$	$	$ 41,673	$ 431

At March 31, 2013, 5 of the 12 securities issued by the U.S. Treasury, 12 of the 32 securities issued by U.S. Government agencies, 2 of the 9 mortgage-backed securities and 13 of the 142 securities issued by states and political subdivisions contained unrealized losses.

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

Securities with a fair value of $300,793,348 and $241,879,775 at March 31, 2013 and December 31, 2012, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

Proceeds from the sale of available for sale debt securities were $18,660,705 for the quarter ended March 31, 2012. Available for sale debt securities were sold for a realized gain of $104,233 for the quarter ended March 31, 2012. No available for sale debt securities were sold during the first quarter of 2013.

5. Loans:

The composition of the loan portfolio at March 31, 2013 and December 31, 2012, is as follows (in thousands):

	March 31, 2013	December 31, 2012
Gaming	$ 51,294	$ 60,187
Residential and land development	27,281	27,338
Real estate, construction	50,739	52,586
Real estate, mortgage	243,877	246,420
Commercial and industrial	33,983	35,004
Other	9,368	9,548
Total	$ 416,542	$ 431,083

The age analysis of the loan portfolio, segregated by class of loans, as of March 31, 2013 and December 31, 2012, is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Days & Still Accruing
March 31, 2013:							
Gaming	$	$	$ 3,006	$ 3,006	$ 48,288	$ 51,294	$ 1,758
Residential and land development			5,765	5,765	21,516	27,281	
Real estate, construction	2,549	690	5,339	8,578	42,161	50,739	
Real estate, mortgage	5,708	1,924	7,527	15,159	228,718	243,877	487
Commercial and industrial	1,568	18	559	2,145	31,838	33,983	32
Other	76	14	50	140	9,228	9,368	51
Total	$ 9,901	$ 2,646	$ 22,246	$ 34,793	$ 381,749	$ 416,542	$ 2,328
December 31, 2012:							
Gaming	$	$ 1,721	$	$ 1,721	$ 58,466	$ 60,187	$
Residential and land development			5,765	5,765	21,573	27,338	
Real estate, construction	3,989	878	6,151	11,018	41,568	52,586	572
Real estate, mortgage	12,012	2,702	7,605	22,319	224,101	246,420	872
Commercial and industrial	1,804	79	107	1,990	33,014	35,004	
Other	127	26	1	154	9,394	9,548	1
Total	$ 17,932	$ 5,406	$ 19,629	$ 42,967	$ 388,116	$ 431,083	$ 1,445

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

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of March 31, 2013 and December 31, 2012, is as follows (in thousands):

	Loans With A Grade Of:					
	A or B	C	D	E	F	Total
March 31, 2013:						
Gaming	$ 26,161	$ 10,387	$ 560	$ 14,186	$	$ 51,294
Residential and land development	4,579	1,619		21,083		27,281
Real estate, construction	41,739	1,051	2,307	5,642		50,739
Real estate, mortgage	208,989	1,771	20,502	12,615		243,877
Commercial and industrial	30,877	634	2,346	126		33,983
Other	9,230	25	62	51		9,368
Total	$ 321,575	$ 15,487	$ 25,777	$ 53,703	$	$ 416,542
December 31, 2012:						
Gaming	$ 27,530	$ 12,300	$ 4,108	$ 16,249	$	$ 60,187
Residential and land development	4,630	1,544	81	21,083		27,338
Real estate, construction	43,318	1,001	2,701	5,566		52,586
Real estate, mortgage	209,479	3,093	21,167	12,681		246,420
Commercial and industrial	32,036	442	2,312	214		35,004
Other	9,449	27	72			9,548
Total	$ 326,442	$ 18,407	$ 30,441	$ 55,793	$	$ 431,083

A loan may be impaired but not on nonaccrual status when available information suggests that it is probable that the Bank may not receive all contractual principal and interest, however, the loan is still current and payments are received in accordance with the terms of the loan. Total loans on nonaccrual as of March 31, 2013 and December 31, 2012, are as follows (in thousands):

	March 31, 2013	December 31, 2012
Gaming	$ 12,327	$ 16,249
Residential and land development	21,083	21,083
Real estate, construction	5,247	5,171
Real estate, mortgage	10,917	11,174
Commercial and industrial	94	214
Total	$ 49,668	$ 53,891

