PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

2012 ANNUAL REPORT

TO OUR SHAREHOLDERS

Dear shareholders,

Perhaps the most gratifying aspect of 2012 was its lack of drama. Each quarter saw decent earnings that increased each period. In fact, 2012 was your bank's turnaround year. Our earnings are not back to pre-Katrina levels—much less the early post-Katrina years that saw a huge influx of construction and economic activity—but they show a positive trend.

Overall, most results of 2012 were encouraging:

- Net income for the year rose 120% over the previous year.
- The annual dividend paid to our stockholders increased 5.2%.
- Primary capital ratio increased again over the previous year to 14.71%, the highest since 2004.
- Provision for loan losses averaged $790,000 for the first three quarters until a jump to $1,893,000 in fourth quarter 2012 due primarily to potential losses on two loan relationships identified late in the year.
- Average interest earning assets increased about 4% as new loans outpaced principal payments, maturities, charge-offs and foreclosures related to existing loans.

This improvement is the product of hard work and tough decisions by your senior management and directors, who have scrubbed our budgets and balance sheet as clean as a freshly minted coin. The results of their hard work showed that non-interest expense decreased by $3,503, 894 during the year.

The majority of the reduction in non-interest expense was a decrease of more than $2 million in salary and employee benefits due to retirements, reduction in a number of overhead expense categories and a decrease in FDIC assessments. Our team of terrific bankers is working harder than ever by working smarter than ever.

Today we offer our customers a number of competitive financial products and services that they have asked for, such as mobile banking with our exclusive Green2Go® and a range of checking accounts that includes a special product, Freedom Green Checking, aimed at the 18-24 year-old segment of our market.

Of course, the majority of our earnings are generated from net interest income, the difference between our cost of funds and what we can charge in loans and earn on investments. That number remains more squeezed than ever. The Federal Reserve has committed to keeping interest rates unnaturally low for years to come, and loan demand in our region remains relatively soft. In fact, our total loan volume for 2012 was essentially flat compared to 2011.

The average yield on earning assets in 2012 decreased to 3.39%, compared to 3.57% in 2011. At the same time, the average rate paid on interest-bearing accounts at our bank decreased a similar amount, to .34% in 2012, compared to .54% in 2011. The painful squeeze on our net interest margin is shared by anyone holding a savings account or CD with historically low yields.

As we enter 2013, we are primed to increase our business here on the Mississippi Gulf Coast. Our local economy seems to be emerging ever so slowly from the darkness of the past few years. We will continue to refine and improve our retail products to offer convenience and security to every segment of our customer base. Our lenders are seeing signs of new business opportunities.

As I have said many times during these most difficult years, this bank was made for times like these. We have endured, and we look forward to prospering. Once again, my gratitude goes to our directors, senior managers and the entire team of bankers at The Peoples Bank who themselves have endured so much. I hope you join us to enjoy the benefits of their hard work in what we believe will be better years ahead.

Sincerely yours,

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

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

Peoples Financial Corporation (the "Company") is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management's discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2012, 2011 and 2010. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

FORWARD-LOOKING INFORMATION

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

NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted ASU 2011-05 – *Amendments to Topic 220, Comprehensive Income* ("ASU 2011-05") during 2012. ASU 2011-05 grants an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. The Company has chosen to report comprehensive income in a separate statement in its 2012 financial statements. There were no other new accounting standards adopted by the Company during 2012.

CRITICAL ACCOUNTING POLICIES

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

Allowance for loan losses:

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

Other Real Estate:

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

Employee Benefit Plans:

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

Income Taxes:

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

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in 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.

Net income for 2012 was $2,640,824 compared with $1,202,834 for 2011. While net interest income increased $706,351 and non-interest expense decreased $3,503,894 in 2012 as compared with 2011, the provision for loan losses increased $1,329,000, non-interest income decreased $331,255 and income tax benefits decreased $1,112,000.

Managing the net interest margin in the Company's highly competitive market and in context of larger national economic conditions has been very challenging and will continue to be so for the foreseeable future. Interest income decreased $404,530 for 2012 as compared with 2011 as a result of the large balance of loans on nonaccrual and the decrease in yield on U.S. Agency securities. Interest expense decreased $1,110,881 primarily due to a reduction in the cost of funds in 2012 as compared with 2011.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing assets continue to be emphasized during these difficult economic times, as the local and national economy continues to negatively impact collateral values and borrowers' ability to repay their loans. Past due loans have stabilized and have shown some improvement in 2012. Nonaccrual loans totaled $53,890,511 and $57,592,715 at December 31, 2012 and 2011, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The provision for loan losses increased in 2012 as a result of additional provision of $1,893,000 during the fourth quarter of 2012 as the Company identified potential losses in two relationships based on factors affecting the value of collateral securing these loans.

Non-interest income for 2012 included increased gains on sales and calls of securities of $237,747 as compared with 2011. Results for 2012 also include a loss on impairment of other investments of $360,000. During 2011, the Company realized gains on death benefits from life insurance policies of $469,740 as a result of the death of participants in deferred compensation plans. Non-interest expense for 2012 decreased due to a reduction in salaries and employee benefits and FDIC assessments as compared with 2011. Salaries and employee benefits decreased $2,091,989 in 2012 largely due to the impact of the voluntary early retirement program which was offered in 2011. FDIC assessments decreased $1,184,865 in 2012 as compared with 2011 as a result of the change in estimate of the prepaid FDIC assessments as of December 31, 2012. Income tax benefits decreased $1,112,000 as a result of the increase in taxable income in 2012 as compared with 2011.

Total assets at December 31, 2012 increased $760,365, as compared with December 31, 2011. Available for sale securities decreased $20,042,641 at December 31, 2012 as compared with December 31, 2011 as securities previously pledged for public funds matured or were sold. Balances in our non-deposit sweep accounts, reported as Federal funds purchased and securities sold under agreements to repurchase, increased $36,632,956 primarily due to the addition of one new large customer. Borrowings from the Federal Home Loan Bank ("FHLB") decreased $45,411,637 at December 31, 2012 as compared with December 31, 2011 based on the liquidity needs of the bank subsidiary.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income on loans, investments and other interest- earning assets exceeds interest expense on deposits and other borrowed funds, is the single largest component of the Company's income. Management's objective is to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risk. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities combined with changes in market rates of interest directly affect net interest income. The Federal Open Market Committee (the "Committee"), a component of the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations by making key decisions about interest rates and the growth of the U.S. money supply. The Committee dropped the discount rate significantly in 2008 and has not adjusted the rate since that time, which impacted interest rates then and in succeeding years.

2012 as compared with 2011

The Company's average interest-earning assets increased approximately $26,699,000, or 4%, from approximately $722,316,000 for 2011 to approximately $749,015,000 for 2012. The Company's average balance sheet increased primarily as new loans have outpaced principal payments, maturities, charge-offs and foreclosures relating to existing loans. The average yield on earning assets decreased 18 basis points, from 3.57% for 2011 to 3.39% for 2012, with the biggest impact being to the yield on taxable available for sale securities. The Company's investment and liquidity strategy has been to invest most of the proceeds from sales, calls and maturities of securities in similar securities. As a result, the yield on taxable available for sale securities decreased from 2.10% for 2011 to 1.71% for 2012. The Company has more recently purchased securities with maturities of up to fifteen years, with call provisions, to improve its yield on these assets. Future security purchases may be of shorter duration in anticipation of rising rates in 2015. The yield on loans has decreased due to the increase in loans on nonaccrual during 2011.

Average interest-bearing liabilities increased approximately $15,967,000, or 3%, from approximately $587,962,000 for 2011 to approximately $603,929,000 for 2012. The increase was primarily related to borrowings from the Federal Home Loan Bank, which increased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 20 basis points, from .54% for 2011 to .34% for 2012. Rates paid on deposit accounts and non-deposit accounts, which are reported as federal funds purchased and securities sold under agreements to repurchase, have decreased in 2012. The current unprecedented low rate environment which exists on a national and local level has caused customers to tolerate lower interest rates in return for less risk. The Company believes that it is unlikely that its cost of funds can be materially reduced further; however, any opportunity to do so will be considered.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.11% for the year ended December 31, 2012, down 2 basis points from 3.13% during 2011.

2011 as compared with 2010

The Company's average interest-earning assets decreased approximately $31,744,000, or 4%, from approximately $754,060,000 for 2010 to approximately $722,316,000 for 2011. The Company's average balance sheet shrunk primarily as principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans during the first part of 2011. While the average balance sheet decreased for the year, loan demand increased during the last two quarters of 2011 which resulted in an increase in loans at December 31, 2011. The average yield on earning assets decreased 46 basis points, from 4.03% for 2010 to 3.57% for 2011, with the biggest impact being to the yield on taxable available for sale securities. The Company's investment and liquidity strategy has been to invest most of the proceeds from sales, calls and maturities of securities in similar securities with a maturity of two years or longer, the interest rates on which have decreased dramatically. As a result, the yield on taxable available for sale securities decreased from 3.24% for 2010 to 2.10% for 2011. Beginning in the fourth quarter of 2010, Management began acquiring such securities with a maturity of five years or longer in order to improve the yield. The charge off of interest income on loans of $1,187,037 during 2011 reduced the average yield on earning assets by 16 basis points.

Average interest-bearing liabilities decreased approximately $25,195,000, or 4%, from approximately $613,157,000 for 2010 to approximately $587,962,000 for 2011. The average rate paid on interest-bearing liabilities decreased 21 basis points, from .75% for 2010 to .54% for 2011.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.13% for the year December 31, 2011, down 29 basis points from 3.42% during 2010, primarily due to the charge-off of interest income on loans and the decrease in yield on taxable available for sale securities.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2012 and 2011 and the years ended December 31, 2011 and 2010.

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

	2012			2011		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2) (3)	$ 430,205	$ 18,576	4.32	$ 405,367	$ 17,923	4.42
Federal Funds Sold	6,601	16	0.24	2,857	7	0.25
Held to maturity:						
Non taxable (1)	4,698	189	4.02	1,882	107	5.69
Available for sale:						
Taxable	264,248	4,527	1.71	269,401	5,662	2.10
Non taxable (1)	39,407	2,073	5.26	39,941	2,041	5.11
Other	3,856	15	0.39	2,868	23	0.80
Total	$ 749,015	$ 25,396	3.39	$ 722,316	$ 25,763	3.57
Savings and interest-bearing DDA	$ 230,829	$ 410	0.18	$ 226,097	$ 819	0.36
CD's	149,560	1,090	0.73	169,617	1,535	0.90
Federal funds purchased and securities sold under agreements to repurchase	169,352	335	0.20	154,423	638	0.41
Borrowings from FHLB	54,188	233	0.43	37,825	186	0.49
Total	$ 603,929	$ 2,068	0.34	$ 587,962	$ 3,178	0.54
Net interest margin			3.11			3.13

	2011			2010		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (2) (3)	$ 405,367	$ 17,923	4.42	$ 436,393	$ 19,687	4.51
Federal Funds Sold	2,857	7	0.25	4,842	15	0.31
Held to maturity:						
Non taxable (1)	1,882	107	5.69	2,938	154	5.24
Available for sale:						
Taxable	269,401	5,662	2.10	264,927	8,589	3.24
Non taxable (1)	39,941	2,041	5.11	40,581	1,903	4.69
Other	2,868	23	0.80	4,379	26	0.59
Total	$ 722,316	$ 25,763	3.57	$ 754,060	$ 30,374	4.03
Savings and interest-bearing DDA	$ 226,097	$ 819	0.36	$ 217,531	$ 1,084	0.50
CD's	169,617	1,535	0.90	190,718	2,173	1.14
Federal funds purchased and securities sold under agreements to repurchase	154,423	638	0.41	152,000	991	0.65
Borrowings from FHLB	37,825	186	0.49	52,908	352	0.67
Total	$ 587,962	$ 3,178	0.54	$ 613,157	$ 4,600	0.75
Net interest margin			3.13			3.42

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2012, 2011 and 2010.
(2) Loan fees of $797, $647 and $611 for 2012, 2011 and 2010, respectively, are included in these figures.
(3) Includes nonaccrual loans.

