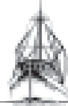


PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

2013 ANNUAL REPORT

TO OUR SHAREHOLDERS

Dear shareholders,

If 2012 was a year without drama, 2013 made up for it. While your bank's 2013 operating results remained steady, your board and senior management team made some extremely difficult decisions that ultimately generated a loss for the year.

During both second and fourth quarters of last year, our loan loss provision was dramatically increased—$3,538,000 and $5,042,000 respectively—to take decisive action on a few large credit problems on our books, most notably one out of area residential development loan.

The second quarter provision created a loss of $1,147,000 for that period. The fourth quarter provision, along with a number of other actions on outstanding loans, generated a loss of $883,000 for the period and a loss of $538,000 for the entire year.

As painful as these steps were, they were finally deemed necessary to purge our balance sheet of problem credits so we can move forward in building a more profitable loan portfolio. The net effect reduced our nonaccrual loans by 51% from the year before, which positions your bank for better growth in the future. As a matter of fact, no new significant additions were made to nonaccruing loans in either 2012 or 2013, further reflecting the improvement of the quality of our asset base.

By the end of 2013, our allowance for loan losses as a percentage of loans totaled 2.38%, compared to 2.05% the prior year, so we are better reserved now, after the large provision, than we were the year before. In fact, the loan loss provision in 2013 totaled more than the provisions of the previous two years combined.

Despite these difficult actions, our primary capital ratio at the end of 2013 totaled 13.64%, just slightly lower than the year before and more than twice the regulatory minimum. As I have said on all too many occasions over these last few years, your bank was built to withstand times like these.

Still, all the news was not bad. Net interest income increased 4.2% for the year and 28.8% in fourth quarter, compared to the same period the year before. Net interest margin increased 23 basis points year-to-year, from 3.11% in 2012 to 3.34% in 2013 as a result of $1,523,000 in interest income and fees from the sale of a gaming loan which had been on nonaccrual.

Our Trust Department's income increased significantly in 2013 from the year before, and ATM fees jumped by $218,000, mostly the result of improved performance at off-site ATMs.

Beyond the numbers, your bank enjoyed another active year. We opened our 17th branch, one that we have long desired, at Keesler Air Force Base. This branch services the thousands of military and civilian workers at one of our nation's largest bases, and we are proud to serve those who serve our country. Since its opening in mid-summer, the Keesler branch has consistently achieved and exceeded its initial business goals under the enthusiastic leadership of branch manager Toni Ganucheau.

We also launched a new ad campaign with a direct, hard-hitting message that this bank, founded on the Gulf Coast more than 100 years ago, will remain on the Gulf Coast, headquartered on the Gulf Coast and staffed with the best bankers on the Gulf Coast. That is not a promise, but a commitment to our community and to our heritage.

In that regard, I invite our customers, friends and neighbors to visit our Main Branch in Biloxi and view the restored gargoyle that was rescued after it was pitched off the roof of our old building back in 2005. Rebuilt by hand by the renowned local sculptor Mary Ott Davidson, the Peoples Bank gargoyle was unveiled on August 29, 2013, eight years to the day after its unfortunate fall. Like our bank, it stands resilient, battered but very vibrant to this day.

Finally, I ask you to join me in recognizing the achievements of your directors, senior managers and the entire team of bankers at The Peoples Bank. They continue to form the foundation of our strength and a source of inspiration to their CEO.

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, 2013, 2012 and 2011. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

FORWARD-LOOKING INFORMATION

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

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") has issued new accounting standards updates, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not expect that these updates will have a material impact on its financial position, or results of operations. The adoption of Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* did result in additional disclosures.

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 non-interest expense.

Employee Benefit Plans:

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

Income Taxes:

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

The Company recorded a net loss of $538,000 for 2013 compared with net income of $2,641,000 for 2012. This significant decrease is primarily attributable to the provision for the allowance for loan losses, which was $9,661,000 in 2013 as compared with $4,264,000 in 2012. Current year results also included an increase in net interest income and non-interest expense and a decrease in non-interest income as compared with 2012 results.

Managing the net interest margin in the Company's highly competitive market and in context of larger economic conditions has been very challenging and will continue to be so for the foreseeable future. Interest income increased $328,000 in 2013 as compared with 2012. Although loans decreased significantly during 2013, the Company recognized interest income and fees of $1,523,000 from the sale of a gaming loan which had been on nonaccrual. Increases or decreases in interest income on other interest-earning assets are generally attributable to changes in balances during 2013. The increase in yield on taxable available for sale securities resulted from extending maturities on these investments. Interest expense decreased $620,000 in 2013 as compared with 2012 primarily due to the maturity of brokered certificates of deposit and a reduction in average borrowings from the Federal Home Loan Bank ("FHLB") during 2013 and a reduction in the cost of funds for the Company's savings and interest-bearing DDA deposits and federal funds purchased and securities sold under agreements to repurchase.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans 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. The Company's nonaccrual loans totaled $26,171,000 and $53,891,000 at December 31, 2013 and 2012, respectively. This significant reduction primarily results from the sale of a gaming loan with a balance of $10,786,000 and a partial charge-off totaling $7,500,000 on a single residential development loan that had a balance of $15,277,000. Additionally, there have not been any significant new loans placed on nonaccrual status during 2012 and 2013. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses. The Company is working diligently to reduce past due and nonaccrual loans. As part of resolving problem loans, foreclosures have increased in 2013 with Other Real Estate totaling $9,630,000 at December 31, 2013.

Non-interest income decreased $462,000 for 2013 as compared with 2012 results. The decrease was primarily the result of decreased gains on sales and calls of securities in 2013 as compared with 2012. During 2013, the Company increased per transaction and account fees, which resulted in an increase in service charges on deposit accounts.

Non-interest expense increased $377,000 for 2013 as compared with 2012 results. Increases in FDIC assessments, other real estate expense and ATM expense were larger than decreases in salaries and employee benefits, depreciation, and data processing costs in 2013 as compared with 2012.

Total assets at December 31, 2013 decreased $42,648,000 as compared with December 31, 2012. Available for sale securities increased $16,564,000 at December 31, 2013 as compared with December 31, 2012, with funds available from the net decrease in loans of $55,734,000. Total deposits decreased $47,161,000 at December 31, 2013 as compared with December 31, 2012. During 2013, brokered deposits, which are reported as time deposits of $100,000 or more, of $23,612,000 matured. Federal funds purchased and securities sold under agreements to repurchase decreased $54,595,000 as customers reallocated their funds from a non-deposit account. Borrowings from the FHLB increased at December 31, 2013 as compared with December 31, 2012, as a result of 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.

2013 as compared with 2012

The Company's average interest-earning assets decreased approximately $21,292,000, or 3%, from approximately $749,015,000 for 2012 to approximately $727,723,000 for 2013. The Company's average balance sheet decreased primarily as decreased pledging requirements allowed for reduced investment in securities, the fair value of available for sale securities decreased and principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. The average yield on interest-earning assets increased 15 basis points, from 3.39% for 2012 to 3.54% for 2013, with the biggest impact being to the yield on loans. During 2013, the Company sold a gaming loan which had been on nonaccrual and recognized approximately $1,523,000 in interest and fees which increased the yield on loans to 4.67%. Without this transaction, the yield on loans would have been 4.29%. Recent investment strategy includes extending durations to improve yield on these assets, while planning for rising rates in the future.