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of March 31, 2013 and December 31, 2012 were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
March 31, 2013:				
Real estate, construction	2	$ 910	$ 910	$ 274
Real estate, mortgage	4	9,713	9,713	970
Commercial and industrial	1	699	699	
Total	7	$ 11,322	$ 11,322	$ 1,244
December 31, 2012:				
Real estate, construction	3	$ 1,095	$ 1,095	$ 340
Real estate, mortgage	3	9,054	9,054	957
Commercial and industrial	1	702	702	
Total	7	$ 10,851	$ 10,851	$ 1,297

During the first quarter of 2013, one loan which had been classified as a troubled debt restructuring at December 31, 2012 became in default of its modified terms and was placed on nonaccrual. The loan was included in the real estate construction segment with a total balance of $182,164 and a specific reserve of $66,000 at December 31, 2012.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of March 31, 2013 and December 31, 2012, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2013:					
With no related allowance recorded:					
Gaming	$ 11,080	$ 11,080	$	$ 13,319	$
Residential and land development	21,837	20,733		20,733	
Real estate, construction	4,561	4,505		4,517	6
Real estate, mortgage	10,534	10,500		10,290	4
Commercial and industrial	793	793		798	6
Total	$ 48,805	$ 47,611	$	$ 49,657	$ 16
With a related allowance recorded:					
Gaming	$ 1,721	$ 1,247	$ 626	$ 1,564	$
Residential and land development	350	350	70	350	
Real estate, construction	1,660	1,652	594	1,661	8
Real estate, mortgage	10,730	10,130	1,214	10,183	71
Total	$ 14,461	$ 13,379	$ 2,504	$ 13,758	$ 79
Total by class of loans:					
Gaming	$ 12,801	$ 12,327	$ 626	$ 14,883	$
Residential and land development	22,187	21,083	70	21,083	
Real estate, construction	6,221	6,157	594	6,178	14
Real estate, mortgage	21,264	20,630	1,214	20,473	75
Commercial and industrial	793	793		798	6
Total	$ 63,266	$ 60,990	$ 2,504	$ 63,415	$ 95

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012:					
With no related allowance recorded:					
Gaming	$ 14,528	$ 14,528	$	$ 14,869	$
Residential and land development	21,837	20,733		21,288	
Real estate, construction	4,635	4,580		3,833	
Real estate, mortgage	9,971	9,935		9,821	
Commercial and industrial	892	892		791	23
Total	$ 51,863	$ 50,668	$	$ 50,602	$ 23
With a related allowance recorded:					
Gaming	$ 1,721	$ 1,721	$ 1,100	$	$
Residential and land development	350	350	70	350	
Real estate, construction	1,694	1,686	663	1,314	8
Real estate, mortgage	10,893	10,293	1,229	10,199	319
Commercial and industrial	24	24	12		
Total	$ 14,682	$ 14,074	$ 3,074	$ 11,863	$ 327
Total by class of loans:					
Gaming	$ 16,249	$ 16,249	$ 1,100	$ 14,869	$
Residential and land development	22,187	21,083	70	21,638	
Real estate, construction	6,329	6,266	663	5,147	8
Real estate, mortgage	20,864	20,228	1,229	20,020	319
Commercial and industrial	916	916	12	791	23
Total	$ 66,545	$ 64,742	$ 3,074	$ 62,465	$ 350

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters ended March 31, 2013 and 2012, and the balances of loans, individually and collectively evaluated for impairment as of March 31, 2013 and 2012, are as follows (in thousands):

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

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Quarter Ended March 31, 2012:							
Allowance for Loan Losses:							
Beginning Balance	$ 457	$ 1,081	$ 937	$ 4,800	$ 557	$ 304	$ 8,136
Charge-offs			(474)	(99)	(59)	(53)	(685)
Recoveries					10	47	57
Provision	175	(40)	33	315	39	18	540
Ending Balance	$ 632	$ 1,041	$ 496	$ 5,016	$ 547	$ 316	$ 8,048
Allowance for loan losses, March 31, 2012:							
Ending balance: individually evaluated for impairment	$ 55	$ 900	$ 442	$ 1,859	$ 347	$ 65	$ 3,668
Ending balance: collectively evaluated for impairment	$ 577	$ 141	$ 54	$ 3,157	$ 200	$ 251	$ 4,380
Total Loans, March 31, 2012:							
Ending balance: individually evaluated for impairment	$ 15,360	$ 22,901	$ 8,847	$ 36,828	$ 2,924	$ 240	$ 87,100
Ending balance: collectively evaluated for impairment	$ 43,576	$ 4,816	$ 47,067	$ 207,271	$ 28,194	$ 10,176	$ 341,100

7. Deposits:

At March 31, 2013, time deposits of $100,000 or more include brokered deposits of $16,566,000. Of the total brokered deposits, $11,566,000 matures in 2013 and $5,000,000 matures in 2017.

