# 2024

## ANNUAL REPORT

SINCE 1896

PEOPLES FINANCIAL CORPORATION
AND SUBSIDIARIES

PEOPLES FINANCIAL CORPORATION

To Our Shareholders:

In the 129 years since our founding, The Peoples Bank and its holding company, Peoples Financial Corporation, have remained committed to the Mississippi Gulf Coast. We proudly stand as a local community bank serving the financial needs of our friends and neighbors here in South Mississippi.

I am pleased to report on the results of 2024.

Net income for the year ended December 31, 2024, was $21,703,000 compared to net income of $9,166,000 for the year ended December 31, 2023.

The Company had a valuation allowance on federal and state deferred tax assets totaling $15,617,000 as of December 31, 2023. In the third quarter of 2024, the Company reassessed the valuation allowance in accordance with applicable accounting guidance and determined it was appropriate to reverse substantially all the valuation allowance which resulted in a one-time discrete reduction to income tax expense of $15,194,000 in the third quarter of 2024.

As of December 31, 2022, the Company no longer had a net operating loss carryforward.

Improving asset quality has been the primary goal of the company since the 2008 recession. During 2023 and 2024, we achieved several important milestones:

- Nonaccrual loans were reduced from their high of $57,500,000 in 2011 to $418,000 at December 31, 2024.
- Other real estate was reduced from $9,900,000 in 2015 to $0 at December 31, 2023. This is the lowest our other real estate has ever been in our Bank's history. At December 31, 2024 the balance was $9,000.

Our management team continues to implement our strategic plan. Our key objectives of the plan include improving financial results and maximizing shareholder value over the long term. These efforts included:

- Pursuing strategies to increase outstanding loans by seeking opportunities in new markets in our trade area and out of area and seeking participations with similar financial institutions.
- Continue to focus on those efforts that result in reduction of past due loans, nonaccruals, and other real estate.
- Maintaining the efficiency ratio to the average efficiency ratio of the bank's composite PEER group over the next decade. Strategies will include promoting technology to enhance operational effectiveness and product offerings, continued evaluation of opportunities to increase non-interest income and reduce non-interest expense and evaluation of existing branch footprint.

- Maintaining annual earnings to a return on average assets of 1.00%. Strategies emphasized achieving sustained earnings. In 2024 our return on average assets was 2.65%.
- Providing increased semi-annual dividends to our shareholders of approximately 30% based on a consistent payout of sustained profits.
- Continue a stock repurchase program not to exceed $1,000,000 annually.
- Implementing an enhanced succession strategy for key/senior management positions. The recent retirement of several senior managers has provided an opportunity for promotions for other officers as well as the potential for new strategies within those areas.
- The renovations on our asset management trust department and around the Ellzey building were completed in August 2023 which allowed us to place more emphasis on wealth management. The project cost us $1.5 million. Along the way we took advantage of the historical tax credit of $800,000 which was utilized in 2023 and 2024. The first step in this process was taken by the acquisition of Trustmark's corporate trust business in August 2022. New related net income for 2024 for the asset management and trust services division (only) was $1,214,601 compared to 2023 net income of $1,062,963.
- Net income for the year ended 2024 increased $12,537,000 to $21,703,000 compared to net income of $9,166,000 for the year ended 2023.
- The increase in net income for the year ended December 31, 2024, was due to a discrete item of $15,194,000 recorded as a tax benefit for the reversal of the Company's valuation allowance on federal and state deferred tax assets during the third quarter and year ended December 31, 2024. Pre-tax income for the year ended December 31, 2024 decreased $2,907,000 to $8,380,000 as compared with $11,287,000 for the year ended December 31, 2023. Total interest income increased by $465,000 to $33,094,000 for the year ended December 31, 2024 as compared with $32,629,000 for the year ended December 31, 2023 due to higher interest and fees on loans and overnight federal funds. Total interest expense increased by $3,488,000 to $9,643,000 for the year ended December 31, 2024 as compared with $6,155,000 for the year ended December 31, 2023 due to higher interest rates paid on deposit accounts and borrowings.

Overall, it can be said that the operational strategies implemented since 2021 resulted in the best year our Bank and Holding Company has ever had.

Throughout our 129-year history, we have upheld our vision of serving those in our Mississippi Gulf Coast community. These many years have seen challenges, including hurricanes, depressions, recessions, oil spills, pandemics and other disasters, that have impacted our friends and neighbors. One constant throughout has been the strength and stability of The Peoples Bank which comes from our strong capital foundation. This is the foundation that makes your long-term investment in our Company safe through tumultuous times. We thank our shareholders, employees, directors and customers for being part of that mission here in our home, in South Mississippi.

Sincerely yours,

Chevis C. Swetman
Chairman, President and Chief Executive Officer

Enclosure (1) End of year financial highlights

**PERFORMANCE SNAPSHOT**
**(In thousands, except per share figures)**

**EARNINGS SUMMARY**

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2024 | 2023 | 2022 | 2021 |
| Net interest income | $ 23,451 | $ 26,474 | $ 21,550 | $ 19,462 |
| Non-interest income | 7,014 | 6,894 | 6,895 | 6,470 |
| Non-interest expense | 22,247 | 22,353 | 21,855 | 22,622 |
| Net income | 21,703 | 9,166 | 8,941 | 8,911 |
| Earnings per share | $ 4.66 | $ 1.96 | $ 1.91 | $ 1.84 |

**PERFORMANCE RATIOS**

| December 31, | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Return on average assets | * 2.65% | 1.10% | 1.06% | 1.15% |
| Return on average equity | * 27.25% | 14.73% | 12.17% | 9.55% |
| Net interest margin | 3.05% | 3.29% | 2.64% | 2.74% |
| Efficiency ratio | 73% | 67% | 77% | 72% |

*-Includes discrete item of $15,194,000 for the reversal of valuation allowance in Q3 2024.

| December 31, | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Closing Stock Price | $18.60 | $16.60 | $14.50 | $16.65 |

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## 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 condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2024, 2023 and 2022. 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, changes in the availability of funds resulting from reduced liquidity, changes in statutes, government regulations or regulatory policies or practices 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 2024, which are disclosed in Note A to the Consolidated Financial Statements. The Company does not expect that the update discussed in the Notes will have a material impact on its financial position, results of operations or cash flows. Further disclosure relating to this and other updates is included in Note A.

### 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. The determination of the fair value of securities may require Management to develop estimates and assumptions regarding the amount and timing of cash flows. On January 1, 2023 the Company adopted the Accounting Standards Codification ("ASC") 326, "Financial Instruments-Credit Losses", more commonly referred to as CECL which requires an assessment of the Company's available for sale and held to maturity debt securities for expected credit losses.

#### Allowance for credit losses on loans and leases and unfunded lending commitments

On January 1, 2023 the Company adopted Accounting Standards Codification ("ASC") 326, "Financial Instruments-Credit Losses", more commonly referred to as CECL. Under CECL, the allowance for credit losses (ACL) is a valuation account, measured as the difference between the Bank's amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses).

The CECL methodology described in FASB Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326), applies to financial assets measured at amortized cost, and off-balance-sheet credit exposures (collectively, financial assets).

In general, the Bank uses a broad range of data to estimate expected credit losses under CECL, including information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

CECL requires the Bank to measure expected credit losses on financial assets carried at amortized cost on a collective or pool basis when similar risk characteristics exist. The Bank has determined that Call Report categories will be utilized, and Management will maintain the option to further segment the portfolio if we deem it beneficial to the analysis.

Estimating an appropriate ACL involves a high degree of Management judgment. As such, it is Management's responsibility to record the Bank's best estimate of expected credit losses and provide it to the Board of Directors.

The analysis is prepared and reported to the Board of Directors on a quarterly basis. The option and decision to prepare the analysis more frequently will remain with Management.

One of the Company's critical accounting policies relates to its allowance for credit losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The allowance for credit losses is established and maintained at an amount sufficient to absorb losses on loans and leases held for investment. 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 allowance for credit losses.

Management believes that the allowance for credit losses is adequate and appropriate for all periods presented in these financial statements. All credit relationships with an outstanding balance of $50,000 or greater that are included in Management's loan watch list are individually reviewed for credit losses.

**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**

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

**GAAP Reconciliation and Explanation**

This report contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include taxable equivalent interest income and taxable equivalent net interest income. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures for the years ended December 31, 2024, 2023 and 2022 is included below.

**RECONCILIATION OF NON-GAAP PERFORMANCE MEASURES**
(in thousands)

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Interest income (GAAP)** | | | |
| Interest income - taxable equivalent | $ 33,094 | $ 32,629 | $ 23,708 |
| Taxable equivalent adjustment | 280 | 303 | 315 |
| **Interest income reconciliation:** | $ 33,374 | $ 32,932 | $ 24,023 |
| **Net interest income (GAAP)** | | | |
| Net interest income - taxable equivalent | $ 23,451 | $ 26,474 | $ 21,550 |
| Taxable equivalent adjustment | 280 | 303 | 315 |
| **Interest income reconciliation:** | $ 23,731 | $ 26,777 | $ 21,865 |

**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.

Concerns about inflation and its potential impact on the economy and individual households are among the issues being considered by the Federal Reserve. Raising the Federal funds rate has been a strategy pursued in 2023 and 2022 to address this issue. The Federal Reserve has raised interest rates a total of 100 basis points during 2023 and 425 basis points during 2022 in an effort to promote maximum employment, keep prices stable and have moderate long-term interest rates. Due to a weakening labor market the Federal Reserve has changed its course of action and has reduced interest rates by 100 basis points during 2024.

Assisting our customers during the pandemic was a priority. The Company granted modifications by extending payments 90 days or allowing interest only payments to certain customers as a result of the economic challenges of business closures and unemployment resulting from COVID 19. We also actively participated in the Paycheck Protection Program ("PPP"), a specific stimulus resource designed to provide assistance to small businesses. The Company recorded loan fees associated with the PPP loan program in the amount of approximately $125,000 in 2022.

The Company reported net income of $21,703,000 for 2024 compared with net income of $9,166,000 for 2023 compared with net income of $8,941,000 for 2022, respectively. Results in 2024 included a discrete item recorded as a tax benefit for the reversal of the Company's valuation allowance on federal and state deferred tax assets during the third quarter of 2024, an increase in total interest income, a decrease in the allowance for credit losses, and in increase in total interest expense. Results in 2023 included an increase in net interest income, a decrease in the allowance for credit losses, which were partially offset by an increase in non-interest expense, and the recording of tax expense. Results in 2022 included an increase in net interest income, an increase in the allowance for loans losses which were partially offset by an increase in non-interest income, a decrease in non-interest expense, and the recording of a tax benefit.

Managing the net interest margin is a key component of the Company's earnings strategy. During 2022, the Federal Reserve increased rates by 425 basis points and increased again 50 basis points in the first quarter of 2023, 25 basis points in the second quarter of 2023 and another 25 basis points in the third quarter of 2023 in an effort to slow inflation. During 2024, due to a weakening labor market and a change in its course of action, the Federal Reserve has decreased rates by 50 basis points in the third quarter of 2024, and another 50 basis points in the fourth quarter of 2024.

As a result, net interest income decreased $3,023,000 as compared with 2023. This decrease was attributable to higher interest expense mainly on borrowed funds. The Company did see an increase in total interest income of $465,000 as compared to 2023 which was due to yields on loans remaining strong and higher loan fees. However, the increase in rates during 2023 caused total interest expense to increase $3,488,000 in 2024 as compared with 2023. The decrease in rates during 2024 has not started to impact the cost of funds.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be a major focus of the Company. A reduction of the provision for the allowance for credit losses of $162,000 was recorded in 2024 compared to a reduction in the allowance for credit losses of $272,000 recorded in 2023. An increase in the allowance for loan losses of $80,000 was recorded in 2022. On June 30, 2023, following a foreclosure, a large loan was charged off in the amount of $186,000 and the related property was moved into other real estate. This increased the Bank's other real estate balance to $952,000. In October 2023, funds were received to settle the sale of one property in other real estate reducing the balance to $1. On December 30, 2024, following a repossession, related property was moved into other real estate increasing the balance to $9,000 at December 31, 2024. The Company's nonaccrual loans totaled $418,000 and $213,000 at December 31, 2024 and 2023. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

Non-interest income increased $120,000 in 2024 as compared with 2023 results and decreased $1,000 in 2023 as compared with 2022 results. The increase in 2024 was primarily the result of an increase in trust department income and fees and an increase in Bank-owned Life Insurance ("BOLI") income along with other income offset slightly by a decrease in service charges on deposits accounts. The decrease in 2023 was primarily the result of a decrease in service charge and other income offset mostly by an increase in trust income related to an acquisition.

Non-interest expenses decreased $106,000 in 2024 as compared with 2023 and increased $498,000 in 2023 as compared with 2022. The decrease in 2024 was primarily due to lower salaries and employee benefits of $645,000 which was the result of an increase in the discount rate that decreased the liability on deferred compensation expense, although that decrease was offset mostly by higher depreciation and maintenance expenses of $229,000 and higher other expense of $212,000 as compared with 2023. The increase in 2023 was primarily due to higher net occupancy, legal, accounting, compliance and trust expenses.

Total assets at December 31, 2024 increased $34,111,000 as compared with December 31, 2023. Total deposits increased $32,240,000 primarily because the asset management and trust department's deposit account brought in funds to pay bond principal and interest payments which funds were transferred back out of the Bank at the beginning of January 2025 to satisfy these payments. This increase in deposits resulted in an increase in overnight cash and due from banks of $84,950,000 while loans decreased $4,763,000. In order to stay liquid, there was a decrease in net securities, since the funds have been placed in cash and due from banks and used to pay off borrowings as securities mature.

## 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.

**2024 as compared with 2023**

The Company's average interest-earning assets decreased approximately $32,744,000, or 4.03%, from approximately $811,674,000 for 2023 to approximately $778,930,000 for 2024. Average taxable held to maturity securities decreased approximately $64,912,000, average nontaxable held to maturity securities decreased approximately $3,236,000 and average taxable available for sale securities increased approximately $33,565,000 as investment maturities and calls exceeded purchases of  securities in total. Average fed funds sold decreased approximately $295,000. These decreases were caused by the decrease in savings and interest-bearing DDA balances during the same period due to the runoff of several large public fund depositors. Average loans increased approximately $2,407,000 as new loans exceeded principal payments, paydowns, maturities, and charge-offs on existing loans. The increase in average loans and the decrease in average deposits, as discussed below, caused less new purchases in investments in securities and an increase in borrowed funds. The average yield on interest-earning assets was 4.28% for 2024 compared with 4.05% for 2023. The yield on average loans increased as a result of the lingering effects of the increase in prime rate during 2023 as discussed in the Overview.

Average interest-bearing liabilities decreased approximately $30,817,000, or 5.05%, from approximately $609,715,000 for 2023 to approximately $578,898,000 for 2024. Average savings and interest-bearing DDA balances decreased approximately $60,333,000 primarily because several large public fund customers maintained lower balances throughout the year with the bank subsidiary prior to withdrawing funds. The average rate paid on interest-bearing liabilities increased from 1.01% for 2023 to 1.67% for 2024. This increase was the result of increased rates in 2023, but rates should start to decrease into 2025 due to a decrease in market rates at the end of 2024.

The Company's net interest margin on a nontax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.26% for 2023 as compared with 3.01% for 2024.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.29% for 2023 as compared with 3.05% for 2024.

**2023 as compared with 2022**

The Company's average interest-earning assets decreased approximately $15,821,000, or 1.91%, from approximately $827,495,000 for 2022 to approximately $811,674,000 for 2023. Average taxable held to maturity securities increased approximately $65,114,000, average nontaxable held to maturity securities decreased approximately $1,335,000 and average taxable available for sale securities decreased approximately $61,187,000 as investment maturities and calls exceeded purchases of these securities. Average fed funds sold decreased approximately $15,994,000. These decreases were caused by the decrease in savings and interest-bearing DDA balances during the same period due to the runoff of several large public fund depositors. Average loans decreased approximately $1,612,000 as principal payments, paydowns, maturities, and charge-offs on existing loans exceeded new loans. The decrease in average loans and the decrease in average deposits, as discussed below, caused less new purchases in investments in securities and an increase in borrowed funds. The average yield on interest-earning assets was 4.05% for 2023 compared with 2.90% for 2022. The yield on average investment securities increased as a result of the increase in prime rate during 2023 as discussed in the Overview.

Average interest-bearing liabilities decreased approximately $1,511,000, or 0.25%, from approximately $611,226,000 for 2022 to approximately $609,715,000 for 2023. Average savings and interest-bearing DDA balances increased approximately $39,464,000 primarily as several large public fund customers maintained higher balances throughout the year with the bank subsidiary prior to withdrawing funds, while interest-bearing time deposits decreased approximately $42,796,000 mainly due to higher competitive rates paid by other local financial institutions. The average rate paid on interest-bearing liabilities increased from 0.35% for 2022 to 1.01% for 2023. This increase was the result of increased rates in 2022 and 2023.