Average interest-bearing liabilities decreased approximately $25,008,000, or 4%, from approximately $603,929,000 for 2012 to approximately $578,921,000 for 2013. During 2013, brokered deposits, which are reported as time deposits, of $23,612,000 matured. Borrowings from the FHLB fluctuate based on the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 9 basis points, from .34% for 2012 to .25% for 2013. 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 2013. 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 3.34% at December 31, 2013, up 23 basis points from 3.11% at December 31, 2012. Without the additional interest income and fees from the sale of the gaming loan, the net interest margin for 2013 would have been 3.13%

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 interest-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 had 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 purchased securities with maturities of up to fifteen years, with call provisions, to improve its yield on these assets. The yield on loans 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 FHLB, 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, decreased in 2012. The unprecedented low rate environment which exists on a national and local level caused customers to tolerate lower interest rates in return for less risk.

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% at December 31, 2012, down 2 basis points from 3.13% at December 31, 2011.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2013 and 2012 and the years ended December 31, 2012 and 2011.

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

	2013			2012		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1) (2) (3)	$ 405,463	$ 18,927	4.67%	$ 430,205	$ 18,576	4.32%
Federal funds sold	26,306	69	0.26	6,601	16	0.24
Held to maturity:						
Non taxable (4)	9,936	363	3.65	4,698	189	4.02
Available for sale:						
Taxable	247,097	4,407	1.78	264,248	4,527	1.71
Non taxable (4)	36,605	1,946	5.32	39,407	2,073	5.26
Other	2,316	29	1.25	3,856	15	0.39
Total	$ 727,723	$ 25,741	3.54%	$ 749,015	$ 25,396	3.39%
Savings and interest-bearing DDA	$ 246,728	$ 179	0.07%	$ 230,829	$ 410	0.18%
Time deposits	123,198	919	0.75	149,560	1,090	0.73
Federal funds purchased and securities sold under agreements to repurchase	181,702	158	0.09	169,352	335	0.20
Borrowings from FHLB	27,293	191	0.70	54,188	233	0.43
Total	$ 578,921	$ 1,447	0.25%	$ 603,929	$ 2,068	0.34%
Net tax-equivalent spread			3.29%			3.05%
Net tax-equivalent margin on earning assets			3.34%			3.11%

	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 (4)	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 (4)	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%
Time deposits	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 tax-equivalent spread			3.05%			3.03%
Net tax-equivalent margin on earning assets			3.11%			3.13%

(1) 2013 includes interest and fees of $1,523 recognized from sale of a nonaccrual loan during the fourth quarter.
(2) Loan fees of $911, $797 and $647 for 2013, 2012 and 2011, respectively, are included in these figures.
(3) Includes nonaccrual loans.
(4) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2013, 2012 and 2011.

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

	For the year ended December 31, 2013 compared with December 31, 2012			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,068)	$ 1,505	$ (86)	$ 351
Federal funds sold	48	1	4	53
Held to maturity securities:				
Non taxable	211	(17)	(20)	174
Available for sale securities:				
Taxable	(294)	186	(12)	(120)
Non taxable	(147)	22	(2)	(127)
Other	(6)	33	(13)	14
Total	$ (1,256)	$ 1,730	$ (129)	$ 345
Interest paid on:				
Savings and interest-bearing DDA	$ 28	$ (242)	$ (17)	$ (231)
Time deposits	(192)	26	(5)	(171)
Federal funds purchased	24	(188)	(13)	(177)
Borrowings from FHLB	(115)	147	(74)	(42)
Total	$ (255)	$ (257)	$ (109)	$ (621)

	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)
Time deposits	(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)

Provision for Allowance for Loan Losses

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

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and to identify and estimate potential losses based on the best available information. The potential effect 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 Company's analysis includes evaluating the current value of collateral securing all nonaccrual loans. Included in nonaccrual loans is one out of area residential development loan with an unpaid principal balance of $15,277,000. This loan had been on nonaccrual for two years without a specific reserve. The Company became aware of specific conditions and information during 2013 which resulted in the assignment of specific reserves of $7,600,000 to this loan. A partial charge-off of $7,325,000 relating to this loan was recorded during 2013. During 2013, the Company sold a gaming loan which had been on nonaccrual. This loan totaled $14,527,799 as of December 31, 2012. Nonaccrual loans totaled $26,171,000 and $53,891,000 with specific reserves on these loans of $1,280,000 and $1,777,000 as of December 31, 2013 and 2012, respectively. The specific reserves allocated to nonaccrual loans are relatively low as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company's on-going, systematic evaluation resulted in the Company recording a total provision for the allowance for loan losses of $9,661,000, $4,264,000 and $2,935,000 in 2013, 2012 and 2011, respectively. The allowance for loan losses as a percentage of loans was 2.38%, 2.05% and 1.88% at December 31, 2013, 2012 and 2011, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2013.

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 $462,000 in 2013 as compared with 2012. Service charges on deposit accounts increased $325,000 in 2013 as compared with 2012 as a result of increased service charges and ATM fees and a decrease in NSF fees. Fees from service charges increased $51,000 as a result of the Company increasing per account and per transactions fees in 2013 and an increase in ATM fees of $409,000 as a result of the improvement in the local casinos at which the Company has off-site ATMs. NSF fees decreased $153,000 as customers changed their overdraft activity based on economic conditions. Gains from sales and calls of securities decreased $1,106,000 as sales were executed when proceeds would be maximized. The increase in cash surrender value of life insurance decreased $72,000 in 2013 as compared with 2012 as a result of the decline in the stock market. The Company had a loss from impairment of other investments of $360,000 in 2012 and income on other investments of $42,000 in 2013 as compared with a loss of $84,000 in 2012. Other income decreased as prior year results included gains of $31,000 from the sale of bank vehicles.

Total non-interest income decreased $331,000 in 2012 as compared with 2011. Trust department income and fees increased $90,000 as a result of fees relating to several large estates. Service charges on deposit accounts increased $128,000 in 2012 as compared with 2011. This increase was the result of a decrease in NSF fees of $90,000, 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 $218,000 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 $238,000 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 $84,000 in 2012 as compared with income of $97,000 in 2011. Results in 2011 included gains from death benefits from life insurance of $470,000. Other income increased $152,000 in 2012 as compared with 2011. This increase was primarily attributable to an increase in rental income of $50,000 as the Company was able to lease previously vacant property and gains of $31,000 on the sale of bank vehicles.

Non-interest expense

Total non-interest expense increased $377,000 in 2013 as compared with 2012. Salaries and employee benefits decreased $424,000 in 2013 as compared with 2012. Salaries increased $101,000 in 2013 as compared with 2012 due to merit raises. Expenses relating to deferred compensation plans decreased $136,000 in 2013 as a result of the impact of recent and future retirements and changes in the discount rate utilized to compute related liabilities. The Company's board of directors reduced contributions to its defined contribution plans $110,000 in 2013 as a result of the net loss. Health insurance costs decreased $270,000 as a result of a reduction in claims in 2013 as compared with 2012 and amendments made to the retiree health plan which require plan participants to utilize drug benefits and health insurance coverage available under Medicare. Equipment rentals, depreciation and maintenance decreased $228,000 in 2013 as compared with 2012 primarily as a result of a decrease of $299,000 in depreciation on furniture and equipment replaced during the years after Hurricane Katrina becomes fully depreciated. Maintenance costs increased $33,000 as a result of the timing of work performed. Other expense increased $1,048,000 for 2013 as compared with 2012. This increase was the result of increases in advertising, FDIC and state assessments, other real estate and ATM expenses, which were partially offset by a decrease in data processing costs. Advertising expenses increased $107,000, which was primarily attributable to the production of a new advertising campaign. FDIC and state assessments increased $367,000 in 2013 as 2012 results included an adjustment in the estimate of prepaid assessments. Increased writedowns of other real estate to fair value caused these expenses to increase $315,000 in 2013 as compared with 2012. ATM expense increased $334,000 in 2013 as a result of increased ATM activity. Data processing expense decreased $180,000 as 2012 costs included several additional services and projects.