8. Fair Value Measurements and Disclosures:

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

Fair Value Hierarchy

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

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

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

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

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

Cash and Due from Banks

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

Available for Sale Securities

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

Held to Maturity Securities

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

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

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

Loans

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

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

Other Real Estate

In the course of lending operations, Management may determine that it is necessary to foreclose on the related collateral. Other real estate acquired through foreclosure is carried at fair value, less estimated costs to sell. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the current appraisal is more than one year old and/or the loan balance is more than $200,000, a new appraisal is obtained. Otherwise, the Bank s in-house property evaluator and Management will determine the fair value of the collateral, based on comparable sales, market conditions, Management s plans for disposition and other estimates of fair value obtained from principally independent sources, adjusted for estimated selling costs. When the fair value of the property is based on observable market price, the Company records the other real estate as a non-recurring Level 2 asset. When an appraised value is not available or Management determines the fair value of the other real estate is further impaired below the appraised value and there is no observable market price, the Company records the other real estate as a non-recurring Level 3 asset.

Cash Surrender Value of Life Insurance

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

Deposits

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

Federal Funds Purchased and Securities Sold under Agreements to Repurchase

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

Borrowings from Federal Home Loan Bank

The fair value of FHLB fixed rate borrowings is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements. The Company has no FHLB variable rate borrowings.

Commitments to Extend Credit and Standby Letters of Credit

Because commitments to extend credit and standby letters of credit are generally short-term and at variable rates, the contract value and estimated value associated with these instruments are immaterial.

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of March 31, 2013 and December 31, 2012 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2013:				
U.S. Treasuries	$ 53,854	$	$ 53,854	$
U.S. Government agencies	160,908		160,908	
Mortgage-backed securities	45,366		45,366	
States and political subdivisions	37,427		37,427	
Equity securities	650		650	
Total	$ 298,205	$	$ 298,205	$
December 31, 2012:				
U.S. Treasuries	$ 54,096	$	$ 54,096	$
U.S. Government agencies	149,098		149,098	
Mortgage-backed securities	17,441		17,441	
States and political subdivisions	37,591		37,591	
Equity securities	650		650	
Total	$ 258,876	$	$ 258,876	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2013 and December 31, 2012 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2013	$ 15,870	$	$	$ 15,870
December 31, 2012	16,030			16,030

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

	For the Three Months Ended March 31, 2013	For the Year Ended December 31, 2012
Balance, beginning of period	$ 16,030	$ 14,770
Additions to impaired loans and troubled debt restructurings		2,960
Principal payments, charge-offs and transfers to other real estate	(731)	(1,654)
Change in allowance for loan losses on impaired loans	571	(46)
Balance, end of period	$ 15,870	$ 16,030

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2013 and December 31, 2012 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
March 31, 2013	$ 6,657	$	$	$ 6,657
December 31, 2012	7,008			7,008

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

	For the Three Months Ended March 31, 2013	For the Year Ended December 31, 2012
Balance, beginning of period	$ 7,008	$ 6,153
Loans transferred to ORE	135	2,576
Sales	(429)	(1,568)
Writedowns		(153)
Insurance proceeds for casualty loss	(57)	
Balance, end of period	$ 6,657	$ 7,008