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

	For the year ended December 31, 2012 compared with December 31, 2011			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ 1,098	$ (420)	$ (25)	$ 653
Federal funds sold	9	(1)	1	9
Held to maturity securities:				
Non taxable	160	(31)	(47)	82
Available for sale securities:				
Taxable	(108)	(1,047)	20	(1,135)
Non taxable	(27)	60	(1)	32
Other	8	(12)	(4)	(8)
Total	$ 1,140	$ (1,451)	$ (56)	$ (367)
Interest paid on:				
Savings and interest-bearing DDA	$ 17	$ (419)	$ (7)	$ (409)
CD's	(182)	(299)	36	(445)
Federal funds purchased	62	(333)	(32)	(303)
Borrowings from FHLB	80	(23)	(10)	47
Total	$ (23)	$ (1,074)	$ (13)	$ (1,110)

	For the year ended December 31, 2011 compared with December 31, 2010			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,399)	$ (392)	$ 27	$(1,764)
Federal funds sold	(6)	(3)	1	(8)
Held to maturity securities:				
Non taxable	(55)	13	(5)	(47)
Available for sale securities:				
Taxable	145	(3,021)	(51)	(2,927)
Non taxable	(30)	171	(3)	138
Other	9	(9)	(3)	(3)
Total	$ (1,336)	$ (3,241)	$ (34)	$ (4,611)
Interest paid on:				
Savings and interest-bearing DDA	$ 43	$ (296)	$ (12)	$ (265)
CD's	(240)	(447)	49	(638)
Federal funds purchased	16	(363)	(6)	(353)
Borrowings from FHLB	(100)	(92)	26	(166)
Total	$ (281)	$ (1,198)	$ 57	$(1,422)

Provision for Allowance for Losses on Loans

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. A loan review process further assists with evaluating credit quality and assessing potential performance issues. Loan delinquencies and deposit overdrafts are closely monitored in order to identify developing problems as early as possible. In addition, on a monthly basis the Company monitors its relationships with its loan customers in concentrated industries such as gaming and hotel/motel; as well as the exposure for out of area; residential and land development; construction and commercial real estate loans, and their direct and indirect impact on its operations. A monthly watch list of credits which pose a potential loss to the Company is prepared based on the loan grading system. This list forms the foundation of the Company's allowance for loan loss computation.

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

The decline in the value of real estate has negatively impacted the collateral relating to the Company's residential and land development and real estate — mortgage portfolios. The Company's evaluation of these portfolios and related collateral resulted in a significant increase in provisions for the residential and land development portfolio in 2010 and for the real estate-mortgage portfolio in 2011 and 2012. In the fourth quarter of 2012, a specific reserve of $1,100,000 was assigned to a gaming loan based on the decline in value of collateral securing the loan. The Company's on-going, systematic evaluation resulted in the Company recording a total provision for loan losses of $4,264,000, $2,935,000 and $6,845,000 in 2012, 2011 and 2010, respectively.

The allowance for loan losses as a percentage of loans was 2.05%, 1.88% and 1.62% at December 31, 2012, 2011 and 2010, respectively. The Company's analysis includes evaluating the current value of collateral securing all nonaccrual loans. Even though nonaccrual loans were $53,890,511 at December 31, 2012, only $1,776,700 in specific reserves has been allocated to these loans as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value. The Company believes that its allowance for loan losses is appropriate as of December 31, 2012.

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

Non-interest income

Total non-interest income decreased by $331,255 in 2012 as compared with 2011. Trust department income and fees increased $90,004 as a result of fees relating to several large estates. Service charges on deposit accounts increased $127,509 in 2012 as compared with 2011. This increase was the result of a decrease in NSF fees of $91,040, which were impacted by the local economy and customers opting out of overdraft protection for debit card transactions, and an increase in ATM fees of $217,077 as a result of the improvement in the local casinos at which the Company has off-site ATMs. Gains from sales and calls of securities increased $237,747 as sales were executed when proceeds would be maximized. The Company had a loss from impairment of other investments of $360,000 in 2012 and a loss on other investments of $84,480 in 2012 as compared with income of $96,969 in 2011. Results in 2011 included gains from death benefits from life insurance of $469,740. Other income increased $152,706 in 2012 as compared with 2011. This increase was primarily attributable to an increase in rental income of $49,801 as the Company was able to lease previously vacant property and gains of $31,380 on the sale of bank vehicles.

Total non-interest income decreased by $253,954 in 2011 as compared with 2010. Included in this decrease was a decrease in service charges on deposit accounts of $319,817 in 2011 as compared with 2010 as these fees were impacted by the local economy and customers opting out of overdraft protection for debit card transactions. During 2010, securities were sold at a gain of $1,690,670 as compared with only $1,126,055 in 2011 as the Company executed sales when it could maximize proceeds. As a result of the death of participants in the Company's deferred compensation plans, bank owned life insurance was redeemed in 2011, resulting in a gain of $469,740. The Company's other investments had a gain of $96,969 in 2011 as compared with a loss of $109,933 in 2010.

Non-interest expense

Total non-interest expense decreased by $3,503,894 in 2012 as compared with 2011. Salaries and employee benefits decreased $2,091,989 in 2012 as compared with 2011. Salaries decreased $723,389 in 2012 as compared with 2011 as the employee census continues to decrease from attrition and the impact of the 2011 voluntary early retirement package. Expenses relating to deferred compensation plans decreased $565,405 in 2012 as a result of the 2011 voluntary early retirement package. Expenses relating to the retiree health plan decreased $953,894 as a result of amendments made to the plan which require plan participants to utilize drug benefits and health insurance coverage available under Medicare. Equipment rentals, depreciation and maintenance decreased $226,109 in 2012 as compared with 2011. Rental expense decreased $113,492 in 2012 as the Company discontinued use of leased equipment during 2011. Depreciation on furniture and equipment decreased $156,500 as equipment replaced during the years after Hurricane Katrina becomes fully depreciated. Maintenance costs increased $49,383 as a result of the timing of work performed. Other expense decreased $1,269,744 for 2012 as compared with 2011. Included in other expense are data processing expense, which increased $576,309 as a result of the outsourcing of most of the bank's I/T functions, and ORE expenses, which were $702,174 less in 2012 as compared with 2011 primarily as a result of a decrease in write downs of other real estate to fair value. Other expense also includes FDIC assessments, which decreased $1,184,865 in 2012 as compared with 2011 as a result of the change in estimate of the prepaid FDIC assessments as of December 31, 2012.

Total non-interest expense increased by $1,199,608 in 2011 as compared with 2010. Salaries and employee benefits increased $501,777 in 2011 as compared with 2010. While the Company had been able to reduce salaries and employee benefits through attrition in 2011 and 2010, current year expenses included additional costs of $851,406 relating to the voluntary early retirement program. Equipment rentals, depreciation and maintenance decreased $336,297 in 2011 as compared with 2010. Rental expense decreased $135,531 in 2011 as the Company discontinued use of leased equipment. Depreciation on furniture and equipment decreased $133,000 as equipment replaced during the years after Hurricane Katrina becomes fully depreciated. Maintenance costs decreased $59,766 as a result of a number of cost saving measures. Other expense increased $1,048,202 for 2011 as compared with 2010. Included in other expense are data processing expense, which increased $291,359 as a result of the outsourcing of most of the bank's I/T functions, and ORE expenses, which were $938,486 more in 2011 as compared with 2010 primarily as a result of write downs of $711,006. Other expense also includes FDIC and state banking assessments. Based on formulas determined by those agencies, the bank subsidiary was assessed $177,940 more in 2011 than in the previous year. These increases in other expenses were partially reduced by the decrease in advertising and legal costs. Advertising expenses decreased $74,018 in 2011 as a result of cost saving measures. Legal fees decreased $176,756 in 2011 as compared with 2010 due to the resolution of a number of non-performing loan issues.

Income Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2012, 2011 and 2010, respectively. Note J to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years.

FINANCIAL CONDITION

Available for sale securities decreased $20,042,641 at December 31, 2012, compared with December 31, 2011. The Company reduced its investment in these securities during the last quarter of 2012 as pledging requirements for public funds decreased.

The held to maturity portfolio increased $5,696,534 at December 31, 2012, compared with December 31, 2011, as the Company opted to classify some of its investment purchases during the current year as held to maturity.

Other investments decreased $480,480 at December 31, 2012, compared with December 31, 2011. This decrease was the result of a loss from the impairment of these investments of $360,000 and a loss of $84,480 from these investments in 2012.

The Company decreased its investment in FHLB common stock by $201,200 as a result of a reduced need to borrow from FHLB at December 31, 2012 as compared with December 31, 2011.

Bank premises decreased $1,812,972 at December 31, 2012 as compared with December 31, 2011 as a result of depreciation.

Other real estate increased by $854,946 at December 31, 2012 as compared with December 31, 2011. During 2012, loans totaling $2,576,000 were transferred into ORE, write downs of $153,000 were charged to earnings and ORE totaling $1,567,000 was sold. The Company is working diligently and prudently to reduce this portfolio.

Accrued interest receivable increased $197,179 at December 31, 2012, as compared with December 31, 2011. This increase is attributable to an increase in accrued interest on available for sale securities. During 2012, the Company invested in securities with extended maturities in order to increase yield.

Cash surrender value of life insurance increased $664,447 at December 31, 2012 as compared with December 31, 2011 as primarily as a result of income earned on the life insurance.

Prepaid FDIC assessments decreased $391,510 at December 31, 2012 as compared with December 31, 2011 as a result of the amortization of these costs. This decrease was affected by the change in estimate of the prepaid FDIC assessments as of December 31, 2012.

Other assets increased $1,230,609 at December 31, 2012 as compared with December 31, 2011 as deferred taxes were impacted by the increase in liabilities for employee benefit plans and depreciation.

Total deposits increased $7,280,166 at December 31, 2012, as compared with December 31, 2011. Fluctuations in total deposits and among the different types of deposits represent recurring activity for the Company as customers in the gaming industry and state, county and municipal entities reallocate their resources periodically. The Company anticipates that deposits will continue at or slightly above their present level during 2013.

Federal funds purchased and securities sold under agreements to repurchase, which includes non-deposit accounts, increased $36,632,956 at December 31, 2012 as compared with December 31, 2011, primarily due to the one new large customer.