Total non-interest expense decreased $3,504,000 in 2012 as compared with 2011. Salaries and employee benefits decreased $2,092,000 in 2012 as compared with 2011. Salaries decreased $723,000 in 2012 as compared with 2011 as the employee census decreased from attrition and the impact of the 2011 voluntary early retirement package. Expenses relating to deferred compensation plans decreased $565,000 in 2012 as a result of the 2011 voluntary early retirement package. Expenses relating to the retiree health plan decreased $954,000 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 $226,000 in 2012 as compared with 2011. Rental expense decreased $113,000 in 2012 as the Company discontinued use of leased equipment during 2011. Depreciation on furniture and equipment decreased $157,000 as equipment replaced during the years after Hurricane Katrina becomes fully depreciated. Maintenance costs increased $49,000 as a result of the timing of work performed. Other expense decreased $1,270,000 for 2012 as compared with 2011. Included in other expense are data processing expense, which increased $576,000 as a result of the outsourcing of most of the bank's I/T functions, and ORE expenses, which were $702,000 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 $1,185,000 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 Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2013, 2012 and 2011, respectively. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years.

FINANCIAL CONDITION

Available for sale securities increased $16,564,000 at December 31, 2013, compared with December 31, 2012. Funds available from maturities and sales of available for sale securities and the decrease in loans were invested in available for sale securities. The Company recorded an unrealized loss of $15,413,000 on its available for sale securities during 2013 as a result of fluctuations in market values.

The held to maturity portfolio increased $4,017,000 at December 31, 2013, compared with December 31, 2012, as the Company opted to classify some of its investment purchases during the current year as held to maturity.

Other investments decreased $188,000 at December 31, 2013, compared with December 31, 2012, primarily as a result of a liquidating distribution of $230,000.

The Company increased its investment in FHLB common stock by $1,454,000 to increase its borrowing capacity from FHLB at December 31, 2013 as compared with December 31, 2012.

Loans decreased $55,734,000 at December 31, 2013 compared with December 31, 2012. During 2013, the Company charged-off loans of $10,122,000 and transferred loans totaling $4,537,000 into ORE. The remaining decease is the result of principal payments outpacing new loans during 2013.

Other real estate increased by $2,622,000 at December 31, 2013 as compared with December 31, 2012. During 2013, loans totaling $4,537,000 were transferred into ORE, write downs of $670,000 were charged to earnings and ORE totaling $1,188,000 was sold. The Company is working diligently and prudently to reduce this portfolio.

Accrued interest receivable decreased $288,000 at December 31, 2013 as compared with December 31, 2012. This decrease is due to the decrease in average accruing loans and average available for sale securities.

Cash surrender value of life insurance increased $595,000 at December 31, 2013 as compared with December 31, 2012 primarily as a result of income earned on the life insurance.

Prepaid FDIC assessments decreased $1,454,000 at December 31, 2013 as compared with December 31, 2012 as a result of the amortization of these costs and reimbursement of $1,177,000 from the FDIC of the remaining balance of its prepaid assessment.

Other assets increased $8,511,000 at December 31, 2013 as compared with December 31, 2012 due to changes in deferred taxes and income taxes receivable. Deferred taxes increased $6,590,000 as the decrease in fair value of available for sale securities reduced an unrealized gain. Income taxes receivable increased $1,950,000 as tax deposits exceeded income taxes currently payable.

Total deposits decreased $47,161,166 at December 31, 2013, as compared with December 31, 2012. 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. In addition, brokered deposits, which are included as time deposits, $100,000 or more, of $23,612,000 matured during 2013. The Company anticipates that deposits will continue at or slightly above their present level during 2014.

Federal funds purchased and securities sold under agreements to repurchase, which includes non-deposit accounts, decreased $54,595,000 at December 31, 2013 as compared with December 31, 2012. The total at December 31, 2012 included a new customer with a balance of $50,924,000.

Borrowings from the FHLB increased $69,772,000 at December 31, 2013 as compared with December 31, 2012 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $563,000 at December 31, 2013, as compared with December 31, 2012 due to deferred compensation benefits earned by officers and directors during 2013.

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 13.64 % at December 31, 2013, 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 2013 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders' Equity also presents all activity in the Company's equity accounts.

LIQUIDITY

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

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

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. The Company also uses other sources of funds, including borrowings from the FHLB. The Company generally anticipates relying on deposits, purchases of federal funds and borrowings from the FHLB for its liquidity needs in 2014.

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 L 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 seven years or less; however the market is now dictating floating rate terms to be extended up to twenty years. On the liability side, more than 75% of the deposits are demand and savings transaction accounts. Additionally, 85% 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 2014 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 the allowance 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.

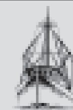
Interest rate sensitivity at December 31, 2013 was as follows (in thousands):

	2014	2015	2016	2017	2018	BEYOND	TOTAL	12/31/13 FAIR VALUE
Loans, net	$ 238,254	$ 8,187	$ 27,900	$ 11,528	$ 31,264	$ 49,282	$ 366,415	$ 369,117
Average rate	4.92%	6.23%	6.47%	5.83%	4.94%	4.45%	4.68%	
Securities	17,191	5,940	20,128	12,197	13,110	225,112	293,678	293,222
Average rate	2.93%	3.06%	1.69%	2.38%	2.33%	2.43%	2.39%	
Total Financial Assets	255,445	14,127	48,028	23,725	44,374	274,394	660,093	662,339
Average rate	4.84%	5.40%	5.71%	4.79%	4.51%	3.01%	4.01%	
Deposits	295,583	10,183	2,428	7,948	5,299		321,441	322,535
Average rate	1.96%	1.43%	1.32%	1.18%	1.18%		1.86%	
Federal funds purchased and securities sold under agreements to repurchase	139,639						139,639	139,639
Average rate	0.09%						0.09%	
Borrowings from FHLB	70,246	254	251	5,233	179	1,521	77,684	79,051
Average rate	1.59%	4.58%	4.58%	1.64%	4.58%	1.67%	1.66%	
Total Financial Liabilities	505,468	10,437	2,679	13,181	5,478	1,521	538,764	541,225
Average rate	1.87%	1.66%	2.18%	1.40%	1.57%	1.67%	1.80%	

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%	

CONSOLIDATED STATEMENTS OF CONDITION



(in thousands except share data)

DECEMBER 31,	2013	2012	2011
Assets			
Cash and due from banks	$ 36,264	$ 54,020	$ 36,929
Available for sale securities	275,440	258,876	278,918
Held to maturity securities, fair value of $10,686 - 2013; $7,225 - 2012; $1,492 - 2011	11,142	7,125	1,429
Other investments	3,262	3,450	3,930
Federal Home Loan Bank Stock, at cost	3,834	2,380	2,581
Loans	375,349	431,083	432,407
Less: Allowance for loan losses	8,934	8,857	8,136
Loans, net	366,415	422,226	424,271
Bank premises and equipment, net of accumulated depreciation	25,308	26,222	28,035
Other real estate	9,630	7,008	6,153
Accrued interest receivable	2,607	2,895	2,698
Cash surrender value of life insurance	17,456	16,861	16,197
Prepaid FDIC assessments	251	1,705	2,096
Other assets	10,655	2,144	915
Total assets	$ 762,264	$ 804,912	$ 804,152
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 107,117	$ 102,609	$ 97,581
Savings and demand, interest bearing	217,005	232,401	205,319
Time, $100,000 or more	60,519	94,606	115,014
Other time deposits	43,917	46,103	50,525
Total deposits	428,558	475,719	468,439
Federal funds purchased and securities sold under agreements to repurchase	139,639	194,234	157,601
Borrowings from Federal Home Loan Bank	77,684	7,912	53,324
Employee and director benefit plans liabilities	12,725	12,162	11,311
Other liabilities	4,511	4,131	4,025
Total liabilities	663,117	694,158	694,700
Shareholders' Equity:			
Common Stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2013 and 5,136,918 at December 31, 2012 and 2011	5,123	5,137	5,137
Surplus	65,780	65,780	65,780
Undivided profits	34,259	34,964	33,351
Accumulated other comprehensive income (loss), net of tax	(6,015)	4,873	5,184
Total shareholders' equity	99,147	110,754	109,452
Total liabilities and shareholders' equity	$ 762,264	$ 804,912	$ 804,152

See Notes to Consolidated Financial Statements.

