PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

2014 ANNUAL REPORT

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, 2014, 2013 and 2012. 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.

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 operations.

OVERVIEW

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

The Company incurred a net loss of $10,004,000 for 2014 compared with a net loss of $538,000 for 2013. Results in 2014 included a decrease in net interest income, a decrease in non-interest income, an increase in non-interest expense and an increase in income tax expense. These increases were partially offset by a decrease in the provision for the allowance for loan losses.

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. Net interest income was impacted primarily by the decrease in interest income on loans of $2,872,000. This decrease was primarily the result of the decrease in average loans as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

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 economy continues to negatively impact collateral values and borrowers' ability to repay their loans. A provision for the allowance for loan losses of $7,404,000 was recorded in 2014 as compared with $9,661,000 in 2013. The Company is working diligently to address and reduce its non-performing assets. The Company's nonaccrual loans totaled $33,298,000 and $26,171,000 at December 31, 2014 and December 31, 2013, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

Non-interest income decreased $448,000 for 2014 as compared with 2013 results. Service charges on deposit accounts decreased $336,000 for 2014 as compared with 2013 results primarily as a result of decreased ATM fee income. Results for 2014 included gains on sales of securities of $99,000 as compared with $258,000 in 2013.

Non-interest expense increased $1,554,000 for 2014 as compared with 2013 results. This increase for 2014 was the result of the increase in salaries and employee benefits of $457,000 and the increase in other real estate expense of $647,000 as compared with 2013.

The Company recorded income tax expense of $4,726,000 for 2014 as compared with an income tax benefit of $2,201,000 for 2013. In 2014, a valuation allowance of $8,140,000 was established based on an evaluation of the Company's deferred tax assets.

Total assets for December 31, 2014 decreased $93,369,000 as compared with December 31, 2013. Available for sale securities decreased $60,318,000 as a result of sales and maturities of these investments during 2014. Loans decreased $12,942,000 for 2014 as compared with December 31, 2013, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans. Other assets decreased $8,840,000 as of December 31, 2014 as compared with 2013 as a result of a valuation allowance of $8,140,000 on deferred tax assets.

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.

2014 as compared with 2013

The Company's average interest-earning assets decreased approximately $79,906,000, or 11%, from approximately $727,723,000 for 2013 to approximately $647,817,000 for 2014. The Company's average balance sheet decreased primarily as decreased pledging requirements on public funds allowed for reduced investment in securities and principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. Average federal funds sold also decreased based on the liquidity position of the bank subsidiary. The average yield on interest-earning assets was at 3.54% for 2014 and 2013. The yield on average loans decreased in 2014 as compared with 2013 as the prior year included $1,523,000 in interest and fees from the sale of a gaming loan which had been on nonaccrual. The yield on taxable available for sale securities increased to 1.99% for 2014 from 1.78% for 2013 due to the Company's strategy of extending the duration of new investments.

Average interest-bearing liabilities decreased approximately $74,402,000, or 13%, from approximately $578,921,000 for 2013 to approximately $504,519,000 for 2014. Average time deposits decreased primarily as brokered deposits matured during 2013. Average federal funds purchased and securities sold under agreements to repurchase, which only included non-deposit accounts, decreased as these customers reallocate their balances periodically. Average borrowings from the FHLB increased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 4 basis points, from .25% for 2013 to .29% for 2014. This increase was due to an immaterial interest expense adjustment on time deposits.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.32% for 2014 as compared with 3.34% for 2013.

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 on public funds 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 included 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 fluctuated 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, decreased in 2013. The unprecedented low rate environment which existed 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 3.34% 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%.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2014 and 2013 and the years ended December 31, 2013 and 2012.

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

	2014			2013		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1) (2) (3)	$ 362,649	$ 16,055	4.43%	$ 405,463	$ 18,927	4.67%
Federal funds sold	7,305	21	0.29	26,306	69	0.26
Held to maturity:						
Non taxable (4)	13,696	474	3.46	9,936	363	3.65
Available for sale:						
Taxable	225,742	4,502	1.99	247,097	4,407	1.78
Non taxable (4)	34,360	1,889	5.50	36,605	1,946	5.32
Other	4,065	18	0.44	2,316	29	1.25
Total	$ 647,817	$ 22,959	3.54%	$ 727,723	$ 25,741	3.54%
Savings and interest-bearing DDA	$ 230,399	$ 174	0.08%	$ 246,728	$ 179	0.07%
Time deposits	89,564	937	1.05	123,198	919	0.75
Federal funds purchased and securities sold under agreements to repurchase	127,707	100	0.08	181,702	158	0.09
Borrowings from FHLB	56,849	230	0.40	27,293	191	0.70
Total	$ 504,519	$ 1,441	0.29%	$ 578,921	$ 1,447	0.25%
Net tax-equivalent spread			3.25%			3.29%
Net tax-equivalent margin on earning assets			3.32%			3.34%

	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%

(1) 2013 includes interest and fees of $1,523 recognized from sale of a nonaccrual loan during the fourth quarter.
(2) Loan fees of $557, $911 and $797 for 2014, 2013 and 2012, 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 2014, 2013 and 2012.

