

PEOPLES FINANCIAL CORP /MS/
Form 10-Q
November 10, 2015

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 September 30, 2015

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
(State or other jurisdiction of**

**64-0709834
(I.R.S. Employer**

incorporation or organization)

Identification No.)

Lameuse and Howard Avenues, Biloxi, Mississippi
(Address of principal executive offices)

39533
(Zip Code)

(228) 435-5511

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At October 30, 2015, there were 15,000,000 shares of \$1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

Part 1 Financial Information**Item 1: Financial Statements****Peoples Financial Corporation and Subsidiaries****Consolidated Statements of Condition****(in thousands except share data)**

| | September 30, 2015 (unaudited) | December 31, 2014 (audited) |
|--|---|--|
| Assets | | |
| Cash and due from banks | \$ 35,495 | \$ 23,556 |
| Available for sale securities | 201,647 | 215,122 |
| Held to maturity securities, fair value of \$19,078 at September 30, 2015; \$17,859 at December 31, 2014 | 19,056 | 17,784 |
| Other investments | 2,862 | 2,962 |
| Federal Home Loan Bank Stock, at cost | 1,471 | 2,504 |
| Loans | 348,699 | 362,407 |
| Less: Allowance for loan losses | 8,377 | 9,206 |
| Loans, net | 340,322 | 353,201 |
| Bank premises and equipment, net of accumulated depreciation | 22,702 | 23,784 |
| Other real estate | 10,867 | 7,646 |
| Accrued interest receivable | 1,931 | 2,125 |
| Cash surrender value of life insurance | 18,589 | 18,145 |
| Other assets | 1,707 | 2,066 |
| Total assets | \$ 656,649 | \$ 668,895 |

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

| | September 30, 2015 (unaudited) | December 31, 2014 (audited) |
|--|-----------------------------------|--------------------------------|
| Liabilities and Shareholders Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Demand, non-interest bearing | \$ 126,694 | \$ 103,607 |
| Savings and demand, interest bearing | 328,130 | 336,740 |
| Time, \$100,000 or more | 32,749 | 35,925 |
| Other time deposits | 40,006 | 40,648 |
| Total deposits | 527,579 | 516,920 |
| Borrowings from Federal Home Loan Bank | 18,484 | 38,708 |
| Employee and director benefit plans liabilities | 17,248 | 16,957 |
| Other liabilities | 1,743 | 1,359 |
| Total liabilities | 565,054 | 573,944 |
| Shareholders Equity: | | |
| Common stock, \$1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at September 30, 2015 and December 31, 2014 | 5,123 | 5,123 |
| Surplus | 65,780 | 65,780 |
| Undivided profits | 18,434 | 23,743 |
| Accumulated other comprehensive income, net of tax | 2,258 | 305 |
| Total shareholders equity | 91,595 | 94,951 |
| Total liabilities and shareholders equity | \$ 656,649 | \$ 668,895 |

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)(unaudited)

| | Three Months Ended September 30, | | Three Months Ended September 30, | |
|--|----------------------------------|-----------------|----------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income: | | | | |
| Interest and fees on loans | \$ 3,665 | \$ 3,867 | \$ 11,031 | \$ 12,284 |
| Interest and dividends on securities: | | | | |
| U.S. Treasuries | 187 | 159 | 461 | 473 |
| U.S. Government agencies | 475 | 785 | 1,534 | 2,390 |
| Mortgage-backed securities | 147 | 234 | 454 | 720 |
| States and political subdivisions | 245 | 405 | 970 | 1,169 |
| Other investments | 13 | 12 | 20 | 16 |
| Interest on balances due from depository institutions | 15 | 5 | 50 | 12 |
| Total interest income | 4,747 | 5,467 | 14,520 | 17,064 |
| Interest expense: | | | | |
| Deposits | 179 | 505 | 508 | 1,037 |
| Borrowings from Federal Home Loan Bank | 57 | 66 | 152 | 172 |
| Total interest expense | 236 | 571 | 660 | 1,209 |
| Net interest income | 4,511 | 4,896 | 13,860 | 15,855 |
| Provision for allowance for loan losses | 285 | 3,541 | 2,807 | 4,615 |
| Net interest income after provision for allowance for loan losses | \$ 4,226 | \$ 1,355 | \$ 11,053 | \$ 11,240 |

Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Operations (continued)
(in thousands except per share data)(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------------|--|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Non-interest income: | | | | |
| Trust department income and fees | \$ 438 | \$ 391 | \$ 1,238 | \$ 1,108 |
| Service charges on deposit accounts | 943 | 1,437 | 3,331 | 4,656 |
| Loss from other investments | (29) | (30) | (100) | |
| Increase in cash surrender value of life insurance | 121 | 115 | 363 | 360 |
| Other income | 211 | 166 | 598 | 452 |
| Total non-interest income | 1,684 | 2,079 | 5,430 | 6,576 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 2,943 | 3,002 | 8,918 | 9,417 |
| Net occupancy | 556 | 600 | 1,871 | 1,867 |
| Equipment rentals, depreciation and maintenance | 716 | 748 | 2,135 | 2,321 |
| FDIC and state banking assessments | 243 | 259 | 704 | 799 |
| Data processing | 344 | 328 | 1,036 | 1,004 |
| ATM expense | 179 | 657 | 1,004 | 2,072 |
| Other real estate expense | 962 | 176 | 1,704 | 494 |
| Loss on credit impairment of securities | 1,695 | | 1,695 | |
| Other expense | 825 | 717 | 2,725 | 2,305 |
| Total non-interest expense | 8,463 | 6,487 | 21,792 | 20,279 |
| Loss before income taxes | (2,553) | (3,053) | (5,309) | (2,463) |
| Income tax benefit | | (1,254) | | (1,578) |
| Net loss | \$ (2,553) | \$ (1,799) | \$ (5,309) | \$ (885) |
| Basic and diluted loss per share | \$ (0.50) | \$ (0.35) | \$ (1.04) | \$ (0.17) |
| Dividends declared per share | \$ | \$ | \$ | \$ 0.10 |

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss | \$ (2,553) | \$ (1,799) | \$ (5,309) | \$ (885) |
| Other comprehensive income, net of tax: | | | | |
| Net unrealized gain on available for sale securities, net of tax of \$294 for the three months ended September 30, 2014 and \$2,382 for the nine months ended September 30, 2014 | 1,824 | 570 | 1,953 | 4,623 |
| Total other comprehensive income | 1,824 | 570 | 1,953 | 4,623 |
| Total comprehensive income (loss) | \$ (729) | \$ (1,229) | \$ (3,356) | \$ 3,738 |

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, 2015 | 5,123,186 | \$ 5,123 | \$ 65,780 | \$ 23,743 | \$ 305 | \$ 94,951 |
| Net loss | | | | (5,309) | | (5,309) |
| Other comprehensive income, net of tax | | | | | 1,953 | 1,953 |
| Balance, September 30, 2015 | 5,123,186 | \$ 5,123 | \$ 65,780 | \$ 18,434 | \$ 2,258 | \$ 91,595 |

Note: Balances as of January 1, 2015 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

| | Nine Months Ended September 30, | |
|---|--|-----------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$ (5,309) | \$ (885) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 1,341 | 1,364 |
| Provision for allowance for loan losses | 2,807 | 4,615 |
| Writedown of other real estate | 443 | 219 |
| Loss on sales of other real estate | 796 | 80 |
| Loss from other investments | 100 | |
| (Accretion) amortization of held to maturity securities | 52 | (2) |
| Amortization of available for sale securities | 175 | |
| Gain on calls of securities | (8) | |
| Loss on credit impairment of securities | 1,695 | |
| Change in accrued interest receivable | 194 | 401 |
| Increase in cash surrender value of life insurance | (363) | (360) |
| Change in other assets | 357 | 964 |
| Change in other liabilities | 675 | (1,562) |
| Net cash provided by operating activities | \$ 2,955 | \$ 4,834 |

Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(in thousands) (unaudited)

| | Nine Months Ended September 30, | |
|--|--|------------------|
| | 2015 | 2014 |
| Cash flows from investing activities: | | |
| Proceeds from maturities, sales and calls of available for sale securities | \$ 48,615 | \$ 21,193 |
| Proceeds from maturities of held to maturity securities | 210 | 215 |
| Purchases of available for sale securities | (35,049) | (1,795) |
| Purchases of held to maturity securities | (1,534) | (4,688) |
| Redemption (purchases) of Federal Home Loan Bank stock | 1,033 | (468) |
| Redemption of other investments | | 236 |
| Proceeds from sales of other real estate | 2,819 | 765 |
| Loans, net change | 2,794 | 13,474 |
| Acquisition of bank premises and equipment | (259) | (161) |
| Investment in cash surrender value of life insurance | (80) | (80) |
| Net cash provided by investing activities | 18,549 | 28,691 |
| Cash flows from financing activities: | | |
| Demand and savings deposits, net change | 14,477 | 24,475 |
| Time deposits, net change | (3,818) | (22,194) |
| Cash dividends | | (512) |
| Borrowings from Federal Home Loan Bank | (717,768) | 1,667,500 |
| Repayments to Federal Home Loan Bank | 697,544 | (1,682,679) |
| Net cash used in financing activities | (9,565) | (13,410) |
| Net increase in cash and cash equivalents | 11,939 | 20,115 |
| Cash and cash equivalents, beginning of period | 23,556 | 36,264 |
| Cash and cash equivalents, end of period | \$ 35,495 | \$ 56,379 |

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 and 2014

1. Basis of Presentation:

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

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of September 30, 2015 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 2014 Annual Report and Form 10-K.

The results of operations for the quarter or nine months ended September 30, 2015, are not necessarily indicative of the results to be expected for the full year.

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

Summary of Significant Accounting Policies - The accounting and reporting policies of the Company conform to GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2014.

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.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 for the quarters and nine months ended September 30, 2015 and 2014.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid \$655,764 and \$1,209,501 for the nine months ended September 30, 2015 and 2014, respectively, for interest on deposits and borrowings. Income tax payments of \$320,000 were made during the nine months ended September 30, 2014. Loans transferred to other real estate amounted to \$7,278,605 and \$1,143,953 during the nine months ended September 30, 2015 and 2014, respectively.

4. Investments:

The amortized cost and fair value of securities at September 30, 2015 and December 31, 2014, are as follows (in thousands):

| September 30, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|-------------------|
| Available for sale securities: | | | | |
| Debt securities: | | | | |
| U.S. Treasuries | \$ 54,848 | \$ 281 | \$ | \$ 55,129 |
| U.S. Government agencies | 89,839 | 351 | (556) | 89,634 |
| Mortgage-backed securities | 31,503 | 345 | (5) | 31,843 |
| States and political subdivisions | 23,477 | 914 | | 24,391 |
| Total debt securities | 199,667 | 1,891 | (561) | 200,997 |
| Equity securities | 650 | | | 650 |
| Total available for sale securities | \$ 200,317 | \$ 1,891 | \$ (561) | \$ 201,647 |
| Held to maturity securities: | | | | |
| States and political subdivisions | \$ 17,524 | \$ 113 | \$ (82) | \$ 17,555 |
| Corporate bonds | 1,532 | | (9) | 1,523 |
| Total held to maturity securities | \$ 19,056 | \$ 113 | \$ (91) | \$ 19,078 |

| 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 |

The amortized cost and fair value of debt securities at September 30, 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 | \$ 11,201 | \$ 11,252 |
| Due after one year through five years | 88,674 | 89,429 |
| Due after five years through ten years | 29,744 | 29,863 |
| Due after ten years | 38,545 | 38,610 |
| Mortgage-backed securities | 31,503 | 31,843 |
| Totals | \$ 199,667 | \$ 200,997 |
| Held to maturity securities: | | |
| Due in one year or less | \$ 514 | \$ 515 |
| Due after one year through five years | 6,967 | 6,999 |
| Due after five years through ten years | 6,429 | 6,464 |
| Due after ten years | 5,146 | 5,100 |
| Totals | \$ 19,056 | \$ 19,078 |

