2019

ANNUAL REPORT

SINCE 1896

**PEOPLES FINANCIAL CORPORATION
AND SUBSIDIARIES**

THE PEOPLES BANK
MEMBER FDIC
Where **PEOPLE** *come first!*
SINCE 1896

To Our Shareholders:

We are pleased with our financial results for 2019, a year of achieving improved financial performance.

Net income for 2019 increased significantly to $1,679,000 as compared to $629,000 the prior year. These positive results are the direct result of on-going efforts over the last few years by the Company to improve the credit quality of the loan portfolio and to reduce non-performing assets. During 2019, the management team developed a dynamic strategic plan for 2020 and beyond which emphasizes initiatives to increase non-interest income and reduce non-interest expenses. Those efforts have already started to reap dividends and contributed to improved earnings during the second half of 2019.

On January 31, 2020, long-time directors Rex Kelly and Dan Magruder retired from the board of directors of The Peoples Bank, Biloxi, Mississippi and will not stand for reelection to the board of Peoples Financial Corporation at the annual shareholder meeting on April 22, 2020. We are very grateful to these distinguished gentlemen for their many years of wise counsel, commitment and loyalty. We wish them well as they fully enjoy retirement.

For over 123 years, our culture has focused on assisting customers on the Mississippi Gulf Coast in meeting their long-term financial needs. Our board of directors and employees are dedicated to continuing our legacy of service and contributing to the economic advancement of the Mississippi Gulf Coast.

Sincerely yours,

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

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

Peoples Financial Corporation (the "Company") is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management's discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2019, 2018 and 2017. 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") issued new accounting standards updates in 2019, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not expect that these updates discussed in the Notes will have a material impact on its financial position, results of operations or cash flows. The Company adopted Accounting Standards Update 2014-09, *Revenue from Contract with Customers (Topic 606)* and Accounting Standards Update 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, that Clarifies the Guidance in ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10),* effective January1, 2018, neither of which had a material effect on its financial position, results of operations or cash flows. The Company is currently working on the implementation of Accounting Standards Update 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Further disclosure relating to these efforts is included in Note A.

CRITICAL ACCOUNTING POLICIES

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

Investments

Investments which are classified as available for sale are stated at fair value. A decline in the market value of an 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. The determination of the fair value of securities may require Management to develop estimates and assumptions regarding the amount and timing of cash flows.

Allowance for Loan Losses

The Company's allowance for loan losses ("ALL") 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 the borrowers' ability to repay and the estimated value of any underlying collateral and current economic conditions. Management believes that the ALL is adequate and appropriate for all periods presented in these financial statements. If there was a deterioration of any of the factors considered by Management in evaluating the ALL, the estimate of loss would be updated, and additional provisions for loan losses may be required. The analysis divides the portfolio into two segments: a pool analysis of loans based upon a five year average loss history which is updated on a quarterly basis and which may be adjusted by qualitative factors by loan type and a specific reserve analysis for those loans considered impaired under GAAP. All credit relationships with an outstanding balance of $100,000 or greater that are included in Management's loan watch list are individually reviewed for impairment. All losses are charged to the ALL when the loss actually occurs or when a determination is made that a loss is likely to occur; recoveries are credited to the ALL at the time of receipt.

Other Real Estate

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

Employee Benefit Plans

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

Income Taxes

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

GAAP Reconciliation and Explanation

This report contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include taxable equivalent interest income and taxable equivalent net interest income. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures for the years ended December 31, 2019, 2018 and 2017 is included in the table on the following page.

RECONCILIATION OF NON-GAAP PERFORMANCE MEASURES (IN THOUSANDS)

Years ended December 31,	2019	2018	2017
Interest income reconciliation:			
Interest income - taxable equivalent	$ 21,131	$ 19,999	$ 19,048
Taxable equivalent adjustment	(203)	(249)	(545)
Interest income (GAAP)	$ 20,928	$ 19,750	$ 18,503
Net interest income reconciliation:			
Net interest income - taxable equivalent	$ 17,885	$ 17,341	$ 17,625
Taxable equivalent adjustment	(203)	(249)	(545)
Net interest income (GAAP)	$ 17,682	$ 17,092	$ 17,080

OVERVIEW

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

The Company recorded net income of $1,679,000 for 2019 compared with net income of $629,000 and $2,758,000 for 2018 and 2017, respectively. Results in 2019 included an increase in net interest income, a reduction in the provision for loan losses, an increase in non-interest income and a decrease in non-interest expense as compared with 2018. Results in 2018 included a significant loss from other investments and increased expenses related to other real estate as compared with 2017.

Managing the net interest margin is a key component of the Company's earnings strategy. In 2019, interest income increased as interest and fees on loans increased $547,000 and interest on mortgage-backed securities improved $575,000 as compared to 2018. This increase was somewhat offset by the increase in interest expense in the current year. In 2018, interest income increased as interest and fees on loans increased $295,000 and interest on mortgage-backed securities improved $1,313,000 as compared with 2017. This increase however was almost entirely offset by the increase in interest expense in 2018.

Monitoring asset quality, estimating potential losses in our loan portfolio and addressing non-performing loans continue to be emphasized. The Company is working diligently to address and reduce its non-performing assets. The Company's nonaccrual loans totaled $9,266,000 and $8,250,000 at December 31, 2019 and 2018, respectively. Most of these loans are collateral-dependent, and the Company has carefully evaluated the value of its collateral to determine potential losses.

No provision was recorded in 2019, while the provision for the allowance for loan losses was $122,000 and $116,000 for 2018 and 2017, respectively.

Non-interest income increased $264,000 for 2019 as compared with 2018 and decreased $862,000 for 2018 as compared with 2017. Results for 2019 included an increase in service charges on deposit accounts of $65,000 and a gain from the sale of securities of $147,000. Results for 2018 included a $274,000 loss from other investments. Results for 2017 included a non-recurring gain of $429,000 from the redemption of death benefits on bank owned life insurance.

Non-interest expense decreased $110,000 for 2019 as compared with 2018 and increased $229,000 for 2018 as compared with 2017. The decrease in 2019 was primarily the result of reduced costs of employee benefits. The increase in 2018 was primarily the result of increased write-downs of other real estate of $304,000.

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.

2019 as compared with 2018

The Company's average interest-earning assets decreased approximately $15,550,000, or 3%, from approximately $569,944,000 for 2018 to approximately $554,394,000 for 2019. Average loans decreased approximately $6,461,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans. Average taxable available for sale securities decreased approximately $13,845,000 and average nontaxable available for sale securities decreased approximately $4,102,000 as maturities of these securities funded the decrease in average savings and interest bearing DDA deposits. The average yield on interest-earning assets was 3.51% for 2018 compared with 3.81% for 2019. The yield on average loans increased from 4.85% for 2018 to 5.17% for 2019 as a result of the increase in prime rate during 2018 on the Company's floating rate loans as well as the recovery of previously charged-off interest on loans. The yield on taxable available for sale securities increased from 1.98% for 2018 to 2.32% for 2019 as the Company changed its investment strategy to improve yield while not compromising duration and credit risk.

Average interest-bearing liabilities decreased approximately $25,778,000, or 6%, from approximately $414,778,000 for 2018 to approximately $389,000,000 for 2019. Average savings and interest-bearing DDA balances decreased approximately $26,045,000 primarily as several large commercial customers relocated their funds to other institutions in the current year. The average rate paid on interest-bearing liabilities increased 19 basis points, from .64% for 2018 to .83% for 2019. This increase was the result of increased rates in 2018 and 2019.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.04% for 2018 as compared with 3.23% for 2019.

2018 as compared with 2017

The Company's average interest-earning assets decreased approximately $30,425,000, or 5%, from approximately $600,369,000 for 2017 to approximately $569,944,000 for 2018. Average loans decreased approximately $16,605,000 due to principal payments, maturities, charge-offs and foreclosures on existing loans significantly exceeding new loans. Average balances due from depository institutions decreased approximately $18,321,000 based on the liquidity needs of the bank subsidiary. The average yield on interest-earning assets was 3.17% for 2017 compared with 3.51% for 2018. The yield on average loans increased from 4.47% for 2017 to 4.85% for 2018 as a result of the increase in prime rate during 2017 and 2018. The yield on taxable available for sale securities increased from 1.52% for 2017 to 1.98% for 2018 as the Company changed its investment strategy to improve yield while not compromising duration and credit risk.