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

	For the year ended December 31, 2014 compared with December 31, 2013			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,998)	$ (977)	$ 103	$ (2,872)
Federal funds sold	(50)	7	(5)	(48)
Held to maturity securities:				
Non taxable	137	(19)	(7)	111
Available for sale securities:				
Taxable	(380)	520	(45)	95
Non taxable	(119)	66	(4)	(57)
Other	22	(19)	(14)	(11)
Total	$ (2,388)	$ (422)	$ 28	$ (2,782)
Interest paid on:				
Savings and interest-bearing DDA	$ (12)	$ 7	$	$ (5)
Time deposits	(251)	370	(101)	18
Federal funds purchased	(47)	(16)	5	(58)
Borrowings from FHLB	207	(81)	(87)	39
Total	$ (103)	$ 280	$ (183)	$ (6)

	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)

Provision for Allowance for Loan Losses

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

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and to identify and estimate potential losses based on the best available information. The potential effect of the continuing 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. Nonaccrual loans totaled $33,298,000 and $26,171,000 with specific reserves on these loans of $2,207,000 and $1,280,000 as of December 31, 2014 and 2013, 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 $7,404,000, $9,661,000 and $4,264,000 in 2014, 2013 and 2012, respectively. The increases for 2014 and 2013 were the result of receiving new appraisals on several collateral-dependent loans. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision significantly for two impaired loans during these years. Additional loan loss provisions of $1,600,000 and $7,600,000 were recorded for one out-of-area residential development loan in 2014 and 2013, respectively. An additional loan loss provision of $3,300,000 was recorded for one commercial real estate loan secured by a hotel in our trade area in 2014. The allowance for loan losses as a percentage of loans was 2.54%, 2.38% and 2.05% at December 31, 2014, 2013 and 2012, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2014.

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

2014 as compared with 2013

Total non-interest income decreased $448,000 in 2014 as compared with 2013. Service charges on deposit accounts decreased $336,000 in 2014 as compared with 2013 as a result of decreased ATM fees. ATM fees decreased $333,000 as the Company's off-site ATMs at a casino transferred to another vendor during 2014 which reduced ATM transactions. Gains from liquidation, sales and calls of securities decreased $159,000 as sales were executed when proceeds would be maximized. The Company realized a loss from operations of its investments in a low income housing partnership in 2014 as compared with income from operations in 2013 as a result of decreased occupancy.

2013 as compared with 2012

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.

Non-interest expense

2014 as compared with 2013

Total non-interest expense increased $1,554,000 in 2014 as compared with 2013. Salaries and employee benefits increased $457,000 in 2014 as compared with 2013. Salaries increased $293,000 in 2014 as compared with 2013 due to merit raises. Expenses relating to the retiree health plan increased $123,000 as 2013's results included the effect of an amendment to the plan which lowered the expense. Equipment rentals, depreciation and maintenance increased $176,000 in 2014 as compared with 2013 primarily as a result of an increase of $63,000 in depreciation and servicing costs on new computer hardware and software placed into service during 2014. Other expense increased $856,000 for 2014 as compared with 2013. This increase was the result of increases in FDIC and state assessments and other real estate expenses. FDIC and state assessments increased $163,000 in 2014 as 2013 results included an adjustment in the estimate of prepaid assessments. Increased write downs of other real estate to fair value caused these expenses to increase $647,000 in 2014 as compared with 2013.

2013 as compared with 2012

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 became 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 write downs 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.

Income Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2014, 2013 and 2012, respectively. Income taxes increased in 2014 as the Company established a valuation allowance for its deferred tax assets. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years.

FINANCIAL CONDITION

Cash and due from banks decreased $12,708,000 at December 31, 2014, compared with December 31, 2013 in the management of the bank subsidiary's liquidity position.

Available for sale securities decreased $60,318,000 at December 31, 2014 compared with December 31, 2013 as a result of sales and maturities of these investments during 2014.

Held to maturity securities increased $6,642,000 at December 31, 2014 compared with December 31, 2013 as the Company opted to classify some of its investment purchases during the current year as held to maturity.

Loans decreased $12,942,000 at December 31, 2014 compared with December 31, 2013, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Other real estate ("ORE") decreased $1,984,000 at December 31, 2014 as compared with December 31, 2013. Loans totaling $1,345,000 were transferred into ORE while $2,068,000 was sold for a gain of $47,000 and write-downs of ORE to fair value were $1,261,000 during 2014.

Other assets decreased $8,840,000 at December 31, 2014 as compared with December 31, 2013 primarily as a result of a valuation allowance of $8,140,000 on deferred tax assets.

Total deposits decreased $35,844,000 at December 31, 2014, as compared with December 31, 2013. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

Federal funds purchased and securities sold under agreements to repurchase decreased $15,433,000 at December 31, 2014 as compared with December 31, 2013 as several county and municipal entities reallocated their balances from a non-deposit account during 2014.

Borrowings from the Federal Home Loan Bank decreased $38,976,000 at December 31, 2014 as compared with December 31, 2013 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $1,120,000 at December 31, 2014 as compared with December 31, 2013 due to deferred compensation benefits earned by employees and directors during 2014.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

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

The measure of capital adequacy which is currently used by Management to evaluate the strength of the Company's capital is the primary capital ratio which was 14.38% at December 31, 2014, 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 2014 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 2015.

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 2015 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, 2014 was as follows (in thousands):

	2015	2016	2017	2018	2019	BEYOND	TOTAL	12/31/14 FAIR VALUE
Loans, net	$ 202,946	$ 28,192	$ 10,215	$ 26,515	$ 31,918	$ 53,415	$ 353,201	$ 355,004
Average rate	4.86%	5.51%	5.95%	4.73%	4.98%	4.58%	4.92%	
Securities	16,055	5,017	12,972	13,368	24,264	166,696	238,372	238,447
Average rate	2.30%	2.78%	2.05%	2.37%	2.12%	2.74%	2.39%	
Total Financial Assets	219,001	33,209	23,187	39,883	56,182	220,111	591,573	593,451
Average rate	4.77%	5.29%	4.76%	4.25%	4.28%	3.38%	4.31%	
Deposits	266,042	7,609	10,333	3,073	2,050		289,107	289,466
Average rate	0.69%	0.55%	1.25%	0.96%	0.96%		0.80%	
Federal funds purchased and securities sold under agreements to repurchase	124,206						124,206	124,206
Average rate	0.07%						0.07%	
Borrowings from FHLB	35,308	311	296	245	187	2,361	38,708	40,730
Average rate	3.50%	4.08%	4.08%	4.08%	4.08%	4.08%	3.56%	
Total Financial Liabilities	425,556	7,920	10,269	3,318	2,237	2,361	452,021	454,402
Average rate	1.57%	1.37%	1.49%	1.75%	1.83%	4.08%	1.61%	