Borrowings from the Federal Home Loan Bank decreased $45,411,637 at December 31, 2012 as compared with December 31, 2011 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $851,512 at December 31, 2012, as compared with December 31, 2011 due to deferred compensation benefits earned by officers and directors during 2012.

Other liabilities increased $105,503 at December 31, 2012 as compared with December 31, 2011. At December 31, 2011, the Company had accrued $513,692 for dividends payable in 2012 while the dividend declared in December 2012 was paid on December 31, 2012. Other liabilities at December 31, 2012 included an increase in income taxes payable of $215,000 as taxable income was higher in 2012 as compared to 2011 and an increase in the retiree health plan liability of $404,229 as compared with December 31, 2011.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

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

The measure of capital adequacy which is currently used by Management to evaluate the strength of the Company's capital is the primary capital ratio which was 14.71% at December 31, 2012, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being "well-capitalized" by the banking regulatory authorities.

Significant transactions affecting shareholders' equity during 2012 are described in Note K. 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 M to the Consolidated Financial Statements discloses information relating to financial instruments with off-balance-sheet risk, including letters of credit and outstanding unused loan commitments. The Company closely monitors the potential effects of funding these commitments on its liquidity position. Management monitors these funding requirements in such a manner as to satisfy these demands and to provide the maximum return on its earning assets.

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

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. The Company also uses other sources of funds, including borrowings from the Federal Home Loan Bank. The Company generally anticipates relying on deposits, purchases of federal funds and advances from the Federal Home Loan Bank for its liquidity needs in 2013.

REGULATORY MATTERS

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

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 M to the Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market prices and rates. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities. Also, the Company does not currently, and has no plans to, engage in trading activities or use derivative or off-balance sheet instruments to manage interest rate risk.

The Company has risk management policies in place to monitor and limit exposure to market risk. The Asset/Liability Committee ("ALCO Committee"), whose members include the chief executive officer, the executive vice president, the chief credit officer, the chief financial officer and the investment officers of the bank subsidiary, is responsible for the day-to-day operating guidelines, approval of strategies affecting net interest income and coordination of activities within policy limits established by the Board of Directors based on the Company's tolerance for risk. Specifically, the key objectives of the Company's asset/liability management program are to manage the exposure of planned net interest margins to unexpected changes due to interest rate fluctuations. These efforts will also affect loan pricing policies, deposit interest rate policies, asset mix and volume guidelines and liquidity. The ALCO Committee utilizes a number of tools in its activities, including software to assist with interest rate risk management and balance sheet management. The ALCO Committee reports to the Board of Directors on a quarterly basis.

The Company has implemented a conservative approach to its asset/liability management. The net interest margin is managed on a daily basis largely as a result of the management of the liquidity needs of the bank subsidiary. The Company generally follows a policy of investing in short term U.S. Agency securities with maturities of two years or more. Due to the low interest rate environment, the duration of investments has been extended to fifteen years with call provisions. The loan portfolio consists of a 40% /60% blend of fixed and floating rate loans. It is the general loan policy to offer loans with maturities of five years or less; however the market is now dictating floating rate terms to be extended to fifteen years. On the liability side, more than 70% of the deposits are demand and savings transaction accounts. Additionally, 89% of the certificates of deposit mature within eighteen months. Since the Company's deposits are generally not rate-sensitive, they are considered to be core deposits. The short term nature of the financial assets and liabilities allows the Company to meet the dual requirements of liquidity and interest rate risk management.

The interest rate sensitivity tables on the next page provide additional information about the Company's financial instruments that are sensitive to changes in interest rates. The negative gap in 2013 is mitigated by the nature of the Company's deposits, whose characteristics have been previously described. The tabular disclosure reflects contractual interest rate repricing dates and contractual maturity dates. Loan maturities have been adjusted for reserve for loan losses. There have been no adjustments for such factors as prepayment risk, early calls of investments, the effect of the maturity of balloon notes or the early withdrawal of deposits. The Company does not believe that the aforementioned factors have a significant impact on expected maturity.

Interest rate sensitivity at December 31, 2012 was as follows (in thousands):

	2013	2014	2015	2016	2017	BEYOND	TOTAL	12/31/12 FAIR VALUE
Loans, net	$ 265,343	$ 24,188	$ 22,805	$ 27,768	$ 26,879	$ 55,243	$ 422,226	$ 425,627
Average rate	4.83%	6.15%	6.09%	5.34%	5.32%	4.49%	5.04%	
Securities	7,191	15,694	10,453	22,159	12,392	203,942	271,831	271,931
Average rate	3.35%	1.90%	2.54%	1.77%	2.62%	2.47%	2.31%	
Total Financial Assets	272,534	39,882	33,258	49,927	39,271	259,185	694,057	697,558
Average rate	4.82%	5.44%	5.52%	4.59%	4.82%	3.14%	4.42%	
Deposits	348,696	8,166	4,581	7,000	4,667		373,110	376,209
Average rate	4.69%	2.04%	1.77%	1.31%	1.31%		4.49%	
Federal funds purchased and securities sold under agreements to repurchase	194,234						194,234	194,234
Average rate	0.20%						0.20%	
Borrowings from FHLB	230	239	239	239	5,236	1,729	7,912	10,271
Average rate	4.89%	4.60%	4.60%	4.60%	3.56%	4.60%	4.60%	
Total Financial Liabilities	543,160	8,405	4,820	7,239	9,903	1,729	575,256	580,714
Average rate	4.59%	2.20%	2.11%	1.66%	3.00%	4.60%	4.40%	

Interest rate sensitivity at December 31, 2011 was as follows (in thousands):

	2012	2013	2014	2015	2016	BEYOND	TOTAL	12/31/11 FAIR VALUE
Loans, net	$ 279,302	$ 27,756	$ 35,559	$ 18,707	$ 22,032	$ 40,991	$ 424,347	$ 427,881
Average rate	4.81%	6.58%	6.19%	6.14%	4.96%	5.28%	5.22%	
Securities	41,762	7,203	21,725	36,278	42,959	136,931	286,858	286,932
Average rate	1.55%	3.35%	1.90%	1.90%	1.69%	3.00%	2.72%	
Total Financial Assets	321,064	34,959	57,284	54,985	64,991	177,922	711,205	714,813
Average rate	4.66%	6.20%	5.13%	4.55%	3.65%	3.79%	4.57%	
Deposits	352,601	11,153	3,012	1,915	2,177		370,858	372,019
Average rate	1.54%	1.40%	2.18%	1.98%	1.98%		1.55%	
Federal funds purchased and securities sold under agreements to repurchase	157,601						157,601	157,601
Average rate	0.16%						0.16%	
Borrowings from FHLB	50,421	235	235	235	235	1,963	53,324	55,014
Average rate	0.62%	4.61%	4.61%	4.61%	4.61%	4.61%	1.82%	
Total Financial Liabilities	560,623	11,388	3,247	2,150	2,412	1,963	581,783	581,634
Average rate	1.43%	1.61%	2.52%	2.56%	2.51%	4.61%	1.54%	

CONSOLIDATED STATEMENTS OF CONDITION

DECEMBER 31,	2012	2011	2010
Assets			
Cash and due from banks	$ 54,019,718	$ 36,928,657	$ 24,146,939
Available for sale securities	258,875,840	278,918,481	287,078,463
Held to maturity securities, fair value of $7,225,413 - 2012; $1,492,374 - 2011; $2,010,430 - 2010	7,125,421	1,428,887	1,914,879
Other investments	3,449,820	3,930,300	3,926,371
Federal Home Loan Bank Stock, at cost	2,379,500	2,580,700	2,281,200
Loans	431,083,004	432,407,286	409,898,757
Less: Allowance for loan losses	8,856,948	8,135,622	6,650,258
Loans, net	422,226,056	424,271,664	403,248,499
Bank premises and equipment, net of accumulated depreciation	26,222,336	28,035,308	29,756,239
Other real estate	7,008,184	6,153,238	5,744,150
Accrued interest receivable	2,895,420	2,698,241	3,292,430
Cash surrender value of life insurance	16,860,815	16,196,368	15,951,117
Prepaid FDIC assessments	1,704,810	2,096,320	3,652,972
Other assets	2,144,535	913,926	5,552,225
Total assets	$ 804,912,455	$ 804,152,090	$ 786,545,484
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 102,609,051	$ 97,581,073	$ 108,277,985
Savings and demand, interest bearing	232,400,896	205,318,859	193,631,209
Time, $100,000 or more	94,605,926	115,014,220	134,667,660
Other time deposits	46,103,375	50,524,930	47,562,661
Total deposits	475,719,248	468,439,082	484,139,515
Federal funds purchased and securities sold under agreements to repurchase	194,233,923	157,600,967	140,102,019
Borrowings from Federal Home Loan Bank	7,911,931	53,323,568	42,957,016
Employee and director benefit plans liabilities	12,162,119	11,310,607	9,905,732
Other liabilities	4,131,068	4,025,565	8,084,340
Total liabilities	694,158,289	694,699,789	685,188,622
Shareholders' Equity:			
Common Stock, $1 par value, 15,000,000 shares authorized, 5,136,918 shares issued and outstanding at December 31, 2012 and 2011 and 5,151,139 at December 31, 2010, respectively	5,136,918	5,136,918	5,151,139
Surplus	65,780,254	65,780,254	65,780,254
Undivided profits	34,964,301	33,350,861	33,302,381
Accumulated other comprehensive income (loss), net of tax	4,872,693	5,184,268	(2,876,912)
Total shareholders' equity	110,754,166	109,452,301	101,356,862
Total liabilities and shareholders' equity	$ 804,912,455	$ 804,152,090	$ 786,545,484

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,	2012	2011	2010
Interest income:			
Interest and fees on loans	$ 18,576,449	$ 17,923,213	$ 19,687,441
Interest and dividends on securities:			
U.S. Treasuries	462,635	235,494	471,051
U.S. Government agencies	3,777,477	5,320,452	7,598,366
Mortgage-backed securities	287,387	105,905	518,924
States and political subdivisions	1,492,883	1,417,445	1,357,642
Other investments	15,062	23,130	26,078
Interest on federal funds sold	16,152	6,936	15,263
Total interest income	24,628,045	25,032,575	29,674,765
Interest expense:			
Deposits	1,499,556	2,353,878	3,257,391
Borrowings from Federal Home Loan Bank	232,694	185,925	351,883
Federal funds purchased and securities sold under agreements to repurchase	334,958	638,286	991,438
Total interest expense	2,067,208	3,178,089	4,600,712
Net interest income	22,560,837	21,854,486	25,074,053
Provision for allowance for losses on loans	4,264,000	2,935,000	6,845,000
Net interest income after provision for allowance for losses on loans	18,296,837	18,919,486	18,229,053
Non-interest income:			
Trust department income and fees	1,458,322	1,368,318	1,354,338
Service charges on deposit accounts	5,910,825	5,783,316	6,103,133
Gain on liquidation, sales and calls of securities	1,363,802	1,126,055	1,690,670
Loss on impairment of other investments	(360,000)		
Income (loss) on other investments	(84,480)	96,969	(109,933)
Increase in cash surrender value of life insurance	573,237	501,268	531,283
Gain on death benefits from life insurance		469,740	
Other income	667,245	514,540	544,669
Total non-interest income	9,528,951	9,860,206	10,114,160
Non-interest expense:			
Salaries and employee benefits	11,991,516	14,083,505	13,581,728
Net occupancy	2,433,977	2,350,029	2,364,103
Equipment rentals, depreciation and maintenance	3,106,237	3,332,346	3,668,643
Other expense	7,745,234	9,014,978	7,966,776
Total non-interest expense	25,276,964	28,780,858	27,581,250
Income (loss) before income taxes	2,548,824	(1,166)	761,963
Income tax benefit	92,000	1,204,000	723,000
Net income	$ 2,640,824	$ 1,202,834	$ 1,484,963
Basic and diluted earnings per share	$ .51	$ .23	$ .29
Dividends declared per share	$ .20	$ .19	$ .20