Average interest-bearing liabilities decreased approximately $22,849,000, or 5%, from approximately $437,627,000 for 2017 to approximately $414,778,000 for 2018. Average savings and interest-bearing DDA balances decreased approximately $36,155,000 primarily as several large commercial customers relocated their funds to other institutions in the current year. Average borrowings from the Federal Home Loan Bank ("FHLB") increased approximately $11,161,000 due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 31 basis points, from .33% for 2017 to .64% for 2018. This increase was the result of increased rates.

The Company's net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 2.94% for 2017 as compared with 3.04% for 2018.

The tables on the following pages analyze the changes in tax-equivalent net interest income for the years ended December 31, 2019, 2018 and 2017.

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

	2019			2018			2017		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1) (2)	$ 267,263	$ 13,812	5.17%	$ 273,724	$ 13,265	4.85%	$ 290,329	$ 12,970	4.47%
Balances due from depository institutions	15,404	346	2.25%	9,498	205	2.16%	27,819	420	1.51%
Held to maturity:									
Taxable	37,987	1,141	3.00%	33,864	970	2.86%	29,389	753	2.56%
Non taxable (3)	16,460	551	3.35%	18,208	580	3.19%	19,082	717	3.76%
Available for sale:									
Taxable	206,231	4,788	2.32%	220,076	4,349	1.98%	217,059	3,298	1.52%
Non taxable (3)	8,953	422	4.71%	13,055	608	4.66%	15,677	864	5.51%
Other	2,096	71	3.39%	1,519	22	1.45%	1,014	26	2.56%
Total	$ 554,394	$ 21,131	3.81%	$ 569,944	$ 19,999	3.51%	$ 600,369	$ 19,048	3.17%
Savings and interest-bearing DDA	$ 291,152	$ 1,662	0.57%	$ 317,197	$ 1,468	0.46%	$ 353,352	$ 736	0.21%
Time deposits	87,606	1,336	1.53%	84,168	886	1.05%	82,038	637	0.78%
Federal funds purchased and securities sold under agreements to repurchase				369	10	2.71%	354	3	0.85%
Borrowings from FHLB	10,242	248	2.42%	13,044	294	2.25%	1,883	47	2.50%
Total	$ 389,000	$ 3,246	0.83%	$ 414,778	$ 2,658	0.64%	$ 437,627	$ 1,423	0.33%
Net tax-equivalent spread			2.98%			2.87%			2.84%
Net tax-equivalent margin on earning assets			3.23%			3.04%			2.94%

(1) Loan fees of $304, $310 and $338 for 2019, 2018 and 2017, respectively, are included in these figures.
(2) Includes nonaccrual loans.
(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 21% in 2019 and 2018 and 34% in 2017. See disclosure of Non-GAAP financial measures on pages 2-3.

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

	For the Year Ended December 31, 2019 Compared With December 31, 2018			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (313)	$ 881	$ (21)	$ 547
Balances due from depository institutions	128	8	5	141
Held to maturity securities:				
Taxable	118	47	6	171
Non taxable	(56)	30	(3)	(29)
Available for sale securities:				
Taxable	(273)	760	(48)	439
Non taxable	(191)	7	(2)	(186)
Other	8	30	11	49
Total	$ (579)	$ 1,763	$ (52)	$ 1,132
Interest paid on:				
Savings and interest-bearing DDA	$ (121)	$ 343	$ (28)	$ 194
Time deposits	36	398	16	450
Federal funds purchased	(10)			(10)
Borrowings from FHLB	(63)	22	(5)	(46)
Total	$ (158)	$ 763	$ (17)	$ 588

	For the Year Ended December 31, 2018 Compared With December 31, 2017			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (742)	$ 1,100	$ (63)	$ 295
Balances due from depository institutions	(277)	180	(118)	(215)
Held to maturity securities:				
Taxable	115	89	13	217
Non taxable	(33)	(109)	5	(137)
Available for sale securities:				
Taxable	46	991	14	1,051
Non taxable	(145)	(134)	23	(256)
Other	13	(11)	(6)	(4)
Total	$ (1,023)	$ 2,106	$ (132)	$ 951
Interest paid on:				
Savings and interest-bearing DDA	$ (75)	$ 899	$ (92)	$ 732
Time deposits	17	227	5	249
Federal funds purchased	1	6		7
Borrowings from FHLB	279	(5)	(27)	247
Total	$ 222	$ 1,127	$ (114)	$ 1,235

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 declines in real estate values and actual losses incurred by the Company were key factors in our analysis. Much of the Company's loan portfolio is 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, credit quality 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 $9,266,000 and $8,250,000 with specific reserves on these loans of $59,000 and $315,000 as of December 31, 2019 and 2018, 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 not recording a provision for the allowance for loan losses in 2019 and recording a total provision for the allowance for loan losses of $122,000 and $116,000 in 2018 and 2017, respectively. As a result of receiving new information and updated appraisals on several collateral-dependent loans, the Company increased the specific provision for several loans in its real estate, mortgage portfolio in 2017. This increase was partially offset by a large recovery in its real estate, construction portfolio during the year. The allowance for loan losses as a percentage of loans was 1.56%, 1.95% and 2.19% at December 31, 2019, 2018 and 2017, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2019.

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

2019 as compared with 2018

Total non-interest income increased $264,000 in 2019 as compared with 2018. Trust Department Income and Fees decreased $94,000 due to the decrease in account relationships in the current year. Gains on liquidation, sales and calls of securities increased $147,000 as the Company had opportunities to sell securities which generated gains in 2019. Income (loss) from other investments increased $106,000 in 2019 as compared with 2018 as operations of an investment in a low-income housing partnership improved slightly as a result of increased occupancy. Other income increased $72,000 as rental income increased $83,000 as previously vacant properties were leased in the current year.

2018 as compared with 2017

Total non-interest income decreased $862,000 in 2018 as compared with 2017. Gains on liquidation, sales and calls of securities decreased $117,000 as the Company had opportunities to sell securities which generated gains in 2017. Income from other investments decreased $316,000 in 2018 as compared with 2017 as operations of an investment in a low-income housing partnership declined as a result of decreased occupancy. Prior year's results included a gain of $429,000 from the redemption of death benefits on bank owned life insurance.

Non-interest Expense

2019 as compared with 2018

Total non-interest expense decreased $110,000 in 2019 as compared with 2018. Salaries and employee benefits decreased $190,000 primarily as a result of decreased costs for the retiree health plan. Net occupancy costs increased $183,000 as telecommunications costs increased $205,000 as the Company incurred redundant costs in the process of reconfiguring its resources for reduced costs and increased functionality in subsequent years. Equipment rentals, depreciation and maintenance decreased $50,000 primarily as a result of depreciable assets, primarily technology-related, purchased in prior years completing their depreciable life in the current year. Other expense decreased $53,000 in 2019 as compared with 2018. Included in this fluctuation is the decrease in other real estate expenses of $701,000, largely due to write-downs of ORE to new appraised values in 2018, which did not occur in 2019. Also impacting other expense were the increase in FDIC and state banking assessments of $126,000 as a result of a reduced assessment rate in 2018, an increase in non-recurring legal fees of $201,000 from the settlement of a lawsuit, an increase in ATM expense of $112,000 as a result of processing conversion costs and an increase in consulting fees of $135,000 primarily due to non-recurring services relating to strategic planning, operational assessments and revenue enhancement projects during 2019.

2018 as compared with 2017

Total non-interest expense increased $229,000 in 2018 as compared with 2017. Net occupancy costs decreased $117,000 as liability insurance premiums decreased $71,000 as the Company reduced some of its coverage and telecommunications costs decreased $88,000 as the Company eliminated some redundant resources. Equipment rentals, depreciation and maintenance increased $128,000 primarily as a result of purchases of depreciable assets, primarily technology-related, and an increase in maintenance contracts related to technology services. Other expense increased $276,000 as a result of the decrease in non-recurring consulting fees of $164,000, the decrease in FDIC and state banking assessments of $176,000 as a result of reduced assessment rate and the increase in other real estate expenses of $514,000, largely due to write-downs of ORE to new appraised values.

Income Taxes

The Company recognized an income tax benefit of $36,000 and $1,080,000 in 2018 and 2017, respectively. During 2014, Management established a valuation allowance against its net deferred tax asset of approximately $8,140,000. As of December 31, 2019, the valuation allowance is still in place. The 2018 and 2017 benefits were the result of the impact of the elimination of the alternative minimum tax credit carryforwards from new tax legislation and the correction of refunds for prior years. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years and further analysis of the valuation allowance.