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%	

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands except share data)

DECEMBER 31,	2014	2013	2012
Assets			
Cash and due from banks	$ 23,556	$ 36,264	$ 54,020
Available for sale securities	215,122	275,440	258,876
Held to maturity securities, fair value of $17,859 - 2014; $10,686 - 2013; $7,225 - 2012	17,784	11,142	7,125
Other investments	2,962	3,262	3,450
Federal Home Loan Bank Stock, at cost	2,504	3,834	2,380
Loans	362,407	375,349	431,083
Less: Allowance for loan losses	9,206	8,934	8,857
Loans, net	353,201	366,415	422,226
Bank premises and equipment, net of accumulated depreciation	23,784	25,308	26,222
Other real estate	7,646	9,630	7,008
Accrued interest receivable	2,125	2,607	2,895
Cash surrender value of life insurance	18,145	17,456	16,861
Other assets	2,066	10,906	3,849
Total assets	$ 668,895	$ 762,264	$ 804,912
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 103,607	$ 107,117	$ 102,609
Savings and demand, interest bearing	212,534	217,005	232,401
Time, $100,000 or more	35,925	60,519	94,606
Other time deposits	40,648	43,917	46,103
Total deposits	392,714	428,558	475,719
Federal funds purchased and securities sold under agreements to repurchase	124,206	139,639	194,234
Borrowings from Federal Home Loan Bank	38,708	77,684	7,912
Employee and director benefit plans liabilities	16,957	15,837	14,291
Other liabilities	1,359	1,399	2,002
Total liabilities	573,944	663,117	694,158
Shareholders' Equity:			
Common Stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2014 and 2013 and 5,136,918 at December 31, 2012	5,123	5,123	5,137
Surplus	65,780	65,780	65,780
Undivided profits	23,743	34,259	34,964
Accumulated other comprehensive income (loss), net of tax	305	(6,015)	4,873
Total shareholders' equity	94,951	99,147	110,754
Total liabilities and shareholders' equity	$ 668,895	$ 762,264	$ 804,912

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

YEARS ENDED DECEMBER 31,	2014	2013	2012
Interest income:			
Interest and fees on loans	$ 16,055	$ 18,927	$ 18,577
Interest and dividends on securities:			
U.S. Treasuries	587	590	463
U.S. Government agencies	3,027	3,114	3,777
Mortgage-backed securities	888	703	287
States and political subdivisions	1,560	1,524	1,493
Other investments	18	29	15
Interest on federal funds sold	21	69	16
Total interest income	22,156	24,956	24,628
Interest expense:			
Deposits	1,111	1,098	1,500
Borrowings from Federal Home Loan Bank	230	191	232
Federal funds purchased and securities sold under agreements to repurchase	100	158	335
Total interest expense	1,441	1,447	2,067
Net interest income	20,715	23,509	22,561
Provision for allowance for loan losses	7,404	9,661	4,264
Net interest income after provision for allowance for loan losses	13,311	13,848	18,297
Non-interest income:			
Trust department income and fees	1,463	1,423	1,458
Service charges on deposit accounts	5,900	6,236	5,911
Gain on liquidation, sales and calls of securities	99	258	1,364
Loss on impairment of other investments			(360)
Income (loss) on other investments	(64)	42	(84)
Increase in cash surrender value of life insurance	589	501	573
Other income	632	607	667
Total non-interest income	8,619	9,067	9,529
Non-interest expense:			
Salaries and employee benefits	12,025	11,568	11,992
Net occupancy	2,480	2,415	2,434
Equipment rentals, depreciation and maintenance	3,054	2,878	3,106
Other expense	9,649	8,793	7,745
Total non-interest expense	27,208	25,654	25,277
Income (loss) before income taxes	(5,278)	(2,739)	2,549
Income tax (benefit) expense	4,726	(2,201)	(92)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Basic and diluted earnings (loss) per share	$ (1.95)	$ (.10)	$ .51
Dividends declared per share	$ .10	$	$ .20

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

YEARS ENDED DECEMBER 31,	2014	2013	2012
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Other comprehensive income (loss), net of tax:			
Net unrealized gain (loss) on available for sale securities, net of tax of $3,506, $5,153 and $440 for the years ended December 31, 2014, 2013 and 2012, respectively	6,806	(10,002)	855
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $34, $88 and $464 for the years ended December 31, 2014, 2013 and 2012, respectively	(65)	(170)	(900)
Loss from unfunded post-retirement benefit obligation, net of tax of $217, $369 and $137 for the years ended December 31, 2014, 2013 and 2012, respectively	(421)	(716)	(266)
Total other comprehensive income (loss)	6,320	(10,888)	(311)
Total comprehensive income (loss)	$ (3,684)	$ (11,426)	$ 2,330

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, 2012	5,136,918	$ 5,137	$ 65,780
Net income			
Other comprehensive loss, net of tax			
Cash dividend ($.20 per share)			
Balance, December 31, 2012	5,136,918	5,137	65,780
Net loss			
Other comprehensive loss, net of tax			
Retirement of stock	(13,732)	(14)	
Balance, December 31, 2013	5,123,186	5,123	65,780
Net loss			
Other comprehensive income, net of tax			
Cash dividend ($.10 per share)			
Balance, December 31, 2014	5,123,186	$ 5,123	$ 65,780

See Notes to Consolidated Financial Statements.

Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
$ 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
(10,004)		(10,004)
	6,320	6,320
(512)		(512)
$ 23,743	$ 305	$ 94,951

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

YEARS ENDED DECEMBER 31,	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,817	1,750	2,048
Provision for allowance for loan losses	7,404	9,661	4,264
Writedown of other real estate	1,261	670	153
(Gain) loss on sales of other real estate	(47)	63	21
Loss on impairment of other investments			360
(Income) loss on other investments	64	(42)	84
Amortization of available for sale securities	250	514	293
Accretion of held to maturity securities	(3)	(2)	(1)
Gain on liquidation, sales and calls of securities	(99)	(258)	(1,364)
Increase in cash surrender value of life insurance	(589)	(501)	(573)
Gain on sale of bank premises and equipment		(15)	
Change in accrued interest receivable	482	288	(197)
Change in other assets	810	(467)	600
Change in other liabilities	5,218	(1,122)	(211)
Net cash provided by operating activities	6,564	10,001	8,118
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	72,374	142,355	358,404
Purchases of available for sale securities	(1,995)	(174,588)	(337,360)
Proceeds from maturities of held to maturity securities	660	795	170
Purchases of held to maturity securities	(7,299)	(4,810)	(5,865)
Purchases of Federal Home Loan Bank Stock		(1,454)	
Redemption of Federal Home Loan Bank Stock	1,330		201
Redemption of other investments	236	230	36
Proceeds from sales of other real estate	2,115	1,125	1,546
Loans, net change	4,465	41,613	(4,794)
Acquisition of premises and equipment	(293)	(840)	(235)
Proceeds from sales of banking premises and equipment		19	
Insurance proceeds from casualty loss on other real estate		57	
Investment in cash surrender value of life insurance	(100)	(94)	(91)
Net cash provided by investing activities	71,493	4,408	12,012
Cash flows from financing activities:			
Demand and savings deposits, net change	(7,981)	(10,888)	32,110
Time deposits, net change	(27,863)	(36,273)	(24,830)
Cash dividends	(512)		(1,541)
Retirement of common stock		(181)	
Borrowings from Federal Home Loan Bank	2,013,013	868,560	2,246,717
Repayments to Federal Home Loan Bank	(2,051,989)	(798,788)	(2,292,128)
Federal funds purchased and securities sold under agreements to repurchase, net change	(15,433)	(54,595)	36,633
Net cash used in financing activities	(90,765)	(32,165)	(3,039)
Net increase (decrease) in cash and cash equivalents	(12,708)	(17,756)	17,091
Cash and cash equivalents, beginning of year	36,264	54,020	36,929
Cash and cash equivalents, end of year	$ 23,556	$ 36,264	$ 54,020

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 April 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-06, Technical Corrections and Improvements Related to Glossary Terms. This ASU added, deleted, corrected and modified terms in the Master Glossary of the Codification and was effective upon issuance. The adoption of this ASU did not have a material effect on the Company's financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-14, Receivables — Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. This ASU requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if certain conditions are met. ASU No. 2014-14 is effective for annual periods and interim periods within those annual periods beginning after December 31, 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 August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 31, 2016, and interim periods within annual periods beginning after December 14, 2016. The adoption of this ASU is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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 $417,000, $407,000 and $566,000 for the years ending December 31, 2014, 2013 and 2012, 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, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

Earnings Per Share
Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, 5,123,186 in 2014, 5,128,889 in 2013 and 5,136,918, in 2012.

Accumulated Other Comprehensive Income (Loss)
At December 31, 2014, 2013 and 2012, 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 $1,447,133, $1,470,945 and $2,082,914 in 2014, 2013 and 2012, respectively, for interest on deposits and borrowings. Income tax payments totaled $320,000, $810,000 and $835,000 in 2014, 2013 and 2012, respectively. Loans transferred to other real estate amounted to $1,345,170, $4,536,710 and $2,575,520 in 2014, 2013 and 2012, respectively. Dividends payable of $513,692 as of December 31, 2011 were paid during the year ended December 31, 2012.

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

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

NOTE B - SECURITIES:

The amortized cost and fair value of securities at December 31, 2014, 2013 and 2012, respectively, are as follows (in thousands):

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 29,787	$ 27	$ (160)	$ 29,654
U.S. Government agencies	119,805	115	(1,931)	117,989
Mortgage-backed securities	35,671	282	(136)	35,817
States and political subdivisions	29,832	1,180		31,012
Total debt securities	215,095	1,604	(2,227)	214,472
Equity securities	650			650
Total available for sale securities	$ 215,745	$ 1,604	$ (2,227)	$ 215,122
Held to maturity securities:				
States and political subdivisions	$ 17,784	$ 132	$ (57)	$ 17,859
Total held to maturity securities	$ 17,784	$ 132	$ (57)	$ 17,859

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

The amortized cost and fair value of debt securities at December 31, 2014, (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	$ 5,715	$ 5,762
Due after one year through five years	61,539	61,738
Due after five years through ten years	52,867	52,627
Due after ten years	59,303	58,528
Mortgage-backed securities	35,671	35,817
Totals	$ 215,095	$ 214,472
Held to maturity securities:		
Due in one year or less	$ 211	$ 211
Due after one year through five years	3,964	3,976
Due after five years through ten years	8,118	8,179
Due after ten years	5,491	5,493
Totals	$ 17,784	$ 17,859

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2014, 2013 and 2012, 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, 2014:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 4,968	$ 15	$ 14,795	$ 145	$ 19,763	$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
Total	$ 20,407	$ 69	$ 128,598	$ 2,215	$ 149,005	$ 2,284

	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

At December 31, 2014, 4 of the 8 securities issued by the U.S. Treasury, 19 of the 24 securities issued by U.S. Government agencies, 5 of the 10 mortgage-backed securities and 20 of the 152 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 $44,279,605, $26,075,225 and $77,605,104 during 2014, 2013 and 2012, respectively. Available for sale debt securities were sold and called for realized gains of $98,859, $257,997 and $1,363,802 during 2014, 2013 and 2012, respectively. The Company recorded a loss from the impairment of its other investments of $360,000 in 2012.

