April 26, 2018

Re: Shareholder Address, Annual Meeting April 25, 2018

Dear Shareholder:

We would like to welcome everyone to our 122nd Annual Shareholder Meeting. On April 13, 2018 our Bank celebrated its 122nd birthday.

At the end of the year, the holding company board of directors appointed Ron G. Barnes and Paige Reed Riley to the board of The Peoples Bank. Their leadership, extensive business experience, and active community involvement will enhance the insight of our board.

Over the past 22 years, Ron Barnes has served Coast Electric Power Association in key management positions encompassing Marketing, Member Services, Public Relation and Legislative Affairs and was recently named President and Chief Executive Officer in April of 2017. Coast Electric is headquartered in Hancock County, Mississippi and provides power to approximately 80,000 homes and businesses along the Mississippi Gulf Coast.

Paige Reed Riley is a life-long resident of the Mississippi Gulf Coast and owner of the highly acclaimed Hillyer House gallery. Since 1970 Ms. Riley has grown Hillyer House into a nationally recognized award-winning gallery featuring exceptional works of art from over 400 local, regional and national artists. Additionally, Ms. Riley is a dedicated community leader serving as a board member with numerous community organizations.

We are extremely fortunate to have Ron and Paige on our Board of Directors.

During the 1st quarter 2018 Peoples Financial Corporation earned $292,000 net income compared to $74,000 net income in the first quarter 2017 (Enclosure). As we return to profitability, we continue to focus on our bank's biggest issue – asset quality.

NASDAQ Capital Market to OTCQX Best Market

Before we get into the asset quality issue discussion, I would like to give you the main reason for the transfer from the NASDAQ Capital Market to the OTC Best Market in December. In 1984 our bank formed a one bank holding company and in May 2000 we listed on NASDAQ. Over the last several years our annual NASDAQ registration has cost us $32,000 per year.

In early October when we met with our new NASDAQ representative, we were advised that our current NASDAQ annual cost was going up $10,000, from $32,000 to $42,000 on January 1, 2018. This is a 31.25% increase and confirmed the fact that the costs associated with the NASDAQ far outweighed the benefits. If the holding company converted to the OTC market before January 1st the cost savings would be $17,000 for 2018 and $22,000 a year for subsequent years. The cost to join the OTC market was a onetime application fee of $5,000 and an annual fee of $20,000. We consulted with several market makers before this move to see if they saw any difficulties if we made this switch. They had none.

Over the last five years (5) we paid NASDAQ $160,000 in registration fees with no real benefit to us. By making this change we still are a listed stock and we still will have the SEC reporting requirements. We also hope to be able to take advantage of additional tax savings.

NON PERFORMING ASSETS

Non Accrual Loans

The bank's non-accrual loans have decreased significantly since their highest peak on December 31, 2011 as follows (in thousands):

December 31, 2011	$57,593
December 31, 2012	$53,891
December 31, 2013	$26,131
December 31, 2014	$33,297
December 31, 2015	$15,186
December 31, 2016	$11,853
December 31, 2017	$13,810
March 31, 2018	$12,891

Non-Accruals in Bankruptcy

	Amount	Number of Relationships
	$4,528,461	6
*	$5,354,128	10
	$3,295,704	9

* One bankruptcy relationship added 64 loans in the 3rd quarter

Of our non-accrual loans as of December 31, 2017 eighteen (18) loans totaling $4,450,963 were performing as agreed. This was 15.8% by number and 32.2% by dollar amount. Beginning in the second quarter we anticipate non-accrual principle reductions of approximately $100,000 per month.

The good news about the loans in bankruptcy is that they are one step closer to resolution.

Other Real Estate (ORE)

The Bank is constantly reviewing our ORE property values due to fluctuating real estate prices. The increase in ORE over the last 7 years has been due to management's aggressive program of identifying and resolving problem credit issues. Foreclosure or bankruptcy is the final step. The following is the ORE on our books since 2010:

	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $
Mar	1,750,963	6,937,128	7,725,111	6,657,000	9,083,788	12,297,000	9,840,000	8,246,488	8,844,506
June	1,396,913	8,163,237	7,523,111	6,824,000	8,981,057	11,762,427	8,737,443	7,357,928	
Sept	2,818,834	6,962,738	7,368,534	9,426,361	9,709,976	10,900,144	9,437,373	8,081,238	
Dec	5,744,150	6,151,238	7,008,184	9,630,247	7,646,226	9,916,252	8,513,075	8,231,568	

In 2017 we estimated that the Bank would dispose of $2,000,000 in other real estate. We were able to sell $1,767,083, 88% of our estimate. That was the good news. The bad news was other real estate only declined by $281,000. We anticipate that we will dispose of another $2,000,000 of other real estate in 2018.