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at March 31, 2013 and December 31, 2012, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
March 31, 2013:					
Financial Assets:					
Cash and due from banks	$ 72,200	$ 72,200	$	$	$ 72,200
Available for sale securities	298,205		298,205		298,205
Held to maturity securities	8,488		8,508		8,508
Other investments	3,198	3,198			3,198
Federal Home Loan Bank stock	651		651		651
Loans, net	407,707			411,422	411,422
Other real estate	6,657			6,657	6,657
Cash surrender value of life insurance	17,014			17,014	17,014
Financial Liabilities:					
Deposits:					
Non-interest bearing	113,301	113,301			113,301
Interest bearing	403,579			404,462	404,462
Federal funds purchased and securities sold under agreements to repurchase	196,090	196,090			196,090
Borrowings from Federal Home Loan Bank	7,856		10,145		10,145
December 31, 2012:					
Financial Assets:					
Cash and due from banks	$ 54,020	$ 54,020	$	$	$ 54,020
Available for sale securities	258,876		258,876		258,876
Held to maturity securities	7,125		7,225		7,225
Other investments	3,450	3,450			3,450
Federal Home Loan Bank stock	2,380		2,380		2,380
Loans, net	422,226			425,627	425,627
Other real estate	7,008			7,008	7,008
Cash surrender value of life insurance	16,861			16,861	16,861
Financial Liabilities:					
Deposits:					
Non-interest bearing	102,609	102,609			102,609
Interest bearing	373,110			376,209	376,209
Federal funds purchased and securities sold under agreements to repurchase	194,234	194,234			194,234
Borrowings from Federal Home Loan Bank	7,911		10,271		10,271

9. Reclassifications:

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

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

GENERAL

The Company is a one-bank holding company headquartered in Biloxi, Mississippi. It has two operating subsidiaries, PFC Service Corp., an inactive company, and The Peoples Bank, Biloxi, Mississippi (the Bank). The Bank provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in its trade area.

The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of Peoples Financial Corporation and Subsidiaries. These comments should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this report on Form 10-Q and the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management s Discussion and Analysis included in the Company s Form 10-K for the year ended December 31, 2012.

Forward-Looking Information

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

New Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments limit the scope of ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, to certain derivative instruments (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and lending arrangements that are either (1) offset on the balance sheet or (2) subject to an enforceable master netting arrangement or similar agreement. This ASU amends the scope of FASB ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires additional disclosure regarding offsetting of assets and liabilities to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position. The effective date of the amendments coincides with that of ASU 2011-11 (i.e., for fiscal years beginning on or after January 1, 2013, and interim periods within those years). The amendments will be applied retrospectively for all comparative periods presented on the balance sheet. The adoption of the guidance did not have a material impact on the Company s results of operations, financial position or disclosures.

Critical Accounting Policies

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

Allowance for loan losses:

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

Other Real Estate:

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

Employee Benefit Plans:

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

Income Taxes:

GAAP requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. As part of the process of preparing our consolidated financial statements, the Company is required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the provision for loan losses, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities that are included in our consolidated statement of condition. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent the Company establishes a valuation allowance or adjusts this allowance in a period, we must include an expense within the tax provisions in the consolidated statement of income.

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in its trade area of south Mississippi, southeast Louisiana and southwest Alabama. 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.

Net income for the first quarter of 2013 was $606,000 compared with $505,000 for the first quarter of 2012. The decrease in salaries and employee benefits, FDIC assessments and other non-interest expense exceeded the decrease in net interest income for the first quarter of 2013 as compared with the first quarter of 2012.

Managing the net interest margin in the Company s highly competitive market and in context of larger economic conditions has been very challenging and will continue to be so for the foreseeable future. Interest income decreased $339,000 for the first quarter of 2013 as compared with the first quarter of 2012. This decrease is the result of decrease in loan commitment fees and the decrease in yield on U.S. Agencies, our primary investment choice. Interest expense decreased $197,000 primarily due to a reduction in the cost of funds in 2013 as compared with 2012.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized during these difficult economic times, as the local and national economy continues to negatively impact collateral values and borrowers ability to repay their loans. The Company s nonaccrual loans totaled $49,668,000 and $53,891,000 at March 31, 2013 and December 31, 2012, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. There has been improvement in past due and nonaccrual loans in recent quarters, and the Company is working diligently to continue that trend.

Non-interest income for the first quarter of 2013 included increases in service charges on deposit accounts and a reduced loss on other investments as compared with the first quarter of 2012. The Company realized a gain of $104,233 in the first quarter of 2012 from the sale of securities.

Non-interest expense decreased $340,000 for the first quarter of 2013 as compared with the first quarter of 2012. This was primarily due to the decrease in salaries and employee benefits of $130,000 and the decrease in FDIC assessments of $150,000.