Securities with a fair value of $200,474,637, $262,830,011 and $241,879,775 at December 31, 2014, 2013 and 2012, 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, 2014, 2013 and 2012 is as follows (in thousands):

December 31,	2014	2013	2012
Gaming	$ 31,353	$ 29,570	$ 60,187
Residential and land development	10,119	19,403	27,338
Real estate, construction	34,010	44,987	52,586
Real estate, mortgage	240,341	237,158	246,420
Commercial and industrial	31,906	35,007	35,004
Other	14,678	9,224	9,548
Total	$ 362,407	$ 375,349	$ 431,083

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,	2014	2013	2012
Balance, January 1	$ 6,761	$ 6,310	$ 5,681
New loans and advances	2,516	1,647	3,755
Repayments	(1,517)	(1,196)	(3,126)
Balance, December 31	$ 7,760	$ 6,761	$ 6,310

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,	2014	2013	2012
Gaming	$ 31,353	$ 29,570	$ 60,187
Hotel/motel	47,144	49,842	52,776
Out of area	19,179	24,945	25,413

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2014, 2013 and 2012 is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days And Still Accruing
	30-59	60-89	Greater Than 90	Total Past Due	Current	Total Loans	
December 31, 2014:							
Gaming	$	$	$	$	$ 31,353	$ 31,353	$
Residential and land development			5,262	5,262	4,857	10,119	
Real estate, construction	1,665	85	1,944	3,694	30,316	34,010	30
Real estate, mortgage	3,502	3,101	12,007	18,610	221,731	240,341	733
Commercial and industrial	909	7	205	1,121	30,785	31,906	
Other	168	10		178	14,500	14,678	
Total	$6,244	$3,203	$19,418	$28,865	$333,542	$ 362,407	$ 763
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

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, 2014, 2013 and 2012 is as follows (in thousands):

	Loans With A Grade Of:					
December 31, 2014:	A or B	C	D	E	F	Total
Gaming	$ 8,400	$ 22,953	$	$	$	$ 31,353
Residential and land development	3,520	1,319	17	5,263		10,119
Real estate, construction	27,474	723	2,496	3,317		34,010
Real estate, mortgage	197,086	4,051	16,591	22,613		240,341
Commercial and industrial	26,877	25	1,579	3,425		31,906
Other	14,583	6	89			14,678
Total	$ 277,940	$ 29,077	$ 20,772	$ 34,618	$	$ 362,407
December 31, 2013:						
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

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, 2014, 2013 and 2012 are as follows (in thousands):

December 31,	2014	2013	2012
Gaming	$	$ 1,223	$ 16,249
Residential and land development	8,233	13,572	21,083
Real estate, construction	3,287	2,588	5,171
Real estate, mortgage	21,398	8,788	11,174
Commercial and industrial	380		214
Total	$ 33,298	$ 26,171	$ 53,891

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, 2014, 2013 and 2012, were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
December 31, 2014:				
Real estate, mortgage	2	$ 837	$ 837	$ 50
Total	2	$ 837	$ 837	$ 50
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

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 as of December 31, 2012. During 2014, seven loans which had been classified as troubled debt restructurings at December 31, 2013 became in default of their modified terms and were placed on nonaccrual. These loans included two loans that were included in the real estate, construction segment with a total balance of $891,782, four loans that were included in the real estate, mortgage segment with a total balance of $9,136,954 and one loan that was included in the commercial and industrial segment with a balance of $677,901 as of December 31, 2013.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2014, 2013 and 2012 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 9,513	$ 8,233	$	$ 8,380	$
Real estate, construction	2,198	2,178		2,222	
Real estate, mortgage	19,517	16,243		18,258	26
Commercial and industrial	380	380		384	
Total	31,608	27,034		29,244	26
With a related allowance recorded:					
Real estate, construction	1,109	1,109	422	1,115	
Real estate, mortgage	6,591	5,992	2,135	5,996	9
Total	7,700	7,101	2,557	7,111	9
Total by class of loans:					
Residential and land development	9,513	8,233		8,380	
Real estate, construction	3,307	3,287	422	3,337	
Real estate, mortgage	26,108	22,235	2,135	24,254	35
Commercial and industrial	380	380		384	
Total	$ 39,308	$ 34,135	$2,557	$ 36,355	$ 35
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

Transactions in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2014, 2013 and 2012 are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs	(992)	(2,060)	(127)	(368)	(3,948)	(235)	(7,730)
Recoveries	260		35	193	20	90	598
Provision	328	1,535	257	1,231	3,883	170	7,404
Ending Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 742	$ 2,706	$ 289	$ 6	$ 3,743
Ending balance: collectively evaluated for impairment	$ 573	$ 251	$ 118	$ 3,903	$ 298	$ 320	$ 5,463
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 7,232	$ 6,830	$ 39,204	$ 2,035	$ 89	$ 55,390
Ending balance: collectively evaluated for impairment	$ 31,353	$ 2,887	$ 27,180	$ 201,137	$ 29,871	$ 14,589	$307,017
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

NOTE D - BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2014	2013	2012
Land		$ 5,982	$ 5,982	$ 5,985
Building	5 — 40 years	30,593	30,540	30,504
Furniture, fixtures and equipment	3 — 10 years	15,511	15,272	14,487
Totals, at cost		52,086	51,794	50,976
Less: Accumulated depreciation		28,302	26,486	24,754
Totals		$ 23,784	$ 25,308	$ 26,222

NOTE E — OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2014, 2013 and 2012, respectively (in thousands except number of properties):

December 31,	2014		2013		2012	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	15	$5,034	18	$4,887	11	$ 2,834
1-4 family residential properties	10	431	6	180	6	576
Non farm non residential	14	2,030	17	4,563	14	3,573
Other	1	151			1	25
Total	40	$7,646	41	$9,630	32	$ 7,008

NOTE F — DEPOSITS:

At December 31, 2014, the scheduled maturities of time deposits are as follows (in thousands):

2015	$ 53,508
2016	7,609
2017	10,333
2018	3,073
2019	2,050
Total	$ 76,573

Time deposits of $100,000 or more at December 31, 2014 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $25,321,000, $49,773,000 and $79,423,000 at December 31, 2014, 2013 and 2012, respectively.