During 2017 the company acquired seven (7) parcels through foreclosure with a carrying value of $1,946,045 and disposed of a total of thirty seven (37) parcels with a carrying value of $1,767,083 at a net sales price of $1,666,186. The interesting thing that happened this year was that the bank sold 3 parcels at the court house steps. There is a possibility that we may acquire several commercial properties in the fourth quarter of this year that may give us the opportunity for another auction later this year or early 2019.

During the first quarter of this year the company acquired four (4) parcels through foreclosure with a carrying value of $753,674 and only disposed of a total of five (5) parcels with a carrying value of $124,136 at a net sales price of $119,900. On March 31, 2018 the Bank had $8,844,506 in other real estate on its books.

Schedule of Gain or Loss on ORE Sold as of December 31

Year	*Carrying Value*	*Net Sale Price*	*Gain (Loss) on ORE Sold*	*# Properties Disposed of*	**ORE Book Value at Dec. 31**
2009	$2,897,673	$3,047,731	$ 150,058	11	$ 1,521,313
1) 2010	1,414,850	1,328,000	(86,850)	14	5,744,150
2) 2011	2,101,416	1,921,026	(180,390)	25	6,153,238
3) 2012	1,567,274	1,546,005	(21,269)	16	7,008,184
4) 2013	1,186,509	1,123,936	(62,573)	12	9,630,247
5) 2014	2,067,589	2,115,000	47,411	14	7,646,226
6) 2015	4,294,943	3,505,545	(789,398)	35	9,916,252
7) 2016	2,524,391	2,775,379	250,988	16	8,513,075
8) 2017	1,767,083	1,666,186	(100,897)	37	8,231,568
9) 3/31/2018	124,136	119,900	(4,236)	5	8,844,506
10) TOTAL	19,945,864	19,148,708	(797,156)	185	

1)	2010 (loss)	does not include	$	77,350	write down or adjustment to contract price that was expensed
2)	2011 (loss)	does not include	$	127,300	write down or adjustment to contract price that was expensed
3)	2012 (loss)	does not include	$	249,600	write down or adjustment to contract price that was expensed
4)	2013 (loss)	does not include	$	852,807	write down or adjustment to contract price that was expensed
5)	2014 gain	does not include	$	389,591	write down or adjustment to contract price that was expensed
6)	2015 (loss)	does not include	$	1,237,075	write down or adjustment to contract price that was expensed
7)	2016 gain	does not include	$	487,045	write down or adjustment to contract price that was expensed
8)	2017 (loss)	does not include	$	460,477	write down or adjustment to contract price that was expensed
9)	2018 (loss)	does not include	$	10,600	write down or adjustment to contract price that was expensed
10)	Total(loss)	does not include	$	3,921,845	write down or adjustment to contract price that was expensed

LOAN LOSS RESERVE

We were encouraged by the need to provide only $116,000 for 2017 losses compared to $568,000 for 2016. Please note our loan loss provision in 2017 was the lowest in the last nine (9) years and the provision continues the major downward trend it has followed for the last four (4) years. In addition the $842,000 recovery in 2017 was the largest since 2005. There was a $35,000 loan loss provision for the 1st quarter of 2018.

Allowance for Loan Loss Reserve **Year Ended December 31**

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**3/2018**
Allowance for loan losses beginning of period	$6,650	$8,136	$ 8,857	$8,934	$9,206	$8,070	$5,466	$6,153
Recoveries	223	133	538	598	390	350	842	175
Charge-Offs	(1,672)	(3,676)	(10,122)	(7,730)	(4,108)	(3,522)	(271)	(151)
Provision for loan losses	2,935	4,264	9,661	7,404	2,582	568	116	35
Allowance for loan losses end of period	$8,136	$8,857	$ 8,934	$9,206	$8,070	$5,466	$6,153	6,212

Our aggressive program of identifying and managing problem loans has continued since 2013. This has been a painful process, but the result is a cleaner, stronger balance sheet that has positioned us for more robust growth as our economy recovers.

ASSET QUALITY

We are taking the liberty of including our past due loan status showing the number and dollar amount of loans in each category at the end of each year and the current quarter. Collateral values are stabilizing and we are confident of our continuing financial progress.