FINANCIAL CONDITION

Cash and due from banks increased $12,233,000 at December 31, 2019 compared with December 31, 2018 due to the bank subsidiary's liquidity position.

Available for sale securities decreased $25,799,000 at December 31, 2019 compared with December 31, 2018 as the maturities exceeded investment purchases.

Held to maturity securities decreased $2,367,000 at December 31, 2019 compared with December 31, 2018 as the maturities exceeded investment purchases.

Loans decreased $4,397,000 at December 31, 2019 compared with December 31, 2018, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Total deposits increased $2,637,000 at December 31, 2019, as compared with December 31, 2018. 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.

Borrowings from the FHLB decreased $32,616,000 at December 31, 2019 as compared with December 31, 2018 based on the liquidity needs of the bank subsidiary.

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 Company has established the goal of being classified as "well-capitalized" by the banking regulatory authorities.

Significant transactions affecting shareholders' equity during 2019 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 2020.

REGULATORY MATTERS

During 2016, Management identified opportunities for improving information technology operations and security, risk management and earnings, addressing asset quality concerns, analyzing and assessing the Bank's management and staffing needs, and managing concentrations of credit risk 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 information technology operations and security, risk management, earnings, asset quality and staffing. 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.

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands except share data)

DECEMBER 31,	2019	2018
Assets		
Cash and due from banks	$ 29,424	$ 17,191
Available for sale securities	196,311	222,110
Held to maturity securities, fair value of $53,130 - 2019; $53,459 - 2018	52,231	54,598
Other investments	2,643	2,811
Federal Home Loan Bank Stock, at cost	2,129	2,069
Loans	268,949	273,346
Less: Allowance for loan losses	4,207	5,340
Loans, net	264,742	268,006
Bank premises and equipment, net of accumulated depreciation	17,421	18,879
Other real estate	7,453	8,943
Accrued interest receivable	1,687	1,956
Cash surrender value of life insurance	19,381	18,841
Other assets	1,280	1,382
Total assets	$ 594,702	$ 616,786
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 122,592	$ 114,512
Savings and demand, interest bearing	263,153	278,772
Time, $100,000 or more	64,492	52,787
Other time deposits	25,906	27,435
Total deposits	476,143	473,506
Borrowings from Federal Home Loan Bank	3,526	36,142
Employee and director benefit plans liabilities	18,361	18,415
Other liabilities	1,549	1,789
Total liabilities	499,579	529,852
Shareholders' Equity:		
Common Stock, $1 par value, 15,000,000 shares authorized, 4,943,186 shares issued and outstanding at December 31, 2019 and 2018	4,943	4,943
Surplus	65,780	65,780
Undivided profits	21,855	20,324
Accumulated other comprehensive income (loss)	2,545	(4,113)
Total shareholders' equity	95,123	86,934
Total liabilities and shareholders' equity	$ 594,702	$ 616,786

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data) **YEARS ENDED DECEMBER 31,**	**2019**	**2018**	**2017**
Interest income:			
Interest and fees on loans	$ 13,812	$ 13,265	$ 12,970
Interest and dividends on securities:			
U. S. Treasuries	1,077	1,410	1,602
U.S. Government agencies	477	471	531
Mortgage-backed securities	3,208	2,633	1,320
Collateralized mortgage obligations	192		
States and political subdivisions	1,745	1,744	1,634
Other investments	71	22	26
Interest on balances due from depository institutions	346	205	420
Total interest income	20,928	19,750	18,503
Interest expense:			
Deposits	2,998	2,354	1,373
Federal funds purchased and securities sold under agreements to repurchase		10	3
Borrowings from Federal Home Loan Bank	248	294	47
Total interest expense	3,246	2,658	1,423
Net interest income	17,682	17,092	17,080
Provision for allowance for loan losses		122	116
Net interest income after provision for allowance for loan losses	17,682	16,970	16,964
Non-interest income:			
Trust department income and fees	1,614	1,708	1,689
Service charges on deposit accounts	3,802	3,737	3,732
Gain on liquidation, sales and calls of securities	147		134
Gain on sale of other investments		17	
Income (loss) from other investments	(168)	(274)	42
Increase in cash surrender value of life insurance	440	455	458
Gain from death benefits from life insurance			429
Other income	532	460	481
Total non-interest income	6,367	6,103	6,965
Non-interest expense:			
Salaries and employee benefits	10,701	10,891	10,949
Net occupancy	2,187	2,004	2,121
Equipment rentals, depreciation and maintenance	3,084	3,134	3,006
Other expense	6,398	6,451	6,175
Total non-interest expense	22,370	22,480	22,251
Income before income taxes	1,679	593	1,678
Income tax benefit		(36)	(1,080)
Net income	$ 1,679	$ 629	$ 2,758
Basic and diluted earnings per share	$ .34	$ .13	$ .54
Dividends declared per share	$ .03	$ .02	$ .01

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands) **YEARS ENDED DECEMBER 31,**	**2019**	**2018**	**2017**
Net income	$ 1,679	$ 629	$ 2,758
Other comprehensive income (loss):			
Net unrealized gain (loss) on available for sale securities	6,411	(1,645)	127
Reclassification adjustment for realized gains on available for sale securities called or sold in current year	(147)		(134)
Gain (loss) from unfunded post-retirement benefit obligation	394	459	(1,160)
Total other comprehensive income (loss)	6,658	(1,186)	(1,167)
Total comprehensive income (loss)	$ 8,337	$ (557)	$ 1,591

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	5,083,186	$ 5,083	$ 65,780	$ 21,563	$ (2,927)	$ 89,499
Net income				629		629
Retirement of stock	(140,000)	(140)		(1,767)		(1,907)
Cash dividend ($.02 per share)				(101)		(101)
Other comprehensive loss					(1,186)	(1,186)
Balance, December 31, 2018	4,943,186	4,943	65,780	20,324	(4,113)	86,934
Net income				1,679		1,679
Cash dividend ($.03 per share)				(148)		(148)
Other comprehensive income					6,658	6,658
Balance, December 31, 2019	4,943,186	$ 4,943	$ 65,780	$ 21,855	$ 2,545	$ 95,123

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

YEARS ENDED DECEMBER 31,	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 1,679	$ 629	$ 2,758
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,914	1,964	1,914
Provision for allowance for loan losses		122	116
Write-down of other real estate	442	764	460
(Gain) loss on sales of other real estate	(387)	21	101
(Income) loss from other investments	168	274	(42)
Gain from death benefits from life insurance			(429)
Amortization of available for sale securities	182	315	287
Amortization of held to maturity securities	266	260	253
Gain on liquidation, sales and calls of securities	(147)		(134)
Gain on sales of other investments		(17)	
Increase in cash surrender value of life insurance	(440)	(455)	(458)
Change in accrued interest receivable	269	(52)	(49)
Change in other assets	102	(57)	(537)
Change in other liabilities	101	506	717
Net cash provided by operating activities	4,149	4,274	4,957
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	65,658	60,222	71,315
Purchases of available for sale securities	(33,631)	(39,086)	(83,561)
Proceeds from maturities of held to maturity securities	5,705	760	7,725
Purchases of held to maturity securities	(3,604)	(4,455)	(10,991)
Purchase of Federal Home Loan Bank Stock	(60)	(699)	(831)
Proceeds from sales of other investments		125	
Proceeds from sales of other real estate	3,142	3,211	1,666
Loans, net change	1,557	1,461	33,531
Acquisition of premises and equipment	(456)	(690)	(423)
Investment in cash surrender value of life insurance	(100)	(85)	(94)
Proceeds from death benefits from life insurance			1,929
Net cash provided by investing activities	38,211	20,764	20,266
Cash flows from financing activities:			
Demand and savings deposits, net change	(7,539)	(52,268)	(51,804)
Time deposits, net change	10,176	(3,796)	6,358
Cash dividends	(148)	(101)	(51)
Retirement of stock		(1,907)	(502)
Borrowings from Federal Home Loan Bank	984,856	1,428,700	131,500
Repayments to Federal Home Loan Bank	(1,017,472)	(1,403,756)	(126,559)
Net cash used in financing activities	(30,127)	(33,128)	(41,058)
Net increase (decrease) in cash and cash equivalents	12,233	(8,090)	(15,835)
Cash and cash equivalents, beginning of year	17,191	25,281	41,116
Cash and cash equivalents, end of year	$ 29,424	$ 17,191	$ 25,281

See Notes to Consolidated Financial Statements.