Deposits held for related parties amounted to $6,607,646, $7,511,446 and $8,720,550 at December 31, 2014, 2013 and 2012, respectively.

Overdrafts totaling $822,730, $764,262 and $1,435,922 were reclassified as loans at December 31, 2014, 2013 and 2012, respectively.

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

At December 31, 2014, the Company had facilities in place to purchase federal funds up to $40,000,000 under established credit arrangements. At December 31, 2014, 2013 and 2012, 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, 2014, the Company was able to borrow up to $38,845,590 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, 2014.

At December 31, 2014, the Company had $38,707,935 outstanding in advances under a $97,649,565 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 .593% at December 31, 2014, and matures in 2017. An additional advance in the amount of $30,000,000 bears interest at .08% and matured in January of 2015. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. The remaining balance consists of smaller advances bearing interest from 2.604% to 7.00% with maturity dates from 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, 2014, 2013 and 2012, included in other assets, were as follows (in thousands):

December 31,	2014	2013	2012
Deferred tax assets:			
Allowance for loan losses	$ 3,130	$ 3,037	$ 3,011
Employee benefit plans' liabilities	4,490	4,326	4,135
Unrealized loss on available for sale securities, charged from equity	210	3,684	
Earned retiree health benefits plan liability	1,638	1,638	1,673
General business and AMT credits	1,735		
Tax net operating loss carry forward	651		
Other	1,637	1,218	1,170
Valuation allowance	(8,140)		
Deferred tax assets	5,351	13,903	9,989
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity			1,556
Unearned retiree health benefits plan asset	362	579	948
Bank premises and equipment	4,760	5,075	5,366
Other	229	129	92
Deferred tax liabilities	5,351	5,783	7,962
Net deferred taxes	$	$ 8,120	$ 2,027

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

Years Ended December 31,	2014	2013	2012
Current	$ (137)	$ (1,717)	$ 1,425
Deferred:			
Federal	(3,277)	(484)	(1,517)
Change in valuation allowance	8,140		
Total deferred	4,863	(484)	(1,517)
Totals	$ 4,726	$ (2,201)	$ (92)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2014, 2013 and 2012 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2014		2013		2012	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ (1,794)	(34)	$ (931)	(34)	$ 867	34
Increase (decrease) resulting from:						
Tax-exempt interest income	(532)	(10)	(539)	(20)	(532)	(21)
Income from BOLI	(200)	(4)	(170)	(6)	(195)	(8)
Federal tax credits	(298)	(6)	(298)	(11)	(372)	(15)
Other	(590)	(10)	(263)	(9)	140	6
Change in valuation allowance	8,140	154				
Total income tax expence (benefit)	$ 4,726	90	$ (2,201)	(80)	$ (92)	(4)

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

If not utilized, the Company's federal net operating loss of $1,900,000 will expire in 2034.

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

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, 2014, $15,403,607 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, 2014.

The Company and the bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the bank subsidiary and Company 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, 2014, 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 2014, 2013 and 2012, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 100,243	21.95%	$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%
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%

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 2014, 2013 and 2012, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 96,427	21.28%	$ 36,247	8.00%	$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%
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%

In July 2013, the Federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule establishes a new common equity Tier 1 minimum capital requirement, increases the minimum capital ratios and assigns a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes transition periods that generally implement the new regulations over a five year period. These changes will be phased in beginning in January 2015, and while management continues to evaluate this final rule and its potential impact, preliminary assessments indicate that the Bank and the Company will continue to exceed all regulatory capital requirements under the new rule.

NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2014	2013	2012
Other service charges, commissions and fees	$ 84	$ 74	$ 83
Rentals	435	433	442
Other	113	100	142
Totals	$ 632	$ 607	$ 667

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2014	2013	2012
Advertising	$ 552	$ 596	$ 489
Data processing	1,339	1,254	1,434
FDIC and state banking assessments	1,033	870	503
Legal and accounting	493	535	511
Other real estate	1,610	963	648
ATM expense	2,409	2,367	2,033
Trust expense	323	332	314
Other	1,890	1,876	1,813
Totals	$ 9,649	$8,793	$7,745

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, 2014, 2013 and 2012, the Company had outstanding irrevocable letters of credit aggregating $1,879,678, $3,059,011 and $3,599,011, respectively. At December 31, 2014, 2013 and 2012, the Company had outstanding unused loan commitments aggregating $66,663,320, $68,171,024 and $80,741,699, respectively. Approximately $35,753,000, $38,324,000 and $46,956,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2014, 2013 and 2012, 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,	2014	2013	2012
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 91,179	$ 94,883	$ 106,266
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	160	487	360
Other assets	3,611	3,937	4,288
Total assets	$ 94,951	$ 99,308	$ 110,915
Liabilities and Shareholders' Equity:			
Other liabilities	$	$ 161	$ 161
Total liabilities		161	161
Shareholders' equity	94,951	99,147	110,754
Total liabilities and shareholders' equity	$ 94,951	$ 99,308	$ 110,915

CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2014	2013	2012
Income			
Earnings of unconsolidated bank subsidiary:			
Distributed earnings	$	$	$ 1,150
Undistributed earnings (loss)	(10,025)	(494)	1,845
Loss on impairment of other investments			(360)
Other income	(53)	57	(71)
Total income (loss)	(10,078)	(437)	2,564
Expenses			
Other	124	122	105
Total expenses	124	122	105
Income (loss) before income taxes	(10,202)	(559)	2,459
Income tax benefit	(198)	(21)	(182)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Adjustments to reconcile net income (loss) to			
net cash provided by (used in) operating activities:			
(Income) loss on other investments	64	(42)	84
Loss on impairment of other investments			360
Undistributed (income) loss of unconsolidated subsidiaries	10,025	494	(1,845)
Other assets	25	164	(182)
Other liabilities	(161)		(1)
Net cash provided by (used in) operating activities	(51)	78	1,057
Cash flows from investing activities:			
Redemption of equity securities	236	230	36
Net cash provided by investing activities	236	230	36
Cash flows from financing activities:			
Retirement of stock		(181)	
Dividends paid	(512)		(1,541)
Net cash used in financing activities	(512)	(181)	(1,541)
Net increase (decrease) in cash	(327)	127	(448)
Cash, beginning of year	487	360	808
Cash, end of year	$ 160	$ 487	$ 360

The Company paid income taxes of $320,000, $810,000 and $835,000 in 2014, 2013 and 2012, respectively. No interest was paid during the three years ended December 31, 2014.

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 $280,000, $220,000 and $330,000 in 2014, 2013 and 2012, respectively.

Compensation expense of $7,678,640, $7,594,790 and $7,691,059 was the basis for determining the ESOP contribution allocation to participants for 2014, 2013 and 2012, respectively. The ESOP held 315,269, 359,030 and 383,141 allocated shares at December 31, 2014, 2013 and 2012, 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 $16,370,384, $15,824,497 and $15,363,241 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the interest ramp-up method in 2014, 2013 and 2012, has been accrued. The accrual amounted to $11,465,119, $11,004,738 and $10,572,681 at December 31, 2014, 2013 and 2012, 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 $1,346,910, $1,218,175 and $1,105,741 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $1,450,280, $1,435,554, and $1,328,657 at December 31, 2014, 2013 and 2012, 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 $277,278, $269,271 and $262,466 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013, and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $80,997, $78,759 and $68,253 at December 31, 2014, 2013 and 2012, 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 $150,687, $138,001 and $129,367 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $210,207, $206,650 and $192,528 at December 31, 2014, 2013 and 2012, respectively, and is included in Employee and director benefit plans liabilities.

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

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

Years Ended December 31,	2014	2013	2012
Service cost	$ 105	$ 55	$ 45
Interest cost	132	82	72
Amortization of net gain	(14)	(2)	(16)
Amortization of prior service credit	(81)	(183)	(203)
Net periodic post-retirement benefit cost (credit)	$ 142	$ (48)	$ (102)

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.00% in 2014, 4.80% in 2013 and 4.00% in 2012. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.00% in 2014. 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, 2014, would be increased by 16.45%, 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 16.78%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2014, would be decreased by 13.02%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 13.54%.

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):

2015	$222
2016	191
2017	171
2018	147
2019	87
2020 – 2024	828

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

Accumulated post-retirement benefit obligation as of December 31, 2013	$ 2,853
Service cost	105
Interest cost	132
Actuarial loss	544
Benefits paid	(64)
Accumulated post-retirement benefit obligation as of December 31, 2014	$ 3,570

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

	2014	2013	2012
Fair value of plan assets at beginning of year	$	$	$
Actual return on assets			
Employer contribution	64	90	67
Benefits paid, net	(64)	(90)	(67)
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,	2014	2013	2012
Net gain (loss)	$ (80)	$ 288	$ 123
Prior service charge	783	837	1,718
Total accumulated other comprehensive income	$ 703	$ 1,125	$ 1,841

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

For the year ended December 31,	2014
Unrecognized actuarial loss	$ 557
Amortization of prior service cost	81
Total accumulated other comprehensive loss	$ 638

The prior service credit that will be recognized in accumulated other comprehensive income during 2015 is $81,381.

NOTE P - FAIR VALUE MEASUREMENTS AND DISCLOSURES:

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

Fair Value Hierarchy

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

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

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

Cash and Due from Banks

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

Available for Sale Securities

The fair value of available for sale securities is based on quoted market prices. The Company's available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based by asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. 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. Impaired loans are non-recurring Level 3 assets.

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

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

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

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.

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, 2014, 2013 and 2012, were as follows (in thousands):

		Fair Value Measurements Using		
December 31, 2014:	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 29,654	$	$ 29,654	$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
Total	$ 215,122	$	$ 215,122	$

		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	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2014, 2013 and 2012 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2014	$ 10,610	$	$	$ 10,610
2013	18,831			18,831
2012	16,030			16,030

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, 2014, 2013 and 2012 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2014	$ 7,646	$	$	$ 7,646
2013	9,630			9,630
2012	7,008			7,008

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):

For the year ended December 31,	2014	2013	2012
Balance, beginning of year	$ 9,630	$ 7,008	$ 6,153
Loans transferred to ORE	1,345	4,537	2,576
Sales	(2,068)	(1,188)	(1,568)
Writedowns	(1,261)	(670)	(153)
Insurance proceeds from casualty loss		(57)	
Balance, end of year	$ 7,646	$ 9,630	$ 7,008

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at December 31, 2014, 2013 and 2012, are as follows (in thousands):

		Fair Value Measurements Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
December 31,2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other Investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
Financial Liabilities:					
Deposits:					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	289,107			289,466	289,466
Federal funds purchased and securities sold under agreements to repurchase	124,206	124,206			
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720
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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the "Company") as of December 31, 2014, 2013 and 2012, 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, 2014, 2013 and 2012, 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, 2015