Total assets at March 31, 2013 increased $42,874,000 as compared with December 31, 2012. During the first quarter of 2013, one public fund relationship increased their balance in an interest bearing demand account by $30,000,000. Principal payments, maturities, charge-offs and foreclosures on loans have exceeded new loans during the first quarter of 2013. Funds from these deposits and loan payments have been left on deposit with the Federal Reserve, which is included in Cash and Due from Banks, or invested in available for sale securities.

RESULTS OF OPERATIONS

Net Interest Income

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

The Company s average interest earning assets decreased approximately $17,825,000, or 2%, from approximately $761,077,000 for the first quarter of 2012 to approximately $743,252,000 for the first quarter of 2013. The Company s average balance sheet decreased primarily as available for sale securities decreased in 2013. Pledging requirements for public funds decreased in 2013, allowing for funds from the maturity of available for sale securities to reduce borrowings from the Federal Home Loan Bank.

The average yield on earning assets decreased by 10 basis points, from 3.35% for the first quarter of 2012 to 3.25% for the first quarter of 2013, with the biggest impact to the yield on loans. This decrease is the result of the reduction in loan fees on commitments that closed out in the fourth quarter of 2012 and the first quarter of 2013.

Average interest bearing liabilities decreased slightly approximately $6,161,000, or 1%, from approximately $625,360,000 for the first quarter of 2012 to approximately $619,199,000 for the first quarter of 2013. While total average interest bearing liabilities saw little change, there were large fluctuations within its components. Savings and interest-bearing DDA balances increased in 2013 as a result of the public fund deposit discussed in the Overview. Funds from maturities of available for sale securities in 2013 were available to reduce FHLB advances.

The average rate paid on interest bearing liabilities decreased 13 basis points, from .39% for the first quarter of 2012 to .26% for the first quarter of 2013. The current unprecedented low rate environment which exists on a national and local level has caused customers to tolerate lower interest rates in return for less risk. The Company believes that it is unlikely that its cost of funds can be materially reduced further; however, any opportunity to do so will be considered.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.04% for the three months ended March 31, 2013 and 2012 as the decrease in yield on interest earning assets is offset by the decrease in the rate paid on interest bearing liabilities.

The tables below analyze the changes in tax-equivalent net interest income for the quarters ended March 31, 2013 and 2012.

Analysis of Average Balances, Interest Earned/Paid and Yield

(in thousands)

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2)(3)	$ 423,130	$ 4,439	4.20%	$ 427,615	$ 4,642	4.34%
Federal funds Sold	33,109	33	0.40%	9,378	6	0.26%
HTM:						
Non taxable (1)	8,050	77	3.83%	1,778	23	5.17%
AFS:						
Taxable	239,376	1,005	1.68%	278,826	1,176	1.69%
Non taxable (1)	37,595	490	5.21%	40,177	528	5.26%
Other	1,992	3	0.60%	3,303	5	0.61%
Total	$ 743,252	$ 6,047	3.25%	$ 761,077	$ 6,380	3.35%
Savings & interest-bearing DDA	$ 270,159	$ 47	0.07%	$ 225,489	$ 143	0.25%
CD s	135,292	273	0.81%	156,711	291	0.74%
Federal funds purchased	205,865	46	0.09%	193,296	119	0.25%
FHLB advances	7,883	41	2.08%	49,864	51	0.41%
Total	$ 619,199	$ 407	0.26%	$ 625,360	$ 604	0.39%
Net tax-equivalent margin on earning assets			3.04%			3.04%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2013 and 2012.
(2) Loan fees of $150 and $245 for 2013 and 2012, respectively, are included in these figures.
(3) Includes nonaccrual loans.

Analysis of Changes in Interest Income and Interest Expense

(in thousands)

	For the Quarter Ended March 31, 2013 compared with March 31, 2012			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (49)	$ (156)	$ 2	$ (203)
Federal funds sold	15	3	9	27
Held to maturity securities:				
Non taxable	81	(6)	(21)	54
Available for sale securities:				
Taxable	(167)	(6)	1	(172)
Non taxable	(34)	(4)		(38)
Other	(1)		(1)	(2)
Total	$ (155)	$ (169)	$ (10)	$ (334)
Interest paid on:				
Savings & interest-bearing DDA	$ 28	$ (104)	$ (20)	$ (96)
CD s	(40)	24	(3)	(19)
Federal funds purchased	8	(76)	(5)	(73)
FHLB advances	(42)	209	(176)	(9)
Total	$ (46)	$ 53	$ (204)	$ (197)

Provision for Allowance for Loan Losses

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

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and identify and estimate potential losses based on the best available information. The potential effect resulting from the economic downturn on a national and local level, the decline in real estate values and actual losses incurred by the Company were key factors in our analysis. Much of the Company s loan portfolio is collateral-dependent, requiring careful consideration of changes in the value of the collateral.