The Company's net interest margin on a nontax-equivalent basis, which is net interest income as a percentage of average earning assets, was 2.60% for 2022 as compared with 3.26% for 2023.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 2.64% for 2022 as compared with 3.29% for 2023.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2024, 2023 and 2022.

**ANALYSIS OF AVERAGE BALANCES, INTEREST EARNED/PAID AND YIELD**

(in thousands)

| | 2024 | | | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Earned/Paid | Rate | Average Balance | Interest Earned/Paid | Rate | Average Balance | Interest Earned/Paid | Rate |
| Loans (1)(2) | $ 236,596 | $ 14,821 | 6.26 % | $ 234,189 | $ 12,945 | 5.53 % | $ 235,801 | $ 11,135 | 4.72 % |
| Balances due from depository institutions | 33,261 | 1,776 | 5.34 % | 33,556 | 1,625 | 4.84 % | 49,550 | 413 | 0.83 % |
| Held to maturity: | | | | | | | | | |
| Taxable | 105,249 | 2,885 | 2.74 % | 170,161 | 5,793 | 3.40 % | 105,047 | 2,713 | 2.58 % |
| Non taxable (3) | 32,986 | 1,009 | 3.06 % | 36,222 | 1,090 | 3.01 % | 37,557 | 1,105 | 2.94 % |
| Available for sale: | | | | | | | | | |
| Taxable | 365,023 | 12,630 | 3.46 % | 331,458 | 11,250 | 3.39 % | 392,645 | 8,482 | 2.16 % |
| Non taxable (3) | 3,699 | 109 | 2.94 % | 3,873 | 124 | 3.20 % | 4,740 | 153 | 3.23 % |
| Other | 2,116 | 144 | 6.81 % | 2,215 | 105 | 4.74 % | 2,155 | 22 | 1.02 % |
| Total | $ 778,930 | $ 33,374 | 4.28 % | $ 811,674 | $ 32,932 | 4.05 % | $ 827,495 | $ 24,023 | 2.90 % |
| Savings and interest-bearing DDA | $ 506,404 | $ 6,947 | 1.37 % | $ 566,737 | $ 5,507 | 0.97 % | $ 527,273 | $ 1,636 | 0.31 % |
| Time deposits | 33,317 | 690 | 2.07 % | 35,596 | 239 | 0.67 % | 78,392 | 349 | 0.45 % |
| Other borrowed funds | 39,177 | 2,006 | 5.12 % | 7,382 | 409 | 5.54 % | 5,561 | 173 | 3.11 % |
| Total | $ 578,898 | $ 9,643 | 1.67 % | $ 609,715 | $ 6,155 | 1.01 % | $ 611,226 | $ 2,158 | 0.35 % |
| Net tax-equivalent spread | | | 2.62 % | | | 3.04 % | | | 2.55 % |
| Net tax-equivalent margin on earning assets | | | 3.05 % | | | 3.29 % | | | 2.64 % |

(1) Loan fees of $515, $397 and $659 for 2024, 2023 and 2022, respectively, are included in these figures. Of the loan fees recognized in 2024, 2023 and 2022, $0, $0 and $125, respectively, were related to PPP loans.
(2) Includes nonaccrual loans.
(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 24.95% in 2024, 2023 and 2022. See disclosure of Non-GAAP financial measures on page 3.

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

| | For the Year Ended December 31, 2024 Compared With December 31, 2023 | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/Volume | Total |
| Interest earned on: | | | | |
| Loans | $ 133 | $ 1,725 | $ 18 | $ 1,876 |
| Balances due from depository institutions | (14) | 167 | (2) | 151 |
| Held to maturity securities: | | | | |
| Taxable | (2,210) | (1,128) | 430 | (2,908) |
| Non taxable | (97) | 18 | (2) | (81) |
| Available for sale securities: | | | | |
| Taxable | 1,139 | 219 | 22 | 1,380 |
| Non taxable | (6) | (10) | 1 | (15) |
| Other | (5) | 46 | (2) | 39 |
| Total | $ (1,060) | $ 1,037 | $ 465 | $ 442 |
| Interest paid on: | | | | |
| Savings and interest-bearing DDA | $ (586) | $ 2,268 | $ (242) | $ 1,440 |
| Time deposits | (15) | 499 | (33) | 451 |
| Other borrowed funds | 1,762 | (31) | (134) | 1,597 |
| Total | $ 1,161 | $ 2,736 | $ (409) | $ 3,488 |

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

| | For the Year Ended December 31, 2023 Compared With December 31, 2022 | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/Volume | Total |
| Interest earned on: | | | | |
| Loans | $ (76) | $ 1,899 | $ (13) | $ 1,810 |
| Balances due from depository institutions | (133) | 1,987 | (642) | 1,212 |
| Held to maturity securities: | | | | |
| Taxable | 1,682 | 863 | 535 | 3,080 |
| Non taxable | (39) | 25 | (1) | (15) |
| Available for sale securities: | | | | |
| Taxable | (1,322) | 4,845 | (755) | 2,768 |
| Non taxable | (28) | (1) | — | (29) |
| Other | 1 | 80 | 2 | 83 |
| Total | $ 85 | $ 9,698 | $ (874) | $ 8,909 |
| Interest paid on: | | | | |
| Savings and interest-bearing DDA | $ 122 | $ 3,488 | $ 261 | $ 3,871 |
| Time deposits | (191) | 178 | (97) | (110) |
| Other borrowed funds | 58 | 134 | 44 | 236 |
| Total | $ (11) | $ 3,800 | $ 208 | $ 3,997 |

**Provision for Credit 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 delinquencies and deposit overdrafts are closely monitored in order to identify developing problems as early as possible. Lenders experienced in workout scenarios consult with loan officers and customers to address non-performing loans. A watch list of credits which pose a potential loss to the Company is prepared based on the loan grading system. This list forms the foundation of the Company's allowance for credit loss on loans computation.

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and identify and estimate potential losses based on the best available information. The potential effect 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 secured by real estate requiring careful consideration of real estate changes in value to properly monitor risk.

The Company has adopted the CECL (Current Expected Credit Losses) methodology for estimating allowances for credit losses effective January 1, 2023. Under CECL, the allowance for credit losses (ACL) is a valuation account, measured as the difference between the Bank's amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses). The CECL methodology described in FASB Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326), applies to financial assets measured at amortized cost, and off-balance-sheet credit exposures (collectively, financial assets) including: financing receivables such as loans held for investment, held to maturity debt securities, off-balance-sheet credit exposures (unfunded commitments) including off-balance sheet loan commitments; standby letters of credit; and other similar instruments.

In general, the Bank uses a broad range of data to estimate expected credit losses under CECL, including information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets. The following represents an overview of key factors regarding CECL: CECL requires the Bank to measure expected credit losses on financial assets carried at amortized cost on a collective or pool basis when similar risk characteristics exist. The Bank has determined that Call Report categories will be utilized, and Management will maintain the option to further segment the portfolio if we deem it beneficial to the analysis.

As stated above, CECL also applies to held to maturity debt securities since they are carried at amortized cost and are within the scope of the standard. Therefore, it is the responsibility of management to establish any required allowances for credit losses on the Bank's held to maturity debt securities as of the date the Bank adopts CECL and to maintain such allowances thereafter. Because CECL requires the Bank to measure expected credit losses on a collective or pool basis when similar risk characteristics exist, held to maturity debt securities that share similar risk characteristics are collectively assessed for credit losses.

Estimating an appropriate ACL involves a high degree of management judgment. As such, it is Management's responsibility to record the Bank's best estimate of expected credit losses and provide it to the Board of Directors. The analysis is prepared and reported to the Board of Directors on a quarterly basis. The option and decision to prepare the analysis more frequently will remain with management.

Estimation Methods for Expected Credit Losses-Accounting Standards Codification ("ASC") 326, "Financial Instruments-Credit Losses," does not require the use of a specific loss estimation method for purposes of determining ACLs. Various methods may be used to estimate the expected collectability of financial assets, with those methods generally applied consistently overtime. The same loss estimation method does not need to be applied to all financial assets. Loss-rate methods can involve a variety of approaches, and Management incorporates the methods below:

**Open Pool or Snapshot Method**

The starting point for the calculation consists of assets that are outstanding at the end of a given time frame and are made up of assets that were originated in various years. Additional assets may be added to pools of loans under an open pool method.

**Qualitative Factor Adjustments**

The estimation of ACLs is to reflect consideration of all significant factors relevant to the expected collectability of the Bank's financial assets as of the reporting date. Management begins their expected credit loss estimation process by determining the Bank's historical loss information.

Management is to consider the need to qualitatively adjust expected credit loss estimates for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses.

Historical loss experience generally provides a quantitative starting point for Management's estimate of expected credit losses. Consistent with FASB ASU Topic 326, Management must consider relevant qualitative factors that may cause the CECL estimate of the financial asset portfolio as of the evaluation date to differ from the historical loss experience.

Management is to consider the qualitative factors that are relevant to the Bank as of the reporting date.

The Company's on-going, systematic evaluation resulted in the Company recording a provision for the allowance for credit losses on unfunded commitments of $28,000, a provision of $10,000 for credit losses on held to maturity securities and a negative provision of ($200,000) for the allowance for credit losses in 2024. The Company recorded a negative provision for the allowance for credit losses on unfunded commitments of $(17,000), a negative provision for the allowance for credit losses on held to maturity securities of $(11,000) and a negative provision for the allowance for credit losses of $(244,000) in 2023. The Company recorded a provision of $80,000 for the allowance for loan losses in 2022.

During the year ended December 31, 2024 one piece of equipment was repossessed resulting in a balance of $9,000 in other real estate at the end of the year. During the year ended December 31, 2023 one large loan on nonaccrual prior to foreclosure was moved to other real estate then later sold during the year along with a recovery of another loan in the amount of $468,000. The Company's analysis includes evaluating the current values of collateral securing all nonaccrual loans. Nonaccrual loans totaled $418,000 and $213,000 with specific reserves on these loans of $0 and $39,500 as of December 31, 2024 and 2023, 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 allowance for credit losses as a percentage of loans was 1.28%, 1.35% and 1.40% at December 31, 2024, 2023, and 2022, respectively. The Company believes that its allowance of credit losses is appropriate as of December 31, 2024.

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

**2024 as compared with 2023**

Total non-interest income increased $120,000 in 2024 compared with 2023. Trust department income and fees increased $130,000, BOLI income increased by $47,000 and other income increased by $25,000 offset somewhat by a decrease of $61,000 in service charges on deposit accounts in 2024 as compared with 2023.

**<u>2023 as compared with 2022</u>**

Total non-interest income decreased $1,000 in 2023 as compared with 2022. Service charges on deposit accounts decreased $216,000 and other income decreased $206,000 which included some nonrecurring income items in 2022 offset mostly by Trust department income and fees which increased $351,000 in 2023 as compared with 2022 as a result of the recent trust acquisition.

**Non-interest Expense**

**<u>2024 as compared with 2023</u>**

Total non-interest expense decreased $106,000 in 2024 as compared with 2023. Salaries and employee benefits decreased $645,000 which was the result of an increase in the discount rate that decreased the liability on deferred compensation expense. That decrease was offset mostly by higher depreciation and maintenance expenses of $229,000 and higher other expense of $212,000 as compared with 2023. Other expenses consisted of an increase in ATM expenses of $327,000 in 2024 as compared with 2023.

**<u>2023 as compared with 2022</u>**

Total non-interest expense increased $498,000 in 2023 as compared with 2022. Net occupancy increased $332,000 primarily due to increases in insurance expense in 2023. Other expenses increased $494,000 primarily as legal, compliance, accounting, dues and subscriptions and trust expenses increased while ATM and data processing expenses decreased. Legal expenses increased $576,000 due to a nonrecurring partial recovery received at the end of 2022 in the amount of $486,000. Salaries and employee benefits decreased $197,000 primarily due to a reduction in estimated expenses on other postretirement benefits due to the increase in the discount rate.

**Income Taxes**

During the fourth quarter of 2022, the Company determined that it was more likely than not that it would realize a certain amount of its deferred tax assets. As of December 31, 2022, the Company no longer had a net operating loss carryforward and its projections of future income indicated that reversal of a portion of the valuation allowance was appropriate. Accordingly, an income tax benefit of $2,446,000 was recorded in the fourth quarter of 2022. As of December 31, 2023 the Company had recorded income tax expenses in the amount of $2,121,000.

During the third quarter of 2024, the Company determined that there was sufficient evidence to support (at the more likely than not threshold) that the Company will have sufficient future sources of taxable income to remove substantially all of the valuation allowance established as of the beginning of the year and as of September 30, 2024. This change in circumstances resulted in a discrete item of $15,194,000 recognized as a reduction of income tax expense for the year ended December 31, 2024.

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**

On December 31, 2024, cash and due from banks increased by $84,950,000 compared to December 31, 2023. This increase was primarily due to the asset management and trust department’s deposit account bringing in funds to pay bond principal and interest payments. These funds were transferred back out of the Bank at the beginning of January 2025 to satisfy these payments.

Available for sale securities decreased $30,829,000 and held to maturity securities decreased $27,755,000, respectively at December 31, 2024 compared with December 31, 2023 as the Company decreased its held to maturity and available for sale investment purchases to pay off borrowings and remain liquid.

Gross loans decreased $4,763,000 at December 31, 2024 compared with December 31, 2023, as principal payments, maturities, and charge-offs on existing loans outpaced new loans.

Total deposits increased $32,240,000 at December 31, 2024, as compared with December 31, 2023. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

**SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY**

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

During the third quarter of 2023, the community bank leverage ratio (CBLR) framework was elected. The CBLR framework is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The framework provides a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Significant transactions affecting shareholders' equity during 2024 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. Management monitors these funds requirements in such a manner as to satisfy these demands and provide the maximum earnings on its earning assets. The Company manages and monitors its liquidity position through a number of methods, including through the computation of liquidity risk targets and the preparation of various analyses of its funding sources and utilization of those sources on a monthly basis. The Company also uses proforma liquidity projections which are updated on a monthly basis in the management of its liquidity needs and also conducts periodic contingency testing on its liquidity plan.

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. Borrowings from the FHLB, federal funds sold and federal funds purchased are utilized by the Company to manage its daily liquidity position. The Company has also been approved to participate in the Federal Reserve Bank's Discount Window Primary Credit Program , which it intends to use only as a contingency. As of December 31, 2024, the Company was able to borrow up to $10,094,000 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit was based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. The Company has $116,383,000 available under a line of credit with the Federal Home Loan Bank of Dallas. The Company has additional contingency funding capacity with various other financial institutions in the amount of $30,500,000.

The Company maintains a well-capitalized balance sheet which includes strong capital and liquidity. The Bank provides a full range of banking, financial and trust services in our local markets. Approximately half of the Bank's deposits are fully FDIC insured, and the vast majority of uninsured deposits are public funds deposits secured by Bank securities pledged at fair value. The Company evaluates on an ongoing and continuous basis its financial health by preparing for various moderate to severe economic scenarios.

Determining liquidity adequacy requires an ongoing analysis of the Company's current and expected liquidity position, including historical funding obligations and anticipated funding needs, as well as an understanding of retention prospects for all Bank deposits. In particular, consideration is given to public funds and other large depositors for potential runoffs due to expected uses or other withdrawals from Bank accounts.

The Company was advised during the second quarter of 2023 that the Bank would not be retaining certain public funds deposits following competitive bid processes whereby those accounts were awarded to other local banks. While the majority of those deposits were withdrawn during the third quarter of 2023, approximately $21 million remained on the Company's statement of condition at the end of the fourth quarter of 2023, the Company experienced the funds withdrawn from the Bank during the first and second quarter of 2024. The Bank ran several special time deposit rates during 2024 to replace the withdrawn public fund accounts.

Funding obtained to replace the withdrawn deposits were at a higher cost than the interest rate paid on the deposits withdrawn and therefore impacted the Bank's net interest margin. However, the Company replaced the deposit withdrawals through growth in other deposit accounts, proceeds from maturities of investment securities and earnings on investment securities, and through other borrowings with the FHLB or other counterparties, without having to liquidate any securities within its existing portfolio at a loss.

The Company participates in competitive bids throughout the year and anticipates bidding on new public fund customers as the opportunity arises.

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 2025.

The Board of Directors requires management to implement and administer appropriate internal controls commensurate with Company's risk profile. Management carefully monitors the Company's liquidity risk, particularly with respect to volatile and large deposits. The Company has not encountered, and does not anticipate problems with meeting its liquidity needs.

