1896 - 2016

THE PEOPLES BANK

MEMBER FDIC

Where **PEOPLE** *come first!*

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

2016 ANNUAL REPORT

1896 - 2016

THE PEOPLES BANK

MEMBER FDIC

Where **PEOPLE** *come first!*

To Our Shareholders,

The year 2016 will be remembered as the year we returned to profitability. We again achieved significant asset quality improvement by decreasing non-accrual loans (22%) from 2015, lowering charge-offs by 14% from the prior year and significantly reducing our loan loss provision.

Following up on last year, in 2016 we implemented several products and services including:

1) Reissued all new debit cards with new EMV chip technology and expanded instant card issue service to fourteen branch locations.

2) All thirty-two state-of-the-art ATMs have been installed and are now EMV chip compliant prior to the mandatory compliance date of October 2017. The estimated cost of this project was $1 Million.

3) The enhanced debit card fraud protection capability through "Card Guardian" text message alert service saved the bank over $100,000 in 2016.

Since 1896 it has been our culture to deliver exemplary customer service while meeting the banking and financial services needs of the Mississippi Gulf Coast. On April 13, 2017 we will celebrate the 121st anniversary of The Peoples Bank, I am extremely grateful for the dedication and support of our board of directors and our talented and committed team of bankers. We look forward to continuing our legacy of service to our coastal community for many years to come.

Sincerely yours,

Chevis C. Swetman
Chairman of the Board
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Peoples Financial Corporation (the "Company") is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management's discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2016, 2015 and 2014. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

FORWARD-LOOKING INFORMATION

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

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued new accounting standards updates in 2016, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not generally expect that these updates will have a material impact on its financial position or results of operations. However the effect of Accounting Standards Update 2016-13 is still being considered.

CRITICAL ACCOUNTING POLICIES

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

Investments

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

Allowance for Loan Losses

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

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

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

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

OVERVIEW

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

The Company recorded net income of $167,000 for 2016 compared with a net loss of $4,592,000 for 2015 and a net loss of $10,004,000 for 2014. Results in 2016 included a decrease in net interest income and non-interest income, which were offset by a decrease in the provision for the allowance for loan losses and non-interest expense, as compared with 2015. Results in 2015 were primarily impacted by a decrease in net interest income and non-interest income and an increase in non-interest expense, which were partially offset by a decrease in the provision for the allowance for loan losses and income tax expense, as compared with 2014.

Managing the net interest margin in the Company's highly competitive market continues to be very challenging. Net interest income was impacted primarily by the decrease in interest income on loans of $527,000 and the decrease in interest income on taxable available for sale securities of $573,000 for 2016 as compared with 2015. The decrease in interest income on loans was primarily the result of the decrease in average loans as principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeded new loans. The decrease in interest income on taxable available for sales securities is the result of shorter durations, and therefore lower yields, on new investments, in anticipation of rising rates as well as proceeds from calls and maturities of U.S. Agency securities being invested in U.S. Treasury securities which generally have a lower rate.

Net interest income was impacted primarily by the decrease in interest income on loans of $1,296,000 and the decrease in interest income on taxable available for sale securities of $1,324,000 for 2015 as compared with 2014. The decrease in interest income on loans was primarily the result of a loan with an original balance of $20,000,000 on which the contractual rate is below the weighted average rate of other loans, which decreased the yield on average loans. The decrease in interest income on taxable available for sales securities is the result of shorter durations, and therefore lower yields, on new investments, in anticipation of rising rates.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized as the local economy has negatively impacted collateral values and borrowers' ability to repay their loans. The Company's nonaccrual loans totaled $11,854,000, $15,186,000 and $33,298,000 at December 31, 2016, 2015 and 2014, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The Company is working diligently to address and reduce its non-performing assets, and some stability in collateral values has occurred. The provision for the allowance for loan losses was $568,000, $2,582,000 and $7,404,000 for 2016, 2015 and 2014, respectively

Non-interest income decreased $349,000 for 2016 as compared with 2015 results and $1,721,000 for 2015 as compared with 2014 results. Service charges on deposit accounts decreased $500,000 for 2016 as compared with 2015 and decreased $1,637,000 for 2015 as compared with 2014 primarily as a result of decreased ATM fee income.

Non-interest expense decreased $4,902,000 for 2016 as compared with 2015 and increased $898,000 for 2015 as compared with 2014. The decrease for 2016 was the result of the decrease in salaries and employee benefits of $628,000, ORE expenses of $1,396,000 and ATM expenses of $628,000 as compared with 2015. There was not an impairment loss in 2016 but results for 2015 were impacted by a write-down of $1,695,000 from the credit impairment of a municipal security. The increase for 2015 was also the result of the increase in ORE expenses of $654,000, partially offset by decreases in salaries and employee benefits of $309,000 and ATM expenses of $1,226,000 as compared with 2014.

The Company recorded income tax expense of $78,000 for 2016 relating to the resolution of a recent examination by the Internal Revenue Service and an income tax benefit of $762,000 for 2015 relating to change in the valuation allowance. The Company recorded income tax expense of $4,726,000 for 2014 as a result of establishing a valuation allowance of $8,140,000 based on an evaluation of the Company's deferred tax assets in 2014.

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.

2016 as compared with 2015

The Company's average interest-earning assets decreased approximately $1,598,000, or .27%, from approximately $600,280,000 for 2015 to approximately $598,682,000 for 2016. Average balances due from depository institutions increased approximately $20,338,000 primarily as a result of the decrease in average loans of approximately $28,475,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans The average yield on interest-earning assets was 3.33% for 2015 compared with 3.19% for 2016. The yield on average loans increased from 4.14% for 2015 to 4.34% as a result of the increase in prime rate during 2015 and 2016. This increase was offset by the yield on taxable available for sale securities, which decreased from 1.72% for 2015 to 1.36% for 2016 as recent investment purchases have shorter durations, and therefore lower yields, in anticipation of rising rates.

Average interest-bearing liabilities decreased approximately $4,539,000, or 1%, from approximately $450,224,000 for 2015 to approximately $445,685,000 for 2016. Average borrowings from the Federal Home Loan Bank ("FHLB") decreased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 4 basis points, from .19% for 2015 to .23% for 2016.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.18% for 2015 as compared with 3.02% for 2016.

2015 as compared with 2014

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

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

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

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2016, 2015 and 2014.

ANALYSIS OF AVERAGE BALANCES, INTEREST EARNED/PAID AND YIELD (IN THOUSANDS)

	2016			2015			2014		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1) (2)	$ 327,819	$ 14,232	4.34%	$ 356,294	$ 14,759	4.14%	$ 362,649	$ 16,055	4.43%
Balances due from depository institutions	31,559	277	0.88%	11,221	63	0.56%	7,305	21	0.29%
Held to maturity:									
Taxable	8,562	184	2.15%	452	9	1.99%			
Non taxable (3)	19,596	725	3.70%	17,645	600	3.40%	13,696	474	3.46%
Available for sale:									
Taxable	188,512	2,558	1.36%	184,458	3,178	1.72%	225,742	4,502	1.99%
Non taxable (3)	20,902	1,123	5.37%	27,744	1,338	4.82%	34,360	1,889	5.50%
Other	1,732	22	1.27%	2,466	22	0.89%	4,065	18	0.44%
Total	$ 598,682	$ 19,121	3.19%	$ 600,280	$ 19,969	3.33%	$ 647,817	$ 22,959	3.54%
Savings and interest-bearing DDA	$ 359,801	$ 437	0.12%	$ 349,782	$ 306	0.09%	$ 358,106	$ 274	0.08%
Time deposits	77,644	457	0.59%	74,923	371	0.50%	89,564	937	1.05%
Borrowings from FHLB	8,240	131	1.59%	25,519	198	0.78%	56,849	230	0.40%
Total	$ 445,685	$ 1,025	0.23%	$ 450,224	$ 875	0.19%	$ 504,519	$ 1,441	0.29%
Net tax-equivalent spread			2.97%			3.14%			3.25%
Net tax-equivalent margin on earning assets			3.02%			3.18%			3.32%

(1) Loan fees of $389, $333 and $557 for 2016, 2015 and 2014, respectively, are included in these figures.
(2) Includes nonaccrual loans.
(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2016, 2015 and 2014.

ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE (IN THOUSANDS)

	For the Year Ended December 31, 2016 Compared With December 31, 2015			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,180)	$ 709	$ (56)	$ (527)
Balances due from depository institutions	114	35	65	214
Held to maturity securities:				
Taxable	161	1	13	175
Non taxable	66	53	6	125
Available for sale securities:				
Taxable	70	(675)	(15)	(620)
Non taxable	(330)	153	(38)	(215)
Other	(7)	9	(2)	
Total	$ (1,106)	$ 285	$ (27)	$ (848)
Interest paid on:				
Savings and interest-bearing DDA	$ 9	$ 119	$ 3	$ 131
Time deposits	13	70	3	86
Borrowings from FHLB	(134)	207	(140)	(67)
Total	$ (112)	$ 396	$ (134)	$ 150

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

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

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and to identify and estimate potential losses based on the best available information. The potential effect of declines in real estate values and actual losses incurred by the Company were key factors in our analysis. Much of the Company's loan portfolio is collateral-dependent, requiring careful consideration of changes in the value of the collateral. Note A to the Consolidated Financial Statements discloses a summary of the accounting principles applicable to impaired and nonaccrual loans as well as the allowance for loan losses. Note C to the Consolidated Financial Statements presents additional analyses of the composition, aging and performance of the loan portfolio as well as the transactions in the allowance for loan losses.

The Company's analysis includes evaluating the current value of collateral securing all nonaccrual loans. Nonaccrual loans totaled $11,854,000, $15,186,000 and $33,298,000 with specific reserves on these loans of $303,000, $1,697,000 and $2,507,000 as of December 31, 2016, 2015 and 2014, respectively. The specific reserves allocated to nonaccrual loans are relatively low as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company's on-going, systematic evaluation resulted in the Company recording a total provision for the allowance for loan losses of $568,000, $2,582,000 and $7,404,000 in 2016, 2015 and 2014, respectively. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased its provision for loan losses during the fourth quarter of 2016 and for all of 2015 and 2014. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision significantly for several non-performing loans in its residential development and commercial real estate segments during these years. The allowance for loan losses as a percentage of loans was 1.73%, 2.39% and 2.54% at December 31, 2016, 2015 and 2014, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2016.

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

Non-interest Income
2016 as compared with 2015
Total non-interest income decreased $349,000 in 2016 as compared with 2015. Service charges on deposit accounts decreased $500,000 primarily as a result of decreased ATM fees. ATM fees decreased $416,000 as the Company's off-site ATMs at a casino transferred to another vendor during 2015 which reduced ATM transactions. Securities were sold during 2016 for a gain of $158,000 in 2016 as compared with a gain of $8,000 in 2015.

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

Non-interest Expense
2016 as compared with 2015
Total non-interest expense decreased $4,902,000 in 2016 as compared with 2015. Salaries and employee benefits decreased $628,000 primarily as a result of decreased salaries and health insurance costs. Salaries decreased $247,000 due to attrition.

Health insurance costs decreased $434,000 as a result of decreasing claims. The Company recorded a loss of $1,695,000 from the credit impairment of a municipal security during 2015. Other expense decreased $2,682,000 for 2016 as compared with 2015. This decrease was primarily the result of a decrease in ATM expenses, legal and other real estate expenses. ATM expense decreased $628,000 as a result of decreased ATM activity as off-site ATMs at a casino transferred to another vendor. Legal expenses decreased $252,000 primarily as a result of legal fees associated with non-performing loans. Decreased write downs of other real estate to fair value and a reduction in losses on sales of ORE caused these expenses to decrease $1,396,000 in 2016 as compared with 2015.

2015 as compared with 2014

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

Income Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2016, 2015 and 2014. The Company recognized an income tax benefit of $762,000 in 2015, and income tax expense of $78,000 and $4,726,000 in 2016 and 2014, respectively. During 2014, Management established a valuation allowance against its net deferred tax asset of approximately $8,140,000, which caused the expense to increase during this period. As of December 31, 2016, the valuation allowance is still in place. The 2015 benefit was the result of changes in certain components of the Company's deferred tax assets and liabilities. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years and further analysis of the valuation allowance.

FINANCIAL CONDITION

Cash and due from banks increased $9,720,000 at December 31, 2016, compared with December 31, 2015 in the management of the bank subsidiary's liquidity position.

Available for sale securities increased $30,771,000 and held to maturity securities increased $29,125,000 at December 31, 2016 compared with December 31, 2015 as the Company invested some of its excess funding in order to increase interest income.

Loans decreased $22,202,000 at December 31, 2016 compared with December 31, 2015, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Total deposits increased $62,309,000 at December 31, 2016, as compared with December 31, 2015. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

Borrowings from the FHLB decreased $12,152,000 at December 31, 2016 as compared with December 31, 2015 based on the liquidity needs of the bank subsidiary.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Strength, security and stability have been the hallmark of the Company since its founding in 1985 and of its bank subsidiary since its founding in 1896. A strong capital foundation is fundamental to the continuing prosperity of the Company and the security of its customers and shareholders. The primary and risk-based capital ratios are important indicators of the strength of a Company's capital. These figures are presented in the Five-Year Comparative Summary of Selected Financial Information. The Company has established the goal of being classified as "well-capitalized" by the banking regulatory authorities.

Significant transactions affecting shareholders' equity during 2016 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders' Equity also presents all activity in the Company's equity accounts.

LIQUIDITY

Liquidity represents the Company's ability to adequately provide funds to satisfy demands from depositors, borrowers and other commitments by either converting assets to cash or accessing new or existing sources of funds. Note L to the Consolidated Financial Statements discloses information relating to financial instruments with off-balance-sheet risk, including letters of credit and outstanding unused loan commitments. The Company closely monitors the potential effects of funding these commitments on its liquidity position. Management monitors these funding requirements in such a manner as to satisfy these demands and to provide the maximum return on its earning assets.

The Company monitors and manages its liquidity position diligently through a number of methods, including through the computation of liquidity risk targets and the preparation of various analyses of its funding sources and utilization of those sources on a monthly basis. The Company also uses proforma liquidity projections which are updated on a continuous basis in the management of its liquidity needs and also conducts contingency testing on its liquidity plan. The Company has also been approved to participate in the Federal Reserve's Discount Window Primary Credit Program, which it intends to use only as a contingency. Management carefully monitors its liquidity needs, particularly relating to potentially volatile deposits, and the Company has encountered no problems with meeting its liquidity needs.

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company.

The Company also uses other sources of funds, including borrowings from the FHLB. The Company generally anticipates relying on deposits, purchases of federal funds and borrowings from the FHLB for its liquidity needs in 2017.

REGULATORY MATTERS

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

OFF-BALANCE SHEET ARRANGEMENTS

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

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands except share data)

DECEMBER 31,	2016	2015	2014
Assets			
Cash and due from banks	$ 41,116	$ 31,396	$ 23,556
Available for sale securities	233,578	202,807	215,122
Held to maturity securities, fair value of $46,935 - 2016; $19,220 - 2015; $17,859 - 2014	48,150	19,025	17,784
Other investments	2,693	2,744	2,962
Federal Home Loan Bank Stock, at cost	539	1,637	2,504
Loans	315,355	337,557	362,407
Less: Allowance for loan losses	5,466	8,070	9,206
Loans, net	309,889	329,487	353,201
Bank premises and equipment, net of accumulated depreciation	21,644	22,446	23,784
Other real estate	8,513	9,916	7,646
Accrued interest receivable	1,855	1,832	2,125
Cash surrender value of life insurance	19,249	18,735	18,145
Other assets	788	979	2,066
Total assets	$ 688,014	$ 641,004	$ 668,895
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 132,381	$ 122,743	$ 103,607
Savings and demand, interest bearing	364,975	315,141	336,740
Time, $100,000 or more	38,650	35,389	35,925
Other time deposits	39,010	39,434	40,648
Total deposits	575,016	512,707	516,920
Borrowings from Federal Home Loan Bank	6,257	18,409	38,708
Employee and director benefit plans liabilities	16,768	16,283	16,957
Other liabilities	1,512	1,766	1,359
Total liabilities	599,553	549,165	573,944
Shareholders' Equity:			
Common Stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2016, 2015 and 2014	5,123	5,123	5,123
Surplus	65,780	65,780	65,780
Undivided profits	19,318	19,151	23,743
Accumulated other comprehensive income (loss), net of tax	(1,760)	1,785	305
Total shareholders' equity	88,461	91,839	94,951
Total liabilities and shareholders' equity	$ 688,014	$ 641,004	$ 668,895

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per share data)