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 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.

Revenue Recognition
As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. Disclosures of revenue from contracts with customers for periods beginning after January 1, 2018 are presented under ASC Topic 606 and have not materially changed from the prior year amounts. This update prescribes the process related to the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 excludes revenue streams relating to loans and investment securities, which are the major source of revenue for the Company, from its scope. As a result, the adoption of the guidance had no material impact on the measurement or recognition of revenue. Consistent with this guidance, the Company recognizes non-interest income within the scope of this guidance as services are transferred to its customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services. Other types of revenue contracts, the income from which is included in non-interest income, that are within the scope of ASU 2014-09 are:

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

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

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

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

New Accounting Pronouncements
In April 2019, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 2019-04 ("ASU 2019-04"), *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU 2019-04 includes technical corrections relating to scope, held to maturity disclosures, measurement alternative and remeasurement of equity securities. The effective date is for fiscal years beginning after December 31, 2019, including interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, result of operations or cash flows.

Accounting Standards Update 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), is intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The Company has established a Current Expected Credit Loss (CECL) Committee which includes the appropriate members of management, credit administration and accounting to evaluate the impact this ASU will have on the Company's financial position, results of operations and financial statement disclosures and determine the most appropriate method of implementing this ASU. The Company selected a third-party vendor to provide allowance for loan loss software as well as advisory services in developing a new methodology that would be compliant with ASU 2016-13, and is working with the approved third-party vendor to develop the CECL model and evaluate its impact. ASU 2016-13 was originally to become effective for the Company for interim and annual periods beginning after December 15, 2019. In November 2019, the FASB issued Accounting Standards Update 2019 – 10 ("ASU 2019–10"), *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates.* ASU 2019-10 amends the effective date for certain entities, including the Company, for ASU 2016-13, *Financial Instruments – Credit Losses*. Because the Company is a smaller reporting company, ASU 2016-13 is now effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In December 2019, the FASB issued Accounting Standards Update 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 enhances and simplifies certain aspects of income tax accounting guidance related to hybrid tax regimes, interim period accounting for enacted changes in tax law, ownership changes in investments, intraperiod tax allocations and tax basis step-up in goodwill. It is effective for the Company for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this ASU is not expected to have a material effect on the Company's financial position, result 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 $383,000 and $527,000 for the years ending December 31, 2019 and 2018, 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 are applied to individual loans based on factors including repayment ability, financial condition of the borrower and payment performance. Loans with lower grades 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, non-performing 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, 2019.

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 $500,000. Loans secured by real estate in an amount of $500,000 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; hotel/motel; 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.

Management considers the following when assessing risk in the Company's loan portfolio segments: gaming- loans in this segment are primarily susceptible to declines in tourism and general economic conditions; hotel/motel - loans in this segment are primarily susceptible to tourism, declines in occupancy rates, business failure, industry concentrations and general economic conditions; real estate, construction - loans in this segment are primarily susceptible to cost overruns, changes in market demand for property, delay in completion of construction and declining real estate values; real estate, mortgage - loans in this segment are primarily susceptible to general economic conditions, declining real estate values, industry concentrations and business failure; commercial and industrial - loans in this segment are primarily susceptible to general economic conditions, declining real estate values, industry concentrations and business failure; and other - loans in this segment, most of which are consumer loans, are primarily susceptible to regulatory risks, unemployment and general economic conditions.

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 write-downs 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 the underlying trust is serviced.

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 of 4,943,186 for 2019, 5,031,778 for 2018, and 5,123,076 for 2017.

Accumulated Other Comprehensive Income (Loss)
At December 31, 2019, 2018 and 2017, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company's post-retirement benefit plan.

Statements of Cash Flows
The Company has defined cash and cash equivalents to include cash and due from banks. The Company paid $3,231,710, $2,657,616, and $1,420,399 in 2019, 2018 and 2017, respectively, for interest on deposits and borrowings. No income tax payments were paid in 2019, 2018 and 2017. Loans transferred to other real estate amounted to $1,707,389, $4,706,732 and $1,946,045 in 2019, 2018 and 2017, respectively.

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

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

NOTE B – SECURITIES:

The amortized cost and fair value of securities at December 31, 2019 and 2018, respectively, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019:				
Available for sale securities:				
U.S. Treasuries	$ 55,922	$ 6	$ (275)	$ 55,653
U.S. Government agencies	12,493	93	(16)	12,570
Mortgage-backed securities	104,414	1,832	(93)	106,153
Collateralized mortgage obligations	15,440	251	(203)	15,488
States and political subdivisions	6,412	35		6,447
Total available for sale securities	$ 194,681	$ 2,217	$ (587)	$ 196,311
Held to maturity securities:				
U.S. Government agencies	$ 5,000	$	$ (20)	$ 4,980
States and political subdivisions	47,231	985	(66)	48,150
Total held to maturity securities	$ 52,231	$ 985	$ (86)	$ 53,130
December 31, 2018:				
Available for sale securities:				
U.S. Treasuries	$ 85,866	$	$ (2,443)	$ 83,423
U.S. Government agencies	17,492	14	(259)	17,247
Mortgage-backed securities	112,391	231	(2,278)	110,344
States and political subdivisions	10,994	102		11,096
Total available for sale securities	$ 226,743	$ 347	$ (4,980)	$ 222,110
Held to maturity securities:				
U.S. Government agencies	$ 8,185	$	$ (371)	$ 7,814
States and political subdivisions	46,413	89	(857)	45,645
Total held to maturity securities	$ 54,598	$ 89	$ (1,228)	$ 53,459

The amortized cost and fair value of debt securities at December 31, 2019, (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	$ 28,468	$ 28,485
Due after one year through five years	38,782	38,569
Due after five years through ten years	20,517	20,522
Due after ten years	2,500	2,582
Mortgage-backed securities	104,414	106,153
Total	$ 194,681	$ 196,311
Held to maturity securities:		
Due in one year or less	$ 2,718	$ 2,722
Due after one year through five years	17,036	17,342
Due after five years through ten years	24,209	24,407
Due after ten years	8,268	8,659
Total	$ 52,231	$ 53,130

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2019 and 2018, 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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019:						
U.S. Treasuries	$ 4,894	$ 44	$ 49,753	$ 231	$ 54,647	$ 275
U.S. Government agencies	4,978	16	4,979	20	9,957	36
Mortgage-backed securities	10,941	93			10,941	93
Collateralized mortgage obligations	10,398	203			10,398	203
States and political subdivisions	4,602	61	608	5	5,210	66
Total	$ 35,813	$ 417	$ 55,340	$ 256	$ 91,153	$ 673
December 31, 2018:						
U.S. Treasuries	$ 999	$ 1	$ 82,424	$ 2,442	$ 83,423	$ 2,443
U.S. Government agencies	4,939	61	17,608	569	22,547	630
Mortgage-backed securities	24,834	293	55,649	1,985	80,483	2,278
States and political subdivisions	8,470	122	19,678	735	28,148	857
Total	$ 39,242	$ 477	$ 175,359	$ 5,731	$ 214,601	$ 6,208

At December 31, 2019, 11 of the 12 securities issued by the U.S. Treasury, 2 of the 4 securities issued by U.S. Government agencies, 6 of the 47 mortgage-backed securities, 2 of the 3 collateralized mortgage obligations and 16 of the 131 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 $15,123,868 and $30,748,797 during 2019 and 2017, respectively. Available for sale debt securities were sold and called for realized gains of $146,675 and $133,986 during 2019 and 2017, respectively. There were no sales or calls of available for sale securities in 2018. Proceeds from sales of other investments were $125,145 for a realized gain of $16,995 during 2018.