**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.

**Peoples Financial Corporation and Subsidiaries**
**Consolidated Statements of Condition**
**(in thousands except share data)**

| December 31, | | 2024 | | 2023 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | $ | 107,744 | $ | 22,794 |
| Available for sale securities, amortized cost of $345,867 at December 31, 2024; $379,195 at December 31, 2023 | | 308,648 | | 339,477 |
| Held to maturity securities, fair value of $111,112 at December 31, 2024; $138,523 at December 31, 2023 | | 123,196 | | 150,941 |
| Less: Allowance for credit losses on held to maturity securities | | 40 | | 30 |
| Held to maturity securities, net | | 123,156 | | 150,911 |
| Other investments | | 350 | | 350 |
| Federal Home Loan Bank Stock, at cost | | 608 | | 2,334 |
| Loans | | 233,576 | | 238,339 |
| Less: Allowance for credit losses | | 2,982 | | 3,224 |
| Loans, net | | 230,594 | | 235,115 |
| Bank premises and equipment, net of accumulated depreciation | | 18,712 | | 19,470 |
| Other real estate | | 9 | | — |
| Accrued interest receivable | | 3,516 | | 3,520 |
| Cash surrender value of life insurance | | 22,026 | | 21,375 |
| Intangible asset | | 476 | | 538 |
| Other assets | | 16,010 | | 1,854 |
| **Total assets** | $ | 831,849 | $ | 797,738 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Liabilities:** | | | | |
| Deposits: | | | | |
| Demand, non-interest bearing | $ | 235,183 | $ | 174,933 |
| Savings and demand, interest bearing | | 434,680 | | 483,662 |
| Time, $250,000 or more | | 20,563 | | 7,518 |
| Other time deposits | | 30,304 | | 22,377 |
| Total deposits | | 720,730 | | 688,490 |
| Advances from Federal Home Loan Bank | | — | | 18,500 |
| Employee and director benefit plans liabilities | | 19,201 | | 19,581 |
| Other liabilities | | 1,917 | | 1,884 |
| **Total liabilities** | | 741,848 | | 728,455 |
| **Shareholders' Equity:** | | | | |
| Common stock, $1 par value, 15,000,000 shares authorized, 4,617,466 and 4,661,686 shares issued and outstanding at December 31, 2024 and December 31, 2023 | | 4,617 | | 4,662 |
| Surplus | | 65,780 | | 65,780 |
| Undivided profits | | 56,491 | | 37,574 |
| Accumulated other comprehensive loss | | (36,887) | | (38,733) |
| **Total shareholders' equity** | | 90,001 | | 69,283 |
| **Total liabilities and shareholders' equity** | $ | 831,849 | $ | 797,738 |

See Notes to Consolidated Financial Statements.

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

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Interest income:** | | | |
| Interest and fees on loans | $ 14,821 | $ 12,945 | $ 11,135 |
| Interest and dividends on securities: | | | |
| U. S. Treasuries | 7,108 | 6,560 | 3,173 |
| Mortgage-backed securities | 2,397 | 3,621 | 2,586 |
| Collateralized mortgage obligations | 3,040 | 3,495 | 1,919 |
| States and political subdivisions | 3,808 | 4,278 | 4,460 |
| Other investments | 144 | 105 | 22 |
| Interest on balances due from depository institutions | 1,776 | 1,625 | 413 |
| **Total interest income** | 33,094 | 32,629 | 23,708 |
| **Interest expense:** | | | |
| Deposits | 7,637 | 5,746 | 1,985 |
| Borrowings | 2,006 | 409 | 173 |
| **Total interest expense** | 9,643 | 6,155 | 2,158 |
| **Net interest income** | 23,451 | 26,474 | 21,550 |
| **Provision for (reduction of) credit losses** | (162) | (272) | 80 |
| **Net interest income after provision for (reduction of) credit losses** | 23,613 | 26,746 | 21,470 |
| **Non-interest income:** | | | |
| Trust department income and fees | 2,482 | 2,352 | 2,001 |
| Service charges on deposit accounts | 3,178 | 3,239 | 3,455 |
| (Loss) gain on liquidation, sales and calls of securities | — | — | — |
| Increase in cash surrender value of life insurance | 532 | 485 | 445 |
| Gain (loss) on sale of property, plant and equipment, net | 9 | 30 | — |
| Other income | 813 | 788 | 994 |
| **Total non-interest income** | 7,014 | 6,894 | 6,895 |
| **Non-interest expense:** | | | |
| Salaries and employee benefits | 10,499 | 11,144 | 11,341 |
| Net occupancy | 2,185 | 2,087 | 1,755 |
| Equipment rentals, depreciation and maintenance | 3,003 | 2,774 | 2,905 |
| Other expense | 6,560 | 6,348 | 5,854 |
| Total non-interest expense | 22,247 | 22,353 | 21,855 |
| **Income before income taxes** | 8,380 | 11,287 | 6,510 |
| Income tax (benefit) expense | (13,323) | 2,121 | (2,431) |
| **Net income** | $ 21,703 | $ 9,166 | $ 8,941 |
| **Basic and diluted earnings per share** | $ 4.66 | $ 1.96 | $ 1.91 |
| **Dividends declared per share** | $ 0.44 | $ 0.53 | $ 0.19 |

See Notes to Consolidated Financial Statements.

**Peoples Financial Corporation and Subsidiaries**
**Consolidated Statements of Comprehensive Income (Loss)**
**(in thousands)**

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Net income** | $ 21,703 | $ 9,166 | $ 8,941 |
| **Other comprehensive income (loss):** | | | |
| Net unrealized gain (loss) on available for sale securities, net of tax | 1,875 | 8,042 | (45,600) |
| Reclassification adjustment for realized losses (gains) on available for sale securities called or sold in current year | — | — | — |
| Gain (loss) from unfunded post-retirement benefit obligation, net of tax | (29) | (357) | 1,013 |
| **Total other comprehensive income (loss)** | 1,846 | 7,685 | (44,587) |
| **Total comprehensive income (loss)** | $ 23,549 | $ 16,851 | $ (35,646) |

See Notes to Consolidated Financial Statements.

**Peoples Financial Corporation and Subsidiaries**
**Consolidated Statements of Changes in Shareholders' Equity**
**(in thousands except share and per share data)**

| | Number of Common Shares | Common Stock | Surplus | Undivided Profits | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2022** | 4,678,186 | $ 4,678 | $ 65,780 | $ 23,102 | $ (1,831) | $ 91,729 |
| Net income | — | — | — | 8,941 | — | 8,941 |
| Cash dividend ($0.19 per share) | — | — | — | (889) | — | (889) |
| Other comprehensive loss | — | — | — | — | (44,587) | (44,587) |
| **Balance, December 31, 2022** | 4,678,186 | 4,678 | 65,780 | 31,154 | (46,418) | 55,194 |
| **Cumulative effect of accounting change** | — | — | — | (81) | — | (81) |
| **Total shareholders' equity at beginning of period, as adjusted** | 4,678,186 | 4,678 | 65,780 | 31,073 | (46,418) | 55,113 |
| Net income | — | — | — | 9,166 | — | 9,166 |
| Cash dividend ($0.53 per share) | — | — | — | (2,473) | — | (2,473) |
| Other comprehensive loss | — | — | — | — | 7,685 | 7,685 |
| Stock repurchase | (16,500) | (16) | — | (192) | — | (208) |
| **Balance, December 31, 2023** | 4,661,686 | 4,662 | 65,780 | 37,574 | (38,733) | 69,283 |
| Net income | — | — | — | 21,703 | — | 21,703 |
| Cash dividend ($0.44 per share) | — | — | — | (2,039) | — | (2,039) |
| Other comprehensive income | — | — | — | — | 1,846 | 1,846 |
| Stock repurchase | (44,220) | (45) | — | (747) | — | (792) |
| **Balance, December 31, 2024** | 4,617,466 | $ 4,617 | $ 65,780 | $ 56,491 | $ (36,887) | $ 90,001 |

See Notes to Consolidated Financial Statements.

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

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Net income** | $ 21,703 | $ 9,166 | $ 8,941 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 1,678 | 1,551 | 1,664 |
| (Reduction of) provision for credit losses | (162) | (272) | 80 |
| Write-down of other real estate | — | — | 155 |
| Loss (gain) on sales of other real estate | — | 97 | (87) |
| Amortization of intangible asset | 62 | 62 | 21 |
| (Accretion) amortization of available for sale securities | (2,101) | (237) | (12) |
| (Accretion) amortization of held to maturity securities | 563 | (2,091) | 71 |
| (Gain) loss on sale or disposition of bank premises and equipment | (9) | (30) | — |
| Increase in cash surrender value of life insurance | (532) | (486) | (445) |
| Change in accrued interest receivable | 4 | (246) | (433) |
| Change in deferred tax expense (benefit) | (13,760) | (1,690) | (2,446) |
| Change in other assets | (1,009) | 2,789 | 215 |
| Change in employee and director benefit plan liabilities and other liabilities | (403) | 438 | 184 |
| **Net cash provided by operating activities** | 6,034 | 9,051 | 7,908 |
| **Cash flows from investing activities:** | | | |
| Proceeds from maturities, liquidation and calls of available for sale securities | 198,497 | 54,123 | 89,879 |
| Purchases of available for sale securities | (163,069) | (35,153) | (108,832) |
| Proceeds from maturities of held to maturity securities | 27,172 | 209,307 | 23,751 |
| Purchases of held to maturity securities | — | (162,970) | (108,831) |
| Purchases (redemptions) of Federal Home Loan Bank Stock | 1,726 | (159) | (22) |
| Proceeds from sales of other real estate | 9 | 1,114 | 1,564 |
| Purchase of trust department book of business | — | — | (621) |
| Loans, net change | 4,703 | (1,272) | 1,231 |
| Acquisition of bank premises and equipment | (977) | (2,537) | (2,173) |
| Proceeds from sale of bank premises and equipment | 65 | 46 | — |
| Investment in cash surrender value of life insurance | (119) | (121) | (173) |
| **Net cash provided by (used in) investing activities** | 68,007 | 62,378 | (104,227) |
| **Cash flows from financing activities:** | | | |
| Demand and savings deposits, net change | 11,268 | (86,067) | 122,778 |
| Time deposits, net change | 20,972 | (11,223) | (41,836) |
| Cash dividends paid | (2,039) | (2,473) | (889) |
| Stock repurchase | (792) | (208) | — |
| Borrowings from Federal Home Loan Bank | 840,650 | 769,350 | 567,750 |
| Repayments to Federal Home Loan Bank | (859,150) | (750,850) | (568,639) |
| **Net cash (used in) provided by financing activities** | 10,909 | (81,471) | 79,164 |
| **Net (decrease) increase in cash and cash equivalents** | 84,950 | (10,042) | (17,155) |
| **Cash and cash equivalents, beginning of period** | 22,794 | 32,836 | 49,991 |
| **Cash and cash equivalents, end of period** | $ 107,744 | $ 22,794 | $ 32,836 |
| **Supplemental disclosures of noncash investing activities** | | | |
| Transfer from loans to other real estate owned | $ 18 | $ 952 | $ — |

See 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 wholly owned 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 or 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 credit losses and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

### Segment Reporting

The Company is managed as a single operating segment on a consolidated basis. The Company determines its operating segments based on how the chief operating decision maker ("CODM") makes decisions regarding the allocation of resources and operational strategy, assesses performance, and manages the organization at a consolidated level. The Chief Executive Officer ("CEO"), is the CODM. The products and services from which this segment derives its revenues are described below in the discussion of revenue recognition.

### Revenue Recognition

Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606),* prescribes the process related to the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 excludes revenue streams relating to loans and investment securities, which are the major source of revenue for the Company, from its scope. Consistent with this guidance, the Company recognizes non-interest income within the scope of this guidance as services are transferred to its customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services. Other types of revenue contracts, the income from which is included in non-interest income, that are within the scope of ASU 2014-09 are:

*Trust department income and fees*: A contract for fiduciary and/or investment administration services on personal trust accounts and corporate trust services. Personal trust fee income is determined as a percentage of assets under management and is recognized over the period the underlying trust is serviced. Corporate trust fee income is recognized over the period the Company provides service to the entity.

*Service charges on deposit accounts*: The deposit contract obligates the Company to serve as a custodian of the customer's deposited funds and is generally terminable at will by either party. The contract permits the customer to access the funds on deposit and request additional services for which the Company earns a fee, including NSF and analysis charges, related to the deposit account. Income for deposit accounts is recognized over the statement cycle period (typically on a monthly basis) or at the time the service is provided, if additional services are requested.

*ATM fee income*: A contract between the Company, as a card-issuing bank, and its customers whereby the Company receives a transaction fee from the merchant's bank whenever a customer uses a debit or credit card to make a purchase. These fees are earned as the service is provided (i.e., when the customer uses a debit or ATM card).

*Other non-interest income*: Other non-interest income includes several items, such as wire transfer income, check cashing fees, gain (loss) from sales of other real estate, the increase in cash surrender value of life insurance, rental income from bank properties and safe deposit box rental fees. This income is generally recognized at the time the service is provided and/or the income is earned.

**New Accounting Pronouncements**

Accounting Standards Update –In November 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-03 ("ASU 2024-03"), *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures* (Subtopic 220-40). ASU 2024-03 (Subtopic 220-40) will require public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses at each interim and annual reporting period. Specifically, they will be required to: 1. Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) intangible asset amortization; and (e) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (or other amounts of depletion expense) included in each relevant expense caption. 2. Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements. 3. Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. 4. Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses. The amendments in ASU 2024-03 are effective for public business entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. Management has evaluated the impact of the adoption of this standard and determined there would be no material impact to the Company's consolidated financial position or results of operations.

Accounting Standards Update –In November 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-04 ("ASU 2024-04"), *Debt with Conversion and Other Options* (Subtopic 470-20). ASU 2024 04 (Subtopic 470-20) improves the relevance and consistency in application of the induced conversion guidance in Subtopic 470-20. Current generally accepted accounting principles (GAAP) provides guidance for determining whether a settlement of convertible instruments at terms different from the original conversion terms should be accounted for as an induced conversion (as opposed to a debt extinguishment). The amendments in the ASU clarify requirements for determining whether certain settlements of convertible debt instruments, including convertible debt instruments with cash conversion features or convertible debt instruments that are not currently convertible, should be accounted for as an induced conversion. The amendments in the ASU are effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods. Early adoption is permitted. Management has evaluated the impact of the adoption of this standard and determined there would be no material impact to the Company's consolidated financial position or results of operations.

Accounting Standards Update –In March 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-02 ("ASU 2024-02"), *Codification Improvements-Amendments to Remove References to the Concepts Statements*. ASU 2024-02 removes various references to the FASB's Concepts Statements from the FASB's Accounting Standards Codification (Codification or GAAP). The Concepts Statements are non-authoritative guidance issued by the FASB that provide the objectives, qualitative characteristics and other concepts that govern the development of accounting principles by the FASB. ASU 2024-02 applies to all reporting entities and updates the Codification by eliminating 16 discrete references to the Concepts Statements across a variety of defined terms and Topics within the Codification. The amendments in ASU 2024-02 are effective for public business entities for fiscal years beginning after December 15, 2024. Early application of the amended guidance is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued or made available for issuance. Management has evaluated the impact of the adoption of this standard and determined there would be no material impact to the Company's consolidated financial position or results of operations.

Accounting Standards Update –In March 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-01 ("ASU 2024-01"), *Compensation-Stock Compensation* (Topic 718): Scope of Application of Profits Interest and Similar Awards. ASU 2024 01 provides illustrative guidance to clarify the scope application of profits interest and similar awards. It clarifies how an entity determines where a profits interest or similar award is within the scope of ASC 718 or not a share-based payment arrangement and therefore within the scope of other guidance. For certain public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. Management has evaluated the impact of the adoption of this standard and determined there would be no impact to the Company's consolidated financial position or results of operations.

Accounting Standards Update –In December 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-09 ("ASU 2023-09"), *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The amendments of ASU 2023-09 relate to the rate reconciliation and income taxes paid disclosures to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this update should be applied on a prospective basis. Retrospective application is permitted. Management has evaluated the impact of the adoption of this standard and determined there may be additional information required within the Company's notes to consolidated financial statements on income taxes.

Accounting Standards Update –In December 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-08 ("ASU 2023-08"), *Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets.* The amendments in ASU 2023-08 require that an entity measure crypto assets at fair value in the statement of financial position each reporting period and recognize changes from remeasurement in net income. The amendments also require that an entity provide enhanced disclosures for both annual and interim reporting periods. The update is effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). The update also requires a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual reporting period in which an entity adopts the amendments. Management has evaluated the impact of the adoption of this standard and determined there would be no impact to the Company's consolidated financial position or results of operations since the Company does not own any such assets.