YEARS ENDED DECEMBER 31,	2016	2015	2014
Interest income:			
Interest and fees on loans	$ 14,232	$ 14,759	$ 16,055
Interest and dividends on securities:			
U.S. Treasuries	1,133	626	587
U.S. Government agencies	872	1,956	3,027
Mortgage-backed securities	600	596	888
States and political subdivisions	1,325	1,280	1,560
Other investments	53	31	18
Interest on balances due from depository institutions	278	63	21
Total interest income	18,493	19,311	22,156
Interest expense:			
Deposits	894	677	1,211
Borrowings from Federal Home Loan Bank	131	198	230
Total interest expense	1,025	875	1,441
Net interest income	17,468	18,436	20,715
Provision for allowance for loan losses	568	2,582	7,404
Net interest income after provision for allowance for loan losses	16,900	15,854	13,311
Non-interest income:			
Trust department income and fees	1,614	1,642	1,463
Service charges on deposit accounts	3,763	4,263	5,900
Gain on liquidation, sales and calls of securities	158	8	99
Loss on other investments	(51)	(218)	(64)
Increase in cash surrender value of life insurance	406	489	589
Other income	659	714	632
Total non-interest income	6,549	6,898	8,619
Non-interest expense:			
Salaries and employee benefits	11,088	11,716	12,025
Net occupancy	2,323	2,365	2,480
Equipment rentals, depreciation and maintenance	2,954	2,809	3,054
Loss on credit impairment of securities		1,695	
Other expense	6,839	9,521	9,649
Total non-interest expense	23,204	28,106	27,208
Income (loss) before income taxes	245	(5,354)	(5,278)
Income tax (benefit) expense	78	(762)	4,726
Net income (loss)	$ 167	$ (4,592)	$ (10,004)
Basic and diluted earnings (loss) per share	$ .03	$ (.90)	$ (1.95)
Dividends declared per share	$	$	$ .10

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

YEARS ENDED DECEMBER 31,	2016	2015	2014
Net income (loss)	$ 167	$ (4,592)	$ (10,004)
Other comprehensive income (loss), net of tax:			
Net unrealized gain (loss) on available for sale securities, net of tax of $390 and $3,506 for the years ended December 31, 2015 and 2014, respectively	(3,345)	762	6,806
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $3 and $34 for the years ended December 31, 2015 and 2014, respectively	(158)	(5)	(65)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of $372 and $217 for the years ended December 31, 2015 and 2014, respectively	(42)	723	(421)
Total other comprehensive income (loss)	(3,545)	1,480	6,320
Total comprehensive loss	$ (3,378)	$ (3,112)	$ (3,684)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2014	5,123,186	$ 5,123	$ 65,780	$ 34,259	$ (6,015)	$ 99,147
Net loss				(10,004)		(10,004)
Other comprehensive income					6,320	6,320
Cash dividend ($.10 per share)				(512)		(512)
Balance, December 31, 2014	5,123,186	5,123	65,780	23,743	305	94,951
Net loss				(4,592)		(4,592)
Other comprehensive income					1,480	1,480
Balance, December 31, 2015	5,123,186	5,123	65,780	19,151	1,785	91,839
Net income				167		167
Other comprehensive loss					(3,545)	(3,545)
Balance, December 31, 2016	5,123,186	$ 5,123	$ 65,780	$ 19,318	$ (1,760)	$ 88,461

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

YEARS ENDED DECEMBER 31,	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$ 167	$ (4,592)	$ (10,004)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,823	1,754	1,817
Provision for allowance for loan losses	568	2,582	7,404
Writedown of other real estate	782	937	1,261
(Gain) loss on sales of other real estate	(251)	789	(47)
Loss on credit impairment of securities		1,695	
Loss on other investments	51	218	64
Amortization of available for sale securities	30	224	250
(Accretion) amortization of held to maturity securities	181	83	(3)
Gain on liquidation, sales and calls of securities	(158)	(8)	(99)
Increase in cash surrender value of life insurance	(406)	(489)	(589)
Change in accrued interest receivable	(23)	293	482
Change in other assets	191	1,087	810
Change in other liabilities	189	66	5,218
Net cash provided by operating activities	3,144	4,639	6,564
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	149,715	56,593	72,374
Purchases of available for sale securities	(183,861)	(45,042)	(1,995)
Proceeds from maturities of held to maturity securities	510	210	660
Purchases of held to maturity securities	(29,816)	(1,534)	(7,299)
Redemption of Federal Home Loan Bank Stock	1,098	867	1,330
Redemption of other investments			236
Proceeds from sales of other real estate	2,775	3,506	2,115
Loans, net change	17,127	13,630	4,465
Acquisition of premises and equipment	(1,021)	(416)	(293)
Investment in cash surrender value of life insurance	(108)	(101)	(100)
Net cash provided by (used in) investing activities	(43,581)	27,713	71,493
Cash flows from financing activities:			
Demand and savings deposits, net change	59,472	(2,463)	(23,414)
Time deposits, net change	2,837	(1,750)	(27,863)
Cash dividends			(512)
Borrowings from Federal Home Loan Bank	98,920	992,545	2,013,013
Repayments to Federal Home Loan Bank	(111,072)	(1,012,844)	(2,051,989)
Net cash provided by (used in) financing activities	50,157	(24,512)	(90,765)
Net increase (decrease) in cash and cash equivalents	9,720	7,840	(12,708)
Cash and cash equivalents, beginning of year	31,396	23,556	36,264
Cash and cash equivalents, end of year	$ 41,116	$ 31,396	$ 23,556

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Basis of Accounting
The Company and its subsidiaries recognize assets and liabilities, and income and expense, on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans, assumptions relating to employee and director benefit plan liabilities and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

New Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 82)*. ASU 2016-02 provides certain targeted improvements to align lessor accounting with the lessee accounting model. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-03, *Intangibles – Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance.* ASU 2016-03 amends the guidance in ASUs 2014-02, 2014-03, 2014-07 and 2014-18 to remove their effective dates and render them effective immediately. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retroactively on a step by step basis. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2016. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of determining the effect of ASU 2016-13 on its financial position, results of operations and cash flows.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force).* ASU 2016-15 provides classification guidance in order to reduce diversity in practice for certain transactions. Such transactions include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2017. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* ASU 2016-16 requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2016, FASB issued ASU 2016-19, *Technical Corrections and Improvements*. ASU 2016-19 includes amendments to provide guidance clarification and references corrections and provide minor structure changes to headings or minor editing to text to improve usefulness and understandability. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 clarifies the definition of a business to determinate whether a business has been acquired or sold. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application will be permitted for all organizations under certain circumstances. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Cash and Due from Banks

The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately $4,240,000, $2,084,000 and $417,000 for the years ending December 31, 2016, 2015 and 2014, respectively.

Securities

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

Other Investments

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

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

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

Allowance for Loan Losses

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

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

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2016.

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

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

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

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

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

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

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

Other Real Estate
Other real estate ("ORE") includes real estate acquired through foreclosure. Each other real estate property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals performed by third-party valuation specialists. Any excess of the carrying value of the related loan over the fair value of the real estate at the date of foreclosure is charged against the ALL. Any expense incurred in connection with holding such real estate or resulting from any writedowns in value subsequent to foreclosure is included in non-interest expense. When the other real estate property is sold, a gain or loss is recognized on the sale for the difference, if any, between the sales proceeds and the carrying amount of the property. If the fair value of the ORE, less estimated costs to sell at the time of foreclosure, decreases during the holding period, the ORE is written down with a charge to non-interest expense. Generally, ORE properties are actively marketed for sale and Management is continuously monitoring these properties in order to minimize any losses.

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

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

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company currently evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred and the amount of such loss can be reasonably estimated.

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

Earnings Per Share
Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding of 5,123,186 in 2016, 2015 and 2014.

Accumulated Other Comprehensive Income (Loss)
At December 31, 2016, 2015 and 2014, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company's post-retirement benefit plan.

Statements of Cash Flows

The Company has defined cash and cash equivalents to include cash and due from banks. The Company paid $1,020,177, $874,890 and $1,447,133 in 2016, 2015 and 2014, respectively, for interest on deposits and borrowings. Income tax payments totaled $78,435 and $320,000 in 2016 and 2014, respectively. Loans transferred to other real estate amounted to $1,903,427, $7,502,496 and $1,345,170 in 2016, 2015 and 2014, respectively.