AGING OF PAST DUE LOANS

	30-59 Days		60 - 89 Days		90 Days Accruing		Non Accruals		Total		% of Total Loans	Total Loans
	#	Amt	#	Amt	#	Amt	#	Amt	#	Amt		
12/31/11	136	$17,373,673	27	$3,924,249	13	$1,832,431	64	$57,592,714	240	$80,723,067	18.7%	$432,407,000
12/31/12	137	$17,680,602	31	$2,808,965	11	$1,538,895	54	$53,890,511	233	$75,918,973	17.7%	$429,738,335
12/31/13	124	$12,859,783	12	$2,590,023	8	$ 749,559	42	$26,171,386	188	$42,370,751	11.3%	$374,578,330
12/31/14	99	$ 8,002,829	17	$2,185,595	10	$ 763,469	60	$33,297,556	186	$44,249,449	12.2%	$361,687,083
12/31/15	81	$ 8,589,882	19	$3,316,737	3	$ 145,524	37	$15,185,797	140	$27,237,940	8.1%	$337,131,946
12/31/16	76	$ 6,276,143	14	$1,985,920	0	$ -0-	41	$11,852,702	131	$20,114,765	6.0%	$315,355,000
12/31/17	58	$11,528,995	13	$ 305,237	0	$ -0-	114	$13,810,278	185	$25,645,510	9.2%	$279,987,899
3/31/18	41	$7,851,634	9	$1,612,522	0	$ -0-	108	$12,891,428	158	$22,355,584	8.1%	$275,024,602

CAPITAL

Capital has always been a hallmark of this institution. Historically, since the Great Depression, this bank maintained a much higher capital level than all of its peers. The next table reflects the book value per share, the total company capital, and our primary capital-to-average assets since 2004.

Market Value	Date	Book Value per Share	Total Capital	Primary Capital to Avg. Assets
	12/31/04	$15.44	$ 85,801,000	15.87%
	* 12/31/05	$15.77	87,503,000	13.67%
	12/31/06	$17.71	98,233,000	11.91%
	12/31/07	$19.56	106,542,000	12.13%
	12/31/08	$20.27	107,000,000	12.81%
$20.32	12/31/09	$20.11	103,588,000	12.49%
$15.16	12/31/10	$19.68	101,357,000	12.96%
$10.31	12/31/11	$21.31	109,452,000	14.65%
$ 9.44	12/31/12	$21.61	111,021,000	14.71%
$13.05	12/31/13	$19.25	99,147,000	13.64%
$12.45	12/31/14	$18.53	94,951,000	14.38%
$ 9.10	12/31/15	$17.93	91,839,000	15.06%
$16.15	12/31/16	$17.27	88,461,000	13.99%
$13.00	12/31/17	$17.84	90,659,000	14.34%
$13.85	3/31/18	$17.16	89,499,000	14.24%

*Hurricane Katrina

LIQUIDITY

The Bank has a liquidity plan that has been tested. Our cash flows are monitored and measured. In our recent stress tests of cash flows, management had satisfactory results. Our contingency funding plan addresses liquidity during crisis scenarios. Our greatest source of liquidity is from our large commercial checking accounts and the FHLB of Dallas. Our emergency source of liquidity is from the Federal Reserve Discount Window.

Bank management feels that we are a leader in public deposits in our market and we consider all large accounts stable. While essentially all securities are pledged, management routinely pledges securities in excess of the secured liability to the state of Mississippi to facilitate the release of called and sold securities.

Our securities portfolio grew $26,000,000 in 2017, and we have $109,000,000 in maturities in the next three (3) years. It is our intention to reinvest our Treasury portfolio, as it matures, in loans and mortgage backed securities in order to increase earnings.

EARNINGS

We acknowledge that earnings need to continue to improve. Our reduced provision for loan loss has positively impacted our earnings. The three (3) federal funds rate hikes in 2017 each generated another increase of $9,000.00 per month in net income as New York Prime also increased 25 basis points. Each rate increase becomes ever more important as we approach some of our earlier floored loans. Our Net interest margin increased to 3.10% for the period ended 3/31/18 from 2.85% for the period ended 3/31/17.

The earnings, although disappointing, are definitely headed in the right direction as follows:

		Income / <Loss>	Valuation Allowance
2014	Net Loss	($10,004,000)	$ 8,140,000
2015	Net Loss	($ 4,592,000)	$10,106,000
2016	Net Income	$ 167,000	$11,560,000
2017	Net Income	$ 2,758,000	$ 7,934,000
3/2018	Net Income	$ 292,000	

The Tax Cuts and Jobs Act, which was enacted on December 22, 2017, positively impacted fourth quarter earnings for 2017. Under this legislation, the Company was able to remove the existing valuation allowance on its AMT credit carryforwards which resulted in a deferred tax benefit of $742,000.