Accounting Standards Update –In October 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-06 ("ASU 2023-06"), *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative.* ASU 2023-06 addresses changes to clarify or improve disclosure and presentation requirements of a variety of topics. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all other entities, the amendments will be effective two years later. The amendments in this update should be applied prospectively. For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the codification and will not become effective for any entity. Management has evaluated the impact of the adoption of this standard and determined there would be no impact to the Company's consolidated financial position or results of operations.

Accounting Standards Update –In August 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-05 ("ASU 2023-05"), *Business Combinations-Joint Venture Formations (Subtopic 805-60), Recognition and Initial Measurement.* ASU 2023-05 addresses the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements. The objectives of the amendments are to (1) provide decision-useful information to investors and other allocators of capital (collectively, investors) in a joint venture's financial statements and (2) reduce diversity in practice. The amendments in ASU 2023-05 are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Management has evaluated the impact of the adoption of this standard and determined there would be no impact to the Company's consolidated financial position or results of operations.

**New Accounting Standards Adopted**

Accounting Standards Update-In November 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-07 ("ASU 2023-07"), *Segment Reporting* (Topic 280): Improvements to Reportable Segment Disclosures. The guidance issued in this update requires improvement to the disclosures about a public entity's reportable segments and more detailed information about a reportable segment's expenses and other segment items. Even though the Company has a single reportable segment, all the disclosures required by this update are required. Under this guidance, public entities are required to disclose segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment that are currently required annually. This update is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The amendments in this update should be applied retrospectively to all previous periods presented. Adoption of this standard did not have a material effect on the reporting entity's financial position or results of operations.

**Cash and Due from Banks**

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

**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 (loss). 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. The decline in value attributed to non-credit related factors is recognized in other comprehensive income (loss) for available for sale securities.

The CECL standard also requires an assessment of the Bank's held to maturity debt securities for expected credit losses and the available for sale debt securities for credit-related impairment. The Bank applies the practical expedient to exclude the accrued interest receivable balance of $1,032,000 and $1,129,000 as of December 31, 2024 and December 31, 2023 from the amortized cost basis of held to maturity debt securities. The allowance for credit losses on held to maturity debt securities is estimated on a collective or pool basis when similar risk characteristics exist; held to maturity debt securities that share similar risk characteristics are collectively assessed for credit losses. A separate contra valuation account is available to absorb losses on securities. The allowance for credit loss is limited to the amount by which the fair value is less than the amortized cost basis. The Bank evaluates credit impairment on available for sale debt securities at an individual security level. This evaluation is done for securities whose fair value is below amortized cost with a more than inconsequential risk of default and where the Bank has assessed the decline in fair value is significant enough to suggest a credit event occurred. Credit events are generally assessed based on adverse conditions specifically related to the security, an industry, or geographic area, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. The allowance for credit losses for such securities is measured using a discounted cash flow methodology, through which management compares the present value of expected cash flows with the amortized cost basis of the security. The allowance for credit loss is limited to the amount by which the fair value is less than the amortized cost basis. If the Bank intends to sell the debt security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, the security is charged down to fair value against the allowance for credit losses, with any incremental impairment reported in earnings.

Available-for-Sale Securities- Securities not classified as held-to-maturity are classified as available-for-sale and are stated at fair value. Unrealized gains and losses on these securities are recorded in shareholder's equity as accumulated other comprehensive income. Currently, all Treasury/Agency security purchases are being classified as available-for-sale. The Company evaluates credit impairment on available for sale debt securities at an individual security level. This evaluation is done for securities whose fair value is below amortized cost with a more than inconsequential risk of default and where the Company has assessed the decline in fair value is significant enough to suggest a credit event occurred. Credit events are generally assessed based on adverse conditions specifically related to the security, an industry, or geographic area, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. The allowance for credit losses for such securities is measured using a discounted cash flow methodology, through which management compares the present value of expected cash flows with the amortized cost basis of the security. The allowance for credit loss is limited to the amount by which the fair value is less than the amortized cost basis. If the Company intends to sell the debt security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, the security is charged down to fair value against the allowance for credit losses, with any incremental impairment reported in earnings. Accrued interest receivable is excluded from the amortized cost basis in measuring expected credit losses on the investment securities, and no allowance for credit losses is recorded on accrued interest receivable. The Company's current securities available for sale portfolio consists of U.S. Treasury securities, mortgage-backed securities, U.S. agency securities, and municipal bonds. The Company's securities available for sale, other than the municipal bonds, are considered treasuries, agencies, and instrumentalities of the U.S. government, which have a zero credit loss assumption. These securities have the full faith and credit backing of the U.S. government or one of its agencies. Municipal bonds available for sale do not fall under the zero credit loss assumption and are evaluated quarterly using the considerations mentioned above to determine whether there is a credit loss associated with a decline in fair value.

**Other Investments**

The Company is a shareholder of the First National Bankers Bankshares, Inc., a federally insured holding company for First National Bankers Bank, and as such owns an investment in its stock. The stock is bought from and sold to the First National Bankers Bankshares, Inc. based on its prevalent book value. The stock does not have a readily determinable fair value and is carried at cost and evaluated for impairment in accordance with GAAP.

**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 credit losses. Interest on loans is recognized on a daily basis over the terms of each loan based on the unpaid principal balance.

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 collectability of the total contractual principal and interest is no longer in doubt.

Loans which become 90 days delinquent are reviewed relative to collectability. 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 credit losses. That portion of a loan which is deemed uncollectible will be charged off against the allowance as a partial charge off.

The Company's loan portfolio segments and related credit risks as of December 31, 2024 and December 31, 2023 were as follows:

**Real Estate Loans**

Residential-Residential mortgage loans are susceptible to weakening general economic conditions, increases in unemployment rates, and declining real estate values.

Construction-Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements, and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Nonresidential-Risks common to this loan category include industry concentration and the inability to monitor the condition of collateral. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt, declines in real estate values, and lack of suitable alternative use for properties. These loans are also susceptible to declines in occupancy rates, business failure, and general economic conditions.

Commercial and Industrial-Risks common to this loan category include industry concentration and the practical limitations associated with monitoring the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

Other-Risks common to these loans include regulatory risks, unemployment, changes in local economic conditions, and the inability to monitor collateral consisting of personal property.

**Allowance for credit losses on loans and leases and unfunded lending**

On January 1, 2023 the Company adopted Accounting Standards Codification ("ASC") 326, "Financial Instruments-Credit Losses", more commonly referred to as CECL. Under CECL, the allowance for credit losses (ACL) is a valuation account, measured as the difference between the Company's amortized cost basis and the net amount expected to be collected on the financial assets (i.e., lifetime credit losses).

The CECL methodology described in FASB Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326), applies to financial assets measured at amortized cost, and off-balance-sheet credit exposures (collectively, financial assets).

In general, the Company uses a broad range of data to estimate expected credit losses under CECL, including information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.

CECL requires the Bank to measure expected credit losses on financial assets carried at amortized cost on a collective or pool basis when similar risk characteristics exist. The Bank has determined that Call Report categories will be utilized, and Management will maintain the option to further segment the portfolio if we deem it beneficial to the analysis.

Estimating an appropriate ACL involves a high degree of Management judgment. As such, it is Management's responsibility to record the Bank's best estimate of expected credit losses and provide it to the Board of Directors.

The analysis is prepared and reported to the Board of Directors on a quarterly basis. The option and decision to prepare the analysis more frequently will remain with Management.

Estimation Methods for Expected Credit Losses-Accounting Standards Codification ("ASC") 326, "Financial Instruments-Credit Losses," does not require the use of a specific loss estimation method for purposes of determining ACLs. Various methods may be used to estimate the expected collectability of financial assets, with those methods generally applied consistently overtime. The same loss estimation method does not need to be applied to all financial assets. Loss-rate methods can involve a variety of approaches, and Management incorporates the open pool or snapshot method.using various qualitative factor adjustments as management deems necessary and relevant to the Bank as of the reporting date.

These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses.

Historical loss experience generally provides a quantitative starting point for Management's estimate of expected credit losses. Consistent with FASB ASU Topic 326, Management must consider relevant qualitative factors that may cause the CECL estimate of the financial asset portfolio as of the evaluation date to differ from the historical loss experience.

The analysis and methodology used for estimating the ACL includes two primary elements: a collective approach for pools of loans that have similar risk characteristics and a specific reserve analysis for credits individually evaluated for credit loss.

CECL also requires capturing estimated credit losses on unfunded commitments that meet certain criteria. Any allowance for credit losses on off balance sheet exposures is reported as an other liability on the Consolidated Statement of Condition and is increased or decreased via the provision for credit losses account on the Consolidated Statement of Operations.

The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical study and empirical data calculated by the Federal Deposits Insurance Corporation, and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance is classified on the Consolidated Statement of Condition within other liabilities.

The Bank reassesses the credit losses at each reporting period and records subsequent changes in the allowance for credit losses on loans, unfunded commitments and held to maturity debt securities with a corresponding adjustment recorded in the provision for credit loss expense.

One of the Company's critical accounting policies relates to its allowance for credit losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The allowance for credit losses is established and maintained at an amount sufficient to absorb losses on loans. 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 allowance for credit losses .

Management believes that the allowance for credit losses is adequate and appropriate for all periods presented in these financial statements. All loan relationships with an outstanding balance of $50,000 or greater that are included in Management's loan watch list are individually reviewed for credit losses.

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. 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.

**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 or repossession. Each other real estate property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals or other valuations performed by third-party valuation specialists. Any excess of the carrying value of the related loan over the fair value of the real estate or property at the date of foreclosure or repossession is charged against the ACL. Any expense incurred in connection with holding such real estate or property or resulting from any write-downs in value subsequent to foreclosure or repossession is included in non-interest expense. When the other real estate property or other nonreal 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 or repossession, decreases during the holding period, the ORE is written down with a charge to non-interest expense. Generally, ORE properties or nonreal estate properties are actively marketed for sale and Management is continuously monitoring these properties in order to minimize any losses.

**Intangible Asset**

Intangible asset represents the purchase price paid in the Company's acquisition of the Trustmark trust department book of business. The intangible asset is being amortized over 10 years and is evaluated for impairment at least annually.

**Trust Department Income and Fees**

Corporate trust fees are accounted for on an accrual basis and personal trust fees are billed and recorded on a monthly basis when collected.

**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 consolidated 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 4,656,370 for 2024, 4,675,067 for 2023, and 4,678,186 for 2022. The Company has no potentially dilutive shares.

**Accumulated Other Comprehensive Income (Loss)**

At December 31, 2024, 2023 and 2022, 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 $9,601,972, $6,133,216, and $2,156,429 in 2024, 2023 and 2022, respectively, for interest on deposits and borrowings. Income tax payments of $835,000 were paid in 2024. Income tax payments of $495,000 were paid in 2023. No income tax payments were paid in 2022. Loans transferred to other real estate amounted to $9,300, $952,000 and $0 in 2024, 2023 and 2022, 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 of Prior Year Presentation**

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

**NOTE B – SECURITIES:**

Effective January 1, 2023, in conjunction with the adoption of CECL, and again at December 31, 2023 and December 31, 2024, the Company evaluated credit impairment for individual securities available for sale whose fair value was below amortized cost with a more than inconsequential risk of default and where the Company had assessed the decline in fair value significant enough to suggest a credit event occurred. There were no securities that met the criteria of a credit loss event and therefore, no allowance for credit loss was recorded for either period. The Company also evaluated impairment for individual securities held to maturity and determined an allowance for credit loss of $41,000 should be established as of January 1, 2023. A reversal of a portion of the impairment of $(11,346) was recorded as of December 31, 2023. An increase of the impairment of $9,980 was recorded for a total ACL of $40,000 as of December 31, 2024.

The amortized cost, fair value and allowance for credit losses related to securities at December 31, 2024 and December 31, 2023, are as follows (in thousands):

| December 31, 2024 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available for sale securities: | | | | |
| U.S. Treasuries | $ 124,320 | $ 150 | $ (7,425) | $ 117,045 |
| Mortgage-backed securities | 46,845 | 35 | (4,368) | 42,512 |
| Collateralized mortgage obligations | 73,857 | 77 | (5,070) | 68,864 |
| States and political subdivisions | 100,845 | — | (20,618) | 80,227 |
| Total available for sale securities | $ 345,867 | $ 262 | $ (37,481) | $ 308,648 |

There was no allowance for credit losses on available-for-sale securities as of December 31, 2024 and December 31, 2023.

| December 31, 2024 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Allowance for Credit Losses | Net Carrying Amount |
|---|---|---|---|---|---|---|
| Held to maturity securities: | | | | | | |
| U.S. Treasuries | $ 39,978 | $ 20 | $ (450) | $ 39,548 | $ — | $ 39,978 |
| States and political subdivisions | 83,218 | 14 | (11,668) | 71,564 | (40) | 83,178 |
| Total held to maturity securities | $ 123,196 | $ 34 | $ (12,118) | $ 111,112 | $ (40) | $ 123,156 |

| December 31, 2023 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available for sale securities: | | | | |
| U.S. Treasuries | $ 123,945 | $ 55 | $ (8,542) | $ 115,458 |
| Mortgage-backed securities | 52,374 | 14 | (4,603) | 47,785 |
| Collateralized mortgage obligations | 101,316 | 17 | (6,327) | 95,006 |
| States and political subdivisions | 101,560 | — | (20,332) | 81,228 |
| Total available for sale securities | $ 379,195 | $ 86 | $ (39,804) | $ 339,477 |

| December 31, 2023 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Allowance for Credit Losses | Net Carrying Amount |
|---|---|---|---|---|---|---|
| Held to maturity securities: | | | | | | |
| U.S. Treasuries | $ 59,901 | $ 41 | $ (907) | $ 59,035 | $ — | $ 59,901 |
| States and political subdivisions | 91,040 | 23 | (11,575) | 79,488 | (30) | 91,010 |
| Total held to maturity securities | $ 150,941 | $ 64 | $ (12,482) | $ 138,523 | $ (30) | $ 150,911 |

Management analyzed financial data on the state and political subdivision held-to-maturity securities. The securities that do not have ratings management assigned a rating based on ratings for similar municipalities. This evaluation is done for securities whose fair value is below amortized cost with a more than inconsequential risk of default and where the Company has assessed the decline in fair value is significant enough to suggest a credit event occurred. Credit events are generally assessed based on adverse conditions specifically related to the security, an industry, or geographic area, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. Management utilized a model to calculate the potential reserve required on the specific securities. The approach utilizes many inputs including enhanced and underlying ratings, maturity, issuer type/subtype, NAICS code, origination date, refunding status as well as state and region. At the end of the year an analysis was performed, and management determined an increase of the provision for credit losses on held to maturity securities was appropriate as of December 31, 2024.

The following table shows a rollforward of the allowance for credit losses on held-to-maturity securities for the years ended December 31, 2024 and December 31, 2023 (in thousands):

| | State and political subdivisions |
|---|---|
| Balance, December 31, 2022 | $ — |
| Adjustment for adoption of ASU 2016-13 | 41 |
| Provision for credit losses | (11) |
| Charge-offs of securities | — |
| Recoveries | — |
| Balance, December 31, 2023 | $ 30 |
| | |
| Balance, December 31, 2023 | $ 30 |
| Provision for credit losses | 10 |
| Charge-offs of securities | — |
| Recoveries | — |
| Balance, December 31, 2024 | $ 40 |

The Company monitors the credit quality of the debt securities held-to-maturity through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2024 and December 31, 2023, aggregated by credit quality indicators (in thousands):

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Aaa | $ 39,978 | $ 59,901 |
| Aa1/Aa2/Aa3 | 33,961 | 38,496 |
| A1/A2 | 3,164 | 3,195 |
| Baa1/Baa2 | 1,000 | 1,003 |
| Not rated | 45,093 | 48,346 |
| Total | $ 123,196 | $ 150,941 |

At December 31, 2024, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual for the year ended December 31, 2024.

The amortized cost and fair value of debt securities at December 31, 2024, (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 | $ 25,052 | $ 25,018 |
| Due after one year through five years | 106,901 | 98,931 |
| Due after five years through ten years | 50,841 | 41,679 |
| Due after ten years | 42,371 | 31,644 |
| Mortgage-backed securities | 46,845 | 42,512 |
| Collaterized mortgage obligations | 73,857 | 68,864 |
| Total | $ 345,867 | $ 308,648 |
| Held to maturity securities: | | |
| Due in one year or less | $ 28,445 | $ 28,318 |
| Due after one year through five years | 45,659 | 43,115 |
| Due after five years through ten years | 30,691 | 26,291 |
| Due after ten years | 18,401 | 13,388 |
| Total | $ 123,196 | $ 111,112 |

The Company evaluates securities available for sale for impairment when there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Due to the zero credit loss assumption and the considerations applied to the securities available for sale, no allowance for credit losses was recorded on January 1, 2023, and there was no allowance for credit losses for securities available for sale as of December 31, 2023 or December 31, 2024. Also, as part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy, and interest rate risk position. Management does not intend to sell these securities prior to recovery, and it is more likely than not that the Company will have the ability to hold them, primarily due to adequate liquidity, until each security has recovered its cost basis.