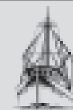
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

YEARS ENDED DECEMBER 31,	2013	2012	2011
Interest income:			
Interest and fees on loans	$ 18,927	$ 18,577	$ 17,923
Interest and dividends on securities:			
U.S. Treasuries	590	463	236
U.S. Government agencies	3,114	3,777	5,320
Mortgage-backed securities	703	287	106
States and political subdivisions	1,524	1,493	1,418
Other investments	29	15	23
Interest on federal funds sold	69	16	7
Total interest income	24,956	24,628	25,033
Interest expense:			
Deposits	1,098	1,500	2,354
Borrowings from Federal Home Loan Bank	191	232	186
Federal funds purchased and securities sold under agreements to repurchase	158	335	638
Total interest expense	1,447	2,067	3,178
Net interest income	23,509	22,561	21,855
Provision for allowance for loan losses	9,661	4,264	2,935
Net interest income after provision for allowance for loan losses	13,848	18,297	18,920
Non-interest income:			
Trust department income and fees	1,423	1,458	1,368
Service charges on deposit accounts	6,236	5,911	5,783
Gain on liquidation, sales and calls of securities	258	1,364	1,126
Loss on impairment of other investments		(360)	
Income (loss) on other investments	42	(84)	97
Increase in cash surrender value of life insurance	501	573	501
Gain on death benefits from life insurance			470
Other income	607	667	515
Total non-interest income	9,067	9,529	9,860
Non-interest expense:			
Salaries and employee benefits	11,568	11,992	14,084
Net occupancy	2,415	2,434	2,350
Equipment rentals, depreciation and maintenance	2,878	3,106	3,332
Other expense	8,793	7,745	9,015
Total non-interest expense	25,654	25,277	28,781
Income (loss) before income taxes	(2,739)	2,549	(1)
Income tax benefit	2,201	92	1,204
Net income (loss)	$ (538)	$ 2,641	$ 1,203
Basic and diluted earnings (loss) per share	$ (.10)	$ .51	$ .23
Dividends declared per share	$	$ .20	$ .19

See Notes to Consolidated Financial Statements.

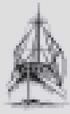
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)



(in thousands)

YEARS ENDED DECEMBER 31,	2013	2012	2011
Net income (loss)	$ (538)	$ 2,641	$ 1,203
Other comprehensive income (loss), net of tax:			
Net unrealized gain (loss) on available for sale securities, net of tax of $5,153, $440 and $2,897 for the years ended December 31, 2013, 2012 and 2011, respectively	(10,002)	855	5,624
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $88, $464 and $383 for the years ended December 31, 2013, 2012 and 2011, respectively	(170)	(900)	(743)
Gain (loss) from unfunded post-retirement benefit obligation, net of tax of $369, $137 and $1,638 for the years ended December 31, 2013, 2012 and 2011, respectively	(716)	(266)	3,180
Total other comprehensive income (loss)	(10,888)	(311)	8,061
Total comprehensive income (loss)	$ (11,426)	$ 2,330	$ 9,264

See Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus
Balance, January 1, 2011	5,151,139	$ 5,151	$ 65,780
Net income			
Other comprehensive income, net of tax			
Cash dividend ($.09 per share)			
Dividend declared ($.10 per share)			
Retirement of stock	(14,221)	(14)	
Balance, December 31, 2011	5,136,918	5,137	65,780
Net income			
Other comprehensive loss, net of tax			
Cash dividend ($.20 per share)			
Balance, December 31, 2012	5,136,918	5,137	65,780
Net loss			
Other comprehensive loss, net of tax			
Retirement of stock	(13,732)	(14)	
Balance, December 31, 2013	5,123,186	$ 5,123	$ 65,780

See Notes to Consolidated Financial Statements.

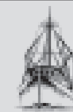
Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
$ 33,302	$ (2,877)	$ 101,356
1,203		1,203
	8,061	8,061
(462)		(462)
(514)		(514)
(178)		(192)
33,351	5,184	109,452
2,641		2,641
	(311)	(311)
(1,028)		(1,028)
34,964	4,873	110,754
(538)		(538)
	(10,888)	(10,888)
(167)		(181)
$ 34,259	$ (6,015)	$ 99,147

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

YEARS ENDED DECEMBER 31,	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	$ (538)	$ 2,641	$ 1,203
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,750	2,048	2,210
Provision for allowance for loan losses	9,661	4,264	2,935
Writedown of other real estate	670	153	711
Loss on sales of other real estate	63	21	180
Loss on impairment of other investments		360	
(Income) loss on other investments	(42)	84	(97)
Accretion of held to maturity securities	(2)	(1)	(3)
Gain on liquidation, sales and calls of securities	(258)	(1,364)	(1,126)
Gain on death benefits from life insurance			(470)
Increase in cash surrender value of life insurance	(501)	(573)	(501)
Gain on sale of bank premises and equipment	(15)		
Change in accrued interest receivable	288	(197)	594
Change in other assets	(467)	600	4,061
Change in other liabilities	(1,122)	(211)	96
Net cash provided by operating activities	9,487	7,825	9,793
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	142,355	358,404	358,538
Purchases of available for sale securities	(174,074)	(337,067)	(341,857)
Proceeds from maturities of held to maturity securities	795	170	489
Purchases of held to maturity securities	(4,810)	(5,865)	
Purchases of Federal Home Loan Bank Stock	(1,454)		(300)
Redemption of Federal Home Loan Bank Stock		201	
Redemption of other investments	230	36	93
Proceeds from sales of other real estate	1,125	1,546	1,921
Loans, net change	41,613	(4,794)	(27,180)
Acquisition of premises and equipment	(840)	(235)	(489)
Proceeds from sales of banking premises and equipment	19		
Proceeds from death benefits from life insurance			805
Insurance proceeds from casualty loss on other real estate	57		
Investment in cash surrender value of life insurance	(94)	(91)	(79)
Net cash provided by (used in) investing activities	4,922	12,305	(8,059)
Cash flows from financing activities:			
Demand and savings deposits, net change	(10,888)	32,110	991
Time deposits, net change	(36,273)	(24,830)	(16,691)
Cash dividends		(1,541)	(925)
Retirement of common stock	(181)		(193)
Borrowings from Federal Home Loan Bank	868,560	2,246,717	500,975
Repayments to Federal Home Loan Bank	(798,788)	(2,292,128)	(490,608)
Federal funds purchased and securities sold under agreements to repurchase, net change	(54,595)	36,633	17,499
Net cash provided by (used in) financing activities	(32,165)	(3,039)	11,048
Net increase (decrease) in cash and cash equivalents	(17,756)	17,091	12,782
Cash and cash equivalents, beginning of year	54,020	36,929	24,147
Cash and cash equivalents, end of year	$ 36,264	$ 54,020	$ 36,929

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 and director benefit plan liabilities and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