Securities with a fair value of $230,065,621 and $208,781,426 at December 31, 2019 and 2018, 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, 2019 and 2018 is as follows (in thousands):

December 31,	2019	2018
Gaming	$ 19,899	$ 25,767
Hotel/motel	47,294	44,112
Real estate, construction	23,209	28,763
Real estate, mortgage	141,406	140,271
Commercial and industrial	30,626	27,505
Other	6,515	6,928
Total	$ 268,949	$ 273,346

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

	2019	2018
Balance, January 1	$ 9,157	$ 6,543
January 1 balances, loans of directors appointed during the year		2,142
New loans and advances	1,174	2,272
Repayments	(1,141)	(1,800)
Balance, December 31	$ 9,190	$ 9,157

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,	2019	2018
Gaming	$ 19,899	$ 25,767
Hotel/motel	47,294	44,112
Out of area	13,423	15,244

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2019 and 2018 is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days &
	30-59	60-89	Greater Than 90	Total Past Due	Current	Total Loans	Still Accruing
December 31, 2019:							
Gaming	$	$	$	$	$ 19,899	$ 19,899	$
Hotel/motel					47,294	47,294	
Real estate, construction	303	69	14	386	22,823	23,209	
Real estate, mortgage	4,150	343	5,580	10,073	131,333	141,406	
Commercial and industrial	92	58	218	368	30,258	30,626	
Other	50	12		62	6,453	6,515	
Total	$ 4,595	$ 482	$ 5,812	$ 10,889	$ 258,060	$ 268,949	$
December 31, 2018:							
Gaming	$	$	$	$	$ 25,767	$ 25,767	$
Hotel/motel					44,112	44,112	
Real estate, construction	1,987	340	860	3,187	25,576	28,763	
Real estate, mortgage	2,866	7,129	1,730	11,725	128,546	140,271	51
Commercial and industrial	9	110	1,661	1,780	25,725	27,505	4
Other	107	3		110	6,818	6,928	
Total	$ 4,969	$ 7,582	$ 4,251	$ 16,802	$ 256,544	$ 273,346	$ 55

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 – 5 is assigned to the loan based on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A, B, C, S, D, E or F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. A grade of S will generally be applied to loans for customers who meet the criteria for a grade of C but also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2019 and 2018 is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
December 31, 2019:						
Gaming	$ 19,899	$	$	$	$	$ 19,899
Hotel/motel	47,294					47,294
Real estate, construction	22,611		83	515		23,209
Real estate, mortgage	123,841	5,338	3,608	8,619		141,406
Commercial and industrial	21,609	8,627	59	331		30,626
Other	6,501		12	2		6,515
Total	$ 241,755	$ 13,965	$ 3,762	$ 9,467	$	$ 268,949
December 31, 2018:						
Gaming	$ 21,080	$	$ 4,687	$	$	$ 25,767
Hotel/motel	44,112					44,112
Real estate, construction	27,096		217	1,450		28,763
Real estate, mortgage	111,719	10,430	12,992	5,130		140,271
Commercial and industrial	25,335		218	1,952		27,505
Other	6,904		20	4		6,928
Total	$ 236,246	$ 10,430	$ 18,134	$ 8,536	$	$ 273,346

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, 2019 and 2018 are as follows (in thousands):

December 31,	2019	2018
Real estate, construction	$ 515	$ 1,439
Real estate, mortgage	8,495	4,954
Commercial and industrial	256	1,855
Other		2
Total	$ 9,266	$ 8,250

Prior to 2018, certain loans were modified by granting interest rate concessions to these customers with such loans being classified as troubled debt restructurings. During 2019 and 2018 the Company did not restructure any additional loans. Specific reserves of $63,106 and $69,000 have been allocated to troubled debt restructurings as of December 31, 2019 and 2018, respectively. The Bank had no commitments to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings as of December 31, 2019 and 2018.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2019 and 2018 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2019:					
With no related allowance recorded:					
Real estate, construction	$ 292	$ 292	$	$ 312	$
Real estate, mortgage	8,906	8,906		9,075	29
Commercial and industrial	217	217		217	
Total	9,415	9,415		9,604	29
With a related allowance recorded:					
Real estate, construction	223	223	20	230	
Real estate, mortgage	624	624	98	614	27
Commercial and industrial	39	39	4	41	
Total	886	886	122	885	27
Total by class of loans:					
Real estate, construction	515	515	20	542	
Real estate, mortgage	9,530	9,530	98	9,689	56
Commercial and industrial	256	256	4	258	
Total	$ 10,301	$ 10,301	$ 122	$ 10,489	$ 56
December 31, 2018:					
With no related allowance recorded:					
Real estate, construction	$ 1,171	$ 784	$	$ 785	$
Real estate, mortgage	5,508	5,474		5,826	29
Commercial and industrial	2,083	1,855		2,204	
Other	2	2		3	
Total	8,764	8,115		8,818	29
With a related allowance recorded:					
Real estate, construction	742	655	283	633	
Real estate, mortgage	574	574	101	589	25
Total	1,316	1,229	384	1,222	25
Total by class of loans:					
Real estate, construction	1,913	1,439	283	1,418	
Real estate, mortgage	6,082	6,048	101	6,415	54
Commercial and industrial	2,083	1,855		2,204	
Other	2	2		3	
Total	$ 10,080	$ 9,344	$ 384	$ 10,040	$ 54

Transactions in the allowance for loan losses for the years ended December 31, 2019, 2018 and 2017, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2019, 2018 and 2017 are as follows (in thousands):

	Gaming	Hotel/Motel	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2019:							
Allowance for Loan Losses:							
Beginning Balance	$ 416	$ 1,442	$ 429	$ 2,444	$ 476	$ 133	$ 5,340
Charge-offs			(404)	(63)	(591)	(270)	(1,328)
Recoveries			25	4	55	111	195
Provision	(193)	(663)	52	69	613	122	
Ending Balance	$ 223	$ 779	$ 102	$ 2,454	$ 553	$ 96	$ 4,207
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 20	$ 180	$ 57	$ 4	$ 261
Ending balance: collectively evaluated for impairment	$ 223	$ 779	$ 82	$ 2,274	$ 496	$ 92	$ 3,946
Total Loans:							
Ending balance: individually evaluated for impairment	$	$	$ 597	$ 12,228	$ 390	$ 15	$ 13,230
Ending balance: collectively evaluated for impairment	$ 19,899	$ 47,294	$ 22,612	$ 129,178	$ 30,236	$ 6,500	$255,719
December 31, 2018:							
Allowance for Loan Losses:							
Beginning Balance	$ 536	$ 936	$ 242	$ 3,369	$ 892	$ 178	$ 6,153
Charge-offs				(715)	(372)	(323)	(1,410)
Recoveries			17	188	112	158	475
Provision	(120)	506	170	(398)	(156)	120	122
Ending Balance	$ 416	$ 1,442	$ 429	$ 2,444	$ 476	$ 133	$ 5,340
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 283	$ 322	$ 120	$ 3	$ 728
Ending balance: collectively evaluated for impairment	$ 416	$ 1,442	$ 146	$ 2,122	$ 356	$ 130	$ 4,612
Total Loans:							
Ending balance: individually evaluated for impairment	$ 4,687	$	$ 1,667	$ 18,122	$ 2,170	$ 24	$ 26,670
Ending balance: collectively evaluated for impairment	$ 21,080	$ 44,112	$ 27,096	$122,149	$ 25,335	$ 6,904	$246,676
December 31, 2017:							
Allowance for Loan Losses:							
Beginning Balance	$ 545	$ 957	$ 265	$ 2,843	$ 651	$ 205	$ 5,466
Charge-offs				(8)	(36)	(235)	(279)
Recoveries			718	29	11	92	850
Provision	(9)	(21)	(741)	505	266	116	116
Ending Balance	$ 536	$ 936	$ 242	$ 3,369	$ 892	$ 178	$ 6,153
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 145	$ 1,082	$ 636	$ 6	$ 1,869
Ending balance: collectively evaluated for impairment	$ 536	$ 936	$ 97	$ 2,287	$ 256	$ 172	$ 4,284
Total Loans:							
Ending balance: individually evaluated for impairment	$	$ 4,207	$ 1,799	$ 25,160	$ 3,228	$ 18	$ 34,412
Ending balance: collectively evaluated for impairment	$ 26,142	$ 30,675	$ 26,061	$ 133,509	$ 23,132	$ 6,518	$246,037

NOTE D – BANK PREMISES AND EQUIPMENT:

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

December 31,	Estimated Useful Lives	2019	2018
Land		$ 5,783	$ 5,783
Building	5 - 40 years	30,688	30,681
Furniture, fixtures and equipment	3 - 10 years	17,283	17,430
Totals, at cost		53,754	53,894
Less: Accumulated depreciation		36,333	35,015
Totals		$ 17,421	$ 18,879

NOTE E – OTHER REAL ESTATE:

The Company's other real estate consisted of the following as of December 31, 2019 and 2018, respectively (in thousands except number of properties):

December 31,	2019		2018	
	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	12	$ 4,828	12	$ 6,007
1-4 family residential properties	3	370	3	859
Nonfarm nonresidential	4	1,902	5	1,725
Other	1	353	1	352
Total	20	$ 7,453	21	$ 8,943

NOTE F – DEPOSITS:

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

2020	$70,673
2021	13,775
2022	2,615
2023	2,001
2024	1,334
Total	$90,398

Time deposits of $250,000 or more totaled approximately $46,618,000 and $39,805,000 at December 31, 2019 and 2018, respectively.