Available for sale securities with gross unrealized losses at December 31, 2024, 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 | |
|---|---|---|---|---|---|---|
| Available for Sale | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| December 31, 2024: | | | | | | |
| U.S. Treasuries | $ — | $ — | $ 81,991 | $ 7,425 | $ 81,991 | $ 7,425 |
| Mortgage-backed securities | 3,993 | 20 | 36,388 | 4,348 | 40,381 | 4,368 |
| Collateralized mortgage obligations | 1,728 | 9 | 51,513 | 5,061 | 53,241 | 5,070 |
| States and political subdivisions | — | — | 80,087 | 20,618 | 80,087 | 20,618 |
| Total | $ 5,721 | $ 29 | $ 249,979 | $ 37,452 | $ 255,700 | $ 37,481 |

Available for sale securities with gross unrealized losses at December 31, 2023, 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 | |
|---|---|---|---|---|---|---|
| **Available for Sale** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| December 31, 2023: | | | | | | |
| U.S. Treasuries | $ 24,750 | $ 22 | $ 85,660 | $ 8,520 | $ 110,410 | $ 8,542 |
| Mortgage-backed securities | 2,811 | 20 | 38,521 | 4,583 | 41,332 | 4,603 |
| Collateralized mortgage obligations | — | — | 90,290 | 6,327 | 90,290 | 6,327 |
| States and political subdivisions | — | — | 81,088 | 20,332 | 81,088 | 20,332 |
| Total | $ 27,561 | $ 42 | $ 295,559 | $ 39,762 | $ 323,120 | $ 39,804 |

At December 31, 2024, 9 of the 16 Treasuries, 41 of the 46 mortgage-backed securities, 23 of the 30 collateralized mortgage obligations and 74 of the 75 securities issued by states and political subdivisions contained unrealized losses.

There were no sales of available for sale debt securities during 2024, 2023 or 2022.

Securities with a fair value of $311,774,135 and $296,945,649 at December 31, 2024 and 2023, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

**NOTE C - LOANS:**

Certain items previously reported have been reclassified to conform to the current year's reporting format due to the adoption of CECL.

The composition of the loan portfolio at December 31, 2024 and 2023 is as follows (in thousands):

| **December 31,** | **2024** | **2023** |
|---|---|---|
| Real estate, residential | $ 78,952 | $ 74,296 |
| Real estate, construction | 17,016 | 27,353 |
| Real estate, nonresidential | 114,263 | 115,014 |
| Commercial and industrial | 13,381 | 12,496 |
| Other | 9,964 | 9,180 |
| Total | $ 233,576 | $ 238,339 |

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 collectability 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):

| | **2024** | **2023** |
|---|---|---|
| Balance, January 1 | $ 6,953 | $ 6,947 |
| Change in directors/officers loans during the year | (226) | — |
| New loans and advances | 828 | 452 |
| Repayments | (887) | (446) |
| Balance, December 31 | $ 6,668 | $ 6,953 |

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2024 and 2023 is as follows (in thousands):

| | Number of Days Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 | 60 - 89 | Greater Than 90 | Total Past Due | Current | Total Loans | Loans Past Due Greater Than 90 Days and Still Accruing |
| December 31, 2024: | | | | | | | |
| Real estate, residential | $ 410 | $ 33 | $ 337 | $ 780 | $ 78,172 | $ 78,952 | $ — |
| Real estate, construction | 61 | — | — | 61 | 16,955 | 17,016 | — |
| Real estate, nonresidential | 749 | — | — | 749 | 113,514 | 114,263 | — |
| Commercial and industrial | 40 | 11 | — | 51 | 13,330 | 13,381 | — |
| Other | 20 | 10 | — | 30 | 9,934 | 9,964 | — |
| Total | $ 1,280 | $ 54 | $ 337 | $ 1,671 | $ 231,905 | $ 233,576 | $ — |
| December 31, 2023: | | | | | | | |
| Real estate, residential | $ 207 | $ 540 | $ — | $ 747 | $ 73,549 | $ 74,296 | $ — |
| Real estate, construction | 131 | — | — | 131 | 27,222 | 27,353 | — |
| Real estate, nonresidential | 58 | — | — | 58 | 114,956 | 115,014 | — |
| Commercial and industrial | 21 | — | — | 21 | 12,475 | 12,496 | — |
| Other | 75 | 30 | — | 105 | 9,075 | 9,180 | — |
| Total | $ 492 | $ 570 | $ — | $ 1,062 | $ 237,277 | $ 238,339 | $ — |

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.

The following tables further disaggregates credit quality disclosures by amortized cost by class and vintage for term loans and by revolving and revolving converted to amortizing as of December 31, 2024 and December 31, 2023 (in thousands). The Company defines vintage as the later of origination, or restructure date.

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | Revolving Loans | Revolving Loans Converted to Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | | | |
| December 31, 2024: | | | | | | | | | |
| Real Estate, Residential Loans: | | | | | | | | | |
| A, B, or C | $ 10,203 | $ 11,135 | $ 14,611 | $ 10,386 | $ 4,348 | $ 19,348 | $ 4,448 | $ 3,537 | $ 78,016 |
| S | — | — | — | — | — | 56 | — | — | 56 |
| D | — | — | — | — | 124 | 338 | — | — | 462 |
| E | — | — | — | 295 | — | 123 | — | — | 418 |
| F | — | — | — | — | — | — | — | — | — |
| Total Real Estate Residential Loans | $ 10,203 | $ 11,135 | $ 14,611 | $ 10,681 | $ 4,472 | $ 19,865 | $ 4,448 | $ 3,537 | $ 78,952 |
| Real Estate, Construction Loans: | | | | | | | | | |
| A, B, or C | $ 2,876 | $ 425 | $ 1,464 | $ 1,916 | $ 854 | $ 2,701 | $ 6,578 | $ — | $ 16,814 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | 121 | — | — | 81 | — | — | — | 202 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Real Estate, Construction Loans | $ 2,876 | $ 546 | $ 1,464 | $ 1,916 | $ 935 | $ 2,701 | $ 6,578 | $ — | $ 17,016 |
| Real Estate,Nonresidential Loans: | | | | | | | | | |
| A, B, or C | $ 2,711 | $ 11,191 | $ 24,434 | $ 10,290 | $ 13,344 | $ 34,096 | $ 17,672 | $ — | $ 113,738 |
| S | — | — | — | — | — | 62 | — | — | 62 |
| D | — | — | — | — | — | 463 | — | — | 463 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Real Estate, Nonresidential Loans | $ 2,711 | $ 11,191 | $ 24,434 | $ 10,290 | $ 13,344 | $ 34,621 | $ 17,672 | $ — | $ 114,263 |
| Commercial and industrial | | | | | | | | | |
| A, B, or C | $ 1,187 | $ 488 | $ 524 | $ 638 | $ 167 | $ 2,542 | $ 7,813 | $ — | $ 13,359 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | 22 | — | — | — | — | — | — | 22 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Commercial and Industrial Loans | $ 1,187 | $ 510 | $ 524 | $ 638 | $ 167 | $ 2,542 | $ 7,813 | $ — | $ 13,381 |
| Consumer/Other Loans | | | | | | | | | |
| A, B, or C | $ 4,725 | $ 3,258 | $ 804 | $ 401 | $ 262 | $ 254 | $ 254 | $ — | $ 9,958 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | 1 | — | — | — | 5 | — | 6 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Consumer/Other Loans | $ 4,725 | $ 3,258 | $ 805 | $ 401 | $ 262 | $ 254 | $ 259 | $ — | $ 9,964 |

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | Revolving Loans Converted to Term Loans | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | | Total |
| December 31, 2023: | | | | | | | | | |
| Real Estate, Residential Loans: | | | | | | | | | |
| A, B, or C | $ 11,865 | $ 17,053 | $ 12,158 | $ 4,695 | $ 5,451 | $ 17,502 | $ 4,147 | $ 401 | $ 73,272 |
| S | — | — | — | — | — | 66 | — | — | 66 |
| D | — | — | 122 | — | — | 623 | — | — | 745 |
| E | — | — | — | 45 | 27 | 141 | — | — | 213 |
| F | — | — | — | — | — | — | — | — | — |
| Total Real Estate Residential Loans | $ 11,865 | $ 17,053 | $ 12,280 | $ 4,740 | $ 5,478 | $ 18,332 | $ 4,147 | $ 401 | $ 74,296 |
| Real Estate, Construction Loans: | | | | | | | | | |
| A, B, or C | $ 1,069 | $ 2,119 | $ 2,133 | $ 1,379 | $ 38 | $ 3,966 | $ 12,827 | $ — | $ 23,531 |
| S | — | — | — | — | — | — | 3,735 | — | 3,735 |
| D | — | — | — | 87 | — | — | — | — | 87 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Real Estate, Construction Loans | $ 1,069 | $ 2,119 | $ 2,133 | $ 1,466 | $ 38 | $ 3,966 | $ 16,562 | $ — | $ 27,353 |
| Real Estate,Nonresidential Loans: | | | | | | | | | |
| A, B, or C | $ 12,387 | $ 20,951 | $ 11,056 | $ 15,008 | $ 5,497 | $ 34,330 | $ 14,959 | $ 728 | $ 114,916 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | — | — | — | 98 | — | — | 98 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | |
| —Total Real Estate, Nonresidential Loans | $ 12,387 | $ 20,951 | $ 11,056 | $ 15,008 | $ 5,497 | $ 34,428 | $ 14,959 | $ 728 | $ 115,014 |
| Commercial and industrial | | | | | | | | | |
| A, B, or C | $ 850 | $ 1,008 | $ 831 | $ 263 | $ 2,742 | $ 39 | $ 6,763 | $ — | $ 12,496 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | — | — | — | — | — | — | — |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Commercial and Industrial Loans | $ 850 | $ 1,008 | $ 831 | $ 263 | $ 2,742 | $ 39 | $ 6,763 | $ — | $ 12,496 |
| Consumer/Other Loans | | | | | | | | | |
| A, B, or C | $ 5,346 | $ 1,417 | $ 841 | $ 439 | $ 234 | $ 304 | $ 508 | $ 52 | $ 9,141 |
| S | — | — | — | — | — | — | — | — | — |
| D | 7 | 6 | — | — | 18 | 3 | 5 | — | 39 |
| E | — | — | — | — | — | — | — | — | — |
| F | — | — | — | — | — | — | — | — | — |
| Total Consumer/Other Loans | $ 5,353 | $ 1,423 | $ 841 | $ 439 | $ 252 | $ 307 | $ 513 | $ 52 | $ 9,180 |

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated (in thousands):

| | December 31, 2024 | | |
|---|---|---|---|
| | Nonaccrual Loans with No Allowance | Nonaccrual Loans with an Allowance | Total Nonaccrual Loans |
| Real estate, residential | $ 418 | $ — | $ 418 |
| Total | $ 418 | $ — | $ 418 |

| | December 31, 2023 | | |
|---|---|---|---|
| | Nonaccrual Loans with No Allowance | Nonaccrual Loans with an Allowance | Total Nonaccrual Loans |
| Real estate, residential | $ 168 | $ 45 | $ 213 |
| Total | $ 168 | $ 45 | $ 213 |

The Company recognized no interest income on nonaccrual loans during the years ended December 31, 2024 and December 31, 2023.

The following table represents the accrued interest receivables written off by reversing interest income during the years ended December 31, 2024 and December 31, 2023 (in thousands):

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Real estate, residential | $ 3 | $ 1 |
| Total loans | $ 3 | $ 1 |

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of collateral-dependent loans of the Company as of December 31, 2024 and December 31, 2023 (in thousands):

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| | Residential Properties | Residential Properties |
| Real estate, residential | $ 424 | $ 222 |
| Total loans | $ 424 | $ 222 |

The following tables further disaggregates nonaccrual disclosures by amortized cost by class and vintage for term loans and by revolving and revolving converted to amortizing as of December 31, 2024 and December 31, 2023 (in thousands). The Company defines vintage as the later of origination or restructure date.

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | Revolving Loans Converted to Term Loans | |
|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | | Total |
| December 31, 2024: | | | | | | | | | |
| Real estate, residential | $ — | $ — | $ — | $ 295 | $ — | $ 123 | $ — | $ — | $ 418 |
| Real estate, construction | — | — | — | — | — | — | — | — | — |
| Real estate, nonresidential | — | — | — | — | — | — | — | — | — |
| Commercial and industrial | — | — | — | — | — | — | — | — | — |
| Consumer/Other | — | — | — | — | — | — | — | — | — |
| Total Loans on Nonaccrual | $ — | $ — | $ — | $ 295 | $ — | $ 123 | $ — | $ — | $ 418 |

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | Revolving Loans Converted to Term Loans | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | | Total |
| December 31, 2023: | | | | | | | | | |
| Real estate, residential | $ — | $ — | $ — | $ — | $ — | $ 213 | $ — | $ — | $ 213 |
| Real estate, construction | — | — | — | — | — | — | — | — | — |
| Real estate, nonresidential | — | — | — | — | — | — | — | — | — |
| Commercial and industrial | — | — | — | — | — | — | — | — | — |
| Consumer/Other | — | — | — | — | — | — | — | — | — |
| Total Loans on Nonaccrual | $ — | $ — | $ — | $ — | $ — | $ 213 | $ — | $ — | $ 213 |

The Company had one loan modification made to borrowers experiencing financial difficulty as of December 31, 2024 and no loan modifications as of December 31, 2023.

The following table shows the amortized cost basis as of December 31, 2024 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty (in thousands):

| | Term Extension | | |
|---|---|---|---|
| | December 31, 2024 | | |
| | Amortized Cost Basis | % of Total Loan Type | Financial Effect |
| Real estate, residential | $ 17 | 0.02 % | Added a weighted average 3 years to the life of loan, which reduced monthly payment amounts for the borrowers. Provided 3 month payment deferrals to borrowers through our standard deferral program. The 3 monthly payments were added to the end of the original loan terms of these. |
| Total | $ 17 | | |

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months (in thousands):

| | Payment Status (Amortized Cost Basis) | | |
|---|---|---|---|
| | December 31, 2024 | | |
| | Current | 30-89 Days Past Due | 90+ Days Past Due |
| Real estate, residential | $ 17 | $ — | $ — |
| Total | $ 17 | $ — | $ — |

The following tables show activity in the allowance for credit losses by portfolio class for the years ended December 31, 2024, 2023, and 2022 as well as the corresponding recorded investment in loans at the end of each period. Effective January 1, 2023, the Company adopted the provisions of ASC 326 (CECL) using a modified retrospective basis. The difference between the December 31, 2023 incurred allowance and the CECL allowance is reflected as a cumulative effect of change in accounting principle in the table below. For further discussion of the day one impact of the CECL adoption, refer to Note A.

The calculation of the allowance for credit losses under CECL is performed using two primary approaches: a collective approach for pools of loans that have similar risk characteristics using a loss rate analysis, and a specific reserve analysis for credits individually evaluated.