The company has historically carried a considerable amount of deferred tax assets resulting from non-deductible provisions for loan losses, deferred compensation expenses and tax credits. In consideration of the company's losses in 2014, management evaluated deferred tax assets and established a valuation allowance of $8,140,000, a non-cash charge to earnings, for the year December 31, 2014. The valuation allowance as of December 31, 2017 was $7,934,000. The Accounting Standards Codification (ASC) 740, Accounting for Income Taxes, requires a valuation allowance if, based on the weight of available evidence, it is more likely than not that all or some portion of a deferred tax asset will not be realized. More detailed information on this is found on page 25 of the 2017 annual report under Note I – Income Taxes.

We are continuing to use the tax-planning strategies that have helped us to return to positive earnings as follows:

1) The bank continues to work through the credit quality issues as the provision expense and ORE losses and ORE expenses continue to decline.
2) Accelerate taxable income amounts to utilize tax carry-forwards.
3) Continue the switch from tax-exempt securities to taxable investment securities. The bank's state, county and municipal (SCM) sector has the largest gain in our portfolio and most of the securities are classified as "available for sale". The SCM securities are being identified for possible liquidation along with some longer duration agency and mortgage backed securities.
4) The proceeds of the security sales will be reinvested in loans and taxable SCM securities, such as school district bonds to increase taxable income.
5) Make more loans.

FUTURE PLANS

What is The Peoples Bank doing to insure its future profitability?

Short Term

1. Continue to work to reduce non-accrual loans, past due loans, and other real estate. We are making great progress. We only had a $116,000 loan loss provision for 2017. We hope that 2018 will be even better.

2. The non-interest expense reduction program that started over three years ago resulted in a $979,699 reduction in 2017 along with a $3,135,704 reduction in 2016. We will continue to lower these expense categories.
3. The Federal Reserve discount rate / Fed funds rate increase of 25 basis points in mid-December has resulted in another $9,000 per month increase in net income as New York Prime adjusted 25 basis points from 4.25% to 4.50%. The March 2018 25 basis point Fed funds hike also will increase net income another $9,000 per month as we start to equal or exceed some of our earlier floored loans.
4. When we upgraded our bank ATM network in 2016 to accept electronic deposits, we saw a 400% increase in activity. This was totally unexpected. Deposit activity went from 225 monthly transactions to nearly 1,000 transactions per month.
5. Enhanced debit card fraud protection capability through “Card Guardian” text message alert service has substantially reduced fraud loss.
6. Our next project is to roll out the new Bank credit card program in late 2018. This is a hold over project from last year.
7. Upgrade of mobile check deposit service. You can deposit your checks conveniently and securely to checking or savings accounts with our mobile app PeoplesGreen2Go.
8. Upgrading online Bill Pay service with new person-to-person funds transfer feature.

Long Term Goals Reached

1. The company re-established its semi-annual dividend on October 13, 2017. We plan to pay this dividend on a consistent basis then gradually increase the amount. This afternoon the company declared a dividend of $.01 per share payable to shareholders on May 10, 2018.
2. The stock re-purchase plan is fully funded. We have already repurchased and retired 50,392 shares (as of 3/31/18) of our 110,000 share allocation. It is our intent to redeem the balance of the repurchase plan within the next six (6) months giving priority to our smaller shareholders at market value without a broker fee. If you have the desire to sell your stock without a brokerage commission, please contact Tanner Swetman, Vice President; Investments and Corporate Affairs at 228-435-8406 or tswetman@thepeoples.com

MARKET VALUE

You have seen that the Tax Cuts and Job Act has already benefited our bank. As time passes we hope to see more benefit to our bank and the national economy which will benefit the market value of our stock.

We are confident that as we address our asset quality issues and the Mississippi Gulf Coast’s economy gains traction, our earnings will improve.