Fair Value Measurement

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

Reclassification

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

NOTE B – SECURITIES:

The amortized cost and fair value of securities at December 31, 2016, 2015 and 2014, respectively, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 149,676	$ 39	$ (2,091)	$ 147,624
U.S. Government agencies	24,973	58	(206)	24,825
Mortgage-backed securities	43,939	74	(1,305)	42,708
States and political subdivisions	17,513	450		17,963
Total debt securities	236,101	621	(3,602)	233,120
Equity securities	458			458
Total available for sale securities	$ 236,559	$ 621	$ (3,602)	$ 233,578
Held to maturity securities:				
U.S. Government agencies	$ 10,009	$	$ (315)	$ 9,694
States and political subdivisions	36,677	29	(927)	35,779
Corporate bond	1,464		(2)	1,462
Total held to maturity securities	$ 48,150	$ 29	$ (1,244)	$ 46,935
December 31, 2015:				
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 63,845	$ 20	$ (111)	$ 63,754
U.S. Government agencies	84,849	176	(479)	84,546
Mortgage-backed securities	30,106	155	(131)	30,130
States and political subdivisions	22,833	894		23,727
Total debt securities	201,633	1,245	(721)	202,157
Equity securities	650			650
Total available for sale securities	$ 202,283	$ 1,245	$ (721)	$ 202,807
Held to maturity securities:				
States and political subdivisions	$ 17,507	$ 222	$ (16)	$ 17,713
Corporate bond	1,518		(11)	1,507
Total held to maturity securities	$ 19,025	$ 222	$ (27)	$ 19,220
December 31, 2014:				
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 December 31, 2016, (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	$ 33,318	$ 33,371
Due after one year through five years	129,693	128,893
Due after five years through ten years	28,818	27,797
Due after ten years	333	351
Mortgage-backed securities	43,939	42,708
Total	$ 236,101	$ 233,120
Held to maturity securities:		
Due in one year or less	$ 2,745	$ 2,742
Due after one year through five years	7,649	7,638
Due after five years through ten years	20,111	19,593
Due after ten years	17,645	16,962
Total	$ 48,150	$ 46,935

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2016, 2015 and 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
December 31, 2016:						
U.S. Treasuries	$ 97,634	$ 2,091	$	$	$ 97,634	$ 2,091
U.S. Government agencies	24,478	521			24,478	521
Mortgage-backed securities	37,663	1,305			37,663	1,305
States and political subdivisions	24,627	926	589	1	25,216	927
Corporate bond			1,462	2	1,462	2
Total	$ 184,402	$ 4,843	$ 2,051	$ 3	$ 186,453	$ 4,846
December 31, 2015:						
U.S. Treasuries	$ 39,889	$ 111	$	$	$ 39,889	$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bond	1,507	11			1,507	11
Total	$ 75,072	$ 348	$ 13,943	$ 400	$ 89,015	$ 748
December 31, 2014:						
U.S. Treasuries	$ 4,968	$ 15	$ 14,795	$ 145	$ 19,763	$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
Total	$ 20,407	$ 69	$ 128,598	$ 2,215	$ 149,005	$ 2,284

At December 31, 2016, 20 of the 31 securities issued by the U.S. Treasury, 5 of the 7 securities issued by U.S. Government agencies, 16 of the 19 mortgage-backed securities, 59 of the 147 securities issued by states and political subdivisions and the corporate bond contained unrealized losses.

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

As part of its routine evaluation of securities for other-than-temporary impairment, the Company identified a potential credit loss on bonds issued by a municipality with a carrying value of $1,875,000 during 2015. The Company's evaluation considered the failure of the issuer to make scheduled interest payments and expectations of future performance. Principal and interest payments due under the current terms of the bonds are funded by sales and property tax collections by the related municipality. During the third quarter of 2015, the assessed value of the related real estate parcels was significantly reduced, which will reduce the level of future cash flows supporting the principal and interest payments on the bonds. The present value of the expected future cash flows was calculated by the Company. Based on its evaluation, it was determined that the investment in the bonds was impaired and that a credit loss should be recognized in earnings. During 2015, the Company recorded a loss of $1,695,000 from the credit impairment of these bonds. Accrued interest of $92,564 relating to these securities was also charged off during 2015. During 2016, payments totaling $223,861 were received from the municipality which resulted in the Company recognizing a gain of $53,861.

Proceeds from sales of available for sale debt securities were $29,641,206, $5,007,993 and $44,279,605 during 2016, 2015 and 2014, respectively. Available for sale debt securities were sold and called for realized gains of $157,925, $7,993 and $98,859 during 2016, 2015 and 2014, respectively.

Securities with a fair value of $180,659,168, $168,724,920 and $200,474,637 at December 31, 2016, 2015 and 2014, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

NOTE C – LOANS:

The composition of the loan portfolio at December 31, 2016, 2015 and 2014 is as follows (in thousands):

December 31,	2016	2015	2014
Gaming	$ 31,311	$ 31,655	$ 31,353
Residential and land development	291	933	10,119
Real estate, construction	32,503	35,414	34,010
Real estate, mortgage	206,172	219,925	234,713
Commercial and industrial	37,035	42,480	37,534
Other	8,043	7,150	14,678
Total	$ 315,355	$ 337,557	$ 362,407

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

	2016	2015	2014
Balance, January 1	$ 7,608	$ 7,760	$ 6,761
New loans and advances	312	3,958	2,516
Repayments	(1,262)	(4,110)	(1,517)
Balance, December 31	$ 6,658	$ 7,608	$ 7,760

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

December 31,	2016	2015	2014
Gaming	$ 31,311	$ 31,655	$ 31,353
Hotel/motel	40,319	39,460	47,144
Out of area	14,461	14,526	19,179

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2016, 2015 and 2014 is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days and Still
	30-59	60-89	Greater Than 90	Total Past Due	Current	Total Loans	Accruing
December 31, 2016:							
Gaming	$	$	$	$	$ 31,311	$ 31,311	$
Residential and land development			291	291		291	
Real estate, construction	902	216	1,082	2,200	30,303	32,503	
Real estate, mortgage	4,608	1,923	4,471	11,002	195,170	206,172	
Commercial and industrial	867		8	875	36,160	37,035	
Other	44	36	80	160	7,883	8,043	
Total	$ 6,421	$ 2,175	$ 5,932	$ 14,528	$ 300,827	$ 315,355	$
December 31, 2015:							
Gaming	$	$	$	$	$ 31,655	$ 31,655	$
Residential and land development			323	323	610	933	
Real estate, construction	851	448	1,346	2,645	32,769	35,414	
Real estate, mortgage	7,094	3,673	1,352	12,119	207,806	219,925	146
Commercial and industrial	1,206	31	237	1,474	41,006	42,480	
Other	67			67	7,083	7,150	
Total	$ 9,218	$ 4,152	$ 3,258	$ 16,628	$ 320,929	$ 337,557	$ 146
December 31, 2014:							
Gaming	$	$	$	$	$ 31,353	$ 31,353	$
Residential and land development			5,262	5,262	4,857	10,119	
Real estate, construction	1,665	85	1,944	3,694	30,316	34,010	30
Real estate, mortgage	3,257	3,101	12,007	18,365	216,348	234,713	733
Commercial and industrial	1,154	7	205	1,366	36,168	37,534	
Other	168	10		178	14,500	14,678	
Total	$ 6,244	$ 3,203	$ 19,418	$ 28,865	$ 333,542	$ 362,407	$ 763

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

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2016, 2015 and 2014 is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
December 31, 2016:						
Gaming	$ 31,311	$	$	$	$	$ 31,311
Residential and land development				291		291
Real estate, construction	29,954	435	517	1,597		32,503
Real estate, mortgage	155,671	17,651	22,901	9,949		206,172
Commercial and industrial	13,926	21,680	867	562		37,035
Other	7,996		42	5		8,043
Total	$ 238,858	$ 39,766	$ 24,327	$ 12,404	$	$ 315,355
December 31, 2015:						
Gaming	$ 31,655	$	$	$	$	$ 31,655
Residential and land development	610			323		933
Real estate, construction	31,935		883	2,596		35,414
Real estate, mortgage	167,286	16,678	23,686	12,275		219,925
Commercial and industrial	24,466	15,007	2,368	639		42,480
Other	7,114	1	35			7,150
Total	$ 263,066	$ 31,686	$ 26,972	$ 15,833	$	$ 337,557
December 31, 2014:						
Gaming	$ 31,353	$	$	$	$	$ 31,353
Residential and land development	3,520	1,319	17	5,263		10,119
Real estate, construction	27,474	723	2,496	3,317		34,010
Real estate, mortgage	191,458	4,051	16,591	22,613		234,713
Commercial and industrial	32,505	25	1,579	3,425		37,534
Other	14,583	6	89			14,678
Total	$ 300,893	$ 6,124	$ 20,772	$ 34,618	$	$ 362,407

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

December 31,	2016	2015	2014
Residential and land development	$ 291	$ 323	$ 8,233
Real estate, construction	1,598	2,523	3,287
Real estate, mortgage	9,445	11,759	21,398
Commercial and industrial	515	581	380
Other	5		
Total	$ 11,854	$ 15,186	$ 33,298