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024 and December 31, 2023 and the balances of loans and unfunded commitments, individually and collectively evaluated for credit losses, as of December 31, 2024 and December 31, 2023 are as follows (in thousands):

| | Real Estate, Residential | Real Estate, Construction | Real Estate, Nonresidential | Commercial and Industrial | Other | Total |
|---|---|---|---|---|---|---|
| **December 31, 2024** | | | | | | |
| **Allowance for credit losses** | | | | | | |
| Beginning balance | $ 971 | $ 173 | $ 1,807 | $ 54 | $ 219 | $ 3,224 |
| Charge-offs | (59) | — | — | — | (210) | (269) |
| Recoveries | 57 | 39 | 6 | — | 125 | 227 |
| Net provision for loan losses | (293) | (77) | 22 | 38 | 110 | (200) |
| Ending Balance | $ 676 | $ 135 | $ 1,835 | $ 92 | $ 244 | $ 2,982 |
| **Reserve for unfunded lending commitments** | | | | | | |
| Beginning balance | $ 2 | $ 34 | $ 5 | $ 10 | $ 4 | $ 55 |
| Provision for losses on unfunded commitments | — | (11) | 5 | 2 | 32 | 28 |
| Ending balance-reserve for unfunded commitments | $ 2 | $ 23 | $ 10 | $ 12 | $ 36 | $ 83 |
| Total allowance for credit losses | $ 678 | $ 158 | $ 1,845 | $ 104 | $ 280 | $ 3,065 |
| **Allowance for credit losses** | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ 4 | $ 4 |
| Collectively evaluated | 676 | 135 | 1,835 | 92 | 240 | 2,978 |
| Total allowance for credit losses: | $ 676 | $ 135 | $ 1,835 | $ 92 | $ 244 | $ 2,982 |
| **Reserve for unfunded lending commitments** | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 2 | 23 | 10 | 12 | 36 | 83 |
| Reserve for unfunded lending commitments: | $ 2 | $ 23 | $ 10 | $ 12 | $ 36 | $ 83 |
| Total allowance for credit losses, December 31, 2024 | $ 678 | $ 158 | $ 1,845 | $ 104 | $ 280 | $ 3,065 |
| **Loans, December 31, 2024** | | | | | | |
| Individually evaluated | $ 879 | $ 202 | $ 463 | $ 22 | $ 5 | $ 1,571 |
| Collectively evaluated | 78,073 | 16,814 | 113,800 | 13,359 | 9,959 | 232,005 |
| **Total loans, December 31, 2024** | $ 78,952 | $ 17,016 | $ 114,263 | $ 13,381 | $ 9,964 | $ 233,576 |

| | Real Estate, Residential | Real Estate, Construction | Real Estate, Nonresidential | Commercial and Industrial | Other | Total |
|---|---|---|---|---|---|---|
| **December 31, 2023** | | | | | | |
| **Allowance for credit losses** | | | | | | |
| Beginning balance | $ 1,018 | $ 392 | $ 1,535 | $ 143 | $ 250 | $ 3,338 |
| Cumulative effect of change in accounting principle | 396 | (58) | (215) | (84) | (49) | (10) |
| Charge-offs | — | — | (270) | — | (197) | (467) |
| Recoveries | — | 9 | 20 | 467 | 111 | 607 |
| Net provision for loan losses | (443) | (170) | 737 | (472) | 104 | (244) |
| Ending Balance | $ 971 | $ 173 | $ 1,807 | $ 54 | $ 219 | $ 3,224 |
| **Reserve for unfunded lending commitments** | | | | | | |
| Beginning balance | $ — | $ — | $ — | $ — | $ — | $ — |
| Cumulative effect of change in accounting principle | 4 | 30 | 5 | 15 | 18 | 72 |
| Provision for losses on unfunded commitments | (2) | 4 | — | (5) | (14) | (17) |
| Ending balance-reserve for unfunded commitments | $ 2 | $ 34 | $ 5 | $ 10 | $ 4 | $ 55 |
| Total allowance for credit losses | $ 973 | $ 207 | $ 1,812 | $ 64 | $ 223 | $ 3,279 |
| **Allowance for credit losses** | | | | | | |
| Individually evaluated | $ 40 | $ — | $ — | $ — | $ 21 | $ 61 |
| Collectively evaluated | 931 | 173 | 1,807 | 54 | 198 | 3,163 |
| Total allowance for credit losses: | $ 971 | $ 173 | $ 1,807 | $ 54 | $ 219 | $ 3,224 |
| **Reserve for unfunded lending commitments** | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 2 | 34 | 5 | 10 | 4 | 55 |
| Reserve for unfunded lending commitments: | $ 2 | $ 34 | $ 5 | $ 10 | $ 4 | $ 55 |
| Total allowance for credit losses, December 31, 2024 | $ 973 | $ 207 | $ 1,812 | $ 64 | $ 223 | $ 3,279 |
| **Loans, December 31, 2023** | | | | | | |
| Individually evaluated | $ 958 | $ 87 | $ 98 | $ — | $ 39 | $ 1,182 |
| Collectively evaluated | 73,338 | 27,266 | 114,916 | 12,496 | 9,141 | 237,157 |
| **Total loans, December 31, 2023** | $ 74,296 | $ 27,353 | $ 115,014 | $ 12,496 | $ 9,180 | $ 238,339 |

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods (in thousands).

| | Real Estate, Residential | Real Estate, Construction | Real Estate, Nonresidential | Commercial and Industrial | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2022: | | | | | | |
| Allowance for Loan Losses: | | | | | | |
| Beginning Balance | $ 873 | $ 351 | $ 1,781 | $ 228 | $ 78 | $ 3,311 |
| Charge-offs | — | — | — | — | (240) | (240) |
| Recoveries | — | — | 48 | 15 | 124 | 187 |
| Provision | 145 | 41 | (294) | (100) | 288 | 80 |
| Ending Balance | $ 1,018 | $ 392 | $ 1,535 | $ 143 | $ 250 | $ 3,338 |
| Allowance for Loan Losses: | | | | | | |
| Ending balance: individually evaluated for impairment | $ 145 | $ — | $ 84 | $ — | $ — | $ 229 |
| Ending balance: collectively evaluated for impairment | $ 873 | $ 392 | $ 1,451 | $ 143 | $ 250 | $ 3,109 |
| Total Loans: | | | | | | |
| Ending balance: individually evaluated for impairment | $ 945 | $ 31 | $ 1,811 | $ — | $ 14 | $ 2,801 |
| Ending balance: collectively evaluated for impairment | $ 66,567 | $ 30,115 | $ 120,422 | $ 10,497 | $ 7,476 | $ 235,077 |

The following table further disaggregates gross charge-off disclosures by amortized cost by credit quality indicator, class, and year of origination as of December 31, 2024 and December 31, 2023 (in thousands). The Company defines vintage as the later of origination or restructure date.

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | Revolving Loans Converted to Term Loans | Total |
| December 31, 2024: | | | | | | | | | |
| Real estate, residential | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| A,B, or C | — | — | — | — | — | — | — | — | — |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | — | — | — | — | — | — | — |
| E | — | — | — | — | — | 59 | — | — | 59 |
| F | — | — | — | — | — | — | — | — | — |
| Total Real estate, nonresidential loans | $ — | $ — | $ — | $ — | $ — | $ 59 | $ — | $ — | $ 59 |
| Consumer/Other | | | | | | | | | |
| A,B, or C | $ 156 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 156 |
| S | — | 6 | — | — | — | — | — | — | 6 |
| D | — | 10 | — | — | — | 8 | — | — | 18 |
| E | — | 7 | 20 | — | — | 3 | — | — | 30 |
| F | — | — | — | — | — | — | — | — | — |
| Total Consumer/Other Loans | $ 156 | $ 23 | $ 20 | $ — | $ — | $ 11 | $ — | $ — | $ 210 |
| Total Gross Loan Chargeoffs: | $ 156 | $ 23 | $ 20 | $ — | $ — | $ 70 | $ — | $ — | $ 269 |

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | Revolving Loans Converted to Term Loans | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | | Total |
| December 31, 2023: | | | | | | | | | |
| Real estate, nonresidential | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| A,B, or C | — | — | — | — | — | — | — | — | — |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | — | — | — | — | — | — | — |
| E | — | — | — | — | — | 270 | — | — | 270 |
| F | — | — | — | — | — | — | — | — | — |
| Total Real estate, nonresidential loans | $ — | $ — | $ — | $ — | $ — | $ 270 | $ — | $ — | $ 270 |
| Consumer/Other | | | | | | | | | |
| A,B, or C | $ 188 | $ 5 | $ — | $ — | $ — | $ — | $ — | $ — | $ 193 |
| S | — | — | — | — | — | — | — | — | — |
| D | — | — | — | — | — | — | — | — | — |
| E | — | — | — | 4 | — | — | — | — | 4 |
| F | — | — | — | — | — | — | — | — | — |
| Total Consumer/Other Loans | $ 188 | $ 5 | $ — | $ 4 | $ — | $ — | $ — | $ — | $ 197 |
| Total Gross Loan Chargeoffs: | $ 188 | $ 5 | $ — | $ 4 | $ — | $ 270 | $ — | $ — | $ 467 |

**NOTE D - BANK PREMISES AND EQUIPMENT:**

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

| December 31, | Estimated Useful Lives (in years) | 2024 | 2023 |
|---|---|---|---|
| Land | | $ 5,515 | $ 5,534 |
| Building | 5 - 40 | 35,777 | 35,739 |
| Furniture, fixtures and equipment | 3 - 10 | 10,482 | 10,474 |
| Construction-in-progress | | — | 573 |
| Totals, at cost | | 51,774 | 52,320 |
| Less: Accumulated depreciation | | 33,062 | 32,850 |
| Totals | | $ 18,712 | $ 19,470 |

Depreciation and amortization related to bank premises and equipment charged to noninterest expense was approximately $1,678,000, $1,551,000 and $1,664,000 for the years ended December 31, 2024, 2023, 2022, respectively.

During the year ended December 31, 2024, the Bank sold one tract of land and one piece of equipment at a gain of $46,000, the Bank had disposals of equipment at a loss of $37,000. During the year ended December 31, 2023, the Bank sold one tract of land for a gain of approximately $30,000. There were no sales or disposals for the year ended December 31, 2022.

**NOTE E – OTHER REAL ESTATE:**

The Company's other real estate and equipment consisted of the following as of December 31, 2024 and 2023 (in thousands except number of properties):

| December 31, | 2024 | | 2023 | |
|---|---|---|---|---|
| | Number of Properties | Balance | Number of Properties | Balance |
| Construction, land development and other land and equipment | 2 | $ 9 | 1 | $ — |
| Total | 2 | $ 9 | 1 | $ — |

**NOTE F - DEPOSITS:**

At December 31, 2024, the scheduled maturities of time deposits are as follows (in thousands):

| | | |
|---|---|---|
| 2025 | $ | 43,275 |
| 2026 | | 5,266 |
| 2027 | | 951 |
| 2028 | | 1,144 |
| 2029 | | 231 |
| Total | $ | 50,867 |

Deposits held for related parties amounted to $7,119,035 and $5,079,055 at December 31, 2024 and 2023, respectively.

Overdrafts totaling $139,974 and $406,951 were reclassified as loans at December 31, 2024 and 2023, respectively.

**NOTE G – FEDERAL FUNDS PURCHASED:**

At December 31, 2024, the Company had facilities in place to purchase federal funds up to $30,500,000 under established credit arrangements.

**NOTE H - BORROWINGS:**

At December 31, 2024, the Company was able to borrow up to $10,093,628 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 the primary credit rate, which is established periodically by the Federal Reserve Board, and have a maturity of one day. The primary credit rate was 4.50% at December 31, 2024. There was no outstanding balance at December 31, 2024 or 2023.

At December 31, 2024, the Company had $116,383,248 in advances available under a line of credit with the FHLB, there were no outstanding advances. At December 31, 2023, the Company had $18,500,000 outstanding in advances under a $112,192,242 line of credit with the FHLB at a rate of 5.58% and a maturity date of January 5, 2024. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. Advances are collateralized by a blanket floating lien on the Company's residential first mortgage loans.

## NOTE I - INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2024 and 2023, included in other assets, were as follows (in thousands):

| December 31, | 2024 | 2023<br>As adjusted | 2023<br>As originally reported |
|---|---|---|---|
| Deferred tax assets: | | | |
| Allowance for credit losses | $ 782 | $ 833 | $ 695 |
| Employee benefit plans' liabilities | 4,029 | 4,079 | 3,434 |
| Unrealized loss on available for sale securities, charged from equity | 9,286 | 9,909 | 8,341 |
| Loss on credit impairment of securities | 423 | 423 | 356 |
| Earned retiree health benefits plan liability | 1,222 | 1,276 | 1,074 |
| General business and AMT credits | 1 | 1,033 | 210 |
| State income tax net operating loss carryforward | 930 | 1,111 | — |
| Other | 218 | 279 | 344 |
| Valuation allowance | (423) | (15,617) | (11,534) |
| Deferred tax assets | 16,468 | 3,326 | 2,920 |
| Deferred tax liabilities: | | | |
| Unearned retiree health benefits plan asset | 460 | 469 | 395 |
| Bank premises and equipment | 2,106 | 2,088 | 1,759 |
| Other | — | 13 | 10 |
| Deferred tax liabilities | 2,566 | 2,570 | 2,164 |
| Net deferred taxes | $ 13,902 | $ 756 | $ 756 |

During the preparation of its third quarter 2024 consolidated financial statements the Company determined that the disclosures of deferred income tax assets and liabilities in the footnotes to its December 31, 2023, consolidated financial statements improperly excluded deferred state income taxes. The above amounts as of December 31, 2023 have been restated to include deferred federal and state income taxes. The correction of this disclosure error had no impact on the recorded amount of net deferred taxes in the Company's December 31, 2023 consolidated statement of condition.

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

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| Current | $ 437 | $ 410 | $ 15 |
| Deferred: | | | |
| Federal | 1,434 | — | 1,188 |
| Change in valuation allowance | (15,194) | 1,711 | (3,634) |
| Total deferred | (13,760) | 1,711 | (2,446) |
| Totals | $ (13,323) | $ 2,121 | $ (2,431) |

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 21.0% for 2024, 2023 and 2022 to income before income taxes and State income tax rate of 3.95% for 2024. The reasons for these differences are shown below (in thousands):

| | 2024 | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| | Tax | Rate | Tax | Rate | Tax | Rate |
| Taxes computed at statutory rate | $ 1,760 | 21 % | $ 2,370 | 21 % | $ 1,367 | 21 % |
| Increase (decrease) resulting from: | | | | | | |
| State income tax expense, net of federal effect | 224 | 2.7 | — | — | — | — |
| Tax-exempt interest income | (176) | (2.1) | (191) | (2) | (198) | (3) |
| Income from BOLI | (112) | (1.3) | (102) | (1) | (93) | (1) |
| Tefra disallowance | 79 | 0.9 | — | — | — | — |
| Federal tax credits | — | — | (1,416) | (12) | (45) | (1) |
| Other | 96 | 1.1 | (251) | (2) | 172 | 2 |
| Other changes in valuation allowance | (15,194) | (181.3) | 1,711 | 15 | (3,634) | (55) |
| Total income tax (benefit) expense | $ (13,323) | (159.0)% | $ 2,121 | 19 % | $ (2,431) | (37)% |

During 2024, the Company recorded current and deferred income tax expense (benefit) of $437,000 and ($13,760,000), respectively or a net income tax benefit of ($13,323,000). During 2023, the Company recorded current and deferred income tax expense of $410,000 and $1,711,000, respectively or a net income tax expense of $2,121,000. During 2022, the Company recorded current and deferred income tax expense (benefit) of $15,000 and ($2,446,000), respectively or a net income tax benefit of $2,431,000.

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 had a valuation allowance on federal and state deferred tax assets totaling $15,617,000 as of December 31, 2023. In the third quarter of 2024, the Company reassessed the valuation allowance based upon its projections of future sources of taxable income in accordance with applicable accounting guidance and determined it was appropriate to reverse substantially all the valuation allowance which resulted in a one-time discrete reduction to income tax expense of $15,194,000 in the third quarter of 2024. Excluding the discrete item, income tax expense for the year ended December 31, 2024, totaled $1,871,000 based upon the expected annual tax rate for 2024 of 22.3% compared to income tax expense of $2,121,000 for the year ended December 31, 2023, at an effective rate of 18.8%. Excluding the change in valuation allowance of ($3,634,000), income tax expense totaled $1,203,000 for the year ended December 31, 2022, at an effective tax rate if 18.5%.

As of December 31, 2024, the net deferred tax asset was $13,902,000. As of December 31, 2023 the net deferred tax asset was $756,000.

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.

**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, 2024, $50,708,141 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends without regulatory approval.

On April 24, 2024, the Board approved the repurchase of up to $1,000,000 of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 44,220 shares have been repurchased for $747,000 and retired through December 31, 2024. The repurchase plan expired on December 31, 2024.

On July 31, 2023, the Board approved the repurchase of up to $1,000,000 of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 16,500 shares have been repurchased for $208,000 and retired through December 31, 2023. The repurchase plan expired on December 31, 2023.

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.

As of December 31, 2024, 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. The Company must have a capital conservation buffer above these requirements of 2.50%. There are no conditions or events since that notification that Management believes have changed the bank subsidiary's category.

During the third quarter of 2023, the community bank leverage ratio (CBLR) framework was elected. The CBLR framework is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The framework provides a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9.00% are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule. In addition, these institutions are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The main components and requirements of the CBLR framework are as follows:

As of December 31, 2024, the bank subsidiary's community bank leverage ratio was 13.95%. As of December 31, 2023, the bank subsidiary's community bank leverage ratio was 12.59%. The leverage ratio requirement is maintaining a leverage ratio greater than 9.00%.