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31,	2012	2011	2010
Net income	$ 2,640,824	$ 1,202,834	$ 1,484,963
Other comprehensive income (loss), net of tax:			
Net unrealized gain (loss) on available for sale securities, net of tax of $440,622, $2,897,176 and $705,978 for the years ended December 31, 2012, 2011 and 2010, respectively	855,325	5,623,908	(1,370,429)
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $463,693, $382,859 and $574,828 for the years ended December 31, 2012, 2011 and 2010, respectively	(900,109)	(743,196)	(1,115,842)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of $137,438, $1,638,422 and $99,568 for the years ended December 31, 2012, 2011 and 2010, respectively	(266,791)	3,180,468	(193,281)
Total other comprehensive (loss)	(311,575)	8,061,180	(2,679,552)
Total comprehensive income (loss)	$ 2,329,249	$ 9,264,014	$ (1,194,589)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Common Shares	Common Stock	Surplus
Balance, January 1, 2010	5,151,697	$ 5,151,697	$ 65,780,254
Net income			
Other comprehensive loss, net of tax			
Cash dividend ($.11 per share)			
Dividend declared ($.09 per share)			
Retirement of stock	(558)	(558)	
Balance, December 31, 2010	5,151,139	5,151,139	65,780,254
Net income			
Other comprehensive income, net of tax			
Cash dividend ($.11 per share)			
Dividend declared ($.09 per share)			
Retirement of stock	(14,221)	(14,221)	
Balance, December 31, 2011	5,136,918	5,136,918	65,780,254
Net income			
Other comprehensive income, net of tax			
Cash dividend ($.20 per share)			
Balance, December 31, 2012	5,136,918	$ 5,136,918	$ 65,780,254

See Notes to Consolidated Financial Statements.

	Undivided Profits	Accumulated Other Comprehensive Income	Total
	$ 32,853,346	$ (197,360)	$ 103,587,937
	1,484,963		1,484,963
		(2,679,552)	(2,679,552)
	(566,687)		(566,687)
	(462,323)		(462,323)
	(6,918)		(7,476)
	33,302,381	(2,876,912)	101,356,862
	1,202,834		1,202,834
		8,061,180	8,061,180
	(462,323)		(462,323)
	(513,692)		(513,692)
	(178,339)		(192,560)
	33,350,861	5,184,268	109,452,301
	2,640,824		2,640,824
		(311,575)	(311,575)
	(1,027,384)		(1,027,384)
	$ 34,964,301	$ 4,872,693	$ 110,754,166

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 2,640,824	$ 1,202,834	$ 1,484,963
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,048,000	2,210,000	2,351,000
Provision for allowance for losses on loans	4,264,000	2,935,000	6,845,000
Writedown of other real estate	153,300	711,006	77,350
Loss on sales of other real estate	21,270	180,390	86,850
Loss on impairment of other investments	360,000		
(Income) loss on other investments	84,480	(96,969)	109,933
Accretion of held to maturity securities	(1,454)	(2,736)	(2,833)
Gain on liquidation, sales and calls of securities	(1,363,802)	(1,126,055)	(1,690,670)
Gain on death benefits from life insurance		(469,740)	
Increase in cash surrender value of life insurance	(573,237)	(501,268)	(531,283)
Change in accrued interest receivable	(197,179)	594,189	1,354,322
Change in other assets	600,601	4,061,169	(1,322,873)
Change in other liabilities	(210,909)	95,700	1,084,581
Net cash provided by operating activities	7,825,894	9,793,520	9,846,340
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	358,403,846	358,537,612	403,092,553
Purchases of available for sale securities	(337,067,062)	(341,857,583)	(380,565,980)
Proceeds from maturities of held to maturity securities	169,998	488,728	1,289,920
Purchases of held to maturity securities	(5,865,078)		
Purchases of Federal Home Loan Bank Stock		(299,500)	
Redemption of Federal Home Loan Bank Stock	201,200		2,734,700
Redemption of other investments	36,000	93,040	
Proceeds from sales of other real estate	1,546,004	1,921,026	1,328,000
Loans, net change	(4,793,912)	(27,179,675)	41,339,949
Acquisition of premises and equipment	(235,028)	(489,069)	(688,355)
Proceeds from death benefits from life insurance		804,883	
Investment in cash surrender value of life insurance	(91,211)	(79,125)	(91,941)
Net cash provided by (used in) investing activities	12,304,757	(8,059,663)	68,438,846
Cash flows from financing activities:			
Demand and savings deposits, net change	32,110,015	990,738	(799,677)
Time deposits, net change	(24,829,849)	(16,691,171)	14,237,763
Cash dividends	(1,541,075)	(924,646)	(1,081,857)
Retirement of common stock		(192,560)	(7,476)
Borrowings from Federal Home Loan Bank	2,246,716,791	500,974,555	775,907,492
Repayments to Federal Home Loan Bank	(2,292,128,428)	(490,608,003)	(837,220,928)
Federal funds purchased and securities sold under agreements to repurchase, net change	36,632,956	17,498,948	(34,328,858)
Net cash provided by (used in) financing activities	(3,039,590)	11,047,861	(83,293,541)
Net increase (decrease) in cash and cash equivalents	17,091,061	12,781,718	(5,008,355)
Cash and cash equivalents, beginning of year	36,928,657	24,146,939	29,155,294
Cash and cash equivalents, end of year	$ 54,019,718	$ 36,928,657	$ 24,146,939

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

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

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

New Accounting Pronouncements
The Company adopted ASU 2011-05 – *Amendments to Topic 220, Comprehensive Income* ("ASU 2011-05") during 2012. ASU 2011-05 grants an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. The Company has chosen to report comprehensive income in a separate statement in its 2012 financial statements. There were no other new accounting standards adopted by the Company during 2012.

Cash and Due from Banks
The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately $566,000, $701,000 and $587,000 for the years ending December 31, 2012, 2011 and 2010, respectively.

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

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

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

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

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

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

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

Loans which become 90 days delinquent are reviewed relative to 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 account. That portion of a loan which is deemed uncollectible will be charged off against the allowance as a partial charge off. All charge offs must be approved by Management and are reported to the Board of Directors.

Allowance for Loan Losses

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

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

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2012.

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

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

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

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

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

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

Bank Premises and Equipment

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

Other Real Estate

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

Trust Department Income and Fees

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

Income Taxes

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

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

Post-Retirement Benefit Plan

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

Leases

All leases are accounted for as operating leases in accordance with the terms of the leases.

Earnings Per Share

Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, 5,136,918, in 2012 and 2011, and 5,151,661 in 2010, respectively.

Accumulated Other Comprehensive Income

At December 31, 2012, 2011 and 2010, 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 and federal funds sold. The Company paid \$2,082,914, \$3,222,385 and \$4,621,778 in 2012, 2011 and 2010, respectively, for interest on deposits and borrowings. Income tax payments totaled \$835,000, \$755,000 and \$2,232,000 in 2012, 2011 and 2010, respectively. Loans transferred to other real estate amounted to \$2,575,520, \$3,221,510 and \$5,715,037 in 2012, 2011 and 2010, respectively. Dividends payable of \$513,692 and \$462,323 as of December 31, 2011 and 2010 were paid during the years ended December 31, 2012 and 2011, 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.

Reclassifications

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

NOTE B – SECURITIES:

The amortized cost and fair value of securities at December 31, 2012, 2011 and 2010, respectively, are as follows (in thousands):

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

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 53,995	$ 33	$ (18)	$ 54,010
U.S. Government agencies	176,986	2,220	(26)	179,180
Mortgage-backed securities	4,727	274		5,001
States and political subdivisions	37,914	2,163		40,077
Total debt securities	273,622	4,690	(44)	278,268
Equity securities	650			650
Total available for sale securities	$ 274,272	$ 4,690	$ (44)	$ 278,918
Held to maturity securities:				
States and political subdivisions	$ 1,429	$ 63	$	$ 1,492
Total held to maturity securities	$ 1,429	$ 63	$	$ 1,492

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 26,957	$ 52	$ (500)	$ 26,509
U.S. Government agencies	221,639	1,056	(4,099)	218,596
States and political subdivisions	40,579	1,114	(370)	41,323
Total debt securities	289,175	2,222	(4,969)	286,428
Equity securities	650			650
Total available for sale securities	$ 289,825	$ 2,222	$ (4,969)	$ 287,078
Held to maturity securities:				
States and political subdivisions	$ 1,915	$ 95	$	$ 2,010
Total held to maturity securities	$ 1,915	$ 95	$	$ 2,010

The amortized cost and fair value of debt securities at December 31, 2012, (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	$ 6,373	$ 6,396
Due after one year through five years	59,052	59,947
Due after five years through ten years	102,410	105,089
Due after ten years	68,911	69,353
Mortgage-backed securities	16,903	17,441
Totals	$ 253,649	$ 258,226
Held to maturity securities:		
Due in one year or less	$ 795	$ 818
Due after one year through five years	750	766
Due after five years through ten years	1,677	1,698
Due after ten years	3,903	3,943
Totals	$ 7,125	$ 7,225

Available for Sale and Held to Maturity Securities with gross unrealized losses at December 31, 2012, 2011 and 2010, 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	
December 31, 2012:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 9,887	$ 55	$	$	$ 9,887	$ 55
U.S. Government agencies	30,335	364			30,335	364
States and political subdivisions	1,451	12			1,451	12
Total	$ 41,673	$ 431	$	$	$ 41,673	$ 431

	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2011:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 16,976	$ 18	$	$	$ 16,976	$ 18
U.S. Government agencies	15,075	26			15,075	26
Total	$ 32,051	$ 44	$	$	$ 32,051	$ 44

	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2010:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 15,458	$ 500	$	$	$ 15,458	$ 500
U.S. Government agencies	138,076	4,099			138,076	4,099
States and political subdivisions	5,295	173	2,029	197	7,324	370
Total	$ 158,829	$ 4,772	$ 2,029	$ 197	$ 160,858	$ 4,969

At December 31, 2012, 2 of the 12 securities issued by the U.S. Treasury, 7 of the 12 securities issued by U.S. Government agencies and 4 of the 140 securities issued by states and political subdivisions contained unrealized losses.

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

Proceeds from sales of available for sale debt securities were $77,605,104, $60,714,150 and $33,993,865 during 2012, 2011 and 2010, respectively. Available for sale debt securities were sold and called for realized gains of $1,363,802, $1,126,055 and $1,690,670 during 2012, 2011 and 2010, respectively. The Company recorded a loss from the impairment of its other investments of $360,000 in 2012.