New Accounting Pronouncements
In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments limit the scope of ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, to certain derivative instruments (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and lending arrangements that are either (1) offset on the balance sheet or (2) subject to an enforceable master netting arrangement or similar agreement. This ASU amends the scope of FASB ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires additional disclosure regarding offsetting of assets and liabilities to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The effective date of the amendments coincides with that of ASU 2011-11 (i.e., for fiscal years beginning on or after January 1, 2013, and interim periods within those years). The amendments will be applied retrospectively for all comparative periods presented on the balance sheet. The adoption of the guidance did not have a material impact on the Company's financial position, results of operations or disclosures.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this update require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and by the respective line items of net income. The standard was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This guidance did not have a material impact on the Company's financial position or results of operations, and resulted in additional disclosures.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740)*, which clarifies the presentation requirements of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and should be applied prospectively. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2014, the FASB issued ASU No. 2014-1, *Investments — Equity Method and Joint Ventures (Topic 323) — Accounting for Investments in Qualified Affordable Housing Projects*, which permits an entity to make an accounting policy election to account for their investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2014, the FASB issued ASU No. 2014-4, *Receivables — Troubled Debt Restructurings by Creditors (Subtopic 310-40) — Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*, which clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and should be applied prospectively. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Cash and Due from Banks
The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately $407,000, $566,000 and $701,000 for the years ending December 31, 2013, 2012 and 2011, respectively.

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

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

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

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

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

The Company continuously monitors its relationships with its loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area, land development, construction and commercial real estate loans, and their direct and indirect impact on its operations. Loan delinquencies and deposit overdrafts are monitored on a weekly basis in order to identify developing problems as early as possible. On a monthly basis, a watch list of credits based on our loan grading system is prepared. Grades 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 loans 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 special assets department work vigorously to return the loans to a current status.

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

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

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

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

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2013.

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

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

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

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

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

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

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

Earnings Per Share
Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, 5,128,889 in 2013 and 5,136,918, in 2012 and 2011.

Accumulated Other Comprehensive Income
At December 31, 2013, 2012 and 2011, 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 $1,470,945, $2,082,914 and $3,222,385 in 2013, 2012 and 2011, respectively, for interest on deposits and borrowings. Income tax payments totaled $810,000, $835,000 and $755,000 in 2013, 2012 and 2011, respectively. Loans transferred to other real estate amounted to $4,536,710, $2,575,520 and $3,221,510 in 2013, 2012 and 2011, 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.

NOTE B – SECURITIES:

The amortized cost and fair value of securities at December 31, 2013, 2012 and 2011, respectively, are as follows (in thousands):

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 44,636	$ 54	$ (1,042)	$ 43,648
U.S. Government agencies	155,772	734	(10,701)	145,805
Mortgage-backed securities	51,454	141	(1,269)	50,326
States and political subdivisions	33,764	1,248	(1)	35,011
Total debt securities	285,626	2,177	(13,013)	274,790
Equity securities	650			650
Total available for sale securities	$ 286,276	$ 2,177	$ (13,013)	$ 275,440
Held to maturity securities:				
States and political subdivisions	$ 11,142	$ 13	$ (469)	$ 10,686
Total held to maturity securities	$ 11,142	$ 13	$ (469)	$ 10,686

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

The amortized cost and fair value of debt securities at December 31, 2013, (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	$ 16,442	$ 16,527
Due after one year through five years	49,769	50,052
Due after five years through ten years	80,136	78,561
Due after ten years	87,825	79,324
Mortgage-backed securities	51,454	50,326
Totals	$ 285,626	$ 274,790
Held to maturity securities:		
Due in one year or less	$ 664	$ 671
Due after one year through five years	1,323	1,320
Due after five years through ten years	6,286	6,125
Due after ten years	2,869	2,570
Totals	$ 11,142	$ 10,686

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2013, 2012 and 2011, 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, 2013:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 29,708	$ 1,042	$	$	$ 29,708	$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
Total	$ 195,113	$ 13,103	$ 4,621	$ 379	$ 199,734	$ 13,482

	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

At December 31, 2013, 7 of the 11 securities issued by the U.S. Treasury, 25 of the 31 securities issued by U.S. Government agencies, 11 of the 13 mortgage-backed securities and 28 of the 143 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 $26,075,225, $77,605,104 and $60,714,150 during 2013, 2012 and 2011, respectively. Available for sale debt securities were sold and called for realized gains of $257,997, $1,363,802 and $1,126,055 during 2013, 2012 and 2011, respectively. The Company recorded a loss from the impairment of its other investments of $360,000 in 2012.

Securities with a fair value of $262,830,011, $241,879,775 and $278,540,119 at December 31, 2013, 2012 and 2011, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

NOTE C – LOANS:

The composition of the loan portfolio at December 31, 2013, 2012 and 2011 is as follows (in thousands):

December 31,	2013	2012	2011
Gaming	$ 29,570	$ 60,187	$ 57,219
Residential and land development	19,403	27,338	29,026
Real estate, construction	44,987	52,586	61,042
Real estate, mortgage	237,158	246,420	238,411
Commercial and industrial	35,007	35,004	33,950
Other	9,224	9,548	12,759
Total	$ 375,349	$ 431,083	$ 432,407

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

Years Ended December 31,	2013	2012	2011
Balance, January 1	$ 6,310	$ 5,681	$ 5,552
January 1 balance, loans of officers and directors appointed during the year			123
New loans and advances	1,647	3,755	2,426
Repayments	(1,196)	(3,126)	(2,420)
Balance, December 31	$ 6,761	$ 6,310	$ 5,681

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,	2013	2012	2011
Gaming	$ 29,570	$ 60,187	$ 57,219
Hotel/motel	49,842	52,776	46,956
Out of area	24,945	25,413	26,171

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2013, 2012 and 2011 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, 2013:							
Gaming	$	$	$	$	$ 29,570	$ 29,570	$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	$ 12,226	$2,689	$ 28,158	$43,073	$332,276	$375,349	$ 651
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

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, 2013, 2012 and 2011 is as follows (in thousands):

	Loans With A Grade Of:					
December 31, 2013:	A or B	C	D	E	F	Total
Gaming	$ 23,975	$ 2,500	$	$ 3,095	$	$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	$ 312,621	$ 10,026	$ 22,575	$ 30,127	$	$ 375,349
December 31, 2012:						
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

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of December 31, 2013, 2012 and 2011 are as follows (in thousands):

December 31,	2013	2012	2011
Gaming	$ 1,223	$ 16,249	$ 15,402
Residential and land development	13,572	21,083	24,110
Real estate, construction	2,588	5,171	6,042
Real estate, mortgage	8,788	11,174	11,662
Commercial and Industrial		214	246
Other			131
Total	$ 26,171	$ 53,891	$ 57,593

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, 2013, 2012 and 2011, 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, 2013:				
Real estate, construction	2	$ 891	$ 891	$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	$ 11,581	$ 11,581	$1,264
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