The Company s on-going, systematic evaluation resulted in the Company recording a provision for loan losses of $539,000 and $540,000 for the first quarters of 2013 and 2012, respectively. The allowance for loan losses as a percentage of loans was 2.12% and 1.88% at March 31, 2013 and December 31, 2012, respectively. The Company s analysis includes evaluating the current values of collateral securing all nonaccrual loans. Even though nonaccrual loans were $49,668,000 and $53,891,000 at March 31, 2013 and December 31, 2012, respectively, specific reserves of only $1,187,000 and $1,777,000 respectively, have been allocated to these loans as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value. The Company believes that its allowance for loan losses is appropriate as of March 31, 2013.

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

Non-interest income

Non-interest income increased slightly by $3,000 for the first quarter of 2013 as compared with the first quarter of 2012. Trust department income and fees and service charges on deposit accounts increased and the loss on other investments decreased in 2013 as compared with 2012. Results in 2012 included gains on sales of securities of $104,000.

Trust department income and fees increased $14,000 in 2013 as compared with 2012 as a result of the increase in market value, on which fees are based, of personal trust accounts.

Service charges on deposit accounts increased by $51,000 during the first quarter of 2013 as compared with the first quarter of 2012. NSF fee income decreased $48,000 and ATM surcharge fee income increased $100,000. While NSF fee fluctuations are difficult to predict or analyze, it appears that customers may change their overdraft activity based on general economic conditions. ATM surcharge fee income is earned primarily from off-site ATMs at casinos, which have seen some increase in their business in recent months.

Non-interest expense

Total non-interest expense decreased $340,000 for the first quarter of 2013 as compared with the first quarter of 2012. Salaries and employee benefits decreased $130,000; equipment rentals, depreciation and maintenance decreased $97,000; FDIC assessments decreased $150,000; data processing expenses decreased $52,000 and ATM expenses increased $99,000 for the first quarter of 2013 as compared with the first quarter of 2012.

Expenses relating to the retiree health plan decreased $69,108 as a result of amendments made to the plan which require plan participants to utilize drug benefits and health insurance coverage available under Medicare. The Company has reduced its contributions to its employee stock ownership and 401(k) plans which reduced costs $35,000 in 2013.

Depreciation costs have decreased by $81,000 in 2013, as computer and other equipment acquired after Hurricane Katrina in 2005 are now fully depreciated.

FDIC and state insurance assessments decreased $150,000 for the first quarter of 2013 as compared with the first quarter of 2012. This decrease was the result of the change in estimate of the prepaid FDIC assessment which was identified during the fourth quarter of 2012.

Data processing costs decreased in 2013 as the prior year s costs included several additional services and projects.

ATM expenses increased in 2013 as a result of increased ATM activity in the current year.

Income Tax Benefit

Income taxes have been impacted by non-taxable income and federal tax credits during the quarters ended March 31, 2013 and 2012, as follows (in thousands except rate):

	Quarter Ended March 31,			
	2013		2012	
	Tax	Rate	Tax	Rate
Taxes at statutory rate	$ 210	34	$ 141	34
Increase (decrease) resulting from:				
Tax-exempt interest income	(85)	(13)	(105)	(25)
Income from BOLI	(41)	(7)	(41)	(10)
Federal tax credits	(74)	(12)	(91)	(22)
Other	1		6	1
Total income taxes (benefit)	$ 11	2	$ (90)	(22)

FINANCIAL CONDITION

Available for sale securities increased $39,329,000 at March 31, 2013, compared with December 31, 2012. This increase was funded by the large increase in interest bearing demand deposits and decrease in loan demand during the first quarter of 2013.

Held to maturity securities increased $1,363,000 at March 31, 2013, compared with December 31, 2012, as the Company opted to classify some of its investment purchases during the first quarter as held to maturity.

The Company decreased its investment in Federal Home Loan Bank (FHLB) stock by $1,729,000 at March 31, 2013 as compared with December 31, 2012 as a result of a reduced need to borrow from FHLB during the quarter.