Sincerely yours,

Chevis C. Swetman

Chevis C. Swetman
President and CEO

CCS/kmg

Enclosures: Peoples Financial Corporation First Quarter 2018 Press Release

PEOPLES FINANCIAL CORPORATION

FOR IMMEDIATE RELEASE

For more information, contact:
Paul D. Guichet, Vice President
228-435-8761
pguichet@thepeoples.com

**PEOPLES FINANCIAL CORPORATION
REPORTS RESULTS FOR FIRST QUARTER OF 2018
AND ANNOUNCES DIVIDEND**

BILOXI, MS (April 25, 2018)—Peoples Financial Corporation **(OTCQX Best Market: PFBX)**, parent of The Peoples Bank, announced earnings for the first quarter ending March 31, 2018. Additionally, the company declared a cash dividend of $0.01 per common share, payable May 10, 2018 to shareholders of record as of May 7, 2018.

The company reported net income of $292,000 for the first quarter of 2018 compared to net income of $74,000 for the first quarter of 2017. Earnings per weighted average common share for the first quarter of 2018 was $0.06 compared to $0.01 for the first quarter 2017. Per share figures are based on weighted average common shares outstanding of 5,080,514 and 5,123,186 for the quarters ended March 31, 2018 and 2017, respectively.

Provision for loan losses during the first quarter of 2018 increased to $35,000 compared to $26,000 for the same period last year. The Allowance for Loan Losses as a percentage of total loans was 2.26% as of March 31, 2018 as compared to 1.81% as of March 31, 2017.

“We are pleased with our financial progress in the first quarter,” said Chevis C. Swetman, chairman and chief executive officer of the holding company and the bank. He added, “We look forward to continuing our successful financial performance in 2018. “

As of March 31, 2018, nonaccrual loans decreased to $12,886,000 compared to $13,319,000 as of March 31, 2017. The Company had no loans past due 90 days and still accruing for the quarters ended March 31, 2018 and 2017, respectively. For the first quarter of 2018, loan charge-offs increased to $152,000 as compared to $59,000 for the same period the prior year. As of March 31, 2018, loan recoveries were $176,000 compared to $49,000 as of March 31, 2017.

The holding company’s primary capital ratio was 14.24% at March 31, 2018, compared to 13.36% at March 31, 2017. The company’s book value per share was $17.16 and $17.49 for the quarters ended March 31, 2018 and 2017, respectively.

Founded in 1896, with $647 million in assets as of March 31, 2018, The Peoples Bank operates 18 branches along the Mississippi Gulf Coast in Hancock, Harrison, Jackson and Stone counties. In addition to offering a comprehensive range of retail and commercial banking services, the bank also operates a trust and investment services department that has provided customers with financial, estate and retirement planning services since 1936.

The Peoples Bank is a wholly-owned subsidiary of Peoples Financial Corporation, listed on the OTCQX Best Market under the symbol PFBX. Additional information is available on the Internet at www.thepeoples.com.

This news release contains forward-looking statements and reflects industry conditions, company performance and financial results. These forward-looking statements are subject to a number of risk factors and uncertainties which could cause the Company’s actual results and experience to differ from the anticipated results and expectation expressed in such forward-looking statements.

PEOPLES FINANCIAL CORPORATION
(In thousands, except per share figures) (Unaudited)

EARNINGS SUMMARY

Three Months Ended March 31,	2018	2017
Net interest income	$ 4,269	$ 4,322
Provision for loan losses	35	26
Non-interest income	1,523	1,542
Non-interest expense	5,465	5,764
Net income	292	74
Earnings per share	.06	.01

TRANSACTIONS IN THE ALLOWANCE FOR LOAN LOSSES

Three Months Ended March 31,	2016	2017
Allowance for loan losses, beginning of period	$ 6,153	$ 5,466
Recoveries	176	49
Charge-offs	(152)	(59)
Provision for loan losses	35	26
Allowance for loan losses, end of period	$ 6,212	$ 5,482

PERFORMANCE RATIOS

March 31,	2018	2017
Return on average assets	0.18%	0.04%
Return on average equity	1.32%	0.33%
Net interest margin	3.10%	2.85%
Efficiency ratio	95%	99%

BALANCE SHEET SUMMARY

March 31,	2018	2017
Total assets	$ 646,845	$ 725,387
Loans	275,452	303,192
Securities	295,405	274,280
Other real estate (ORE)	8,845	8,247
Total deposits	538,936	616,343
Shareholders' equity	87,052	89,629
Book value per share	17.16	17.49
Weighted average shares	5,080,514	5,123,186

PERIOD END DATA

March 31,	2018	2017
Allowance for loan losses as a percentage of loans	2.26%	1.81%
Loans past due 90 days and still accruing		
Nonaccrual loans	12,886	13,319
Primary capital	14.24%	13.36%