Prior to 2014, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2016, 2015 and 2014, the Company did not restructure any additional loans. Specific reserves of $100,000, $107,000 and $50,000 have been allocated to troubled debt restructurings as of December 31, 2016, 2015, and 2014, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of December 31, 2016, 2015 and 2014.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2016, 2015 and 2014 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:					
With no related allowance recorded:					
Real estate, construction	$ 2,023	$ 1,331	$	$ 1,395	$
Real estate, mortgage	11,811	9,282		10,582	23
Commercial and industrial	553	515		538	
Total	14,387	11,128		12,515	23
With a related allowance recorded:					
Residential and land development	291	291	66	304	
Real estate, construction	267	267	141	283	
Real estate, mortgage	1,347	1,347	195	1,080	30
Other	5	5	1	1	
Total	1,910	1,910	403	1,668	30
Total by class of loans:					
Residential and land development	291	291	66	304	
Real estate, construction	2,290	1,598	141	1,678	
Real estate, mortgage	13,158	10,629	195	11,662	53
Commercial and industrial	553	515		538	
Other	5	5	1	1	
Total	$ 16,297	$ 13,038	$ 403	$ 14,183	$ 53
December 31, 2015:					
With no related allowance recorded:					
Real estate, construction	$ 2,228	$ 1,842	$	$ 1,878	$
Real estate, mortgage	9,771	9,014		9,175	21
Commercial and industrial	619	581		653	
Total	12,618	11,437		11,706	21
With a related allowance recorded:					
Residential and land development	323	323	109	343	
Real estate, construction	814	681	252	780	
Real estate, mortgage	3,977	3,977	1,443	3,920	18
Total	5,114	4,981	1,804	5,043	18
Total by class of loans:					
Residential and land development	323	323	109	343	
Real estate, construction	3,042	2,523	252	2,658	
Real estate, mortgage	13,748	12,991	1,443	13,095	39
Commercial and industrial	619	581		653	
Total	$ 17,732	$ 16,418	$ 1,804	$ 16,749	$ 39
December 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 9,513	$ 8,233	$	$ 8,380	$
Real estate, construction	2,198	2,178		2,222	
Real estate, mortgage	19,517	16,243		18,258	26
Commercial and industrial	380	380		384	
Total	31,608	27,034		29,244	26
With a related allowance recorded:					
Real estate, construction	1,109	1,109	422	1,115	
Real estate, mortgage	6,591	5,992	2,135	5,996	9
Total	7,700	7,101	2,557	7,111	9
Total by class of loans:					
Residential and land development	9,513	8,233		8,380	
Real estate, construction	3,307	3,287	422	3,337	
Real estate, mortgage	26,108	22,235	2,135	24,254	35
Commercial and industrial	380	380		384	
Total	$ 39,308	$ 34,135	$ 2,557	$ 36,355	$ 35

Transactions in the allowance for loan losses for the years ended December 31, 2016, 2015 and 2014, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2016:							
Allowance for Loan Losses:							
Beginning Balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Charge-offs			(260)	(2,499)	(509)	(254)	(3,522)
Recoveries			71	107	62	110	350
Provision	(37)	(123)	(201)	810	23	96	568
Ending Balance	$ 545	$ 66	$ 199	$ 3,800	$ 651	$ 205	$ 5,466
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$ 66	$ 141	$ 424	$ 214	$ 15	$ 860
Ending balance: collectively evaluated for impairment	$ 545	$	$ 58	$ 3,376	$ 437	$ 190	$ 4,606
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 291	$ 2,114	$ 32,850	$ 1,430	$ 47	$ 36,732
Ending balance: collectively evaluated for impairment	$ 31,311	$	$ 30,389	$ 173,322	$ 35,605	$ 7,996	$ 278,623
December 31, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs		(1,504)	(955)	(1,171)	(275)	(203)	(4,108)
Recoveries			102	190	19	79	390
Provision	9	1,442	582	(246)	744	51	2,582
Ending Balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$ 109	$ 484	$ 1,751	$ 614	$ 4	$ 2,962
Ending balance: collectively evaluated for impairment	$ 582	$ 80	$ 105	$ 3,631	$ 461	$ 249	$ 5,108
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 323	$ 3,479	$ 35,961	$ 3,003	$ 35	$ 42,801
Ending balance: collectively evaluated for impairment	$ 31,655	$ 610	$ 31,935	$ 183,964	$ 39,477	$ 7,115	$ 294,756
December 31, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs	(992)	(2,060)	(127)	(368)	(3,948)	(235)	(7,730)
Recoveries	260		35	193	20	90	598
Provision	328	1,535	257	1,231	3,883	170	7,404
Ending Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 742	$ 2,706	$ 289	$ 6	$ 3,743
Ending balance: collectively evaluated for impairment	$ 573	$ 251	$ 118	$ 3,903	$ 298	$ 320	$ 5,463
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 7,232	$ 6,830	$ 39,204	$ 2,035	$ 89	$ 55,390
Ending balance: collectively evaluated for impairment	$ 31,353	$ 2,887	$ 27,180	$ 195,509	$ 35,499	$ 14,589	$ 307,017

NOTE D – BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2016	2015	2014
Land		$ 5,792	$ 5,982	$ 5,982
Building	5 – 40 years	30,650	30,641	30,593
Furniture, fixtures and equipment	3 – 10 years	16,422	15,879	15,511
Totals, at cost		52,864	52,502	52,086
Less: Accumulated depreciation		31,220	30,056	28,302
Totals		$ 21,644	$ 22,446	$ 23,784

NOTE E – OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2016, 2015 and 2014, respectively (in thousands except number of properties):

	2016		2015		2014	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	19	$ 7,658	19	$ 8,792	15	$ 5,034
1-4 family residential properties	3	202	3	368	10	431
Nonfarm nonresidential	3	653	4	756	14	2,030
Other					1	151
Total	25	$ 8,513	26	$ 9,916	40	$ 7,646

NOTE F – DEPOSITS:

At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

2017	$ 54,491
2018	17,645
2019	2,942
2020	1,549
2021	1,033
Total	$ 77,660

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

Time deposits of $250,000 or more totaled approximately $25,143,000, $24,090,000 and $25,321,000 at December 31, 2016, 2015 and 2014, respectively.

Deposits held for related parties amounted to $17,713,230, $7,640,079 and $6,607,646 at December 31, 2016, 2015 and 2014, respectively.

Overdrafts totaling $800,557, $663,511 and $822,730 were reclassified as loans at December 31, 2016, 2015 and 2014, respectively.

NOTE G – FEDERAL FUNDS PURCHASED:

At December 31, 2016, the Company had facilities in place to purchase federal funds up to $40,000,000 under established credit arrangements.

NOTE H – BORROWINGS:

At December 31, 2016, the Company was able to borrow up to $31,367,467 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day.There was no outstanding balance at December 31, 2016.

At December 31, 2016, the Company had $6,256,591 outstanding in advances under a $33,170,021 line of credit with the FHLB. One advance in the amount of $5,000,000 bears interest at a variable rate of 43.2 basis points above the 1 month LIBOR rate, which was 1.112% at December 31, 2016, and matures in 2017. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. The remaining balance consists of smaller advances bearing interest from 2.604% to 7.00% with maturity dates from 2030 – 2040. The advances are collateralized by specific loans, for which certain documents are held in custody by the FHLB, and, if needed, specific investment securities that are held in safekeeping at the FHLB.

NOTE I – INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2016, 2015 and 2014, included in other assets, were as follows (in thousands):

December 31,	2016	2015	2014
Deferred tax assets:			
Allowance for loan losses	$ 1,858	$ 2,744	$ 3,130
Employee benefit plans' liabilities	4,784	4,633	4,490
Unrealized loss on available for sale securities, charged from equity	1,013		210
Loss on credit impairment of securities	576	576	
Earned retiree health benefits plan liability	1,638	1,638	1,638
General business and AMT credits	1,605	2,011	1,735
Tax net operating loss carry forward	3,423	2,514	651
Other	1,731	1,535	1,637
Valuation allowance	(11,560)	(10,106)	(8,140)
Deferred tax assets	5,068	5,545	5,351
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity		180	
Unearned retiree health benefits plan asset	720	734	362
Bank premises and equipment	4,011	4,369	4,760
Other	337	262	229
Deferred tax liabilities	5,068	5,545	5,351
Net deferred taxes	$	$	$

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

Years Ended December 31,	2016	2015	2014
Current	$ 78	$	$ (137)
Deferred:			
Federal	(247)	(2,728)	(3,277)
Change in valuation allowance	247	1,966	8,140
Total deferred		(762)	4,863
Totals	$ 78	$ (762)	$ 4,726

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2016, 2015 and 2014 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2016		2015		2014	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ 83	34	$ (1,820)	(34)	$ (1,794)	(34)
Increase (decrease) resulting from:						
Tax-exempt interest income	(417)	(170)	(447)	(8)	(532)	(10)
Income from BOLI	(144)	(59)	(166)	(3)	(200)	(4)
Federal tax credits	(298)	(121)	(298)	(6)	(298)	(6)
Other	607	247	3		(590)	(10)
Change in valuation allowance	247	101	1,966	37	8,140	154
Total income tax expense (benefit)	$ 78	32	$ (762)	(14)	$ 4,726	90

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

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

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

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

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

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

NOTE J – SHAREHOLDERS' EQUITY:

Shareholders' equity of the Company includes the undistributed earnings of the bank subsidiary. Dividends to the Company's shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. Dividends paid by the bank subsidiary are subject to the written approval of the Commissioner of Banking and Consumer Finance of the State of Mississippi and the Federal Deposit Insurance Corporation (the "FDIC"). At December 31, 2016, $11,408,685 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank ("FRB").