The components of accumulated other comprehensive income, net of tax, as of December 31, 2024 and 2023, are as follows:

| December 31, | 2024 | 2023 |
|---|---|---|
| Beginning balance accumulated other comprehensive (loss) income | $ (38,733) | $ (46,418) |
| Net unrealized gain (loss) on available for sale securities, net of tax | 1,875 | 8,042 |
| (Loss) gain from unfunded post-retirement benefit obligation, net of tax | (29) | (357) |
| Ending balance accumulated other comprehensive (loss) income | $ (36,887) | $ (38,733) |

## NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| Other service charges, commissions and fees | $ 299 | $ 295 | $ 333 |
| Rentals | 479 | 461 | 374 |
| Other | 35 | 32 | 287 |
| Totals | $ 813 | $ 788 | $ 994 |

Other expenses consisted of the following (in thousands):

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| Advertising | $ 401 | $ 399 | $ 376 |
| Data processing | 1,243 | 1,273 | 1,430 |
| FDIC and state banking assessments | 403 | 479 | 429 |
| Legal | 437 | 446 | (130) |
| Accounting | 594 | 536 | 386 |
| Other real estate | 1 | 54 | 81 |
| ATM expense | 998 | 671 | 1,217 |
| Trust expense | 646 | 593 | 501 |
| Other | 1,837 | 1,897 | 1,564 |
| Totals | $ 6,560 | $ 6,348 | $ 5,854 |

## 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 statement of condition. 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, 2024 and 2023, the Company had outstanding irrevocable letters of credit aggregating $133,000 and $142,406, respectively. At December 31, 2024 and 2023, the Company had outstanding unused loan commitments aggregating approximately $59,414,000 and $40,080,000 respectively. Approximately $33,184,000 and $24,465,000 of outstanding commitments were at fixed rates and the remainder were at variable rates at December 31, 2024 and 2023, 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.

During the quarter ended June 30, 2023, a shareholder issued a letter to the Company and each of the directors of the Company demanding that they immediately commence litigation on behalf of the Company for an alleged breach by the Company's Board of Directors of its fiduciary duties in allegedly failing to properly oversee and supervise the management of the Company. During the quarter ended September 30, 2023, the Board of Directors of the Company established a Special Litigation Committee made up of three independent directors to investigate the allegations made in the letter. Rather than wait for the Special Litigation Committee to conclude its inquiry, the shareholder filed a Complaint against the Company and Directors, making the same allegations that appear in the demand letter. The Court stayed the lawsuit pending the Special Litigation Committee's inquiry. The Special Litigation Committee concluded that pursuing the claims is not in the Company's best interest, and the Company filed a motion to dismiss that the court denied. The Company has appealed that ruling.

The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of loss is not estimable, the Company does not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available and available insurance coverage, the Company's management believes that it has established appropriate legal reserves. If an accrual is not made, and there is at least a reasonable possibility that a loss or additional loss may have been incurred, the Company discloses the nature of the contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. Any incremental liabilities arising from pending legal proceedings are not expected to have a material adverse effect on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

As of the date of this filing, the Company believes the amount of losses associated with legal proceedings that it is reasonably possible to incur is not material.

## 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, | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Investments in subsidiaries, at underlying equity: | | |
| Bank subsidiary | $ 89,291 | $ 68,672 |
| Nonbank subsidiary | — | — |
| Cash in bank subsidiary | 257 | 236 |
| Other assets | 453 | 375 |
| **Total assets** | $ 90,001 | $ 69,283 |
| **Liabilities and Shareholders' Equity:** | | |
| Other liabilities | — | — |
| Total liabilities | $ — | $ — |
| Shareholders' equity | 90,001 | 69,283 |
| **Total liabilities and shareholders' equity** | $ 90,001 | $ 69,283 |

### CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Income** | | | |
| Distributed income of bank subsidiary | $ 3,350 | $ 3,268 | $ 1,243 |
| Undistributed income of bank subsidiary | 18,773 | 6,404 | 8,061 |
| Other income | 3 | 4 | 7 |
| **Total income** | 22,126 | 9,676 | 9,311 |
| **Expenses** | | | |
| Other | 423 | 510 | 370 |
| **Total expenses** | 423 | 510 | 370 |
| **Net income** | $ 21,703 | $ 9,166 | $ 8,941 |

**CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):**

| Years Ended December 31, | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 21,703 | $ 9,166 | $ 8,941 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Undistributed (income) of subsidiaries | (18,773) | (6,404) | (8,061) |
| Change in other assets | (78) | (38) | 36 |
| **Net cash provided by operating activities** | 2,852 | 2,724 | 916 |
| **Cash flows from investing activities:** | | | |
| | — | — | — |
| **Net cash provided by investing activities** | — | — | — |
| **Cash flows from financing activities:** | | | |
| Stock repurchase | (792) | (208) | — |
| Dividends paid | (2,039) | (2,473) | (889) |
| **Net cash used in financing activities** | (2,831) | (2,681) | (889) |
| **Net increase in cash** | 21 | 43 | 27 |
| **Cash, beginning of year** | 236 | 193 | 166 |
| **Cash, end of year** | $ 257 | $ 236 | $ 193 |

**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 $265,000 for 2024, $274,000 for 2023, and $260,000 for 2022.

The ESOP was frozen effective January 1, 2019. The ESOP held 210,947, 216,010 and 214,961 allocated shares at December 31, 2024, 2023 and 2022, 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 retirement from the board. 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. Through December 31, 2021, interest on deferred fees accrued at an annual rate of 10%, compounded annually. Also through December 31, 2021, after payments commenced, interest accrued at an annual rate of 7.50%, compounded monthly. The Board amended the plan on November 23, 2021, providing that, effective January 1, 2022, on a prospective basis, interest on deferred fees shall accrue at an annual rate equal to the Chase Manhattan Bank Prime Rate as of December 31st of each year, compounded annually, before payments commence under the plan, and that after payments have commenced, interest will accrue on the account balance at an annual fixed rate equal to Chase Manhattan Bank Prime Rate as of the Director's separation from service, compounded monthly. 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 $18,862,950 and $18,404,490 at December 31, 2024 and 2023, respectively. The present value of accumulated benefits under these plans, using an interest rate of 5.00% and 3.50% at December 31, 2024 and 2023, respectively, and the interest ramp-up method has been accrued. The accrual amounted to $14,329,854 and $14,422,984 at December 31, 2024 and 2023, 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 $3,304,283 and $3,115,923 at December 31, 2024 and 2023, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.00% and 3.50% at December 31, 2024 and 2023, respectively, and the projected unit cost method has been accrued. The accrual amounted to $1,484,904 and $1,593,985 at December 31, 2024 and 2023, 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 $338,527 and $334,346 at December 31, 2024 and 2023, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.00% and 3.50% at December 31, 2024 and 2023, respectively, and the projected unit cost method has been accrued. The accrual amounted to $114,871 and $114,269 at December 31, 2024 and 2023, 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 $197,771 and $188,851 at December 31, 2024 and 2023, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.00% and 3.50% at December 31, 2024 and 2023, respectively, and the projected unit cost method has been accrued. The accrual amounted to $217,422 and $218,853 at December 31, 2024 and 2023, 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 age 60. 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 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 employment of the Company after December 31, 2006. 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.

The net postretirement benefit cost was as follows (in thousands):

| For the Year Ended December 31, | 2024 | 2023 |
|---|---|---|
| Net Postretirement Benefit Cost | $ (159) | $ (191) |

The accumulated postretirement benefit obligation and the balance in accumulated other comprehensive income was as follows (in thousands):

| December 31, | 2024 | 2023 |
|---|---|---|
| Accumulated Postretirement Benefit Obligation | $ 3,054 | $ 3,231 |
| Fair Value of Plan Assets | — | — |
| Unfunded Status | $ 3,054 | $ 3,231 |
| Balance in Accumulated Other Comprehensive Income | $ 1,843 | $ 1,881 |

Amounts recognized in Accumulated Other Comprehensive Income were as follows (in thousands):

| For the Year Ended December 31, | 2024 | 2023 |
|---|---|---|
| Net Gain | $ 1,684 | $ 1,518 |
| Prior Service Credit | 159 | 363 |
| Total | $ 1,843 | $ 1,881 |

The prior service credit and net gain that will be recognized in accumulated other comprehensive income during 2025 is $386,519.

The following is a summary of the actuarial assumptions used to determine the accumulated postretirement benefit obligation:

| December 31, | 2024 | 2023 |
|---|---|---|
| Equivalent APBO Single Discount Rate | 5.60 % | 5.00 % |
| Rate of Increase in Future Compensation Levels | N/A | N/A |
| Current Pre 65 Health Care Trend Rate | 8.65 % | 8.35 % |
| Current Post 64 Health Care Trend Rate-Non Grandfathered | 5.68 % | 5.38 % |
| Current Post 64 Health Care Trend Rate-Granfathered | 7.98 % | 7.23 % |
| Ultimate Health Care Trend Rate | 4.59 % | 4.59 % |
| Year Ultimate Trend Rate Reached | 2042 | 2042 |

The following is a summary of the assumptions used to determine the net postretirement benefit cost:

| January 1, | 2024 | 2023 |
|---|---|---|
| Equivalent APBO Single Discount Rate | 5.00 % | 5.20 % |
| Rate of Increase in Future Compensation Levels | N/A | N/A |
| Current Pre 65 Health Care Trend Rate | 8.35 % | 8.64 % |
| Current Post 64 Health Care Trend Rate-Non Grandfathered | 5.38 % | 5.32 % |
| Current Post 64 Health Care Trend Rate-Grandfathered | 7.23 % | 7.35 % |
| Ultimate Health Care Trend Rate | 4.59 % | 4.59 % |
| Year Ultimate Trend Rate Reached | 2042 | 2042 |

The following is a reconciliation of the accumulated postretirement benefit obligation, which is included in employee and director benefit plans liabilities (in thousands):

| Reconciliation of Funded Status | Accumulated Postretirement Benefit Obligation | Fair Value of Plan Assets | Funded Status |
|---|---|---|---|
| December 31, 2023: | $ (3,231) | $ — | $ (3,231) |
| Service cost | (72) | — | (72) |
| Interest cost | (157) | — | (157) |
| Gains/(Losses) | 348 | — | 348 |
| Benefits paid | 136 | (136) | — |
| Participant contributions | (78) | 78 | — |
| Employer Contributions | — | 58 | 58 |
| December 31, 2024 | $ (3,054) | $ — | $ (3,054) |

The following is a reconciliation of the accumulated other comprehensive income (in thousands):

| | Net Gain/Loss | Prior Service Cost/(Credit) | Accumulated Other Comprehensive Income |
|---|---|---|---|
| December 31, 2023: | $ (1,518) | $ (363) | $ (1,881) |
| Amortization payment | 182 | 204 | 386 |
| Liability (Gain)/Loss | (348) | — | (348) |
| December 31, 2024 | $ (1,684) | $ (159) | $ (1,843) |

The source of the liability gain/(loss) is based upon demographic experience during 2024, claims and retiree contributions, medical trend assumptions, and the change in the discount rate from 5.00% to 5.60%.

The following table displays the benefits expected to be paid from the plan during each of the next five fiscal years, and in aggregate for the five fiscal years thereafter (in thousands):

| | |
|---|---|
| Fiscal 2025 | $ 223 |
| Fiscal 2026 | 220 |
| Fiscal 2027 | 260 |
| Fiscal 2028 | 254 |
| Fiscal 2029 | 263 |
| Fiscal 2030-2034 | $ 1,126 |

## 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, ORE and intangible assets. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

### Fair Value Hierarchy

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

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

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

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

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

**Cash and Due from Banks**

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

**Investments**

The fair value of available for sale securities and held to maturity securities is based on quoted market prices. The Company's available for sale and held to maturity securities are reported at their amortized cost, and their estimated fair value, which is determined utilizing several sources, is disclosed in the financial statements and footnotes. The primary source is ICE Data Pricing and Reference Data, LLC ("ICE") which purchased Interactive Data Corporation ("IDC") but kept the IDC methodologies. Those methodologies include utilizing pricing models that vary based on asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. 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 and held to maturity securities for which fair value is determined through the use of such pricing models and matrix pricing are classified as Level 2 assets.

**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 collateral dependent. Accordingly, the Company's collateral dependent loans are reported at their estimated fair value on a non-recurring basis. An allowance for each 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 collateral dependent loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for credit losses. Collateral dependent 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 or internally prepared valuations. Other real estate is a non-recurring Level 3 asset.

**Deposits**

The fair value of non-interest bearing demand and interest bearing savings and demand deposits is the amount reported in the financial statements. The fair value of time deposits is estimated by discounting the cash flows using current rates of time deposits with similar remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates. Non-interest deposits are non-recurring Level 1 liabilities, while interest bearing deposits are classified as Level 3 liabilities.

**Borrowings from Federal Home Loan Bank**

The fair value of Federal Home Loan Bank ("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. Borrowings from Federal Home Loan Bank are classified as Level 2 liabilities.

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, 2024 and 2023, were as follows (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| December 31, 2024: | | | | |
| U.S. Treasuries | $ 117,045 | $ — | $ 117,045 | $ — |
| Mortgage-backed securities | 42,512 | — | 42,512 | — |
| Collateralized mortgage obligations | 68,864 | — | 68,864 | — |
| States and political subdivisions | 80,227 | — | 80,227 | — |
| Total | $ 308,648 | $ — | $ 308,648 | $ — |
| December 31, 2023: | | | | |
| U.S. Treasuries | $ 115,458 | $ — | $ 115,458 | $ — |
| Mortgage-backed securities | 47,785 | — | 47,785 | — |
| Collateralized mortgage obligations | 95,006 | — | 95,006 | — |
| States and political subdivisions | 81,228 | — | 81,228 | — |
| Total | $ 339,477 | $ — | $ 339,477 | $ — |

Collateral dependent loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2024 and 2023 were as follows (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| December 31: | Total | Level 1 | Level 2 | Level 3 |
| 2024 | $ — | $ — | $ — | $ — |
| 2023 | $ 6 | $ — | $ — | $ 6 |

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, 2024 and 2023 are as follows (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| December 31: | Total | Level 1 | Level 2 | Level 3 |
| 2024 | $ 9 | $ — | $ — | $ 9 |
| 2023 | $ — | $ — | $ — | $ — |

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):

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ — | $ 259 |
| Loans transferred to ORE | 18 | 952 |
| Sales | (9) | (1,114) |
| Write-downs | — | (97) |
| Balance, end of year | $ 9 | $ — |

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2024 and 2023 are as follows (in thousands):

| | Carrying Amount | Fair Value Measurements Using | | | Total |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | |
| December 31, 2024: | | | | | |
| Financial Assets: | | | | | |
| Cash and due from banks | $ 107,744 | $ 107,744 | $ — | $ — | $ 107,744 |
| Available for sale securities | 308,648 | — | 308,648 | — | 308,648 |
| Held to maturity securities, net | 123,156 | — | 111,112 | — | 111,112 |
| Loans, net | 230,594 | — | — | 225,422 | 225,422 |
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | 235,183 | 235,183 | — | — | 235,183 |
| Interest bearing | 434,680 | — | — | 377,233 | 377,233 |
| Time deposits | 50,867 | — | — | 50,212 | 50,212 |
| Borrowings Federal Home Loan Bank Bank | — | — | — | — | — |

| | Carrying Amount | Fair Value Measurements Using | | | Total |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | |
| December 31, 2023: | | | | | |
| Financial Assets: | | | | | |
| Cash and due from banks | $ 22,794 | $ 22,794 | $ — | $ — | $ 22,794 |
| Available for sale securities | 339,477 | — | 339,477 | — | 339,477 |
| Held to maturity securities, net | 150,911 | — | 138,523 | — | 138,523 |
| Loans, net | 235,115 | — | — | 221,896 | 221,896 |
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | 174,933 | 174,933 | — | — | 174,933 |
| Interest bearing | 483,662 | — | — | 424,398 | 424,398 |
| Time deposits | 29,895 | — | — | 28,939 | 28,939 |
| Borrowings from Federal Home Loan Bank Bank | 18,500 | — | 18,500 | — | 18,500 |

**NOTE Q: SEGMENT REPORTING**

The Company is engaged in a single line of business as a financial institution, 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. The Company has identified its President and Chief Executive Officer as the chief operating decision maker ("CODM"), who uses consolidated net income (see Consolidated Statements of Operation) to determine how resources should be allocated and manage the Company. The Company's operations constitute a single operating segment and therefore, a single reportable segment, because the CODM manages the business activities using information of the Company as a whole. The accounting policies used to measure the profit and loss of the segment are the same as those described in the summary of significant accounting policies described in Note A. The Company's most significant reported source of income and expense are interest income and interest expense (see Consolidated Statements of Operations). The remaining significant segment income and expenses are described in the Consolidated Statements of Operations and in Note K of these financial statements.

**NOTE R: SUBSEQUENT EVENTS:**

The Company has evaluated subsequent events through the time of the filing of its Annual Report on Form 10K. As of the time of filing on March 19, 2025, there were no material, reportable subsequent events.