Deposits held for related parties amounted to $2,259,360 and $3,676,971 at December 31, 2019 and 2018, respectively.

Overdrafts totaling $422,304 and $1,044,409 were reclassified as loans at December 31, 2019 and 2018, respectively.

NOTE G – FEDERAL FUNDS PURCHASED:

At December 31, 2019, the Company had facilities in place to purchase federal funds up to $40,000,000 under established credit arrangements.

NOTE H – BORROWINGS:

At December 31, 2019, the Company was able to borrow up to $14,647,619 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank's portfolio serving as collateral. Borrowings bear interest at the primary credit rate, which is established periodically by the Federal Reserve Board, and have a maturity of one day. The primary credit rate was 2.25% at December 31, 2019. There was no outstanding balance at December 31, 2019.

At December 31, 2019, the Company had $3,526,319 outstanding in advances under a $59,008,622 line of credit with the FHLB. One advance in the amount of $2,500,000 bears interest at 1.45% at December 31, 2019 and matures in 2020. 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 2030 – 2040. The advances are collateralized by specific loans, for which certain documents are held in custody by the FHLB, and, if needed, specific investment securities that are held in safekeeping at the FHLB.

NOTE I – INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2019 and 2018, included in other assets, were as follows (in thousands):

December 31,	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 883	$ 1,121
Employee benefit plans' liabilities	3,189	3,117
Unrealized loss on available for sale securities, charged from equity		973
Loss on credit impairment of securities	356	356
Earned retiree health benefits plan liability	1,049	1,048
General business and AMT credits	1,707	1,750
Tax net operating loss carryforward	2,048	2,118
Other	863	943
Valuation allowance	(7,099)	(8,642)
Deferred tax assets	2,996	2,784
Deferred tax liabilities:		
Unrealized gain on available for sale securities, charged from equity	342	
Unearned retiree health benefits plan asset	381	298
Bank premises and equipment	2,047	2,235
Other	226	251
Deferred tax liabilities	2,996	2,784
Net deferred taxes	$	$

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

Years Ended December 31,	2019	2018	2017
Current	$	$ (36)	$ (1,080)
Deferred:			
Federal	166	(425)	4,023
Change in valuation allowance	(166)	425	(4,023)
Total deferred			
Totals	$	$ (36)	$ (1,080)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 21.0% for 2019 and 2018 and 34.0% for 2017 to income before income taxes. The reasons for these differences are shown below (in thousands):

	2019		2018		2017	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ 321	21	$ 125	21	$ 571	34
Increase (decrease) resulting from:						
Tax-exempt interest income	(172)	(11)	(206)	(35)	(362)	(22)
Income from BOLI	(92)	(6)	(96)	(16)	(302)	(18)
Federal tax credits	(20)	(1)	(298)	(50)	(298)	(18)
Other	129	8	50	8	(656)	(39)
Impact of tax rate change					3,990	238
Change in valuation allowance for enacted change in tax rates					(3,990)	(238)
Realization of AMT credit			(36)	(6)	(742)	(44)
Other changes in valuation allowance	(166)	(11)	425	72	709	42
Total income tax (benefit) expense	$		$ (36)	(6)	$ (1,080)	(65)

During 2019, the Company recorded no income tax benefit or expense. During 2018 and 2017, the Company recorded an income tax benefit of $36,000 and $1,080,000, respectively. On December 22, 2017, the President signed into law The Tax Cuts and Jobs Act (the "Act"). In addition to reducing U.S. corporate income tax rates from 34% to 21%, the Act repealed the alternative minimum tax ("AMT") regime for tax years beginning after December 31, 2017. For tax years beginning in 2018, 2019 and 2020, the AMT credit carryforward can be utilized to offset regular tax with any remaining AMT carryforwards eligible for a refund of 50%. Any remaining AMT credit carryforwards will become fully refundable beginning in the 2021 tax year. As a result, during 2018 and 2017, the Company reclassified the AMT credit carryforward to a tax receivable resulting in a deferred tax benefit of $36,000 and $742,000, respectively. In 2017, the Company also recorded a current tax benefit of $338,000 to account for the carryback of general business tax credits to open tax years.

In 2017, the Company also remeasured the net deferred tax asset and corresponding valuation allowance as a result of the Act. The impact was to reduce the deferred tax asset and corresponding valuation allowance by $3,990,000.

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

The Company intends to maintain this valuation allowance until it determines it is more likely than not that the asset can be realized through current and future taxable income. If not utilized, the Company's federal net operating loss of $9,753,000 will begin to expire in 2035.

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, 2019, $13,703,377 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends with regulatory approval. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank ("FRB").

On December 8, 2017, the Board approved the repurchase of up to 110,000 of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 110,000 shares have been repurchased for approximately $1,477,000 and retired through December 31, 2018.

On September 26, 2018, the Board approved the repurchase of up to 70,000 of the outstanding shares of the Company's common stock. As a result of this repurchase plan, 70,000 shares have been repurchased for approximately $933,000 and retired through December 31, 2018.

On November 8, 2019, the Board approved the repurchase of up to 65,000 of the outstanding shares of the Company's common stock. As a result of this repurchase plan, no shares have been repurchased and retired through December 31, 2019.

On April 25, 2018, the Board declared a dividend of $.01 per share payable May 10, 2018 to shareholders of record as of May 7, 2018. On September 26, 2018, the Board declared a dividend of $.01 per share payable on October 15, 2018 to shareholders of record as of October 9, 2018.

On April 24, 2019, the Board declared a dividend of $.01 per share payable May 10, 2019 to shareholders of record as of May 6, 2019. On November 8, 2019, the Board declared a dividend of $.02 per share payable on November 25, 2019 to shareholders of record as of November 20, 2019.

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

As of December 31, 2019, the most recent notification from the FDIC categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Common equity tier 1 capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater and a Leverage capital ratio of 5.00% or greater. As of January 1, 2019, the Company must have a capital conservation buffer above these requirements of 2.50%. There are no conditions or events since that notification that Management believes have changed the bank subsidiary's category.

The Company's actual capital amounts and ratios and required minimum capital amounts and ratios for 2019 and 2018, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2019:				
Total Capital (to Risk Weighted Assets)	$ 96,632	26.22%	$ 29,487	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	92,425	25.08%	16,586	4.50%
Tier 1 Capital (to Risk Weighted Assets)	92,425	25.08%	22,115	6.00%
Tier 1 Capital (to Average Assets)	92,425	15.26%	24,230	4.00%
December 31, 2018:				
Total Capital (to Risk Weighted Assets)	$ 95,627	25.30%	$ 30,240	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	90,894	24.05%	17,010	4.50%
Tier 1 Capital (to Risk Weighted Assets)	90,894	24.05%	22,680	6.00%
Tier 1 Capital (to Average Assets)	90,894	14.35%	25,344	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 2019 and 2018, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019:						
Total Capital (to Risk Weighted Assets)	$ 93,228	25.48%	$ 29,274	8.00%	$ 36,592	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	89,021	24.33%	16,466	4.50%	23,785	6.50%
Tier 1 Capital (to Risk Weighted Assets)	89,021	24.33%	21,955	6.00%	29,274	8.00%
Tier 1 Capital (to Average Assets)	89,021	14.72%	24,198	4.00%	30,248	5.00%
December 31, 2018:						
Total Capital (to Risk Weighted Assets)	$ 92,485	24.61%	$ 30,062	8.00%	$ 37,577	10.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	87,780	23.36%	16,910	4.50%	24,425	6.50%
Tier 1 Capital (to Risk Weighted Assets)	87,780	23.36%	22,546	6.00%	30,062	8.00%
Tier 1 Capital (to Average Assets)	87,780	14.11%	24,884	4.00%	31,105	5.00%

NOTE K – OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,	2019	2018	2017
Other service charges, commissions and fees	$ 91	$ 93	$ 99
Rentals	329	246	298
Other	112	121	84
Totals	$ 532	$ 460	$ 481

Other expenses consisted of the following (in thousands):

Years Ended December 31,	2019	2018	2017
Advertising	$ 529	$ 557	$ 538
Data processing	1,356	1,355	1,289
FDIC and state banking assessments	374	248	424
Legal and accounting	714	449	422
Other real estate	553	1,254	740
ATM expense	697	585	582
Trust expense	368	304	307
Other	1,807	1,699	1,873
Totals	$ 6,398	$ 6,451	$ 6,175

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, 2019 and 2018, the Company had outstanding irrevocable letters of credit aggregating $89,097 and $235,141, respectively. At December 31, 2019 and 2018, the Company had outstanding unused loan commitments aggregating $28,596,286 and $31,885,422, respectively. Approximately $15,082,587 and $15,539,762 of outstanding commitments were at fixed rates and the remainder were at variable rates at December 31, 2019 and 2018, respectively.