During 2013, the Company classified four additional loans as troubled debt restructurings. The loans are included in the real estate-mortgage segment and had a total balance of $1,652,903 when they were modified. During 2013, two loans which had been classified as troubled debt restructurings at December 31, 2012 became in default of their modified terms and were placed on nonaccrual. These loans included one loan that was included in the real estate-construction segment with a balance of $182,164 and one loan that was included in the real estate-mortgage segment with a balance of $527,677 at December 31, 2012.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2013, 2012 and 2011 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013:					
With no related allowance recorded:					
Residential and land development	$ 4,425	$ 4,425	$	$4,465	$
Real estate, construction	2,294	2,294		2,054	26
Real estate, mortgage	9,722	9,123		9,097	26
Commercial and industrial	678	678		689	24
Total	17,119	16,520		16,305	76
With a related allowance recorded:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	17,576	9,147	471	15,909	
Real estate, construction	1,185	1,185	337	1,239	23
Real estate, mortgage	9,677	9,677	1,110	8,801	306
Total	30,136	21,232	2,544	27,265	329
Total by class of loans:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	22,001	13,572	471	20,374	
Real estate, construction	3,479	3,479	337	3,293	49
Real estate, mortgage	19,399	18,800	1,110	17,898	332
Commercial and industrial	678	678		689	24
Total	$47,255	$37,752	$2,544	$43,570	$ 405
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	23
Total	51,863	50,668		50,602	23
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	8
Real estate, mortgage	10,893	10,293	1,229	10,199	319
Commercial and industrial	24	24	12		
Total	14,682	14,074	3,074	11,863	327
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	8
Real estate, mortgage	20,864	20,228	1,229	20,020	319
Commercial and industrial	916	916	12	791	23
Total	$66,545	$64,742	$3,074	$ 62,465	$ 350
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	13
Other	5	5			
Total	55,920	52,685		21,691	13
With a related allowance recorded:					
Residential and land development	2,364	2,364	900		
Real estate, construction	2,406	2,406	720	185	11
Real estate, mortgage	12,552	11,621	1,314	5,971	187
Commercial and industrial	88	88	77		
Other	126	126	17	31	
Total	17,536	16,605	3,028	6,187	198
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	11
Real estate, mortgage	22,517	21,578	1,314	7,082	187
Commercial and industrial	952	952	77	413	13
Other	131	131	17	31	
Total	$73,456	$69,290	$3,028	$27,878	$ 211

Transactions in the allowance for loan losses for the years ended December 31, 2013, 2012 and 2011, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2013, 2012 and 2011 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2013:							
Allowance for Loan Losses:							
Beginning Balance	$ 1,541	$ 200	$ 967	$ 5,273	$ 593	$ 283	$ 8,857
Charge-offs	(474)	(7,325)	(1,013)	(1,048)	(24)	(238)	(10,122)
Recoveries	110	67	97	150	26	88	538
Provision	(200)	7,834	644	1,178	37	168	9,661
Ending Balance	$ 977	$776	$695	$5,553	$632	$301	$8,934
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$ 626	$ 471	$ 615	$ 1,698	$ 342	$ 33	$ 3,785
Ending balance: collectively evaluated for impairment	$ 351	$ 305	$ 80	$ 3,855	$ 290	$ 268	$ 5,149
Total Loans:							
Ending balance: individually evaluated for impairment	$ 3,095	$ 13,624	$ 5,399	$ 28,094	$ 2,423	$ 69	$ 52,704
Ending balance: collectively evaluated for impairment	$26,475	$ 5,779	$39,588	$209,064	$32,584	$ 9,155	$322,645
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

NOTE D – BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2013	2012	2011
Land		$ 5,982	$ 5,985	$ 5,985
Building	5 — 40 years	30,540	30,504	30,494
Furniture, fixtures and equipment	3 — 10 years	15,272	14,487	14,377
Totals, at cost		51,794	50,976	50,856
Less: Accumulated depreciation		26,486	24,754	22,821
Totals		$ 25,308	$ 26,222	$ 28,035

NOTE E — OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2013, 2012 and 2011, respectively (in thousands):

December 31,	2013		2012		2011	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	18	$4,887	11	$ 2,834	8	$ 1,544
1-4 family residential properties	6	180	6	576	8	821
Non farm non residential	17	4,563	14	3,573	16	3,788
Other			1	25		
Total	41	$9,630	32	$ 7,008	32	$ 6,153

NOTE F — DEPOSITS:

At December 31, 2013, the scheduled maturities of time deposits are as follows (in thousands):

2014	$ 78,579
2015	10,183
2016	2,428
2017	7,948
2018	5,298
Total	$ 104,436

Time deposits of $100,000 or more at December 31, 2013 included brokered deposits of $5,000,000, which mature in 2017.

Deposits held for related parties amounted to $7,511,446, $8,720,550 and $7,499,805 at December 31, 2013, 2012 and 2011, respectively.

Overdrafts totaling $764,262, $1,435,922 and $679,220 were reclassified as loans at December 31, 2013, 2012 and 2011, respectively.

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

At December 31, 2013, the Company had facilities in place to purchase federal funds up to $44,000,000 under established credit arrangements. At December 31, 2013, 2012 and 2011, federal funds purchased and securities sold under agreements to repurchase included only funds invested by customers in a non-deposit product of the bank subsidiary. 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, 2013, the Company was able to borrow up to $32,863,511 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, 2013.

At December 31, 2013, the Company had $77,683,716 outstanding in advances under a $85,036,571 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 .599% at December 31, 2013, and matures in 2017. Additional advances in the amounts of $40,000,000, $10,000,000 and $20,000,000 bear interest at .20%, .20% and .16%, respectively, and mature in 2014. 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 – INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2013, 2012 and 2011, included in other assets or other liabilities, were as follows (in thousands):

December 31,	2013	2012	2011
Deferred tax assets:			
Allowance for loan losses	$ 3,037	$ 3,011	$ 2,777
Employee benefit plans' liabilities	4,326	4,135	3,846
Unrealized loss on available for sale securities, charged from equity	3,684		
Earned retiree health benefits plan liability	1,638	1,673	1,673
Other	1,218	1,170	781
Deferred tax assets	13,903	9,989	9,077
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity		1,556	1,580
Unearned retiree health benefits plan asset	579	948	1,086
Bank premises and equipment	5,075	5,366	5,720
Other	129	92	343
Deferred tax liabilities	5,783	7,962	8,729
Net deferred taxes	$ 8,120	$ 2,027	$ 348

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

Years Ended December 31,	2013	2012	2011
Current	$ (1,717)	$ 1,425	$ 721
Deferred	(484)	(1,517)	(1,925)
Totals	$ (2,201)	$ (92)	$ (1,204)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2013, 2012 and 2011 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2013		2012		2011	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ (931)	(34)	$ 867	34	$ (1)	34
Increase (decrease) resulting from:						
Tax-exempt interest income	(539)	(20)	(532)	(21)	(557)	
Income from BOLI	(170)	(6)	(195)	(8)	(170)	
Federal tax credits	(298)	(11)	(372)	(15)	(366)	
Death benefits on life insurance					(159)	
Other	(263)	(9)	140	6	49	
Total income tax benefit	$ (2,201)	(80)	$ (92)	(4)	$ (1,204)	

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 it will realize the net deferred tax asset and it has not recorded any tax liability for uncertain tax positions as of December 31, 2013, 2012 and 2011.

NOTE J – SHAREHOLDERS' EQUITY:

Shareholders' equity of the Company includes the undistributed earnings of the bank subsidiary. Dividends to the Company's shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. Dividends paid by the bank subsidiary are subject to the written approval of the Commissioner of Banking and Consumer Finance of the State of Mississippi and the Federal Deposit Insurance Corporation (the "FDIC"). At December 31, 2013, $25,428,742 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank ("FRB").

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 47,756 shares have been repurchased and retired through December 31, 2013.