Securities with a fair value of $241,879,775, $278,540,119 and $283,462,810 at December 31, 2012, 2011 and 2010, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

The value of the Company's investment in FHLB common stock is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the FHLB of Dallas has reported profits, remains in compliance with regulatory capital and liquidity requirements, continues to pay dividends on its stock and make redemptions at par value. With consideration given to these factors, Management concluded that the stock was not impaired at December 31, 2012.

NOTE C – LOANS:

The composition of the loan portfolio at December 31, 2012, 2011 and 2010 is as follows (in thousands):

December 31,	2012	2011	2010
Gaming	$ 60,187	$ 57,219	$ 44,343
Residential and land development	27,338	29,026	30,064
Real estate, construction	52,586	61,042	60,983
Real estate, mortgage	246,420	238,411	222,577
Commercial and industrial	35,004	33,950	36,464
Other	9,548	12,759	15,468
Total	$ 431,083	$ 432,407	$ 409,899

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):

Years Ended December 31,	2012	2011	2010
Balance, January 1	$ 5,681	$ 5,552	$ 5,813
January 1 balance, loans of officers and directors appointed during the year		123	
New loans and advances	3,755	2,426	2,081
Repayments	(3,126)	(2,420)	(2,342)
Balance, December 31	$ 6,310	$ 5,681	$ 5,552

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

December 31,	2012	2011	2010
Gaming	$ 60,187	$ 57,219	$ 44,343
Hotel/motel	52,776	46,956	47,908
Out of area	25,413	26,171	42,790

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2012, 2011 and 2010 is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days And Still
	30-59	60-89	Greater Than 90	Total Past Due	Current	Total Loans	Accruing
December 31, 2012:							
Gaming	$	$ 1,721	$	$ 1,721	$ 58,466	$ 60,187	$
Residential and land development			5,765	5,765	21,573	27,338	
Real estate, construction	3,989	878	6,151	11,018	41,568	52,586	572
Real estate, mortgage	12,012	2,702	7,605	22,319	224,101	246,420	872
Commercial and industrial	1,804	79	107	1,990	33,014	35,004	
Other	127	26	1	154	9,394	9,548	1
Total	$ 17,932	$5,406	$19,629	$42,967	$ 388,116	$ 431,083	$1,445
December 31, 2011:							
Gaming	$	$	$	$	$ 57,219	$ 57,219	$
Residential and land development			24,161	24,161	4,865	29,026	
Real estate, construction	2,084	1,395	6,364	9,843	51,199	61,042	376
Real estate, mortgage	13,569	2,341	12,963	28,873	209,538	238,411	1,314
Commercial and industrial	1,536	166	388	2,090	31,860	33,950	142
Other	184	23	131	338	12,421	12,759	
Total	$ 17,373	$3,925	$44,007	$65,305	$ 367,102	$432,407	$1,832
December 31, 2010:							
Gaming	$	$	$ 2,808	$ 2,808	$ 41,535	$ 44,343	$
Residential and land development	2,282		2,317	4,599	25,465	30,064	
Real estate, construction	8,042	4,433	10,431	22,906	38,077	60,983	1,991
Real estate, mortgage	18,480	4,640	5,140	28,260	194,317	222,577	955
Commercial and industrial	1,558	98	41	1,697	34,767	36,464	14
Other	274	34	1	309	15,159	15,468	1
Total	$30,636	$9,205	$20,738	$60,579	$349,320	$409,899	$2,961

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 - F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. Loans with a grade of C may be placed on the watch list if weaknesses are not resolved which could result in potential loss or for other circumstances that require monitoring. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2012, 2011 and 2010 is as follows (in thousands):

	Loans With A Grade Of:					
December 31, 2012:	A or B	C	D	E	F	Total
Gaming	$ 27,530	$ 12,300	$ 4,108	$ 16,249	$	$ 60,187
Residential and land development	4,630	1,544	81	21,083		27,338
Real estate, construction	43,318	1,001	2,701	5,566		52,586
Real estate, mortgage	209,479	3,093	21,167	12,681		246,420
Commercial and industrial	32,036	442	2,312	214		35,004
Other	9,449	27	72			9,548
Total	$ 326,442	$ 18,407	$ 30,441	$ 55,793	$	$ 431,083
December 31, 2011:						
Gaming	$ 41,817	$	$	$ 15,402	$	$ 57,219
Residential and land development	4,865		51	24,110		29,026
Real estate, construction	50,798	357	3,695	6,192		61,042
Real estate, mortgage	197,509	2,862	25,870	12,170		238,411
Commercial and industrial	23,972	6,551	3,077	350		33,950
Other	12,268	40	384	67		12,759
Total	$ 331,229	$ 9,810	$ 33,077	$ 58,291	$	$ 432,407
December 31, 2010:						
Gaming	$ 27,397	$	$ 6,413	$ 10,533	$	$ 44,343
Residential and land development	25,666	864	3,102	432		30,064
Real estate, construction	52,417	315	7,716	535		60,983
Real estate, mortgage	184,963	8,248	25,669	3,697		222,577
Commercial and industrial	33,703	289	2,323	149		36,464
Other	15,232	40	196			15,468
Total	$ 339,378	$ 9,756	$ 45,419	$ 15,346	$	$ 409,899

Total loans on nonaccrual as of December 31, 2012, 2011 and 2010 are as follows (in thousands):

December 31,	2012	2011	2010
Gaming	$ 16,249	$ 15,402	$ 10,222
Residential and land development	21,083	24,110	632
Real estate, construction	5,171	6,042	387
Real estate, mortgage	11,174	11,662	3,268
Commercial and Industrial	214	246	27
Other		131	1
Total	$ 53,891	$ 57,593	$ 14,537

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of December 31, 2012, 2011 and 2010, were as follows (in thousands except for number of contracts):

	Numbers of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
December 31, 2012:				
Real estate, construction	3	$ 1,095	$ 1,095	$ 340
Real estate, mortgage	3	9,054	9,054	957
Commercial and industrial	1	702	702	
Total	7	$10,851	$10,851	$1,297
December 31, 2011:				
Real estate, construction	3	$ 1,075	$ 1,075	$ 112
Real estate, mortgage	5	9,916	9,916	809
Commercial and industrial	1	706	706	
Total	9	$11,697	$11,697	$ 921
December 31, 2010:				
Real estate, construction	1	$ 186	$ 186	$ 116
Real estate, mortgage	1	516	516	110
Total	2	$ 702	$ 702	$ 226

During 2012, four loans which had been classified as troubled debt restructurings at December 31, 2011 became in default of their modified terms and were placed on nonaccrual. These loans included two loans that were included in the real estate – construction segment with a total balance of $891,986 and two loans that were included in the real estate – mortgage segment with a total balance of $1,018,076 as of December 31, 2011.

Impaired loans, segregated by class of loans, as of December 31, 2012, 2011 and 2010 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
December 31, 2012:				
With no related allowance recorded:				
Gaming	$ 14,528	$ 14,528	$	$ 14,869
Residential and land development	21,837	20,733		21,288
Real estate, construction	4,635	4,580		3,833
Real estate, mortgage	9,971	9,935		9,821
Commercial and industrial	892	892		791
Total	51,863	50,668		50,602
With a related allowance recorded:				
Gaming	1,721	1,721	1,100	
Residential and land development	350	350	70	350
Real estate, construction	1,694	1,686	663	1,314
Real estate, mortgage	10,893	10,293	1,229	10,199
Commercial and industrial	24	24	12	
Total	14,682	14,074	3,074	11,863
Total by class of loans:				
Gaming	16,249	16,249	1,100	14,869
Residential and land development	22,187	21,083	70	21,638
Real estate, construction	6,329	6,266	663	5,147
Real estate, mortgage	20,864	20,228	1,229	20,020
Commercial and industrial	916	916	12	791
Total	$66,545	$64,742	$3,074	$62,465
December 31, 2011:				
With no related allowance recorded:				
Gaming	$ 15,402	$ 15,402	$	$ 12,488
Residential and land development	24,941	21,746		7,382
Real estate, construction	4,743	4,711		297
Real estate, mortgage	9,965	9,957		1,111
Commercial and industrial	864	864		413
Other	5	5		
Total	55,920	52,685		21,691
With a related allowance recorded:				
Residential and land development	2,364	2,364	900	
Real estate, construction	2,406	2,406	720	185
Real estate, mortgage	12,552	11,621	1,314	5,971
Commercial and industrial	88	88	77	
Other	126	126	17	31
Total	17,536	16,605	3,028	6,187
Total by class of loans:				
Gaming	15,402	15,402		12,488
Residential and land development	27,305	24,110	900	7,382
Real estate, construction	7,149	7,117	720	482
Real estate, mortgage	22,517	21,578	1,314	7,082
Commercial and industrial	952	952	77	413
Other	131	131	17	31
Total	$73,456	$69,290	$3,028	$27,878
December 31, 2010:				
With no related allowance recorded:				
Real estate, mortgage	$ 1,891	$ 1,843	$	$ 1,116
Total	1,891	1,843		1,116
With a related allowance recorded:				
Gaming	10,533	10,222	107	9,363
Residential and land development	4,313	632	8	2,693
Real estate, construction	573	573	179	199
Real estate, mortgage	2,871	1,941	649	1,251
Commercial and industrial	27	27	1	8
Other	1	1	1	1
Total	18,318	13,396	945	13,515
Total by class of loans:				
Gaming	10,533	10,222	107	9,363
Residential and land development	4,313	632	8	2,693
Real estate, construction	573	573	179	199
Real estate, mortgage	4,762	3,784	649	2,367
Commercial and industrial	27	27	1	8
Other	1	1	1	1
Total	$20,209	$15,239	$ 945	$ 14,631

Interest income of $350,818, $211,188 and $2,060 was recognized on impaired loans for the years ended December 31, 2012, 2011 and 2010, respectively.