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

Peoples Financial Corporation and Subsidiaries

	2014	2013	2012	2011	2010
Balance Sheet Summary					
Total assets	$ 668,895	$ 762,264	$ 804,912	$ 804,152	$ 786,545
Available for sale securities	215,122	275,440	258,875	278,918	287,078
Held to maturity securities	17,784	11,142	7,125	1,428	1,915
Loans, net of unearned discount	362,407	375,349	431,083	432,407	409,899
Deposits	392,714	428,558	475,719	468,439	484,140
Borrowings from FHLB	38,708	77,684	7,912	53,324	42,957
Shareholders' equity	94,951	99,147	110,754	109,452	101,357
Summary of Operations					
Interest income	$ 22,156	$ 24,956	$ 24,628	$ 25,033	$ 29,675
Interest expense	1,441	1,447	2,067	3,178	4,601
Net interest income	20,715	23,509	22,561	21,855	25,074
Provision for loan losses	7,404	9,661	4,264	2,935	6,845
Net interest income after provision for loan losses	13,311	13,848	18,297	18,920	18,229
Non-interest income	8,619	9,067	9,529	9,860	10,114
Non-interest expense	27,208	25,654	25,277	28,781	27,581
Income (loss) before taxes	(5,278)	(2,739)	2,549	(1)	762
Income tax expense (benefit)	4,726	(2,201)	(92)	(1,204)	(723)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641	$ 1,203	$ 1,485
Per Share Data					
Basic and diluted earnings per share	$ (1.95)	$ (.10)	$ .51	$ .23	$ .29
Dividends per share	.10		.20	.19	.20
Book value	18.53	19.35	21.56	21.31	19.68
Weighted average number of shares	5,123,186	5,128,889	5,136,918	5,136,918	5,151,661
Selected Ratios					
Return on average assets	(1.38)%	(.07)%	.32%	.15%	.18%
Return on average equity	(10.31)%	(.51)%	2.40%	1.14%	1.45%
Primary capital to average assets	14.64%	13.64%	14.71%	14.59%	12.96%
Risk-based capital ratios:					
Tier 1	20.70%	21.54%	20.04%	19.61%	21.01%
Total	21.95%	22.79%	21.29%	20.86%	22.26%

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

Quarter Ended, 2014	March 31	June 30	September 30	December 31
Interest income	$ 5,847	$ 5,750	$ 5,467	$ 5,092
Net interest income	5,561	5,389	4,896	4,869
Provision for loan losses	537	537	3,541	2,789
Income (loss) before income taxes	490	100	(3,053)	(2,815)
Net income (loss)	579	335	(1,799)	(9,119)
Basic and diluted earnings (loss) per share	.11	.07	(.35)	(1.78)

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	(.23)	.18	(.17)

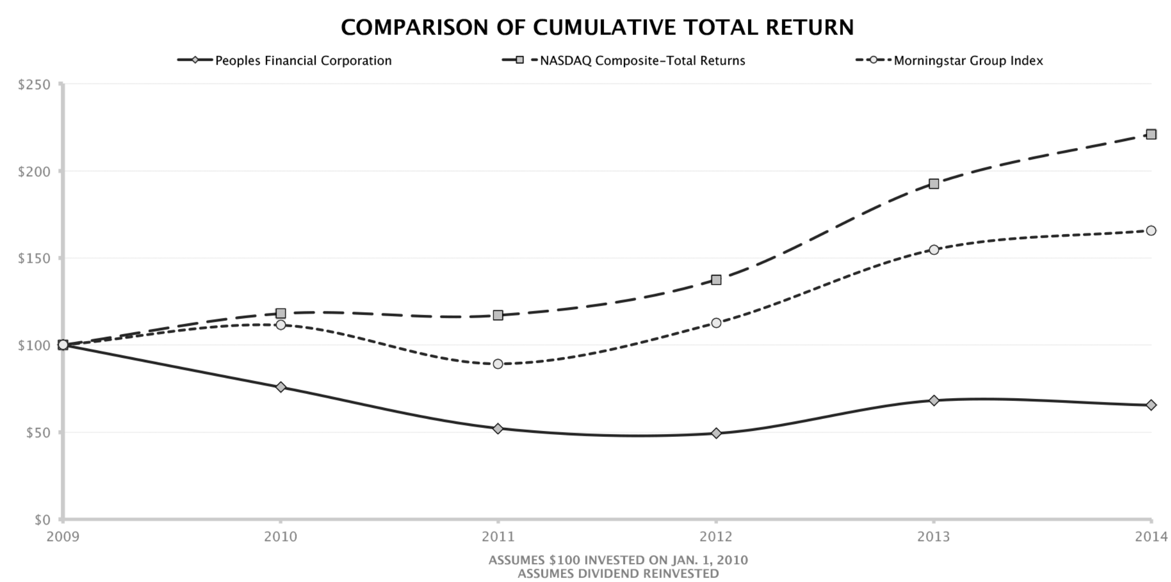
Market Information

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
2014	1st	$ 13.75	$ 12.91	$
	2nd	13.75	12.12	.10
	3rd	13.66	12.86	
	4th	13.59	12.35	
2013	1st	$ 12.75	$ 9.27	$
	2nd	13.44	12.02	
	3rd	13.14	11.17	
	4th	13.24	11.53	

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, 2010, 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

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

Downtown Gulfport Office
1105 30th Avenue, Gulfport, Mississippi 39507
(228) 897-8715

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

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

Other Branches

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

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

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

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

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

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

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

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

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

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

BOARD OF DIRECTORS

Peoples Financial Corporation

Chevis C. Swetman, *Chairman of the Board*

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

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

Rex E. Kelly, *Principal, Strategic Communications*

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

OFFICERS

Peoples Financial Corporation

Chevis C. Swetman, *President and CEO*

A. Wes Fulmer, *Executive Vice-President*

Ann F. Guice, *First Vice-President*

J. Patrick Wild, *Second Vice-President*

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

John J. Theiler, *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.*

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

A. Wes Fulmer, *Executive Vice-President*

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

Rex E. Kelly, *Principal, Strategic Communications*

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

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

SENIOR MANAGEMENT

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *President and CEO*

A. Wes Fulmer, *Executive Vice-President*

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*

John J. Theiler, *Senior Vice-President*

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