Available for sale and held to maturity securities with gross unrealized losses at September 30, 2015 and December 31, 2014, 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 |
| September 30, 2015: | | | | | | |
| U.S. Government agencies | \$ 21,903 | \$ 83 | \$ 12,499 | \$ 473 | \$ 34,402 | \$ 556 |
| Mortgage-backed securities | 3,667 | 5 | | | 3,667 | 5 |
| States and political subdivisions | 4,581 | 70 | 1,029 | 12 | 5,610 | 82 |
| Corporate bonds | 1,523 | 9 | | | 1,523 | 9 |
| TOTAL | \$ 31,674 | \$ 167 | \$ 13,528 | \$ 485 | \$ 45,202 | \$ 652 |
| 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 |

At September 30, 2015, 6 of the 16 securities issued by U.S. Government agencies, 1 of the 10 mortgage-backed securities, 15 of the 135 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 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.

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 at September 30, 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 is impaired and that a credit loss should be recognized in earnings. During the third quarter of 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 the third quarter of 2015.

Securities with a fair value of \$169,114,936 and \$200,474,637 at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

5. Loans:

The composition of the loan portfolio at September 30, 2015 and December 31, 2014, is as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|----------------------------------|--------------------|-------------------|
| Gaming | \$ 32,181 | \$ 31,353 |
| Residential and land development | 3,767 | 10,119 |
| Real estate, construction | 35,497 | 34,010 |
| Real estate, mortgage | 220,285 | 234,713 |
| Commercial and industrial | 44,317 | 37,534 |
| Other | 12,652 | 14,678 |
| Total | \$ 348,699 | \$ 362,407 |

The age analysis of the loan portfolio, segregated by class of loans, as of September 30, 2015 and December 31, 2014, is as follows (in thousands):

| | Number of Days Past Due | | | Total Past Due | Current | Total Loans | Loans Past Due Greater Than 90 Days & Still Accruing |
|----------------------------------|-------------------------|-----------------|--------------------|-------------------|-------------------|-------------------|--|
| | 30 - 59 | 60 - 89 | Greater Than 90 | | | | |
| September 30, 2015: | | | | | | | |
| Gaming | \$ | \$ | \$ | \$ | \$ 32,181 | \$ 32,181 | \$ |
| Residential and land development | | | 342 | 342 | 3,425 | 3,767 | |
| Real estate, construction | 1,060 | | 1,928 | 2,988 | 32,509 | 35,497 | |
| Real estate, mortgage | 2,802 | 1,947 | 3,561 | 8,310 | 211,975 | 220,285 | 50 |
| Commercial and industrial | 1,672 | 15 | 495 | 2,182 | 42,135 | 44,317 | |
| Other | 52 | 3 | | 55 | 12,597 | 12,652 | |
| Total | \$ 5,586 | \$ 1,965 | \$ 6,326 | \$ 13,877 | \$ 334,822 | \$ 348,699 | \$ 50 |
| 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 |

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

A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of September 30, 2015 and December 31, 2014, is as follows (in thousands):

| | Loans With A Grade Of: | | | | | Total |
|----------------------------------|------------------------|------------------|------------------|------------------|-----------|-------------------|
| | A, B or C | S | D | E | F | |
| September 30, 2015: | | | | | | |
| Gaming | \$ 32,181 | \$ | \$ | \$ | \$ | \$ 32,181 |
| Residential and land development | 650 | | | 3,117 | | 3,767 |
| Real estate, construction | 31,273 | | 1,371 | 2,853 | | 35,497 |
| Real estate, mortgage | 167,032 | 16,306 | 24,246 | 12,701 | | 220,285 |
| Commercial and industrial | 25,762 | 15,007 | 2,849 | 699 | | 44,317 |
| Other | 12,632 | | 20 | | | 12,652 |
| Total | \$ 269,530 | \$ 31,313 | \$ 28,486 | \$ 19,370 | \$ | \$ 348,699 |
| 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 |

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 September 30, 2015 and December 31, 2014, are as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|----------------------------------|--------------------|-------------------|
| Residential and land development | \$ 3,117 | \$ 8,233 |
| Real estate, construction | 2,778 | 3,287 |
| Real estate, mortgage | 12,118 | 21,152 |
| Commercial and industrial | 645 | 626 |
| Total | \$ 18,658 | \$ 33,298 |