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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Peoples Financial Corporation

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated statement of condition of Peoples Financial Corporation and Subsidiaries (the "Company") as of December 31, 2024, and December 31, 2023, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2024, and December 31, 2023, and the consolidated 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.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

**Allowance for Credit Losses**

The Company's loan portfolio totaled $234 million as of December 31, 2024, and the allowance for credit losses on loans was $2.98 million. The Company's unfunded loan commitments totaled $59.5 million, with an allowance for credit loss of $83,000. These amounts are included in the allowance for credit losses ("ACL"). As more fully described in Notes A and C to the Company's consolidated financial statements, the Company estimates its exposure to expected credit losses as of the statement of condition date, for existing financial instruments held at amortized cost, and off-balance sheet exposures, such as unfunded loan commitments, letters of credit and other financial guarantees that are not unconditionally cancellable by the Company. The Company measures expected credit losses of financial assets on a collective (pool) basis when the financial assets share similar risk characteristics.

We identified the valuation of the ACL as a critical audit matter as the determination of the ACL requires management to exercise significant judgment and could have a material impact on the Company's financial statements. Management must consider numerous subjective factors, including determining qualitative factors used to adjust the calculated allowance for credit losses, loan credit risk grading and identifying loans requiring individual evaluation among others. As disclosed by management, different assumptions and conditions could result in a materially different amount for the estimate of the ACL. As such, there is a high degree of auditor judgement and subjectivity, and significant audit effort was required in performing procedures in auditing the ACL.

Addressing the critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls over the allowance for credit losses including
    - completeness and accuracy of loan data including credit ratings and risk classification of loans,
    - classifications of loans by loan segment, and
    - the identification of problems loans,
- Performing analysis of prepayment speeds used to calculate the weighted average remaining maturity,
- Evaluating the qualitative factors for completeness and reasonableness,
- Verification of historical net loss,
- Testing the accuracy and validation of the ACL model,
- Testing the loan review function and evaluating the accuracy of loan credit ratings and reasonableness of specific reserves on individually evaluated loans, and
- Evaluating the disclosures in the consolidated financial statements.

**Reversal of Deferred Tax Asset Valuation Allowance**

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. The Company determines its valuation allowance on deferred tax assets by considering both positive and negative evidence to ascertain whether it is more likely than not that deferred tax assets will be realized. The Company concluded that a valuation allowance on federal and state deferred tax assets totaling $15,617,000 was required as of December 31, 2023. As noted in Note I to the consolidated financial statements, in the third quarter of 2024, the Company reassessed the valuation allowance based upon its projections of future sources of taxable income and recovery of its unrealized losses on available-for-sale securities based on its intent and ability to hold the securities until they recover in value or until maturity, in accordance with applicable accounting guidance and determined it was appropriate to reverse substantially all the valuation allowance. The reversal resulted in a one-time discrete reduction to income tax expense of $15,194,000 in the third quarter of 2024.

We identified the reversal of the deferred tax asset valuation allowance as a critical audit matter as the determination of the reversal requires management to exercise significant judgment and could have a material impact on the Company's financial statements. There is a high degree of auditor judgement and subjectivity, and significant audit effort was required in performing procedures in auditing the reversal of the deferred tax asset valuation allowance and evaluating the reasonableness over the nature and timing of the transaction.

Addressing the critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed to address this critical audit matter included:

- With the assistance of our income tax specialists, evaluating the nature of the deferred tax assets and whether the sources of future taxable income were appropriate and sufficient to utilize the deferred tax assets,

- Evaluating the reasonableness of management's assertion of intent and ability to hold its available-for-sale securities until they recover in value or until maturity, and

- Testing the reasonableness of management's projections of future taxable income by comparing the estimates to the Company's financial forecasts; historical taxable income; and available industry data.

We have served as the Company's auditor since 2023. (Note: Partners of Postlethwaite & Netterville, APAC joined EisnerAmper LLP in 2023. Postlethwaite & Netterville, APAC had served as the Company's auditor since 2022).

Eisner Amper LLP

EISNERAMPER LLP
Baton Rouge, Louisiana
March 19, 2025

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows of Peoples Financial Corporation and subsidiaries (the Company) for the year ended December 31, 2022, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

WIPFLI

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

***Estimate of allowance for loan losses – reserves related to loans collectively evaluated for impairment***
As described in Notes A and C to the financial statements, the Company's allowance for loan losses ("ALL") totaled $3,109,000 relating to loans collectively evaluated for impairment (general reserve). The Company estimated the general reserve using the historical loss method which utilizes historical loss rates of pools of loans with similar risk characteristics applied to the respective loan pool balances. These amounts are then adjusted for certain qualitative factors related to current economic and general conditions currently observed by management.

We identified the estimate of the general reserve portion of the ALL as a critical audit matter because auditing this portion of the ALL required significant auditor judgment and involved significant estimation uncertainty requiring industry knowledge and experience.

The primary audit procedures we performed to address this critical audit matter included:

- We tested the completeness and accuracy of the data used by management to calculate historical loss rates.
- We tested the completeness and accuracy of the data used by management in determining qualitative factor adjustments, including the reasonable and supportable factors, by agreeing them to internal and external information.
- We analyzed the qualitative factors in comparison to historical periods to evaluate the directional consistency in relation to the Company's loan portfolio and local economy.

Wipfli LLP

We have served as the Company's auditor since 2006.

Atlanta, Georgia
March 15, 2023

## CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Wipfli LLP ("Wipfli") had served as the independent registered public accounting firm for the Company since October 2019 following its acquisition of Porter Keadle Moore, LLC, a predecessor firm which had served as the independent registered public accounting firm for the Company since 2006. However, as announced on its Form 8-K Report filed on October 3, 2022, the Board of the Company, through its Audit Committee, conducted a competitive process to determine the Company's independent registered public accounting firm commencing with the Company's fiscal year ending December 31, 2023. The Audit Committee invited several independent registered public accounting firms to participate in this process, including Wipfli.

Following review of proposals from the independent registered public accounting firms that participated in the process, on September 28, 2022, upon recommendation from the Audit Committee, the Board of the Company approved the engagement of Postlethwaite & Netterville ("P&N") as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2023, which was ratified at the 2023 Annual Meeting.

Wipfli continued as the Company's independent registered public accounting firm for the year ended December 31, 2022. Wipfli's reports on the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2021 and 2022 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2021 and 2022, there were: (i) no disagreements within the meaning of Item 304(a)(1)(v) of Regulation S-K and the related instructions between the Company and Wipfli on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or, procedure which, if not resolved to Wipfli's satisfaction, would have caused Wipfli to make reference in their reports; and (ii) no "reportable events" within the meaning of Item 604(a)(1)(v) of Regulation S-K.

The Company provided Wipfli a copy of the March 22, 2023 Form 8-K/A, as well as the September 28, 2022, Form 8-K it amended, prior to their filings with the Securities and Exchange Commission (the "Commission") and requested that Wipfli furnish it with a letter addressed to the SEC stating whether or not it agreed with the above statements in this Current Report. A copy of Wipfli's letter to the Commission is filed as Exhibit 16.1 on Form 8-K/A filed on March 22, 2023.

During the fiscal years ended December 31, 2021 and 2022 and the subsequent interim period through March 15, 2023, neither the Company nor anyone on its behalf consulted with P&N regarding: (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report or oral advice was provided to the Company that P&N concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue; (ii) any matter that was the subject of a disagreement within the meaning of Item 304(a)(1)(iv) of Regulation S-K and the related instructions; or (iii) any reportable event within the meaning of Item 304(a)(1)(v) of Regulation SK.

The Company has since been notified P&N has combined with EisnerAmper LLP ("EisnerAmper") ("the Practice Combination"), and independent audits previously conducted by P&N will be conducted by EisnerAmper as a result of the Practice Combination. Therefore, P&N effectively resigned as the Company's independent registered public accounting firm and EisnerAmper, as the successor to P&N following the Practice Combination, will serve as the Company's independent registered public accounting firm. On December 6, 2023 the Company's Board of Directors approved the retention of EisnerAmper as the Company's independent registered public accounting firm. As of December 6, 2023, EisnerAmper was registered with the Public Company Accounting Oversight Board.

From the date of P&N's appointment as the Company's independent registered public accounting firm through December 6, 2023, there were no disagreements with P&N on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved by P&N's satisfaction, would have caused P&N to make reference to the subject matter of the disagreement in their reports on the company's consolidated financial statement for 2023. Additionally, during the interim periods through December 06, 2023, there were no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S- K. The Company provided P&N a copy of the December 6, 2023 Form 8-K prior to its filing with the Securities and Exchange Commission (the "Commission") and requested that P&N furnish it with a letter addressed to the SEC stating whether or not it agreed with the above statements in this Current Report. A copy of P&N's letter to the Commission is filed as Exhibit 16.1 on Form 8-K filed on December 6, 2023.

During the fiscal years ended December 31, 2021 and 2022 and interim periods through December 6, 2023, the Company did not consult with EisnerAmper on any matter that (i) involved the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, in each case where a written report was provided or oral advice was provided that EisnerAmper concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

**PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES**
**FIVE-YEAR COMPARATIVE SUMMARY OF SELECTED FINANCIAL INFORMATION**
**(In thousands except per share data)**

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| **Balance Sheet Summary** | | | | | |
| Total assets | $ 831,849 | $ 797,738 | $ 861,639 | $ 818,950 | $ 668,019 |
| Available for sale securities | 308,648 | 339,477 | 350,168 | 376,803 | 180,130 |
| Held to maturity securities | 123,156 | 150,911 | 195,217 | 110,208 | 75,688 |
| Loans, net of allowances for credit losses | 230,594 | 235,115 | 237,878 | 239,162 | 278,421 |
| Deposits | 720,730 | 688,490 | 785,780 | 704,838 | 550,498 |
| Borrowings from FHLB | – | 18,500 | – | 889 | 969 |
| Shareholders' equity | 90,001 | 69,283 | 55,194 | 91,729 | 94,859 |
| **Summary of Operations** | | | | | |
| Interest income | $ 33,094 | $ 32,629 | $ 23,708 | $ 20,292 | $ 19,308 |
| Interest expense | 9,643 | 6,155 | 2,158 | 830 | 1,581 |
| Net interest income | 23,451 | 26,474 | 21,550 | 19,462 | 17,727 |
| Provision for (reduction of) credit losses on loans and leases | (162) | (272) | 80 | (5,663) | 6,002 |
| Net interest income after provision for loan losses | 23,613 | 26,746 | 21,470 | 25,125 | 11,725 |
| Non-interest income | 7,014 | 6,894 | 6,895 | 6,470 | 7,251 |
| Non-interest expense | 22,247 | 22,353 | 21,855 | 22,622 | 21,534 |
| Income (loss) before taxes | 8,380 | 11,287 | 6,510 | 8,973 | (2,558) |
| Income tax expense (benefit) | (13,323) | 2,121 | (2,431) | 62 | – |
| Net income (loss) | $ 21,703 | $ 9,166 | $ 8,941 | $ 8,911 | $ (2,558) |
| **Per Share Data** | | | | | |
| Basic and diluted earnings (loss) per share | $ 4.66 | $ 1.96 | $ 1.91 | $ 1.84 | $ (0.52) |
| Dividends per share | 0.44 | 0.53 | 0.19 | 0.16 | 0.02 |
| Book value | 19.49 | 14.86 | 11.80 | 19.61 | 19.44 |
| Weighted average number of shares | 4,656,370 | 4,675,067 | 4,678,186 | 4,844,248 | 4,893,151 |
| **Selected Ratios** | | | | | |
| Return on average assets | 2.65% | 1.10% | 1.06% | 1.19% | (0.40%) |
| Return on average equity | 27.25% | 14.73% | 12.17% | 9.55% | (2.70%) |
| Tier 1 Leverage Ratio | 13.95% | 12.59% | 10.78% | 11.13% | 14.07% |

## PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
## CORPORATE INFORMATION AND MARKET INFORMATION

**Corporate Information:**

**Mailing Address**
P.O. Box 529
Biloxi, MS 39533-0529

**Physical Address**
152 Lameuse Street
Biloxi, MS 39530

**Website**
www.thepeoples.com

**Corporate Stock**
The common stock of Peoples Financial Corporation is traded on the OTCQX Best Market under the symbol: PFBX.

**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:

Peoples Financial Corporation
Chief Financial Officer
P.O. Box 529, Biloxi, MS 39533-0529
investorrelations@thepeoples.com

**Shareholder Information**
For investor relations and general information about Peoples Financial Corporation:

Investor Relations
The Peoples Bank, Biloxi, Mississippi
P.O. Box 529, Biloxi, MS 39533-0529
(228) 435-8205
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
investorrelations@thepeoples.com

**Independent Registered Public Accounting Firm**
EiserAmper LLP

**Market Information:**
The Company's stock is traded on the OTCQX Best Market ("OTCQX") under the symbol PFBX. As of March 05, 2025, there were approximately 364 holders of the Company's common stock, which does not reflect persons or entities that hold our common stock in nominee or "street" name through various brokerage firms. At that date, the Company had 4,617,466 shares of common stock issued and outstanding.

The following is a summary of the high and low bid prices of our common stock for the periods indicated as reported by OTCQX. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| Year | Quarter | High | Low | Dividend Per Share |
|---|---|---|---|---|
| 2024............ | 1st | $ 16.90 | $ 15.50 | $ – |
| | 2nd | 17.50 | 15.20 | 0.18 |
| | 3rd | 18.24 | 15.90 | – |
| | 4th | 20.00 | 17.30 | 0.26 |
| 2023............ | 1st | $ 15.25 | $ 12.00 | $ – |
| | 2nd | 13.95 | 13.00 | 0.12 |
| | 3rd | 13.93 | 12.05 | – |
| | 4th | 17.00 | 11.80 | 0.41 |

**PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES**
**BRANCH LOCATIONS**
***The Peoples Bank, Biloxi, Mississippi***

**BILOXI BRANCHES**

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

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

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

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

**GULFPORT BRANCHES**

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

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

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

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

**OTHER BRANCHES**

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

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

**D'Iberville – St. Martin**
10491 Lemoyne Blvd., D'Iberville, MS 39540
(228) 435-8202

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

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

**Ocean Springs**
2015 Bienville Blvd., Ocean Springs, MS 39564
(228) 435-8204

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

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

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

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

**PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES**
**BOARD OF DIRECTORS AND EXECUTIVE OFFICERS**

## BOARD OF DIRECTORS

***Peoples Financial Corporation***

| | |
|---|---|
| Chevis C. Swetman | *Chairman; President and Chief Executive Officer, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi* |
| Jeffrey H. O'Keefe | *Vice Chairman*; *Chief Executive Officer, Bradford-O'Keefe Funeral Homes, Inc.* |
| Ronald G. Barnes | *President and Chief Executive Officer, Coast Electric Power Association* |
| Padrick D. Dennis | *Vice-President, Specialty Contractors & Associates, Inc.* |
| Paige Reed Riley | *Owner, Hillyer House* |
| George J. Sliman, III | *President, SunStates Holdings, Inc.* |

## EXECUTIVE OFFICERS

***Peoples Financial Corporation***

| | |
|---|---|
| Chevis C. Swetman | *President and Chief Executive Officer* |
| A. Wes Fulmer | *Executive Vice-President* |
| J. Patrick Wild | *First Vice-President* |
| A. Tanner Swetman | *Second Vice-President* |
| Christy N. Ireland | *Vice-President and Secretary* |
| Leslie B. Fulton | *Chief Financial Officer and Controller* |

## BOARD OF DIRECTORS

***The Peoples Bank, Biloxi, Mississippi***

| | |
|---|---|
| Chevis C. Swetman | *Chairman; President and Chief Executive Officer, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi* |
| Liz Corso Joachim | *Vice Chairperson; President, Frank P. Corso, Inc.* |
| Ronald G. Barnes | *President and Chief Executive Officer, Coast Electric Power Association* |
| Padrick D. Dennis | *Vice-President, Specialty Contractors & Associates, Inc.* |
| A. Wes Fulmer | *Executive Vice-President, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi* |
| Jeffrey H. O'Keefe | *Chief Executive Officer, Bradford-O'Keefe Funeral Homes, Inc.* |
| Paige Reed Riley | *Owner, Hillyer House* |
| George J. Sliman, III | *President, SunStates Holdings, Inc.* |
| A. Tanner Swetman | *Senior Vice-President, The Peoples Bank, Biloxi, Mississippi and Second Vice-President, Peoples Financial Corporation* |
| Teyona Davis | *Managing Attorney, Davis Law Group, PLLC* |

## EXECUTIVE OFFICERS

***The Peoples Bank, Biloxi, Mississippi***

| | |
|---|---|
| Chevis C. Swetman | *President and Chief Executive Officer* |
| A. Wes Fulmer | *Executive Vice-President and Chief Banking Officer* |
| Leslie B. Fulton | *Senior Vice-President and Cashier* |
| J. Patrick Wild | *Senior Vice-President and Chief Credit Officer* |
| A. Tanner Swetman | *Senior Vice-President and Chief Operating Officer* |
| Christy N. Ireland | *Senior Vice-President and Chief Risk Officer* |