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 47,756 shares have been repurchased and retired through December 31, 2016.

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

New rules relating to risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act became effective for the Company January 1, 2015. The rules establish a new Common equity tier 1 minimum capital requirement, increase the minimum capital ratios and assign a higher risk weight to certain assets based on the risk associated with these assets. Quantitative measures established by regulation to ensure capital adequacy require the bank subsidiary to maintain minimum amounts and ratios of Total, Common equity tier 1 and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets. Beginning January 1, 2016, the Company must hold a capital conservation buffer composed of Common equity tier 1 capital above its minimum risk-based capital requirements in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers.

As of December 31, 2016, the most recent notification from the FDIC categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Common equity tier 1 capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater and a Leverage capital ratio of 5.00% or greater, with a capital conservation buffer above these requirements of .625% for 2016. The buffer will increase annually until it is fully phased-in to 2.50% at January 1, 2019. There are no conditions or events since that notification that Management believes have changed the bank subsidiary's category.

The Company's actual capital amounts and ratios and required minimum capital amounts and ratios for 2016, 2015 and 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2016:				
Total Capital (to Risk Weighted Assets)	$ 95,262	22.94%	$ 33,220	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	18,687	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,068	21.69%	24,915	6.00%
Tier 1 Capital (to Average Assets)	90,068	13.12%	27,464	4.00%
December 31, 2015:				
Total Capital (to Risk Weighted Assets)	$ 95,395	21.83%	$ 34,954	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	19,662	4.50%
Tier 1 Capital (to Risk Weighted Assets)	89,901	20.58%	26,215	6.00%
Tier 1 Capital (to Average Assets)	89,901	13.18%	27,291	4.00%
December 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 100,243	21.95%	$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%

The bank subsidiary's actual capital amounts and ratios and required minimum capital amounts and ratios and capital amounts and ratios to be well capitalized for 2016, 2015 and 2014, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016:						
Total Capital (to Risk Weighted Assets)	$ 91,882	22.29%	$ 32,975	8.00%	$ 41,219	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	18,548	4.50%	26,792	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,726	21.04%	24,731	6.00%	32,975	8.00%
Tier 1 Capital (to Average Assets)	86,726	12.47%	27,820	4.00%	34,775	5.00%
December 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 91,963	21.09%	$ 34,889	8.00%	$ 43,611	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	19,625	4.50%	28,347	6.50%
Tier 1 Capital (to Risk Weighted Assets)	86,479	19.83%	26,166	6.00%	34,889	8.00%
Tier 1 Capital (to Average Assets)	86,479	13.47%	25,680	4.00%	32,100	5.00%
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 96,427	21.28%	$ 36,247	8.00%	$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%

NOTE K – OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2016	2015	2014
Other service charges, commissions and fees	$ 116	$ 109	$ 84
Rentals	320	393	435
Other	223	212	113
Totals	$ 659	$ 714	$ 632

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2016	2015	2014
Advertising	$ 544	$ 505	$ 552
Data processing	1,346	1,403	1,339
FDIC and state banking assessments	901	928	1,033
Legal and accounting	566	785	493
Other real estate	868	2,264	1,610
ATM expense	555	1,183	2,409
Trust expense	370	355	323
Other	1,689	2,098	1,890
Totals	$ 6,839	$ 9,521	$ 9,649

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the agreement. Irrevocable letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments and irrevocable letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluated each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on Management's credit evaluation of the customer. Collateral obtained varies but may include equipment, real property and inventory.

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

At December 31, 2016, 2015 and 2014, the Company had outstanding irrevocable letters of credit aggregating $410,286, $1,919,678 and $1,879,678, respectively. At December 31, 2016, 2015 and 2014, the Company had outstanding unused loan commitments aggregating $42,401,431, $41,935,725 and $66,663,320, respectively. Approximately $16,476,000, $11,335,000 and $30,910,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2016, 2015 and 2014, respectively.

NOTE M – CONTINGENCIES:

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

NOTE N – CONDENSED PARENT COMPANY ONLY FINANCIAL INFORMATION:

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

CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2016	2015	2014
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 85,118	$ 88,415	$ 91,179
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	191	28	160
Other assets	3,151	3,395	3,611
Total assets	$ 88,461	$ 91,839	$ 94,951
Liabilities and Shareholders' Equity:			
Other liabilities	$	$	$
Total liabilities			
Shareholders' equity	88,461	91,839	94,951
Total liabilities and shareholders' equity	$ 88,461	$ 91,839	$ 94,951

CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2016	2015	2014
Income			
Distributed income of bank subsidiary	$ 75	$	$
Undistributed income (loss) of bank subsidiary	247	(4,242)	(10,025)
Other loss	(32)	(208)	(53)
Total income (loss)	290	(4,450)	(10,078)
Expenses			
Other	123	142	124
Total expenses	123	142	124
Income (loss) before income taxes	167	(4,592)	(10,202)
Income tax benefit			(198)
Net income (loss)	$ 167	$ (4,592)	$ (10,004)

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$ 167	$ (4,592)	$ (10,004)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Loss on other investments	51	218	64
Undistributed (income) loss of subsidiaries	(247)	4,242	10,025
Other assets	(8)		25
Other liabilities			(161)
Net cash used in operating activities	(37)	(132)	(51)
Cash flows from investing activities:			
Redemption of equity securities	200		236
Net cash provided by investing activities	200		236
Cash flows from financing activities:			
Dividends paid			(512)
Net cash used in financing activities			(512)
Net increase (decrease) in cash	163	(132)	(327)
Cash, beginning of year	28	160	487
Cash, end of year	$ 191	$ 28	$ 160

NOTE O – EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan ("ESOP"). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan. Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts contributed by the employee (up to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation common stock. Total contributions to the plans charged to operating expense were $276,000, $260,000 and $280,000 in 2016, 2015 and 2014, respectively.

Compensation expense of $7,804,295, $7,576,755 and $7,678,640 was the basis for determining the ESOP contribution allocation to participants for 2016, 2015 and 2014, respectively. The ESOP held 276,628, 285,785 and 315,269 allocated shares at December 31, 2016, 2015 and 2014, respectively.

The Company established an Executive Supplemental Income Plan and a Directors' Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors' Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors' fees until age sixty-five. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director's normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. Interest on deferred fees accrues at an annual rate of ten percent, compounded annually. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $17,176,771, $16,820,058 and $16,370,384 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014, and the interest ramp-up method has been accrued. The accrual amounted to $12,221,421, $11,813,343 and $11,465,119 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $1,604,333, $1,473,607 and $1,346,910 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 2015 and 4.50% in 2014, and the projected unit cost method has been accrued. The accrual amounted to $1,544,017, $1,519,537 and $1,450,280 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

Additionally, there are two endorsement split dollar policies, with the bank subsidiary as owner and beneficiary, which provide a guaranteed death benefit to the participants' beneficiaries. These contracts are carried at their cash surrender value, which amounted to $292,063, $284,664 and $277,278 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014 and the projected unit cost method has been accrued. The accrual amounted to $88,798, $82,202 and $80,997 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

The Company has additional plans for post-retirement benefits for directors. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $166,822, $157,051 and $150,687 at December 31, 2016, 2015 and 2014, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.25% in 2016 and 4.50% in 2015 and 2014, and the projected unit cost method has been accrued. The accrual amounted to $216,020, $212,662 and $210,207 at December 31, 2016, 2015 and 2014, respectively, and is included in Employee and director benefit plans liabilities.

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

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

Years Ended December 31,	2016	2015	2014
Service cost	$ 93	$ 94	$ 105
Interest cost	101	102	132
Amortization of net gain	(73)	(44)	(14)
Amortization of prior service credit	(81)	(82)	(81)
Net periodic post-retirement benefit cost (credit)	$ 40	$ 70	$ 142

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.00% in 2016, 4.20% in 2015 and 4.00% in 2014. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.50% in 2016. The rate was assumed to decrease gradually to 5.00% for 2022 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2016, would be increased by 13.78%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have increased by 17.23%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2016, would be decreased by 11.28%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 13.83%.