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 September 30, 2015 and December 31, 2014 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 |
|----------------------------|------------------------|---|--|----------------------|
| September 30, 2015: | | | | |
| Real estate, mortgage | 3 | \$ 1,238 | \$ 1,238 | \$ 107 |
| Total | 3 | \$ 1,238 | \$ 1,238 | \$ 107 |
| December 31, 2014: | | | | |
| Real estate, mortgage | 2 | \$ 837 | \$ 837 | \$ 50 |
| Total | 2 | \$ 837 | \$ 837 | \$ 50 |

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of September 30, 2015 and December 31, 2014, are as follows (in thousands):

| | Unpaid Principal Balance | Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------|--------------------------------|------------------------|----------------------|-----------------------------------|----------------------------------|
| September 30, 2015: | | | | | |
| With no related allowance recorded: | | | | | |
| Residential and land development | \$ 2,775 | \$ 2,775 | \$ | \$ 2,857 | \$ |
| Real estate, construction | 2,477 | 2,090 | | 2,111 | |
| Real estate, mortgage | 9,026 | 9,026 | | 9,153 | 17 |
| Commercial and industrial | 645 | 645 | | 670 | |
| Total | 14,923 | 14,536 | | 14,791 | 17 |
| With a related allowance recorded: | | | | | |
| Residential and land development | 342 | 342 | 117 | 347 | |
| Real estate, construction | 688 | 688 | 182 | 813 | |
| Real estate, mortgage | 4,330 | 4,330 | 1,431 | 3,975 | 11 |
| Total | 5,360 | 5,360 | 1,730 | 5,135 | 11 |
| Total by class of loans: | | | | | |
| Residential and land development | 3,117 | 3,117 | 117 | 3,204 | |
| Real estate, construction | 3,165 | 2,778 | 182 | 2,924 | |
| Real estate, mortgage | 13,356 | 13,356 | 1,431 | 13,128 | 28 |
| Commercial and industrial | 645 | 645 | | 670 | |
| Total | \$ 20,283 | \$ 19,896 | \$ 1,730 | \$ 19,926 | \$ 28 |

| | 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 | 6,345 | 5,746 | 2,080 | 5,749 | 9 |
| Commercial and industrial | 246 | 246 | 55 | 247 | |
| 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 | 25,862 | 21,989 | 2,080 | 24,007 | 35 |
| Commercial and industrial | 626 | 626 | 55 | 631 | |
| Total | \$ 39,308 | \$ 34,135 | \$ 2,557 | \$ 36,355 | \$ 35 |

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters and nine months ended September 30, 2015 and 2014, and the balances of loans, individually and collectively evaluated for impairment, as of September 30, 2015 and 2014, are as follows (in thousands):

| | Residential and Land Gaming | and Development | Real Estate, Construction | Real Estate Mortgage | Commercial and Industrial | Other | Total |
|--|-----------------------------------|--------------------|---------------------------------|-------------------------|------------------------------|--------|----------|
| For the Nine Months Ended September 30, 2015: | | | | | | | |
| Allowance for Loan Losses: | | | | | | | |
| Beginning Balance | \$ 573 | \$ 251 | \$ 860 | \$ 6,609 | \$ 587 | \$ 326 | \$ 9,206 |
| Charge-offs | | (1,504) | (955) | (1,171) | (62) | (141) | (3,833) |
| Recoveries | | | 102 | 20 | 14 | 61 | 197 |
| Provision | 38 | 1,484 | 606 | 243 | 350 | 86 | 2,807 |
| Ending Balance | \$ 611 | \$ 231 | \$ 613 | \$ 5,701 | \$ 889 | \$ 332 | \$ 8,377 |

For the Quarter Ended September 30,
2015:

| | | | | | | | |
|----------------------------|--------|--------|----------|----------|--------|--------|----------|
| Allowance for Loan Losses: | | | | | | | |
| Beginning balance | \$ 570 | \$ 226 | \$ 1,104 | \$ 6,639 | \$ 655 | \$ 356 | \$ 9,550 |
| Charge-offs | | | (546) | (952) | (38) | (44) | |