Transactions in the allowance for loan losses for the years ended December 31, 2012, 2011 and 2010 and the balances of loans, individually and collectively evaluated for impairment as of December 31, 2012, 2011 and 2010 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2012:							
Allowance for Loan Losses:							
Beginning Balance	$ 457	$ 1,081	$ 937	$ 4,800	$ 557	$ 304	$ 8,136
Charge-offs	(275)	(1,103)	(474)	(1,348)	(203)	(273)	(3,676)
Recoveries				7	41	85	133
Provision	1,359	222	504	1,814	198	167	4,264
Ending Balance	$ 1,541	$ 200	$ 967	$ 5,273	$ 593	$ 283	$ 8,857
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$ 1,100	$	$ 922	$ 1,758	$ 300	$ 35	$ 4,115
Ending balance: collectively evaluated for impairment	$ 441	$ 200	$ 45	$ 3,515	$ 293	$ 248	$ 4,742
Total Loans:							
Ending balance: individually evaluated for impairment	$ 20,357	$ 21,165	$ 8,267	$ 33,848	$ 2,525	$ 72	$ 86,234
Ending balance: collectively evaluated for impairment	$39,830	$ 6,173	$44,319	$212,572	$32,479	$ 9,476	$344,849
December 31, 2011:							
Allowance for Loan Losses:							
Beginning Balance	$ 465	$ 1,070	$ 1,020	$ 3,413	$ 480	$ 202	$ 6,650
Charge-offs			(276)	(1,126)	(95)	(175)	(1,672)
Recoveries	35		32	48	24	84	223
Provision	(43)	11	161	2,465	148	193	2,935
Ending Balance	$ 457	$ 1,081	$ 937	$ 4,800	$ 557	$ 304	$ 8,136
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$ 900	$ 853	$ 1,953	$ 349	$ 57	$ 4,112
Ending balance: collectively evaluated for impairment	$ 457	$ 181	$ 84	$ 2,847	$ 208	$ 247	$ 4,024
Total Loans:							
Ending balance: individually evaluated for impairment	$ 15,677	$ 24,110	$ 9,660	$ 37,988	$ 9,493	$ 3,013	$ 99,941
Ending balance: collectively evaluated for impairment	$ 41,542	$ 4,916	$51,382	$200,423	$24,457	$ 9,746	$332,466
December 31, 2010:							
Allowance for Loan Losses:							
Beginning Balance	$ 699	$ 1,198	$ 1,019	$ 3,549	$ 1,245	$ 118	$ 7,828
Charge-offs	(311)	(4,040)	(744)	(2,622)	(348)	(226)	(8,291)
Recoveries			61	84	14	109	268
Provision	77	3,912	684	2,402	(431)	201	6,845
Ending Balance	$ 465	$ 1,070	$ 1,020	$ 3,413	$ 480	$ 202	$ 6,650
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 301	$ 1,332	$ 201	$ 9	$ 1,843
Ending balance: collectively evaluated for impairment	$ 465	$ 1,070	$ 719	$ 2,081	$ 279	$ 193	$ 4,807
Total Loans:							
Ending balance: individually evaluated for impairment	$ 10,222	$ 632	$ 1,140	$ 7,337	$ 404	$ 12	$ 19,747
Ending balance: collectively evaluated for impairment	$ 34,121	$29,432	$59,843	$215,240	$36,060	$ 15,456	$ 390,152

NOTE D – BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2012	2011	2010
Land		$ 5,985	$ 5,985	$ 5,985
Building	5 — 40 years	30,504	30,494	30,359
Furniture, fixtures and equipment	3 — 10 years	14,487	14,377	14,037
Totals, at cost		50,976	50,856	50,381
Less: Accumulated depreciation		24,754	22,821	20,625
Totals		$ 26,222	$ 28,035	$ 29,756

NOTE E — OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2012, 2011 and 2010, respectively (in thousands):

December 31,	2012		2011		2010	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	11	$ 2,834	8	$ 1,544	11	$ 1,744
1-4 family residential properties	6	576	8	821	9	778
Non farm non residential	14	3,573	16	3,788	4	3,222
Other	1	25				
Total	32	$ 7,008	32	$ 6,153	24	$ 5,744

NOTE F — DEPOSITS:

At December 31, 2012, the scheduled maturities of time deposits (in thousands) are as follows:

2013	$ 116,295
2014	8,166
2015	4,581
2016	7,000
2017	4,667
Total	$ 140,709

Time deposits of $100,000 or more at December 31, 2012 included brokered deposits of $28,612,000, of which $23,612,000 matures in 2013 and the remaining balance matures in 2017.

Deposits held for related parties amounted to $8,720,550, $7,499,805 and $9,448,582 at December 31, 2012, 2011 and 2010, respectively.

Overdrafts totaling $1,435,922, $679,220 and $3,027,718 were reclassified as loans at December 31, 2012, 2011 and 2010, respectively.

NOTE G — FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

At December 31, 2012, the Company had facilities in place to purchase federal funds up to $48,500,000 under established credit arrangements. At December 31, 2012, 2011 and 2010, federal funds purchased and securities sold under agreements to repurchase included funds invested by customers in a non-deposit product of the bank subsidiary of $194,233,923, $157,600,967 and $124,802,000, respectively. These accounts are non-insured, non-deposit accounts which allow customers to earn interest on their account with no restrictions as to the number of transactions. They are set up as sweep accounts with no check-writing capabilities and require the customer to have at least one operating deposit account.

NOTE H — BORROWINGS:

At December 31, 2012, the Company was able to borrow up to $46,388,902 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day. There was no outstanding balance at December 31, 2012.

At December 31, 2012, the Company had $7,911,931 outstanding in advances under a $114,643,824 line of credit with the FHLB. One advance in the amount of $5,000,000 bears interest at a variable rate of 43.2 basis points above the 1 month LIBOR rate, which was .643% at December 31, 2012, and matures in 2017. The remaining balance consists of smaller advances bearing interest from 3.04% to 7.00% with maturity dates from 2015 — 2042. The advances are collateralized by a blanket floating lien on a substantial portion of the Company's real estate loans.

NOTE I — NOTES PAYABLE:

The Company had a $2,500,000 unsecured line of credit with Mississippi National Bankers Bank. The line bore interest at Wall Street Journal Prime with a floor of 4.00% and required interest only payments quarterly with all principal and accrued interest due at maturity, which was March 11, 2010. There was no outstanding balance on this line at December 31, 2012.

NOTE J – INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2012, 2011 and 2010, included in other assets or other liabilities, were as follows (in thousands):

December 31,	2012	2011	2010
Deferred tax assets:			
Allowance for loan losses	$ 3,011	$ 2,777	$ 2,261
Employee benefit plans' liabilities	4,135	3,846	3,368
Unrealized loss on available for sale securities, charged from equity			934
Earned retiree health benefits plan liability	1,673	1,673	1,454
Unearned retiree health benefits plan liability			364
Other	1,170	781	423
Deferred tax assets	9,989	9,077	8,804
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity	1,556	1,580	
Unearned retiree health benefits plan asset	948	1,086	
Bank premises and equipment	5,366	5,720	6,071
Other	92	343	370
Deferred tax liabilities	7,962	8,729	6,441
Net deferred taxes	$ 2,027	$ 348	$ 2,363

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

Years Ended December 31,	2012	2011	2010
Current	$ 1,425	$ 721	$ (119)
Deferred	(1,517)	(1,925)	(604)
Totals	$ (92)	$ (1,204)	$ (723)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2012, 2011 and 2010 to earnings before income taxes. The reason for these differences is shown below (in thousands):

	2012		2011		2010	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ 867	34.0	$ (1)	34.0	$ 259	34.0
Increase (decrease) resulting from:						
Tax-exempt interest income	(532)	(21.0)	(557)		(428)	(56.2)
Income from BOLI	(195)	(8.0)	(170)		(181)	(23.8)
Federal tax credits	(372)	(15.0)	(366)		(366)	(48.1)
Death benefits on life insurance			(159)			
Other	140	6.0	49		(7)	(0.9)
Total income tax benefit	$ (92)	(4.0)	$ (1,204)		$ (723)	(95.0)

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. Based on its evaluation of these tax positions for its open tax years, the Company believes that it is more likely than not we will realize the net deferred tax asset and it has not recorded any tax liability for uncertain tax positions as of December 31, 2012, 2011 and 2010.

NOTE K – 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, 2012, approximately $25,922,941 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank ("FRB").

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 34,024 shares have been repurchased and retired through December 31, 2012.

On December 18, 2012, the Company's Board of Directors approved a semi-annual dividend of $.10 per share. This dividend has a record date of December 28, 2012 and a distribution date of December 31, 2012.

The bank subsidiary is 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 bank subsidiary's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the bank subsidiary must meet specific capital guidelines that involve quantitative measures of the bank subsidiary's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The bank subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the bank subsidiary to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets.

As of December 31, 2012, 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 Tier 1 risk-based capital ratio of 6.00% or greater and a Leverage capital ratio of 5.00% or greater. There are no conditions or events since that notification that Management believes have changed the bank subsidiary's category.

The Company's actual capital amounts and ratios and required minimum capital amounts and ratios for 2012, 2011 and 2010, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2012:				
Total Capital (to Risk Weighted Assets)	$ 112,342	21.29%	$ 42,216	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,728	20.04%	21,108	4.00%
Tier 1 Capital (to Average Assets)	105,728	13.07%	32,361	4.00%
December 31, 2011:				
Total Capital (to Risk Weighted Assets)	$ 110,762	20.86%	$42,475	8.00%
Tier 1 Capital (to Risk Weighted Assets)	104,116	19.61%	21,238	4.00%
Tier 1 Capital (to Average Assets)	104,116	12.84%	32,436	4.00%
December 31, 2010:				
Total Capital (to Risk Weighted Assets)	$ 110,435	22.26%	$ 39,691	8.00%
Tier 1 Capital (to Risk Weighted Assets)	104,233	21.01%	19,846	4.00%
Tier 1 Capital (to Average Assets)	104,233	12.40%	33,616	4.00%

The bank subsidiary's actual capital amounts and ratios and required minimum capital amounts and ratios and capital amounts and ratios to be well capitalized for 2012, 2011 and 2010, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012:						
Total Capital (to Risk Weighted Assets)	$ 107,885	20.47%	$ 42,148	8.00%	$52,685	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,241	19.22%	21,074	4.00%	31,611	6.00%
Tier 1 Capital (to Average Assets)	101,241	12.62%	32,086	4.00%	40,108	5.00%
December 31, 2011:						
Total Capital (to Risk Weighted Assets)	$ 108,149	20.40%	$ 42,413	8.00%	$ 53,014	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,503	19.15%	21,207	4.00%	31,809	6.00%
Tier 1 Capital (to Average Assets)	101,503	12.56%	32,332	4.00%	40,407	5.00%
December 31, 2010:						
Total Capital (to Risk Weighted Assets)	$ 105,255	21.41%	$39,320	8.00%	$ 49,162	10.00%
Tier 1 Capital (to Risk Weighted Assets)	99,111	20.16%	19,660	4.00%	29,497	6.00%
Tier 1 Capital (to Average Assets)	99,111	11.86%	33,431	4.00%	41,784	5.00%

NOTE L - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2012	2011	2010
Other service charges, commissions and fees	$ 83	$ 78	$ 84
Rentals	442	392	400
Other	142	45	61
Totals	$ 667	$ 515	$ 545

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2012	2011	2010
Advertising	$ 489	$ 506	$ 580
Data processing	1,434	858	567
FDIC and state banking assessments	503	1,688	1,510
Legal and accounting	511	600	839
Other real estate	648	1,350	411
ATM expense	2,033	1,973	2,024
Trust expense	314	331	298
Other	1,813	1,709	1,738
Totals	$7,745	$ 9,015	$7,967

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

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

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

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

At December 31, 2012, 2011 and 2010, the Company had outstanding irrevocable letters of credit aggregating $3,599,011, $3,094,258 and $4,564,004, respectively. At December 31, 2012, 2011 and 2010, the Company had outstanding unused loan commitments aggregating $80,741,699, $76,421,050 and $110,667,857, respectively. Approximately $46,956,000, $42,051,000 and $71,244,000 of outstanding commitments were at fixed rates and the remainder were at variable rates at December 31, 2012, 2011 and 2010, respectively.

NOTE N - 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 is expected, in the opinion of Management, to have a material adverse effect upon the financial position or results of operations of the Company.