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, 2013, 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 2013, 2012 and 2011, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2013:				
Total Capital (to Risk Weighted Assets)	$ 111,141	22.79%	$39,022	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,009	21.54%	19,511	4.00%
Tier 1 Capital (to Average Assets)	105,009	13.48%	31,170	4.00%
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%

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 2013, 2012 and 2011, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013:						
Total Capital (to Risk Weighted Assets)	$ 106,870	21.94%	$38,968	8.00%	$ 48,711	10.00%
Tier 1 Capital (to Risk Weighted Assets)	100,746	20.69%	19,484	4.00%	29,227	6.00%
Tier 1 Capital (to Average Assets)	100,746	13.02%	30,958	4.00%	38,697	5.00%
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%

NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2013	2012	2011
Other service charges, commissions and fees	$ 74	$ 83	$ 78
Rentals	433	442	392
Other	100	142	45
Totals	$ 607	$ 667	$ 515

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2013	2012	2011
Advertising	$ 596	$ 489	$ 506
Data processing	1,254	1,434	858
FDIC and state banking assessments	870	503	1,688
Legal and accounting	535	511	600
Other real estate	963	648	1,350
ATM expense	2,367	2,033	1,973
Trust expense	332	314	331
Other	1,876	1,813	1,709
Totals	$8,793	$7,745	$ 9,015

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

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

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

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

At December 31, 2013, 2012 and 2011, the Company had outstanding irrevocable letters of credit aggregating $3,059,011, $3,599,011 and $3,094,258, respectively. At December 31, 2013, 2012 and 2011, the Company had outstanding unused loan commitments aggregating $68,171,024, $80,741,699 and $76,421,050, respectively. Approximately $38,324,000, $46,956,000 and $42,051,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2013, 2012 and 2011, respectively.

NOTE M - CONTINGENCIES:

The Bank is involved in various legal matters and claims which are being defended and handled in the ordinary course of business. None of these matters 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 N – CONDENSED PARENT COMPANY ONLY FINANCIAL INFORMATION:

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

CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2013	2012	2011
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 94,883	$ 106,266	$ 104,731
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	487	360	808
Other assets	3,937	4,288	4,588
Total assets	$ 99,308	$ 110,915	$ 110,128
Liabilities and Shareholders' Equity:			
Other liabilities	$ 161	$ 161	$ 676
Total liabilities	161	161	676
Shareholders' equity	99,147	110,754	109,452
Total liabilities and shareholders' equity	$ 99,308	$ 110,915	$ 110,128

CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2013	2012	2011
Income			
Earnings of unconsolidated bank subsidiary:			
Distributed earnings	$	$ 1,150	$ 898
Undistributed earnings (loss)	(494)	1,845	285
Loss on impairment of other investments		(360)	
Other income	57	(71)	110
Total income	(437)	2,564	1,293
Expenses			
Other	122	105	95
Total expenses	122	105	95
Income (loss) before income taxes	(559)	2,459	1,198
Income tax benefit	(21)	(182)	(5)
Net income (loss)	$ (538)	$ 2,641	$ 1,203

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	$ (538)	$ 2,641	$ 1,203
Adjustments to reconcile net income (loss) to			
net cash provided by operating activities:			
(Income) loss on other investments	(42)	84	(97)
Loss on impairment of other investments		360	
Undistributed (income) loss of unconsolidated subsidiaries	494	(1,845)	(285)
Other assets	164	(182)	54
Other liabilities		(1)	
Net cash provided by operating activities	78	1,057	875
Cash flows from investing activities:			
Redemption of equity securities	230	36	93
Net cash provided by investing activities	230	36	93
Cash flows from financing activities:			
Retirement of stock	(181)		(193)
Dividends paid		(1,541)	(924)
Net cash used in financing activities	(181)	(1,541)	(1,117)
Net increase (decrease) in cash	127	(448)	(149)
Cash, beginning of year	360	808	957
Cash, end of year	$ 487	$ 360	$ 808

The Company paid income taxes of $810,000, $835,000 and $755,000 in 2013, 2012 and 2011, respectively. No interest was paid during the three years ended December 31, 2013.

NOTE O – EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan ("ESOP"). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan. Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts contributed by the employee (up to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation capital stock. Total contributions to the plans charged to operating expense were $220,000, $330,000 and $270,000 in 2013, 2012 and 2011, respectively.

Compensation expense of $7,594,790, $7,691,059 and $8,426,829 was the basis for determining the ESOP contribution allocation to participants for 2013, 2012 and 2011, respectively. The ESOP held 359,030, 383,141 and 429,158 allocated shares at December 31, 2013, 2012 and 2011, 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 $15,824,497, $15,363,241 and $14,833,939 at December 31, 2013, 2012 and 2011, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.50% in 2013 and 5.25% in 2012 and 2011, and the interest ramp-up method in 2013, 2012 and 2011, has been accrued. The accrual amounted to $11,004,738, $10,572,681 and $9,764,957 at December 31, 2013, 2012 and 2011, 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 $1,218,175, $1,105,741 and $997,133 at December 31, 2013, 2012 and 2011, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2013 and 5.25% in 2012 and 2011, and the projected unit cost method has been accrued. The accrual amounted to $1,435,554, $1,328,657, and $1,314,727 at December 31, 2013, 2012 and 2011, 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 $269,271, $262,466 and $255,166 at December 31, 2013, 2012 and 2011, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2013, 5.25% in 2012 and 6.00% in 2011, and the projected unit cost method has been accrued. The accrual amounted to $78,759, $68,253 and $78,142 at December 31, 2013, 2012 and 2011, 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 $138,001, $129,367 and $118,787 at December 31, 2013, 2012 and 2011, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2013 and 5.25% in 2012 and 2011, and the projected unit cost method has been accrued. The accrual amounted to $206,650, $192,528 and $152,781 at December 31, 2013, 2012 and 2011, respectively, and is included in employee and director benefit plans liabilities.

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

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

Years Ended December 31,	2013	2012	2011
Service cost	$ 55	$ 45	$ 293
Interest cost	82	72	222
Amortization of net gain	(2)	(16)	(46)
Amortization of net transition obligation			21
Amortization of prior service cost (credit)	(183)	(203)	83
Special termination benefit			459
Net periodic post-retirement benefit cost (credit)	$ (48)	$ (102)	$ 1,032

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.80% in 2013, 4.00% in 2012 and 4.50% in 2011. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.25% in 2013. 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, 2013, would be increased by 13.26 %, 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 19.18%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2013, would be decreased by 10.87%, 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 14.91%.

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

2014	$206
2015	222
2016	190
2017	170
2018	144
2019 — 2023	645

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

Accumulated post-retirement benefit obligation as of December 31, 2012	$ 1,906
Service cost	55
Interest cost	82
Actuarial gain	(250)
Plan changes	1,150
Benefits paid	(90)
Accumulated post-retirement benefit obligation as of December 31, 2013	$ 2,853

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

		2013		2012		2011
Fair value of plan assets at beginning of year	$		$		$	
Actual return on assets						
Employer contribution		90		67		76
Benefits paid, net		(90)		(67)		(76)
Fair value of plan assets at end of year	$		$		$	

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

For the year ended December 31,		2013		2012		2011
Net gain	$	288	$	123	$	256
Prior service charge		837		1,718		1,852
Total accumulated other comprehensive income	$	1,125	$	1,841	$	2,108

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

For the year ended December 31,		2013
Unrecognized actuarial loss	$	(249)
Amortization of prior service cost		1,334
Total accumulated other comprehensive loss	$	1,085

The actuarial gain and prior service credit that will be recognized in accumulated other comprehensive income during 2014 are $13,484 and $81,381, respectively.

NOTE P – FAIR VALUE MEASUREMENTS AND DISCLOSURES:

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

Fair Value Hierarchy

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

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

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

Cash and Due from Banks

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

Available for Sale Securities

The fair value of available for sale securities is based on quoted market prices. The Company's available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based by asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. 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 for time deposits with similar remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates.

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 fair value of FHLB variable rate borrowings is estimated to be its carrying value.