NOTE M – CONTINGENCIES:

The Bank is involved in various legal matters and claims which are being defended and handled in the ordinary course of business. None of these matters are expected, in the opinion of Management, to have a material adverse effect upon the financial position or results of operations of the Company.

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,	2019	2018
Assets		
Investments in subsidiaries, at underlying equity:		
Bank subsidiary	$ 91,718	$ 83,820
Nonbank subsidiary	1	1
Cash in bank subsidiary	740	283
Other assets	2,664	2,830
Total assets	$ 95,123	$ 86,934
Liabilities and Shareholders' Equity:		
Other liabilities	$	$
Total liabilities		
Shareholders' equity	95,123	86,934
Total liabilities and shareholders' equity	$ 95,123	$ 86,934

CONDENSED STATEMENTS OF INCOME (IN THOUSANDS):

Years Ended December 31,	2019	2018	2017
Income			
Distributed income of bank subsidiary	$ 700	$ 901	$ 1,900
Undistributed income of bank subsidiary	1,240	112	942
Other income (loss)	(164)	(252)	47
Total income	1,776	761	2,889
Expenses			
Other	97	132	131
Total expenses	97	132	131
Income before income taxes	1,679	629	2,758
Income tax			
Net income	$ 1,679	$ 629	$ 2,758

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 1,679	$ 629	$ 2,758
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
(Income) loss from other investments	166	274	(42)
Undistributed income of subsidiaries	(1,240)	(112)	(942)
Gain from sale of securities		(17)	
Other assets			(20)
Net cash provided by operating activities	605	774	1,754
Cash flows from investing activities:			
Redemption of equity securities		125	
Net cash provided by investing activities		125	
Cash flows from financing activities:			
Retirement of common stock		(1,907)	(502)
Dividends paid	(148)	(101)	(51)
Net cash used in financing activities	(148)	(2,008)	(553)
Net increase (decrease) in cash	457	(1,109)	1,201
Cash, beginning of year	283	1,392	191
Cash, end of year	$ 740	$ 283	$ 1,392

NOTE O – EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan ("ESOP"). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan. Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts contributed by the employee (up to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation common stock. Total contributions to the plans charged to operating expense were $260,000, $260,000 and $260,000 in 2019, 2018 and 2017, respectively.

The ESOP was frozen to further contributions and eligibility effective January 1, 2019. Compensation expense of $7,285,390 and $7,106,959 was the basis for determining the ESOP contribution allocation to participants for 2018 and 2017, respectively. The ESOP held 237,923, 247,627 and 270,455 allocated shares at December 31, 2019, 2018 and 2017, respectively.

The Company established an Executive Supplemental Income Plan and a Directors' Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors' Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors' fees until retirement from the board. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director's normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. 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 $17,024,779 and $16,620,943 at December 31, 2019 and 2018, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.00% and the interest ramp-up method has been accrued. The accrual amounted to $13,229,501 and $12,919,127 at December 31, 2019 and 2018, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $1,850,592 and $1,729,904 at December 31, 2019 and 2018, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.00% and the projected unit cost method has been accrued. The accrual amounted to $1,622,840 and $1,613,326 at December 31, 2019 and 2018, 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 $311,088 and $306,146 at December 31, 2019 and 2018, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.00% and the projected unit cost method has been accrued. The accrual amounted to $101,613 and $97,587 at December 31, 2019 and 2018, respectively, and is included in Employee and director benefit plans liabilities.

The Company has additional plans for post-retirement benefits for directors. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $194,270 and $184,070 at December 31, 2019 and 2018, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.00% and the projected unit cost method has been accrued. The accrual amounted to $229,392 and $213,661 at December 31, 2019 and 2018, respectively, and is included in Employee and director benefit plans liabilities.

The Company provides post-retirement health insurance to certain of its retired employees. Employees are eligible to participate in the retiree health plan if they retire from active service no earlier than age 60. In addition, the employee must have at least 25 continuous years of service with the Company immediately preceding retirement. However, any active employee who was at least age 65 as of January 1, 1995, does not have to meet the 25 years of service requirement. The Company reserves the right to modify, reduce or eliminate these health benefits. The Company has chosen to not offer this post-retirement benefit to individuals entering the employ of the Company after December 31, 2006. Employees who are eligible and enroll in the bank subsidiary's group medical and dental health care plans upon their retirement must enroll in Medicare Parts A, B and D when first eligible upon their retirement from the bank subsidiary. This results in the bank subsidiary's programs being secondary insurance coverage for retired employees and any dependent(s), if applicable, while Medicare Parts A and B will be their primary coverage, and Medicare Part D will be the sole and exclusive prescription drug benefit plan for retired employees.

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

Years Ended December 31,	2019	2018	2017
Service cost	$ 88	$ 171	$ 153
Interest cost	107	136	135
Amortization of net gain	(129)		
Amortization of prior service credit	(81)	(81)	(81)
Net periodic post-retirement benefit cost (credit)	$ (15)	$ 226	$ 207

The discount rate used in determining the accumulated post-retirement benefit obligation was 3.20% in 2019 and 4.30% in 2018. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 6.25% in 2019. The rate was assumed to decrease gradually to 4.50% for 2026 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, 2019, would be increased by 16.78%, 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 17.46%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2019, would be decreased by 13.51%, 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 13.98%.

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):

2020	$	73
2021		91
2022		108
2023		128
2024		164
2025-2029		1,025

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, 2018	$	3,571
Service cost		88
Interest cost		107
Actuarial gain		(604)
Benefits paid		20
Accumulated post-retirement benefit obligation as of December 31, 2019	$	3,182

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

		2019		2018		2017
Fair value of plan assets at beginning of year	$		$		$	
Actual return on assets						
Employer contribution		20		28		48
Benefits paid, net		(20)		(28)		(48)
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,		2019		2018		2017
Net gain	$	816	$	440	$	11
Prior service charge		616		680		622
Total accumulated other comprehensive income	$	1,432	$	1,120	$	633

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

For the year ended December 31,		2019
Unrecognized actuarial gain	$	475
Amortization of prior service cost		(81)
Total other comprehensive income	$	394

The prior service credit and amortization of net gain that will be recognized in accumulated other comprehensive income during 2020 is $81,381 and $74,600, respectively.

NOTE P – FAIR VALUE MEASUREMENTS AND DISCLOSURES:

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

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

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

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

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

Available for Sale Securities
The fair value of available for sale securities is based on quoted market prices. The Company's available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based by asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. Another source for determining fair value is matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark securities. The Company's available for sale securities for which fair value is determined through the use of such pricing models and matrix pricing are classified as Level 2 assets. If the fair value of available for sale securities is generated through model-based techniques including the discounting of estimated cash flows, such securities are classified as Level 3 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.