NOTE O – 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,	2012	2011	2010
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 106,266	$ 104,731	$ 96,386
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	360	808	957
Other assets	4,288	4,588	4,637
Total assets	$ 110,915	$ 110,128	$ 101,981
Liabilities and Shareholders' Equity:			
Other liabilities	$ 161	$ 676	$ 624
Total liabilities	161	676	624
Shareholders' equity	110,754	109,452	101,357
Total liabilities and shareholders' equity	$ 110,915	$ 110,128	$ 101,981

CONDENSED STATEMENTS OF INCOME (IN THOUSANDS):

Years Ended December 31,	2012	2011	2010
Income			
Earnings of unconsolidated bank subsidiary:			
Distributed earnings	$ 1,150	$ 898	$ 1,000
Undistributed earnings	1,845	285	599
Impairment loss on other investments	(360)		
Other income	(71)	110	(96)
Total income	2,564	1,293	1,503
Expenses			
Other	105	95	71
Total expenses	105	95	71
Income before income taxes	2,459	1,198	1,432
Income tax benefit	(182)	(5)	(53)
Net income	$ 2,641	$ 1,203	$ 1,485

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 2,641	$ 1,203	$ 1,485
Adjustments to reconcile net income to			
net cash provided by operating activities:			
(Income) loss on other investments	84	(97)	110
Impairment loss on other investments	360		
Undistributed income of unconsolidated subsidiaries	(1,845)	(285)	(599)
Other assets	(182)	54	(53)
Other liabilities	(1)		
Net cash provided by operating activities	1,057	875	943
Cash flows from investing activities:			
Redemption of equity securities	36	93	
Net cash provided by investing activities	36	93	
Cash flows from financing activities:			
Retirement of stock		(193)	(7)
Dividends paid	(1,541)	(924)	(1,082)
Net cash used in financing activities	(1,541)	(1,117)	(1,089)
Net decrease in cash	(448)	(149)	(146)
Cash, beginning of year	808	957	1,103
Cash, end of year	$ 360	$ 808	$ 957

The Company paid income taxes of $835,000, $755,000 and $2,232,000 in 2012, 2011 and 2010, respectively. No interest was paid during the three years ended December 31, 2012.

NOTE P - EMPLOYEE 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 capital stock. Total contributions to the plans charged to operating expense were $330,000, $270,000 and $380,000 in 2012, 2011 and 2010, respectively.

Compensation expense of $7,691,059, $8,426,829 and $8,548,297 was the basis for determining the ESOP contribution allocation to participants for 2012, 2011 and 2010, respectively. The ESOP held 383,141, 429,158 and 441,316 allocated shares at December 31, 2012, 2011 and 2010, respectively.

The Company established an Executive Supplemental Income Plan and a Directors' Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors' Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors' fees until age sixty-five. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director's normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. Interest on deferred fees accrues at an annual rate of ten percent, compounded annually. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $15,363,241, $14,833,939 and $14,667,545 at December 31, 2012, 2011 and 2010, respectively. The present value of accumulated benefits under these plans, using an interest rate of 5.25% in 2012 and 2011 and 6.00% in 2010, and the interest ramp-up method in 2012, 2011 and 2010, has been accrued. The accrual amounted to $10,572,681, $9,764,957 and $8,723,365 at December 31, 2012, 2011 and 2010, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for non-vested post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $1,105,741, $997,133 and $890,086 at December 31, 2012, 2011 and 2010, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.25% in 2012 and 2011 and 6.00% in 2010, and the projected unit cost method has been accrued. The accrual amounted to $1,328,657, $1,314,727, and $936,566 at December 31, 2012, 2011 and 2010, 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 $262,466, $255,166 and $248,087 at December 31, 2012, 2011 and 2010, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.25% in 2012 and 6.00% in 2011 and 2010, and the projected unit cost method has been accrued. The accrual amounted to $68,253, $78,142 and $73,602 at December 31, 2012, 2011 and 2010, respectively, and is included in Employee and director benefit plans liabilities.

The Company has additional plans for non-vested 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 $129,367, $118,787 and $139,703 at December 31, 2012, 2011 and 2010, respectively. The present value of accumulated benefits under these plans using an interest rate of 5.25% in 2012 and 2011 and 6.00% in 2010, and the projected unit cost method has been accrued. The accrual amounted to $192,528, $152,781 and $172,199 at December 31, 2012, 2011 and 2010, respectively, and is included in Other Liabilities.

The Company provides post-retirement health insurance to certain of its retired employees. Employees are eligible to participate in the retiree health plan if they retire from active service no earlier than their Social Security normal retirement age, which varies from 65 to 67 based on the year of birth. In addition, the employee must have at least 25 continuous years of service with the Company immediately preceding retirement. However, any active employee who was at least age 65 as of January 1, 1995, does not have to meet the 25 years of service requirement. The accumulated post-retirement benefit obligation at January 1, 1995, was $517,599, which the Company elected to amortize over 20 years. The Company reserves the right to modify, reduce or eliminate these health benefits. The Company has chosen to not offer this post-retirement benefit to individuals entering the employ of the Company after December 31, 2006. In 2011, the Company offered a voluntary early retirement program to employees who, as of December 31, 2011, were between the ages of 55 and 64 and had at least 25 continuous years of service. Eight employees accepted the package, which resulted in special termination benefits for the retiree health plan of $459,064 for 2011. Effective January 1, 2012, the Company amended the retiree health plan. The amendment requires that employees who are eligible and enroll in the bank subsidiary's group medical and dental health care plans upon their retirement must enroll in Medicare Parts A, B and D when first eligible upon their retirement from the bank subsidiary. This results in the bank subsidiary's programs being secondary insurance coverage for retired employees and any dependent(s), if applicable, while Medicare Part 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 amendment reduced the accumulated post-retirement benefit obligation by $3,799,308 as of December 31, 2011.

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

Years Ended December 31,	2012	2011	2010
Service cost	$ 45,334	$ 292,942	$ 328,506
Interest cost	72,164	222,440	276,293
Amortization of net gain	(16,006)	(46,167)	
Amortization of net transition obligation		20,600	20,600
Amortization of prior service cost (credit)	(203,619)	83,409	83,409
Special termination benefit		459,064	
Net periodic post-retirement benefit cost (credit)	$ (102,127)	$ 1,032,288	$ 708,808

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.00% in 2012, 4.50% in 2011 and 5.60% in 2010. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.50% in 2012. The rate was assumed to decrease gradually to 5.00% for 2022 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2012, would be increased by 14.70 %, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have increased by 20.67%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2012, would be decreased by 11.75%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 15.80%.

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

2013	$143,000
2014	150,000
2015	149,000
2016	125,000
2017	110,000
2018 — 2022	310,000

The following is a reconciliation of the accumulated post-retirement benefit obligation, which is included in Other Liabilities:

Accumulated post-retirement benefit obligation as of December 31, 2011	$ 1,671,211
Service cost	45,334
Interest cost	72,164
Actuarial loss	184,604
Benefits paid	(66,971)
Accumulated post-retirement benefit obligation as of December 31, 2012	$ 1,906,342

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

	2012	2011	2010
Fair value of plan assets at beginning of year	$	$	$
Actual return on assets			
Employer contribution	66,971	75,666	67,486
Benefits paid, net	(66,971)	(75,666)	(67,486)
Fair value of plan assets at end of year	$	$	$

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

For the year ended December 31,	2012	2011	2010
Net gain (loss)	$ 123,471	$ 255,873	$ (348,127)
Transition obligation			(54,382)
Prior service charge (cost)	1,717,482	1,851,871	(669,936)
Total accumulated other comprehensive income (loss)	$1,840,953	$2,107,744	$(1,072,445)

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

For the year ended December 31,	2012
Unrecognized actuarial loss	$ 200,610
Amortization of prior service cost	203,619
Total accumulated other comprehensive loss	$ 404,229

The prior service credit for the other postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2013 is $203,619.

NOTE Q – FAIR VALUE MEASUREMENTS AND DISCLOSURES:

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

Fair Value Hierarchy

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2 - Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 — Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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

Cash and Due from Banks

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

Available for Sale Securities

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

Held to Maturity Securities

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

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

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

Loans

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the remaining maturities. The cash flows considered in computing the fair value of such loans are segmented into categories relating to the nature of the contract and collateral based on contractual principal maturities. Appropriate adjustments are made to reflect probable credit losses. Cash flows have not been adjusted for such factors as prepayment risk or the effect of the maturity of balloon notes. The fair value of floating rate loans is estimated to be its carrying value. At each reporting period, the Company determines which loans are impaired. Accordingly, the Company's impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as a non-recurring Level 2 asset. When an appraised value is not available or Management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as a non-recurring Level 3 asset.

Other Real Estate

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

Cash Surrender Value of Life Insurance

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

Deposits

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

Federal Funds Purchased and Securities Sold under Agreements to Repurchase

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

Borrowings from Federal Home Loan Bank

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

Commitments to Extend Credit and Standby Letters of Credit

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

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of December 31, 2012, 2011 and 2010, were as follows (in thousands):

		Fair Value Measurements Using		
December 31, 2012	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 54,096	$	$ 54,096	$
U.S. Government agencies	149,098		149,098	
Mortgage-backed securities	17,441		17,441	
States and political subdivisions	37,591		37,591	
Equity securities	650		650	
Total	$ 258,876	$	$ 258,876	$

		Fair Value Measurements Using		
December 31, 2011	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 54,010	$	$ 54,010	$
U.S. Government agencies	179,180		179,180	
Mortgage-backed securities	5,001		5,001	
States and political subdivisions	40,077		40,077	
Equity securities	650		650	
Total	$ 278,918	$	$ 278,918	$

		Fair Value Measurements Using		
December 31, 2010	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 26,509	$	$ 26,509	$
U.S. Government agencies	218,596		218,596	
States and political subdivisions	41,323		41,323	
Equity securities	650		650	
Total	$ 287,078	$	$ 287,078	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2012, 2011 and 2010 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2012	$ 46,248	$	$	$ 46,248
2011	49,991			49,991
2010	14,295			14,295

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

For the year ended December 31,	2012	2011	2010
Balance, beginning of year	$ 49,991	$ 14,295	$ 20,110
Additions to impaired loans and troubled debt restructurings	4,409	44,894	5,519
Principal payments, charge-offs and transfers to other real estate	(8,106)	(7,115)	(12,286)
Change in allowance for loan losses on impaired loans	(46)	(2,083)	952
Balance, end of year	$ 46,248	$ 49,991	$ 14,295

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, 2012, 2011 and 2010 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2012	$ 7,008	$	$	$ 7,008
2011	6,153			6,153
2010	5,744			5,744

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):

	2012	2011	2010
Balance, beginning of year	$ 6,153	$ 5,744	$ 1,521
Loans transferred to ORE	2,576	3,221	5,715
Sales	(1,568)	(2,101)	(1,415)
Writedowns	(153)	(711)	(77)
Balance, end of year	$ 7,008	$ 6,153	$ 5,744

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at December 31, 2012, 2011 and 2010, are as follows (in thousands):