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

2017	$ 145
2018	119
2019	56
2020	77
2021	106
2022 – 2026	922

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

Accumulated post-retirement benefit obligation as of December 31, 2015	$ 2,508
Service cost	93
Interest cost	101
Actuarial gain	(113)
Benefits paid	(75)
Accumulated post-retirement benefit obligation as of December 31, 2016	$ 2,514

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

	2016	2015	2014
Fair value of plan assets at beginning of year	$	$	$
Actual return on assets			
Employer contribution	75	37	64
Benefits paid, net	(75)	(37)	(64)
Fair value of plan assets at end of year	$	$	$

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

For the year ended December 31,	2016	2015	2014
Net gain (loss)	$ 723	$ 697	$ (80)
Prior service charge	676	730	783
Total accumulated other comprehensive income	$ 1,399	$ 1,427	$ 703

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

For the year ended December 31,	2016
Unrecognized actuarial gain	$ 39
Amortization of prior service cost	(81)
Total accumulated other comprehensive loss	$ (42)

The prior service credit that will be recognized in accumulated other comprehensive income during 2017 is $81,381.

NOTE P – FAIR VALUE MEASUREMENTS AND DISCLOSURES:

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

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

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

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

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

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

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

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

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

Other Investments
The carrying amount shown as other investments approximates fair value.

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

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

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

Cash Surrender Value of Life Insurance
The carrying amount of cash surrender value of bank-owned life insurance approximates fair value.

Deposits
The fair value of non-interest bearing demand and interest bearing savings and demand deposits is the amount reported in the financial statements. The fair value of time deposits is estimated by discounting the cash flows using current rates for time deposits with similar

remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates.

Borrowings from Federal Home Loan Bank

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

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of December 31, 2016, 2015 and 2014, were as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
December 31, 2016:				
U.S. Treasuries	$ 147,624	$	$ 147,624	$
U.S. Government agencies	24,825		24,825	
Mortgage-backed securities	42,708		42,708	
States and political subdivisions	17,963		17,963	
Equity securities	458		458	
Total	$ 233,578	$	$ 233,578	$
December 31, 2015:				
U.S. Treasuries	$ 63,754	$	$ 63,754	$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
Total	$ 202,807	$	$ 202,627	$ 180
December 31, 2014:				
U.S. Treasuries	$ 29,654	$	$ 29,654	$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
Total	$ 215,122	$	$ 215,122	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2016, 2015 and 2014 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2016	$ 5,006	$	$	$ 5,006
2015	4,981			4,981
2014	10,610			10,610

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2016	$ 8,513	$	$	$ 8,513
2015	9,916			9,916
2014	7,646			7,646

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):

	2016	2015	2014
Balance, beginning of year	$ 9,916	$ 7,646	$ 9,630
Loans transferred to ORE	1,903	7,502	1,345
Sales	(2,524)	(4,295)	(2,068)
Writedowns	(782)	(937)	(1,261)
Balance, end of year	$ 8,513	$ 9,916	$ 7,646

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2016, 2015 and 2014, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
December 31,2016:					
Financial Assets:					
Cash and due from banks	$ 41,116	$ 41,116	$	$	$ 41,116
Available for sale securities	233,578		233,578		233,578
Held to maturity securities	48,150		46,935		46,935
Other investments	2,693	2,693			2,693
Federal Home Loan Bank stock	539		539		539
Loans, net	309,889			313,613	313,613
Other real estate	8,513			8,513	8,513
Cash surrender value of life insurance	19,249		19,249		19,249
Financial Liabilities:					
Deposits:					
Non-interest bearing	132,381	132,381			132,381
Interest bearing	442,635			442,937	442,937
Borrowings from					
Federal Home Loan Bank	6,257		6,491		6,491
December 31,2015:					
Financial Assets:					
Cash and due from banks	$ 31,396	$ 31,396	$	$	$ 31,396
Available for sale securities	202,807		202,627	180	202,807
Held to maturity securities	19,025		19,220		19,220
Other investments	2,744	2,744			2,744
Federal Home Loan Bank stock	1,637		1,637		1,637
Loans, net	329,487			331,026	331,026
Other real estate	9,916			9,916	9,916
Cash surrender value of life insurance	18,735		18,735		18,735
Financial Liabilities:					
Deposits:					
Non-interest bearing	122,743	122,743			122,743
Interest bearing	389,964			390,205	390,205
Borrowings from					
Federal Home Loan Bank	18,409		19,731		19,731
December 31,2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
Financial Liabilities:					
Deposits:					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	413,313			413,672	413,672
Borrowings from					
Federal Home Loan Bank	38,708		40,720		40,720

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING

Porter Keadle Moore
CPAs | Advisors | www.pkm.com

To the Board of Directors and Shareholders
Peoples Financial Corporation
Biloxi, Mississippi

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the "Company") as of December 31, 2016, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Porter Keadle Moore, LLC

Atlanta, Georgia
March 15, 2017

FIVE-YEAR COMPARATIVE SUMMARY OF SELECTED FINANCIAL INFORMATION

(In thousands except per share data)

	2016	2015	2014	2013	2012
Balance Sheet Summary					
Total assets	$ 688,014	$ 641,004	$ 668,895	$ 762,264	$ 804,912
Available for sale securities	233,578	202,807	215,122	275,440	258,875
Held to maturity securities	48,150	19,025	17,784	11,142	7,125
Loans, net of unearned discount	315,355	337,557	362,407	375,349	431,083
Deposits	575,016	512,707	516,920	568,197	669,953
Borrowings from FHLB	6,257	18,409	38,708	77,684	7,912
Shareholders' equity	88,461	91,839	94,951	99,147	110,754
Summary of Operations					
Interest income	$ 18,493	$ 19,311	$ 22,156	$ 24,956	$ 24,628
Interest expense	1,025	875	1,441	1,447	2,067
Net interest income	17,468	18,436	20,715	23,509	22,561
Provision for loan losses	568	2,582	7,404	9,661	4,264
Net interest income after provision for loan losses	16,900	15,854	13,311	13,848	18,297
Non-interest income	6,549	6,898	8,619	9,067	9,529
Non-interest expense	23,204	28,106	27,208	25,654	25,277
Income (loss) before taxes	245	(5,354)	(5,278)	(2,739)	2,549
Income tax expense (benefit)	78	(762)	4,726	(2,201)	(92)
Net income (loss)	$ 167	$ (4,592)	$ (10,004)	$ (538)	$ 2,641
Per Share Data					
Basic and diluted earnings per share	$ .03	$ (.90)	$ (1.95)	$ (.10)	$ .51
Dividends per share			.10		.20
Book value	17.27	17.93	18.53	19.35	21.56
Weighted average number of shares	5,123,186	5,123,186	5,123,186	5,128,889	5,136,918
Selected Ratios					
Return on average assets	.02%	(.69%)	(1.38%)	(.07%)	.32%
Return on average equity	.19%	(4.92%)	(10.31%)	(.51%)	2.40%
Primary capital to average assets	13.99%	15.06%	14.38%	13.64%	14.71%
Risk-based capital ratios:					
Tier 1	21.69%	20.58%	20.70%	21.54%	20.04%
Total	22.94%	21.83%	21.95%	22.79%	21.29%

Summary of Quarterly Results of Operations (in thousands except per share data):

Quarter Ended, 2016	March 31	June 30	September 30	December 31
Interest income	$ 4,780	$ 4,550	$ 4,593	$ 4,570
Net interest income	4,538	4,283	4,326	4,321
Provision for loan losses	113	24		431
Income (loss) before income taxes	76	139	406	(376)
Net income (loss)	76	61	406	(376)
Basic and diluted earnings (loss) per share	.01	.01	.08	(.07)

Quarter Ended, 2015	March 31	June 30	September 30	December 31
Interest income	$ 4,965	$ 4,808	$ 4,747	$ 4,791
Net interest income	4,755	4,594	4,511	4,576
Provision for loan losses	986	1,536	285	(225)
Loss before income taxes	(1,151)	(1,605)	(2,553)	(45)
Net income (loss)	(1,151)	(1,605)	(2,553)	717
Basic and diluted earnings (loss) per share	(.22)	(.32)	(.50)	.14