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, 2019 and 2018, were as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
December 31, 2019:				
U.S. Treasuries	$ 55,653	$	$ 55,653	$
U.S. Government agencies	12,570		12,570	
Mortgage-backed securities	106,153		106,153	
Collateralized mortgage obligations	15,488		15,488	
States and political subdivisions	6,447		6,447	
Total	$ 196,311	$	$ 196,311	$
December 31, 2018:				
U.S. Treasuries	$ 83,423	$	$ 83,423	$
U.S. Government agencies	17,247		17,247	
Mortgage-backed securities	110,344		110,344	
States and political subdivisions	11,096		11,096	
Total	$222,110	$	$ 222,110	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2019 and 2018 were as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2019	$ 764	$	$	$ 764
2018	2,927			2,927

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, 2019 and 2018 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2019	$ 7,453	$	$	$ 7,453
2018	8,943			8,943

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):

	2019	2018
Balance, beginning of year	$ 8,943	$ 8,232
Loans transferred to ORE	1,707	4,707
Sales	(2,755)	(3,232)
Write-downs	(442)	(764)
Balance, end of year	$ 7,453	$ 8,943

The carrying value and estimated fair value of financial instruments, by level within the fair value hierarchy, at December 31, 2019 and 2018 are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
December 31, 2019:					
Financial Assets:					
Cash and due from banks	$ 29,424	$ 29,424	$	$	$ 29,424
Available for sale securities	196,311		196,311		196,311
Held to maturity securities	52,231		53,130		53,130
Other investments	2,643	2,643			2,643
Federal Home Loan Bank stock	2,129		2,129		2,129
Loans, net	264,742			261,710	261,710
Other real estate	7,453			7,453	7,453
Cash surrender value of life insurance	19,381		19,381		19,381
Financial Liabilities:					
Deposits:					
Non-interest bearing	122,592	122,592			122,592
Interest bearing	353,551			354,141	354,141
Borrowings from Federal Home Loan Bank	3,526		3,730		3,730

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
December 31, 2018:					
Financial Assets:					
Cash and due from banks	$ 17,191	$ 17,191	$	$	$ 17,191
Available for sale securities	222,110		222,110		222,110
Held to maturity securities	54,598		53,459		53,459
Other investments	2,811	2,811			2,811
Federal Home Loan Bank stock	2,069		2,069		2,069
Loans, net	268,006			260,560	260,560
Other real estate	8,943			8,943	8,943
Cash surrender value of life insurance	18,841		18,841		18,841
Financial Liabilities:					
Deposits:					
Non-interest bearing	114,512	114,512			114,512
Interest bearing	358,994			359,386	359,386
Borrowings from Federal Home Loan Bank	36,142		36,211		36,211

WIPFLI

235 Peachtree Street NE
Suite 1800
Atlanta, GA 30303

404 588 4200
wipfli.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Wipfli LLP

We have served as the Company's auditor since 2019.

Atlanta, Georgia
March 13, 2020

Porter
Keadle
Moore

CPAs | Advisors | www.pkm.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of income, comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2018, and changes in shareholder's equity for the year ended December 31, 2018, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Porter Keadle Moore, LLC

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

Atlanta, Georgia
March 13, 2019

FIVE-YEAR COMPARATIVE SUMMARY OF SELECTED FINANCIAL INFORMATION

(In thousands except per share date)

	2019	2018	2017	2016	2015
Balance Sheet Summary					
Total assets	$ 594,702	$ 616,786	$ 650,424	$ 688,014	$ 641,004
Available for sale securities	196,311	222,110	245,644	233,578	202,807
Held to maturity securities	52,231	54,598	51,163	48,150	19,025
Loans, net of unearned discount	268,949	273,346	280,449	315,355	337,557
Deposits	476,143	473,506	529,570	575,016	512,707
Borrowings from FHLB	3,526	36,142	11,198	6,257	18,409
Shareholders' equity	95,123	86,934	89,499	88,461	91,839
Summary of Operations					
Interest income	$ 20,928	$ 19,750	$ 18,503	$ 18,493	$ 19,311
Interest expense	3,246	2,658	1,423	1,025	875
Net interest income	17,682	17,092	17,080	17,468	18,436
Provision for loan losses		122	116	568	2,582
Net interest income after provision for loan losses	17,682	16,970	16,964	16,900	15,854
Non-interest income	6,367	6,103	6,965	6,549	6,898
Non-interest expense	22,370	22,480	22,251	23,204	28,106
Income (loss) before taxes	1,679	593	1,678	245	(5,354)
Income tax expense (benefit)		(36)	(1,080)	78	(762)
Net income (loss)	$ 1,679	$ 629	$ 2,758	$ 167	$ (4,592)
Per Share Data					
Basic and diluted earnings (loss) per share	$ .34	$ .13	$ .54	$ .03	$ (.90)
Dividends per share	.03	.02	.01		
Book value	19.24	17.59	17.84	17.27	17.93
Weighted average number of shares	4,943,186	5,031,778	5,123,076	5,123,186	5,123,186
Selected Ratios					
Return on average assets	0.28%	0.10%	0.41%	0.02%	(.69%)
Return on average equity	1.84%	0.73%	3.08%	0.19%	(4.92%)
Primary capital to average assets	16.27%	14.43%	14.34%	13.99%	15.06%
Risk-based capital ratios:					
Tier 1	25.08%	24.05%	23.87%	21.69%	20.58%
Total	26.22%	25.30%	25.12%	22.94%	21.83%

CORPORATE INFORMATION AND MARKET INFORMATION

Corporate Information:

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

Physical Address
152 Lameuse Street
Biloxi, MS 39530
(228) 435-8205

Website
www.thepeoples.com

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

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

Lauri A. Wood, Chief Financial Officer and Controller
Peoples Financial Corporation
P. O. Box 529, Biloxi, Mississippi 39533-0529
(228) 435-8412
e-mail: lwood@thepeoples.com

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

Paul D. Guichet, Vice-President
The Peoples Bank, Biloxi, Mississippi
P.O. Box 529, Biloxi, MS 39533-0529
(228) 435-8761
e-mail: investorrelations@thepeoples.com

For information about the common stock of Peoples Financial Corporation, including dividend reinvestment and other transfer agent inquiries:

Asset Management and Trust Services Department
The Peoples Bank, Biloxi, Mississippi
P.O. Box 1416, Biloxi, MS 39533-1416
(228) 435-8208
e-mail: investorrelations@thepeoples.com

Independent Registered Public Accounting Firm
Wipfli LLP
Atlanta, Georgia

Market Information:

The Company's stock is traded on the OTCQX Best Market ("OTCQX") under the symbol PFBX. As of February 14, 2020, there were approximately 409 holders of the Company's common stock, which does not reflect persons or entities that hold our common stock in nominee or "street" name through various brokerage firms. At that date, the Company had 4,943,186 shares of common stock issued and outstanding.

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

Year	Quarter	High	Low	Dividend per share
2019	1st	$ 11.65	$ 11.22	$
	2nd	12.75	11.36	.01
	3rd	11.95	10.75	
	4th	11.00	10.40	.02
2018	1st	$ 14.70	$ 12.60	$
	2nd	14.25	13.65	.01
	3rd	14.08	12.95	
	4th	13.50	11.20	.01

BRANCH LOCATIONS

The Peoples Bank, Biloxi, Mississippi

BILOXI BRANCHES

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

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

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

Keesler Air Force Base
1507 Meadows Drive
Keesler AFB, MS 39534
(228) 435-8690

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

GULFPORT BRANCHES

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

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

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

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

OTHER BRANCHES

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

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

D'Iberville - St. Martin
10491 Lemoyne Boulevard, D'Iberville, Mississippi 39540
(228) 435-8202

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

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

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

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

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

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

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

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

BOARD OF DIRECTORS

Peoples Financial Corporation

Chevis C. Swetman, *Chairman; President and Chief Executive Officer, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi*

Dan Magruder, *Vice Chairman; Retired Business Executive*

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

Rex E. Kelly, *Principal, Strategic Communications*

Jeffrey H. O'Keefe, *Chief Executive Officer, Bradford-O'Keefe Funeral Homes, Inc.*

George J. Sliman, III, *President, SunStates Holdings, Inc.*

OFFICERS

Peoples Financial Corporation

Chevis C. Swetman, *President and Chief Executive Officer*

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*

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

BOARD OF DIRECTORS

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *Chairman; President and Chief Executive Officer, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi*

Liz Corso Joachim, *Vice Chairperson; President, Frank P. Corso, Inc.*

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

Ronald G. Barnes, *President and Chief Executive Officer, Coast Electric Power Association*

Padrick D. Dennis, *Vice President, Specialty Contractors & Associates, Inc.*

A. Wes Fulmer, *Executive Vice-President, Peoples Financial Corporation and The Peoples Bank, Biloxi, Mississippi*

Rex E. Kelly, *Principal, Strategic Communications*

Dan Magruder, *Retired Business Executive*

Jeffrey H. O'Keefe, *Chief Executive Officer, Bradford-O'Keefe Funeral Homes, Inc.*

Paige Reed Riley, *Owner, Hillyer House*

George J. Sliman, III, *President, SunStates Holdings, Inc.*

A. Tanner Swetman, *Senior Vice-President, The Peoples Bank, Biloxi, Mississippi*

SENIOR MANAGEMENT

The Peoples Bank, Biloxi, Mississippi

Chevis C. Swetman, *President and Chief Executive Officer*

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*

Brian J. Kozlowski, *Senior Vice-President*

A. Tanner Swetman, *Senior Vice-President*

This page left intentionally blank.