		Fair Value Measurements Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
December 31,2012:					
Financial Assets:					
Cash and due from banks	$ 54,020	$ 54,020	$	$	$ 54,020
Available for sale securities	258,876		258,876		258,876
Held to maturity securities	7,125		7,225		7,225
Other Investments	3,450	3,450			3,450
Federal Home Loan Bank stock	2,380		2,380		2,380
Loans, net	422,226			425,627	425,627
Other real estate	7,008			7,008	7,008
Cash surrender value of life insurance	16,861			16,861	16,861
Financial Liabilities:					
Deposits:					
Non-interest bearing	102,609	102,609			102,609
Interest bearing	373,110			376,209	376,209
Federal funds purchased and securities sold under agreements to repurchase	194,234	194,234			194,234
Borrowings from Federal Home Loan Bank	7,911		10,271		10,271
December 31,2011:					
Financial Assets:					
Cash and due from banks	$ 36,929	$ 36,929	$	$	$ 36,929
Available for sale securities	278,918		278,918		278,918
Held to maturity securities	1,429		1,492		1,492
Other Investments	3,930	3,930			3,930
Federal Home Loan Bank stock	2,581		2,581		2,581
Loans, net	424,272			427,881	427,881
Other real estate	6,153			6,153	6,153
Cash surrender value of life insurance	16,196			16,196	16,196
Financial Liabilities:					
Deposits:					
Non-interest bearing	97,581	97,581			97,581
Interest bearing	370,858			372,019	372,019
Federal funds purchased and securities sold under agreements to repurchase	157,601	157,601			157,601
Borrowings from Federal Home Loan Bank	53,324		55,014		55,014
December 31,2010:					
Financial Assets:					
Cash and due from banks	$ 24,147	$ 24,147	$	$	$ 24,147
Available for sale securities	287,078		287,078		287,078
Held to maturity securities	1,915		2,010		2,010
Other Investments	3,926	3,926			3,926
Federal Home Loan Bank stock	2,281		2,281		2,281
Loans, net	403,248			407,363	407,363
Other real estate	5,744			5,744	5,744
Cash surrender value of life insurance	15,951			15,951	15,951
Financial Liabilities:					
Deposits:					
Non-interest bearing	108,278	108,278			108,278
Interest bearing	375,862			376,715	376,715
Federal funds purchased and securities sold under agreements to repurchase	140,102	140,102			140,102
Borrowings from Federal Home Loan Bank	42,957		43,990		43,990

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the "Company") as of December 31, 2012, 2011 and 2010, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2012, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Porter Keadle Moore, LLC

Atlanta, Georgia
March 18, 2013

FIVE-YEAR COMPARATIVE SUMMARY OF SELECTED FINANCIAL INFORMATION (IN THOUSANDS EXCEPT PER SHARE DATA):

Peoples Financial Corporation and Subsidiaries

	2012	2011	2010	2009	2008
Balance Sheet Summary					
Total assets	$ 804,912	$ 804,152	$ 786,545	$ 869,007	$ 896,408
Available for sale securities	258,875	278,918	287,078	311,434	340,642
Held to maturity securities	7,125	1,428	1,915	3,202	3,394
Loans, net of unearned discount	431,083	432,407	409,899	464,976	467,377
Deposits	475,719	468,439	484,140	470,701	510,476
Borrowings from FHLB	7,912	53,324	42,957	104,270	36,938
Shareholders' equity	110,754	109,452	101,357	103,588	107,000
Summary of Operations					
Interest income	$ 24,628	$ 25,033	$ 29,675	$ 34,289	$ 43,573
Interest expense	2,067	3,178	4,601	7,401	14,963
Net interest income	22,561	21,855	25,074	26,888	28,610
Provision for loan losses	4,264	2,935	6,845	5,225	2,347
Net interest income after					
provision for loan losses	18,297	18,920	18,229	21,663	26,263
Non-interest income	9,529	9,860	10,114	10,147	7,268
Non-interest expense	25,277	28,781	27,581	27,636	26,520
Income before taxes	2,549	(1)	762	4,174	7,011
Applicable income taxes	(92)	(1,204)	(723)	954	1,977
Net income	$ 2,641	$ 1,203	$ 1,485	$ 3,220	$ 5,034
Per Share Data					
Basic and diluted earnings per share	$ .51	$ .23	$ .29	$ .62	$ .94
Dividends per share	.20	.19	.20	.50	.56
Book value	21.56	21.31	19.68	20.11	20.27
Weighted average number of shares	5,136,918	5,136,918	5,151,661	5,170,430	5,342,470
Selected Ratios					
Return on average assets	.32%	.15%	.18%	.36%	.55%
Return on average equity	2.40%	1.14%	1.45%	3.06%	4.73%
Primary capital to average assets	14.71%	14.59%	12.96%	12.49%	12.81%
Risk-based capital ratios:					
Tier 1	20.04%	19.61%	21.01%	17.83%	18.03%
Total	21.29%	20.86%	22.26%	19.08%	19.28%

Summary of Quarterly Results of Operations (In Thousands Except per Share Data):

Quarter Ended, 2012	March 31	June 30	September 30	December 31
Interest income	$ 6,193	$ 6,273	$ 6,081	$ 6,081
Net interest income	5,589	5,697	5,622	5,653
Provision for loan losses	540	1,290	541	1,893
Income (loss) before income taxes	415	505	800	829
Net income (loss)	505	562	750	824
Basic and diluted earnings per share	.10	.11	.14	.16

Quarter Ended, 2011	March 31	June 30	September 30	December 31
Interest income	$ 6,787	$ 6,553	$ 6,156	$ 5,537
Net interest income	5,862	5,687	5,432	4,874
Provision for loan losses	641	546	544	1,204
Income (loss) before income taxes	288	617	430	(1,336)
Net income (loss)	438	810	578	(623)
Basic and diluted earnings per share	.09	.16	.11	(.13)

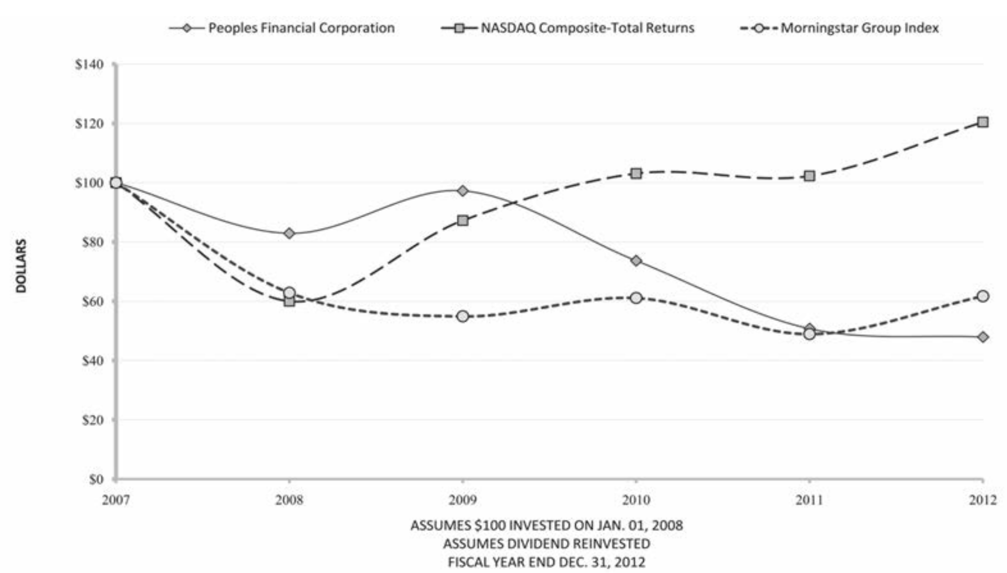
Market Information

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

Year	Quarter	High	Low	Dividend per share
2012	1st	$ 11.95	$ 9.39	$ .10
	2nd	9.98	8.61	
	3rd	11.79	8.16	.10
	4th	9.46	8.36	
2011	1st	$ 16.99	$ 13.50	$ .09
	2nd	16.50	12.74	
	3rd	14.10	10.20	.09
	4th	10.51	9.50	

Performance Graph

The graph below compares the Company's annual percentage change in cumulative total shareholder return on common shares over the last five years with the cumulative total return of a broad equity market index of companies, the NASDAQ Market Index, and a peer group consisting of the Morningstar Industry Group, Regional - Southeast Banks ("Morningstar"). This presentation assumes $100 was invested in shares of the relevant issuers on January 1, 2008, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial $100 investment at one year intervals. For purposes of constructing this data, the returns of each component issuer have been weighted according to that issuer's market capitalization.



CORPORATE INFORMATION

Corporate Office

Mailing Address

P. O. Box 529

Biloxi, MS 39533-0529

Physical Address

152 Lameuse Street

Biloxi, MS 39530

(228) 435-8205

Website

www.thepeoples.com

Corporate Stock

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

The current market makers are:

FIG Partners LLC

Hovde Capital Advisors

Knight Equity Markets, L.P.

RAYMOND JAMES Morgan Keegan

Stifel Nicolaus & Co.

Sterne, Agee & Leach, Inc.

Shareholder Information

For complete information concerning the common stock of Peoples Financial Corporation, including dividend reinvestment, or general information about the Company, direct inquiries to transfer agent/investor relations:

Asset Management & Trust Services Department

The Peoples Bank, Biloxi, Mississippi

P. O. Box 1416, Biloxi, Mississippi 39533-1416

(228) 435-8208, e-mail: investorrelations@thepeoples.com

Independent Registered Public Accounting Firm

Porter Keadle Moore, LLC

Atlanta, Georgia

S.E.C. Form 10-K Requests

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

Lauri A. Wood, Chief Financial Officer and Controller

Peoples Financial Corporation

P. O. Drawer 529, Biloxi, Mississippi 39533-0529

(228) 435-8412, e-mail: lwood@thepeoples.com

BRANCH LOCATIONS

The Peoples Bank, Biloxi, Mississippi

Biloxi Branches

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

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

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

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

Gulfport Branches

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

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

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

Other Branches

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

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

D'Iberville-St. Martin Office
10491 Lemoyne Boulevard, D'Iberville, Mississippi 39532
(228) 435-8202

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

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

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

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

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

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

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

BOARD OF DIRECTORS

Peoples Financial Corporation

Chevis C. Swetman, *Chairman of the Board*

Dan Magruder, *Vice Chairman; President, Rex Distributing Co., Inc.*

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

Rex E. Kelly, *Principal, Strategic Communications*

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

OFFICERS

Peoples Financial Corporation

Chevis C. Swetman, *President and CEO*

A. Wes Fulmer, *Executive Vice-President*

Thomas J. Sliman, *First Vice-President*

Ann F. Guice, *Second Vice-President*

J. Patrick Wild, *Vice-President and Secretary*

Evelyn R. Herrington, *Vice-President*

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

BOARD OF DIRECTORS

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *Chairman*

Tyrone J. Gollott, *Vice-Chairman; President, G & W Enterprises, Inc.*

A. Wynn Alexander, *President, Desoto Land and Timber and Desoto Treated Materials, Inc.*

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

A. Wes Fulmer, *Executive Vice-President*

Liz Corso Joachim, *President, Frank P. Corso, Inc.*

Rex E. Kelly, *Principal, Strategic Communications*

Dan Magruder, *President, Rex Distributing Co., Inc.*

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

SENIOR MANAGEMENT

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *President and CEO*

A. Wes Fulmer, *Executive Vice-President*

Thomas J. Sliman, *Senior Vice-President*

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

Ann F. Guice, *Senior Vice-President*

J. Patrick Wild, *Senior Vice-President*

Evelyn R. Herrington, *Senior Vice-President*