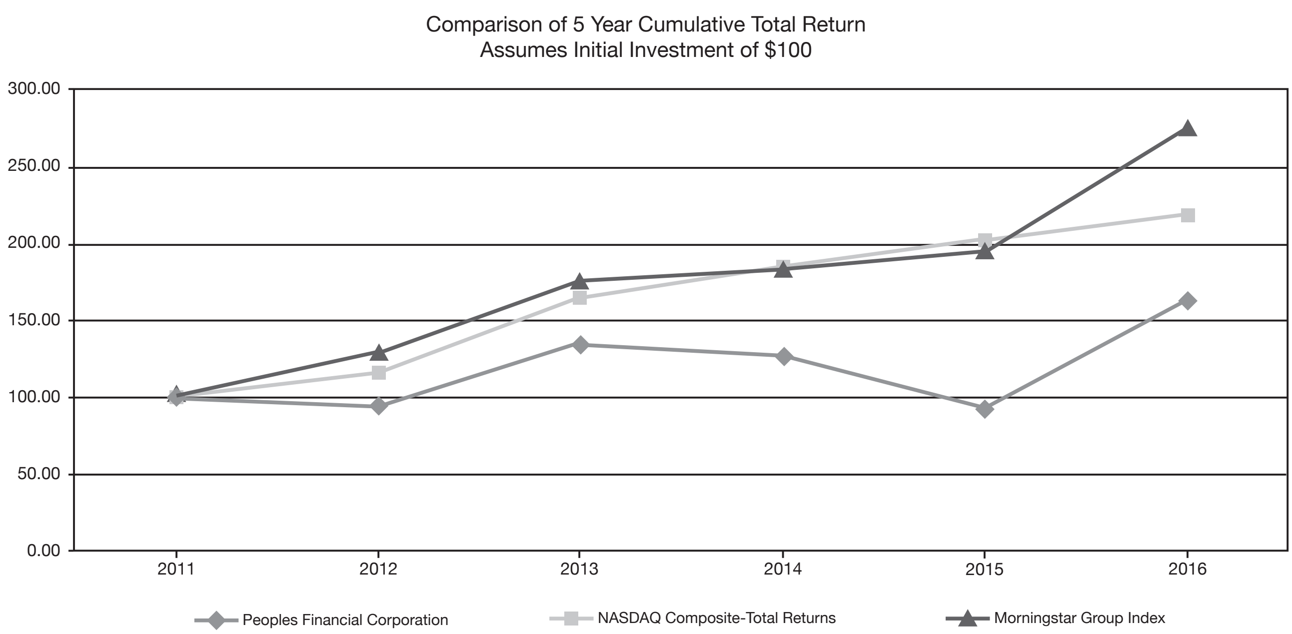
Market Information

The Company's stock is traded under the symbol PFBX and is quoted in publications under "PplFnMS". The following table sets forth the high and low sale prices of the Company's common stock as reported on the NASDAQ Stock Market.

Year	Quarter	High	Low	Dividend per share
2016	1st	$ 9.50	$ 8.53	$
	2nd	11.26	8.90	
	3rd	11.41	10.23	
	4th	16.40	10.50	
2015	1st	$ 12.44	$ 10.00	$
	2nd	10.99	9.21	
	3rd	11.15	9.31	
	4th	9.85	8.90	

Performance Graph

The graph below compares the Company's annual percentage change in cumulative total shareholder return on common shares over the last five years with the cumulative total return of a broad equity market index of companies, the NASDAQ Market Index, and a peer group consisting of the Morningstar Industry Group, Regional - Southeast Banks ("Morningstar"). This presentation assumes $100 was invested in shares of the relevant issuers on January 1, 2012, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial $100 investment at one year intervals. For purposes of constructing this data, the returns of each component issuer have been weighted according to that issuer's market capitalization.



CORPORATE INFORMATION

Corporate Office

Mailing Address

P. O. Box 529
Biloxi, MS 39533-0529

Physical Address

152 Lameuse Street Biloxi, MS 39530
(228) 435-8205

Website

www.thepeoples.com

Corporate Stock

The common stock of Peoples Financial Corporation is traded on the NASDAQ Capital Market under the symbol: PFBX.
The current market makers are:

FIG Partners LLC
Hovde Capital Advisors
Knight Equity Markets, L.P.
Raymond James Financial, Inc.
Sterne, Agee & Leach, Inc.
Stifel Nicolaus & Co.

Shareholder Information

For investor relations and general information about Peoples Financial Corporation:

Paul D. Guichet, Vice-President
The Peoples Bank, Biloxi, Mississippi
P.O. Box 529, Biloxi, MS 39533-0529
(228) 435-8761
e-mail: investorrelations@thepeoples.com

For information about the common stock of Peoples Financial Corporation, including dividend reinvestment and other transfer agent inquiries:

Asset Management and Trust Services Department
The Peoples Bank, Biloxi, Mississippi
P.O. Box 1416, Biloxi, MS 39533-1416
(228) 435-8208
e-mail: investorrelations@thepeoples.com

Independent Registered Public Accounting Firm

Porter Keadle Moore, LLC
Atlanta, Georgia

S.E.C. Form 10-K Requests

A copy of the Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained without charge by directing a written request to:

Lauri A. Wood, Chief Financial Officer and Controller
Peoples Financial Corporation
P. O. Box 529, Biloxi, Mississippi 39533-0529
(228) 435-8412
e-mail: lwood@thepeoples.com

BRANCH LOCATIONS

The Peoples Bank, Biloxi, Mississippi

BILOXI BRANCHES

Main
152 Lameuse Street, Biloxi, Mississippi 39530
(228) 435-5511

Asset Management and Trust Department
Personal and Corporate Trust Services
758 Vieux Marche, Biloxi, Mississippi 39530
(228) 435-8208

Cedar Lake
1740 Popps Ferry Road, Biloxi, Mississippi 39532
(228) 435-8688

Keesler Air Force Base
1507 Meadows Drive
Keesler AFB, MS 39534
(228) 435-8690

West Biloxi
2560 Pass Road, Biloxi, Mississippi 39531
(228) 435-8203

GULFPORT BRANCHES

Armed Forces Retirement Home
1800 Beach Drive, Gulfport, Mississippi 39507
(228) 897-8724

Downtown Gulfport
1105 30th Avenue, Gulfport, Mississippi 39501
(228) 897-8715

Handsboro
0412 E. Pass Road, Gulfport, Mississippi 39507
(228) 897-8717

Orange Grove
12020 Highway 49 North, Gulfport, Mississippi 39503
(228) 897-8718

OTHER BRANCHES

Bay St. Louis
408 Highway 90 East, Bay St. Louis, Mississippi 39520
(228) 897-8710

Diamondhead
5429 West Aloha Drive, Diamondhead, Mississippi 39525
(228) 897-8714

D'Iberville - St. Martin
10491 Lemoyne Boulevard, D'Iberville, Mississippi 39540
(228) 435-8202

Gautier
2609 Highway 90, Gautier, Mississippi 39553
(228) 497-1766

Long Beach
298 Jeff Davis Avenue, Long Beach, Mississippi 39560
(228) 897-8712

Ocean Springs
2015 Bienville Boulevard, Ocean Springs, Mississippi 39564
(228) 435-8204

Pass Christian
301 East Second Street, Pass Christian, Mississippi 39571
(228) 897-8719

Saucier
17689 Second Street, Saucier, Mississippi 39574
(228) 897-8716

Waveland
470 Highway 90, Waveland, Mississippi 39576
(228) 467-7257

Wiggins
1312 S. Magnolia Drive, Wiggins, Mississippi 39577
(228) 897-8722

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

BOARD OF DIRECTORS

Peoples Financial Corporation

Chevis C. Swetman, *Chairman of the Board*

Dan Magruder, *Vice-Chairman, Retired Business Executive*

Drew Allen, *President, Allen Beverages, Inc*.

Rex E. Kelly, *Principal, Strategic Communications*

Jeffrey H. O'Keefe, *President, Bradford-O'Keefe Funeral Homes, Inc.*

OFFICERS

Peoples Financial Corporation

Chevis C. Swetman, *President and Chief Executive Officer*

A. Wes Fulmer, *Executive Vice-President*

Ann F. Guice, *First Vice-President*

J. Patrick Wild, *Second Vice-President*

Evelyn R. Herrington, *Vice-President and Secretary*

Lauri A. Wood, *Chief Financial Officer and Controller*

BOARD OF DIRECTORS

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *Chairman*

Liz Corso Joachim, *Vice-Chairperson, President, Frank P. Corso, Inc.*

Drew Allen, *President, Allen Beverages, Inc.*

A. Wes Fulmer, *Executive Vice-President, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi*

Rex E. Kelly, *Principal, Strategic Communications*

Dan Magruder, *Retired Business Executive*

Jeffrey H. O'Keefe, *President, Bradford-O'Keefe Funeral Homes, Inc*.

SENIOR MANAGEMENT

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *President and Chief Executive Officer*

A. Wes Fulmer, *Executive Vice-President*

Lauri A. Wood, *Senior Vice-President and Cashier*

Ann F. Guice, *Senior Vice-President*

J. Patrick Wild, *Senior Vice-President*

Evelyn R. Herrington, *Senior Vice-President*