Other real estate (ORE) decreased $351,000 at March 31, 2013 as compared with December 31, 2012. Loans totaling $135,000 were transferred into ORE while $429,000 was sold for a loss of $54,000 during the first quarter of 2013.

Prepaid FDIC assessments decreased by $255,000 at March 31, 2013 as compared with December 31, 2012 as a result of the amortization of these costs.

Other assets increased $745,000 at March 31, 2013 as compared with December 31, 2012 as deferred tax assets increased $477,000 as the decrease in fair value of available for sale securities reduced an unrealized gain and other prepaid assets and receivables increased $268,000.

Total deposits increased $41,161,000 at March 31, 2013, as compared with December 31, 2012. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from quarter to quarter are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically. Savings and demand, interest bearing, increased $41,455,000 as a result of the public fund deposit discussed above.

Employee and director benefit plans liabilities increased $352,000 at March 31, 2013 as compared with December 31, 2012 deferred compensation benefits earned by officers and directors during 2013.

Other liabilities decreased $508,000 at March 31, 2013 as compared with December 31, 2012 as a result of the payment of property tax and certain officer incentives which had been accrued at December 31, 2012.

SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY

Strength, security and stability have been the hallmark of the Company since its founding in 1985 and of its bank subsidiary since its founding in 1896. A strong capital foundation is fundamental to the continuing prosperity of the Company and the security of its customers and shareholders.

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

As of March 31, 2013, the most recent notification from the Federal Deposit Insurance Corporation categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% or greater and a Leverage capital ratio of 5.00% or greater. There are no conditions or events since that notification that Management believes have changed the bank subsidiary s category.

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Company as of March 31, 2013 and December 31, 2012, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2013:				
Total Capital (to Risk Weighted Assets)	$ 112,889	21.57%	$ 41,860	8.00%
Tier 1 Capital (to Risk Weighted Assets)	106,329	20.32%	20,930	4.00%
Tier 1 Capital (to Average Assets)	106,329	12.87%	33,048	4.00%
December 31, 2012:				
Total Capital (to Risk Weighted Assets)	$ 112,342	21.29%	$ 42,216	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,728	20.04%	21,108	4.00%
Tier 1 Capital (to Average Assets)	105,728	13.07%	32,361	4.00%

The actual capital amounts and ratios and required minimum capital amounts and ratios for the Bank as of March 31, 2013 and December 31, 2012, are as follows (in thousands):

	Acutal		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2013:						
Total Capital (to Risk Weighted Assets)	$ 108,457	20.76%	$ 41,801	8.00%	$ 52,252	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,897	19.50%	20,901	4.00%	31,351	6.00%
Tier 1 Capital (to Average Assets)	101,897	12.02%	33,915	4.00%	42,394	5.00%
December 31, 2012:						
Total Capital (to Risk Weighted Assets)	$ 107,885	20.47%	$ 42,148	8.00%	$ 52,685	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,241	19.22%	21,074	4.00%	31,611	6.00%
Tier 1 Capital (to Average Assets)	101,241	12.62%	32,086	4.00%	40,108	5.00%

In addition to monitoring its risk-based capital ratios, the Company also determines the primary capital ratio on a quarterly basis. This ratio was 14.33% at March 31, 2013, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being well-capitalized by the banking regulatory authorities.

LIQUIDITY

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

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

REGULATORY MATTERS

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

Item 4: Controls and Procedures

As of March 31, 2013, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 5: Other Information

(a) On January 23, 2013, the Board of Directors appointed the following officers of the Company:

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

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1:	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 32.1:	Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 32.2:	Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350

Exhibit 101 The following materials from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at March 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Income for the quarters ended March 31, 2013 and 2012, (iii) Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2013 and 2012, (iv) Statement of Changes in Shareholders Equity for the quarter ended March 31, 2013, (v) Consolidated Statements of Cash Flows for the quarters ended March 31, 2013 and 2012 and (vi) Notes to the Unaudited Consolidated Financial Statements for the quarters ended March 31, 2013 and 2012.

(b) Reports on Form 8-K

A Form 8-K was filed on January 7, 2013, January 30, 2013, February 27, 2013, April 18, 2013 and April 25, 2013.

SIGNATURES

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

PEOPLES FINANCIAL CORPORATION

(Registrant)

Date: May 13, 2013

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

Date: May 13, 2013

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