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, 2013, 2012 and 2011, were as follows (in thousands):

		Fair Value Measurements Using		
December 31, 2013:	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 43,648	$	$ 43,648	$
U.S. Government agencies	145,805		145,805	
Mortgage-backed securities	50,326		50,326	
States and political subdivisions	35,011		35,011	
Equity securities	650		650	
Total	$ 275,440	$	$ 275,440	$

		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	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2013, 2012 and 2011 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2013	$ 18,831	$	$	$ 18,831
2012	16,030			16,030
2011	15,202			15,202

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

	2013	2012	2011
Balance, beginning of year	$ 16,030	$ 15,202	$ 2,136
Additions to impaired loans and troubled debt restructurings	17,424	2,960	17,101
Principal payments, charge-offs and transfers to other real estate	(15,153)	(2,086)	(1,447)
Change in allowance for loan losses on impaired loans	530	(46)	(2,588)
Balance, end of year	$ 18,831	$ 16,030	$ 15,202

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, 2013, 2012 and 2011 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2013	$ 9,630	$	$	$ 9,630
2012	7,008			7,008
2011	6,153			6,153

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):

	2013	2012	2011
Balance, beginning of year	$ 7,008	$ 6,153	$ 5,744
Loans transferred to ORE	4,537	2,576	3,221
Sales	(1,188)	(1,568)	(2,101)
Writedowns	(670)	(153)	(711)
Insurance proceeds from casualty loss	(57)		
Balance, end of year	$ 9,630	$ 7,008	$ 6,153

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at December 31, 2013, 2012 and 2011, are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
December 31,2013:					
Financial Assets:					
Cash and due from banks	$ 36,264	$ 36,264	$	$	$ 36,264
Available for sale securities	275,440		275,440		275,440
Held to maturity securities	11,142		10,686		10,686
Other Investments	3,262	3,262			3,262
Federal Home Loan Bank stock	3,834		3,834		3,834
Loans, net	366,415			369,117	369,117
Other real estate	9,630			9,630	9,630
Cash surrender value of life insurance	17,456			17,456	17,456
Financial Liabilities:					
Deposits:					
Non-interest bearing	107,117	107,117			107,117
Interest bearing	321,441			322,535	322,535
Federal funds purchased and securities sold under agreements to repurchase	139,639	139,639			139,639
Borrowings from Federal Home Loan Bank	77,684		79,051		79,051
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	7,912		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	424,271			427,881	427,881
Other real estate	6,153			6,153	6,153
Cash surrender value of life insurance	16,197			16,197	16,197
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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2013, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2013, 2012 and 2011, 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, 2014

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

Peoples Financial Corporation and Subsidiaries

	2013	2012	2011	2010	2009
Balance Sheet Summary					
Total assets	$ 762,264	$ 804,912	$ 804,152	$ 786,545	$ 869,007
Available for sale securities	275,440	258,875	278,918	287,078	311,434
Held to maturity securities	11,142	7,125	1,428	1,915	3,202
Loans, net of unearned discount	375,349	431,083	432,407	409,899	464,976
Deposits	428,558	475,719	468,439	484,140	470,701
Borrowings from FHLB	77,684	7,912	53,324	42,957	104,270
Shareholders' equity	99,147	110,754	109,452	101,357	103,588
Summary of Operations					
Interest income	$ 24,956	$ 24,628	$ 25,033	$ 29,675	$ 34,289
Interest expense	1,447	2,067	3,178	4,601	7,401
Net interest income	23,509	22,561	21,855	25,074	26,888
Provision for loan losses	9,661	4,264	2,935	6,845	5,225
Net interest income after					
provision for loan losses	13,848	18,297	18,920	18,229	21,663
Non-interest income	9,067	9,529	9,860	10,114	10,147
Non-interest expense	25,654	25,277	28,781	27,581	27,636
Income (loss) before taxes	(2,739)	2,549	(1)	762	4,174
Applicable income taxes	(2,201)	(92)	(1,204)	(723)	954
Net income (loss)	$ (538)	$ 2,641	$ 1,203	$ 1,485	$ 3,220
Per Share Data					
Basic and diluted earnings (loss) per share	$ (.10)	$ .51	$ .23	$ .29	$ .62
Dividends per share		.20	.19	.20	.50
Book value	19.35	21.56	21.31	19.68	20.11
Weighted average number of shares	5,128,889	5,136,918	5,136,918	5,151,661	5,170,430
Selected Ratios					
Return on average assets	(.07)%	.32%	.15%	.18%	.36%
Return on average equity	(.51)%	2.40%	1.14%	1.45%	3.06%
Primary capital to average assets	13.64%	14.71%	14.59%	12.96%	12.49%
Risk-based capital ratios:					
Tier 1	21.54%	20.04%	19.61%	21.01%	17.83%
Total	22.79%	21.29%	20.86%	22.26%	19.08%

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

Quarter Ended, 2013	March 31	June 30	September 30	December 31
Interest income	$ 5,854	$ 5,750	$ 5,805	$ 7,547
Net interest income	5,447	5,352	5,431	7,279
Provision for loan losses	539	3,538	542	5,042
Income (loss) before income taxes	617	(1,989)	781	(2,148)
Net income (loss)	606	(1,147)	886	(883)
Basic and diluted earnings (loss) per share	.12	(0.23)	.18	(.17)

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 before income taxes	415	505	800	829
Net income	505	562	750	824
Basic and diluted earnings per share	.10	.11	.14	.16

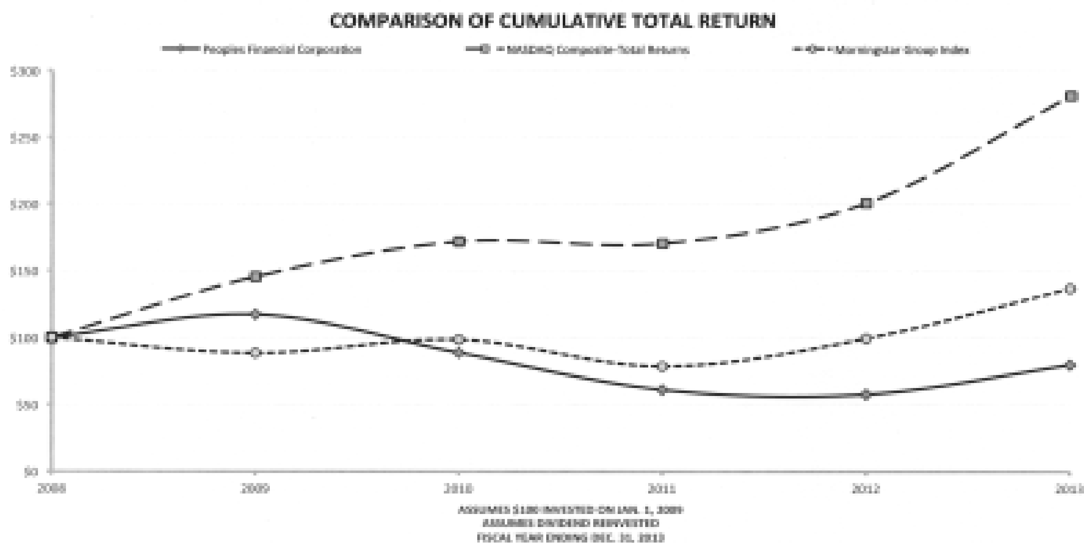
Market Information

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
2013	1st	$ 12.75	$ 9.27	$
	2nd	13.44	12.02	
	3rd	13.14	11.17	
	4th	13.24	11.53	
2012	1st	$ 11.95	$ 9.39	$ .10
	2nd	9.98	8.61	
	3rd	11.79	8.16	.10
	4th	9.46	8.36	

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, 2009, 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

Keesler AFB Office
1507 Meadows Drive
Keesler AFB, MS 39534
(228) 435-8690

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

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 Home, 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 Home, 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*